RBI SIXTH BI-MONTHLY POLICY REPORT FY 23 - 24

8th February, 2024

Repo Rate Remains Unchanged at 6.5%

Indian Economy Making Confident Progress on Strong, Sustained growth Path

During its meeting held from January 6 to January 8, 2024, **the Monetary Policy Committee (MPC) has decided to maintain the Policy Repo Rate, within the Liquidity Adjustment Facility (LAF), at the existing 6.50% via a 5:1 majority decision.**

This decision was primarily motivated by the ongoing transmission of the cumulative 250 basis points (bps) policy hike done earlier. Despite Headline Inflation easing to 4.99% in October, it climbed to 5.7% in December 2023, driven mainly by food inflation, particularly in vegetables. **The Standing Deposit Facility (SDF) Rate remained steady at 6.25%, while both the Marginal Standing Facility (MSF) Rate and the Bank Rate remained unchanged at 6.75%.**

In a 5:1 majority decision, the MPC opted to gradually reduce accommodation, aiming to progressively align inflation with the established target while supporting economic expansion.

Regarding India's economic outlook, the Reserve Bank of India (RBI) **revised its GDP growth projection for FY25 to 7.0%,** up from the initial estimate of 6.7%. Additionally, the GDP growth forecast for Q1FY24 has been revised to 7.2%, with **new projections introduced for Q4FY25.** On the CPI Inflation Front, the RBI issued fresh forecasts for FY24 at 4.5% and Q4FY25 at 4.7%.

RBI's GDP GROWTH OUTLOOK

Period	Projection	Earlier
FY25	**7.0%**	**6.7%**
Q1FY25	7.2%	6.7%
Q2FY25	6.8%	6.5%
Q3FY25	7.0%	6.4%
Q4FY25	6.9%	-

RBI's CPI INFLATION OUTLOOK

Period	Projection	Earlier
FY25	**4.5%**	**-**
Q1FY25	5.0%	5.2%
Q2FY25	4.0%	4.0%
Q3FY25	4.6%	4.7%
Q4FY25	4.7%	-

RBI REPO RATES (%)

MARKET's REACTION*

Nifty50	21,717.95 ▼212.55	▼0.97%
Nifty Bank	45,012.00 ▼806.50	▼1.76%

*DATA as on 3:30 PM – 8th February, 2024

Key Highlights:

- **Stable Global Economy:** The RBI anticipates the Global growth to hold steady in 2024, with variations across regions. There are indications of a sluggish recovery in global trade. Inflation is on a downward trend. Financial markets are experiencing volatility due to uncertainty surrounding global central banks' policies. High levels of public debt, particularly in advanced economies, are causing concerns about economic stability. *The global public debt-to-GDP ratio is expected to reach 100% by the end of the decade*. Managing debt in a low-growth, high-interest-rate environment poses challenges. Addressing debt is essential to create fiscal space for vital investments, including those in sustainability efforts like the green transition. In India, government debt is forecasted to gradually decrease thanks to fiscal consolidation efforts and improving growth prospects.
- **Robust Domestic Economy:** Domestic economic activity remains robust, with real GDP growth estimated at 7.3% for 2023-24, marking the third consecutive year of growth above 7%. RBI expects this momentum to continue into 2024-25. Despite challenges like lower rainfall, agricultural activity remains strong, with rabi sowing surpassing last year's levels. The allied sector, including horticulture and fisheries, is also expected to support agriculture. Industrial activity is picking up, driven by improvements in manufacturing performance, reflected in upbeat corporate results and expansion in the purchasing managers' index for manufacturing.
- **CPI Inflation:** RBI noted that the Headline inflation averaged 5.5% from April to December 2023, down from 6.7% in the previous year. Food prices remained volatile, impacting inflation trends. However, CPI fuel deflation deepened, and core inflation hit a four-year low of 3.8% in December. Core inflation decline was widespread, with steady or decreasing inflation across its groups and sub-groups. RBI has maintained that the future inflation trajectory depends heavily on uncertainties surrounding food inflation, driven by adverse weather events affecting the rabi crop. Geopolitical tensions are causing supply chain disruptions and price volatility, especially in commodities like crude oil. However, satisfactory progress in rabi sowing and seasonal price corrections in key vegetables like onions and tomatoes offer some positive indicators.
- **Liquidity Conditions:** System liquidity in India Shifted from SURPLUS to DEFICIT in September 2023 after a 4 ½ year surplus period. However, adjusted for government balances, liquidity remains surplus. To address tightening liquidity, the Reserve Bank proactively injected liquidity through Repo Operations. Subsequently, to absorb surplus liquidity, Reverse Repo auctions were conducted. Financial markets responded differently to evolving liquidity conditions, with short-term rates fluctuating while long-term rates remained stable. Monetary transmission in credit markets remains incomplete. The Reserve Bank's policy stance emphasizes interest rate adjustments to manage inflation and liquidity conditions. Reversal of liquidity facilities during weekends and holidays aids banks in better fund management. The Indian rupee remained stable compared to peers, reflecting economic strength, sound fundamentals, and improved external position, including a moderate current account deficit and comfortable foreign exchange reserves.
- **Financial Stability:** The domestic financial system maintains resilience with strong balance sheets observed across banks and financial institutions. Non-banking financial companies (NBFCs) are also experiencing improving financial parameters in alignment with the banking sector. The Reserve Bank of India highlighted the emphasis on good governance, robust risk management, compliance culture, and customer protection remains crucial for ensuring the safety and stability of the financial system. All regulated entities are expected to prioritize these aspects.

- **External Sector:** India's current account deficit (CAD) sharply declined to 1.0% of GDP in Q2:2023-24 from 3.8% in Q2:2022-23, with services and remittances expected to maintain a surplus. Services exports, particularly in software, business, and travel, remained resilient. India's significant role in global software business is underscored by its share in telecommunications and computer services exports. Inward remittances are estimated to reach US$135 billion in 2024, making India the largest recipient globally, ensuring a manageable CAD for 2023-24 and 2024-25. Foreign direct investment (FDI) stood at US$13.5 billion, while foreign portfolio investment (FPI) witnessed a turnaround with net inflows of US$32.4 billion. India's foreign exchange reserves totaled US$622.5 billion as of February 2, 2024, indicating resilience in the external sector and confidence in meeting financing requirements.

Additional Measures

The Reserve Bank of India (RBI) has announced several additional measures aimed at strengthening the country's financial and regulatory framework. These measures include:

1. **Review of Electronic Trading Platforms (ETPs):** A revised regulatory framework will be issued for ETPs to accommodate changes in markets, products, and technology.
2. **Expansion of Gold Price Hedging in IFSC:** Resident entities are now permitted to hedge gold price risk in the over the counter (OTC) segment in the International Financial Services Centre (IFSC), enhancing flexibility in hedging exposure.
3. **Key Fact Statement (KFS) for Retail and MSME Loans:** The mandate for KFS, containing essential loan information, is extended to cover all retail and MSME loans, aiming to enhance transparency in lending and empower borrowers.
4. **Enhanced Transparency in Non-resident Deposits and External Debt:** Net accretions to non-resident deposits increased, while the foreign exchange reserves cover over ten months of projected imports for 2023-24 and a significant portion of total external debt.
5. **Enhancing AePS Security and Robustness:** Streamlining AePS service provider onboarding and introducing additional fraud risk management measures to strengthen the security and robustness of the system.
6. **Principle-Based Framework for Digital Payment Authentication:** A principle-based framework for authentication of digital payment transactions is proposed to accommodate alternative authentication mechanisms and enhance security.
7. **Introduction of Programmability and Offline Functionality in CBDC Pilot:** Additional functionalities of programmability and offline capability are proposed for Central Bank Digital Currency (CBDC) retail payments, enabling targeted transactions and operations in areas with limited internet connectivity.

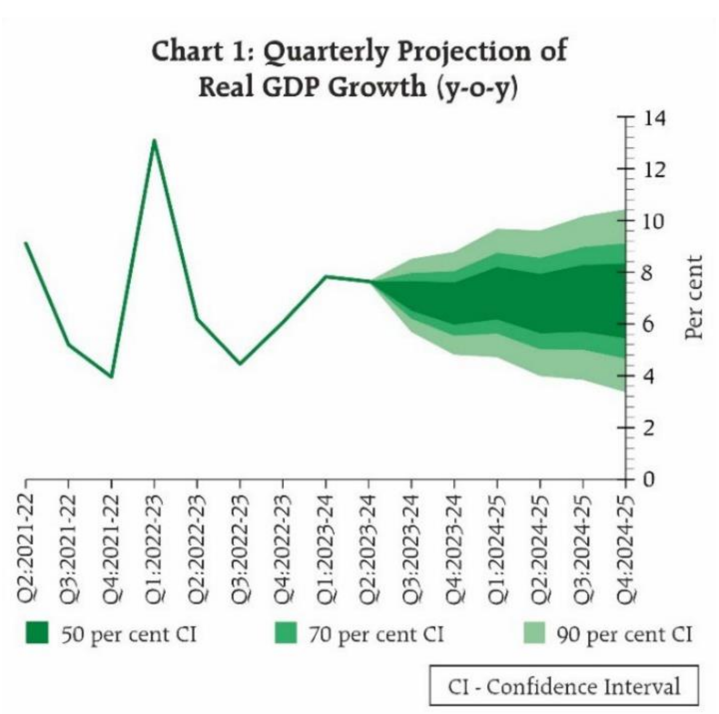
The Way Ahead:

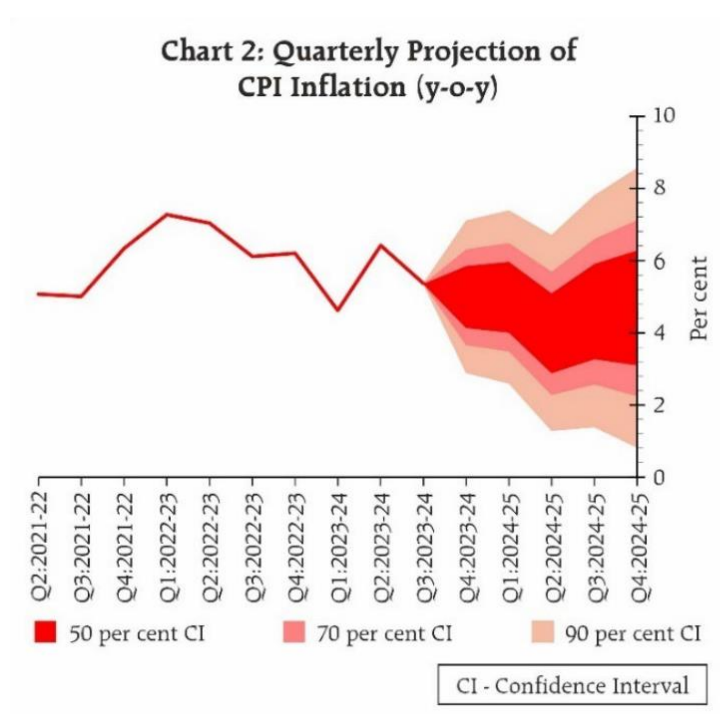
The Reserve Bank of India acknowledges the effectiveness of current monetary policy in supporting this growth momentum while also **successfully managing inflation, which is trending downwards toward the target of 4%**. Emphasizing the importance of price and financial stability as the cornerstones of sustainable and inclusive growth, the **RBI reaffirms its commitment to achieving and maintaining this stability**. The central bank underlines the necessity of a holistic approach to economic management, aiming not only to preserve but also to enhance the hard-earned strength and stability of the Indian economy.

Looking ahead, the RBI notes that the **trajectory of inflation will largely be influenced by factors such as food prices and the volatility of crude oil prices.**

In terms of projections, the RBI forecasts **CPI inflation to be around 5.4% for the current Fiscal Year (2023-24) and aims for a target of 4.5% for the subsequent Fiscal Year (2024-25), contingent upon a normal monsoon.** However, it acknowledges that risks to these projections are evenly balanced, with factors such as geopolitical events, supply chain disruptions, and commodity price volatility posing potential challenges.

Despite these uncertainties, the **RBI remains optimistic about domestic economic activity, citing positive indicators** such as investment demand, business sentiment, and consumer confidence. However, the central bank remains vigilant against inflationary pressures, particularly from food price shocks and other external factors.





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