



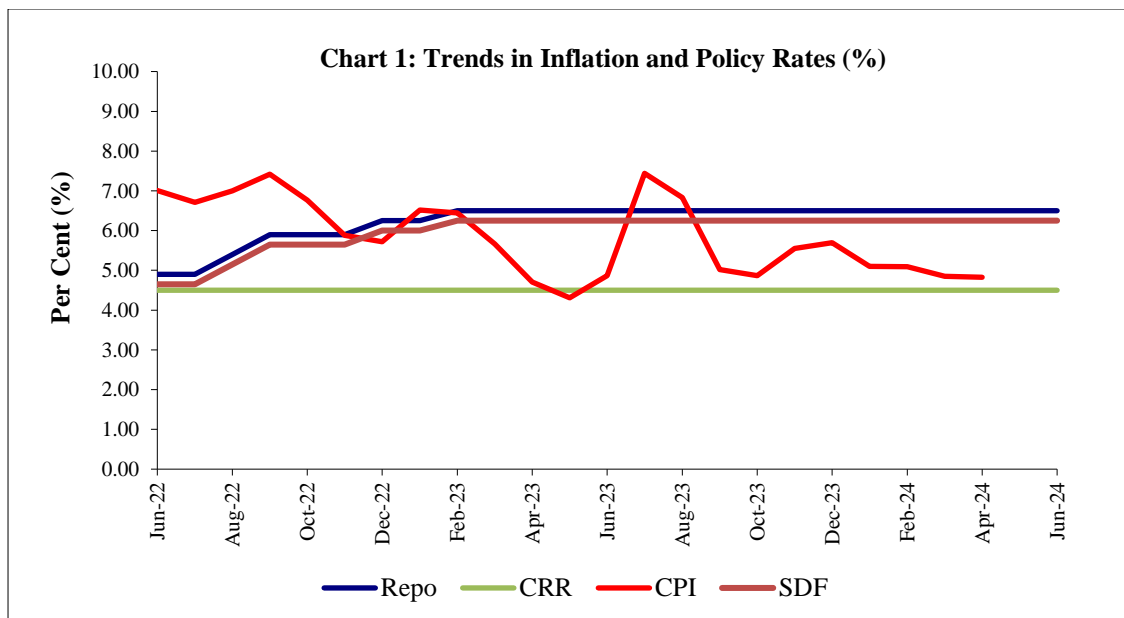
Macro-Economic Updates

June 07, 2024

Monetary Policy Statement, June 2024: MPC holds rate steady; hikes GDP projection for FY25

Monetary and Liquidity Measures

- The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) kept the policy repo rate unchanged for the eighth time in a row in its latest policy meeting in June 2024. Accordingly,
 - The policy repo rate under liquidity adjustment facility (LAF) stands unchanged at 6.50%.
 - The standing deposit facility (SDF) remains unchanged at 6.25%.
 - The marginal standing facility (MSF) rate and the bank rate stand unchanged at 6.75%.
 - The CRR stands unchanged at 4.50%.
- The MPC decided by a majority of 4 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.



Regulatory Updates

- The RBI has proposed to revise the definition of bulk deposits as 'Single Rupee term deposits of ₹3 crore and above' for Scheduled Commercial Borrowings (excluding Regional Rural Banks (RRBs) and Small Finance Banks. Further, it is also proposed to define the bulk deposit limit for Local Area Banks as 'Single Rupee term deposits of ₹1 crore and above' as applicable in case of RRBs. Necessary guidelines will be issued shortly.

- Reserve Bank has decided to rationalise existing guidelines on export and import of goods and services in line with the changing dynamics of cross-border trade transactions globally. The proposed rationalisation aims to simplifying operational procedures thereby promoting ease of doing business for all the stakeholders. The draft regulations and directions would be placed on the Bank's website by end June 2024.
- The Reserve Bank of India has proposed to set up a Digital Payments Intelligence Platform that will harness advanced technologies to mitigate payment fraud risks. To take this initiative forward, the Reserve Bank has constituted a committee to examine various aspects of setting up a digital public infrastructure for Digital Payments Intelligence Platform. The Committee is expected to give its recommendations within two months.
- Under the e-mandate framework, the RBI has proposed to introduce an automatic replenishment facility for recurring payments. The automatic replenishment will be triggered when the balance in Fastag or NCMC falls below a threshold amount set by the customer.

Macro-economic Outlook

- **Global Scenario:** Global growth is sustaining its momentum in 2024 and is likely to remain resilient, supported by a rebound in global trade. Central banks around the world are working to bring inflation under control while providing guidance for a possible future rate cut. Inflation is trending downward in most advanced economies. The US dollar and sovereign bond yields remain range-bound. While gold prices have surged due to safe-haven demand, equity markets have gained in both advanced and emerging economies since the last MPC meeting.
- **Indian economy:** The domestic economy is experiencing robust momentum. The provisional estimates released by the National Statistical Office (NSO) placed India's real gross domestic product (GDP) growth at 8.2% in 2023-24, and the economy is expected to continue its robustness. The Purchasing Managers' Index (PMI) in manufacturing continued to exhibit strength in May 2024. Private consumption, the mainstay of aggregate demand, is recovering, with steady discretionary spending in urban areas. The revival in rural demand is being bolstered by improving farm sector activity. Investment activity continues to gain traction, driven by the ongoing expansion in non-food bank credit. Merchandise exports expanded in April with improving global demand. However, rising geopolitical tensions from the Russia-Ukraine war and the Red Sea region, fluctuations in domestic currency rates, and extreme weather conditions pose risks to the outlook.
- **Price levels:** CPI inflation softened to 4.83% in April 2024 from 5.09% in February 2024, remaining within the RBI's tolerance band of 4%-6%. The ease in inflation was primarily due to disinflation in core sectors and deflation in fuel groups. However, the incidence of climate shocks and continued geopolitical tensions pose risks to a stable inflation outlook. On the other hand, the forecast of an above-normal monsoon bodes well for the kharif season. Considering these factors, the RBI maintained its existing projection for CPI inflation for 2024-25 at 4.5%, with Q1 at 4.9%, Q2 at 3.8%, Q3 at 4.6%, and Q4 at 4.5%.
- **Systemic liquidity:** Liquidity conditions, as measured by net injections under the liquidity adjustment facility, transitioned from surplus to deficit and then back to

surplus in early June. The Reserve Bank mopped up surplus liquidity through variable rate reverse repo (VRRR) auctions during the first half of April, while injecting liquidity through variable rate repo (VRR) operations in the latter part of April and in May. In the first week of June, VRRR auctions were conducted. Looking ahead, the Reserve Bank will continue to be nimble and flexible in its liquidity management through main and fine-tuning operations in both repo and reverse repo.

Outlook: The MPC remained firm in its view that price stability and controlling inflation are the primary objectives. Backed by the robustness of the economy, an above-normal monsoon prediction that will boost kharif production, and sustained buoyancy in services activity, the MPC hiked its real GDP growth forecast by 20 basis points to 7.2% for FY25. The prospects for investment activity remain bright due to an upturn in the private capex cycle becoming steadily broad-based. Going forward, the global economic scenario and the performance of the monsoon will dictate the trend of the domestic economy.

Table 1: Trends in Major Monetary Indicators (%)

Indicators	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Repo	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Fixed rate Reverse Repo	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
SDF	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
CPI	6.83	5.02	4.87	5.55	5.69	5.10	5.09	4.85	4.83	-	-
CRR	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
SLR	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00

*SDF: Standing Deposit Facility

*CPI: Consumer Price Inflation (%)

CRR: Cash Reserve Ratio

SLR: Statutory Liquidity Ratio

Source: Reserve Bank of India, Ministry of Statistics & Programme Implementation, CCIL Research

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