# RBI's first policy meet for FY2023-24 – Impact Analysis

**April 06, 2023**

The Reserve Bank of India in its monetary policy today, kept the policy repo rate unchanged at 6.50%, against market consensus. It also emphasized that today's decision was a 'pause not a pivot', and kept the option open for 'further actions' in its future meetings if the situation should so warrant.

## Highlights of the Policy:

- Repo rate unchanged, stance maintained at 'withdrawal of accommodation'.
- The standing deposit facility (SDF) rate stands unchanged at 6.25% while the marginal standing facility (MSF) rate and the bank rate remain at 6.75%.
- Cash Reserve Ratio (CRR) remains at 4.50%.
- Inflation for FY24 is projected at 5.2%, with Q1 at 5.1%, Q2 at 5.4%, Q3 at 5.4% and Q4 at 5.2%, and risks evenly balanced.
- Growth forecast for FY24 revised a tad bit upwards to 6.5% (earlier 6.4%), with Q1FY24. growth projected at 7.8%, Q2 at 6.2%, Q3 at 6.1% and Q4 at 5.9%, with risks evenly balanced.

## Financial markets:

- Permitted banks with IFSC banking units to offer INR Non-Deliverable Derivative Contracts (NDDC) to resident users in the onshore market with a view to develop the onshore non-deliverable derivatives market.

## Regulation and supervision:

- Development of a secured web based centralized portal named as 'PRAVAAH' (Platform for Regulatory Application, Validation and Authorizations), which will gradually extend to all types of applications made to RBI across all functions.

- Development of a web portal to enable search across multiple banks for possible unclaimed deposits based on user inputs.

## Payments and Settlement Systems:

- Proposed to expand the scope of UPI by enabling transfer to / from pre-sanctioned credit lines at banks, in addition to deposit accounts in order to development of unique products in Indian markets for consumers.

## RBI assessment on Global economy:

- Global economic activity remains resilient amidst the persistence of inflation at elevated levels, turmoil in the banking system in some advanced economies (AEs), tight financial conditions and lingering geopolitical hostilities. Recent financial stability concerns have triggered risk aversion, flights to safety and heightened financial market volatility.

- Sovereign bond yields moderated steeply in March on safe haven demand, reversing the sharp increase in February over aggressive monetary stances and communication.

- Weakening external demand, spillovers from the banking crisis in some AEs, volatile capital flows and debt distress in certain vulnerable economies weigh on growth prospects.

## RBI assessment on domestic economy:

- The second advance estimates (SAE) released by the National Statistical Office (NSO) on February 28, 2023 placed India's real gross domestic product (GDP) growth at 7.0% in 2022-23.

- Economic activity remained resilient in Q4. The index of industrial production (IIP) expanded by 5.2% in January while the output of eight core industries rose even faster by 8.9% in January and 6.0% in February, indicative of the strength of industrial activity. In the services sector, domestic air passenger traffic, port freight traffic, e-way bills and toll collections posted healthy growth in Q4.

- CPI headline inflation rose from 5.7% in December 2022 to 6.4% in February 2023 on the back of higher inflation in cereals, milk and fruits and slower deflation in vegetables prices. Core inflation (excluding food and fuel) remained elevated and was above 6% in January-February.

- The average daily absorption under the Liquidity Adjustment Facility (LAF) moderated to INR 1.4tn during February-March from an average of INR 1.6tn in December-January. During 2022-23, money supply (M3) expanded by 9.0% y-o-y and non-food bank credit rose by 15.4% y-o-y.

- India's foreign exchange reserves were placed at USD 578.4bn as on March 31, 2023.

## Our Analysis & Outlook:

- The 10-year G-Sec Bond yield moderated to 7.20% (previous day closing: 7.28%) and the 5-year bond yield fell to 7.04% (previous day close: 7.15%) following the rate hike announcement.

- The RBI's overnight weighted average call rate hovered close to policy rate after the policy announcement, and was higher than the previous rate of 6.26%.

- Today's policy decision was unexpected, with RBI breaking its streak of rate hikes in the past six consecutive meets. One of the key difference observed in this meeting was that the members unanimously voted to keep rates unchanged (as against a 4/6 majority in the previous meet supporting a rate hike).

- We believe that the Central Bank will continue to take a calibrated approach, given the heightened volatility in global financial markets and a resilient domestic economy. A shift in global Central Banks consensus may reflect in further actions by the RBI.

- Also, we believe that we are at the end of the rate hike cycle, with an elongated pause expected post peak in interest rates.

- We expect inflation to moderate in the near future, mainly due to the base effects of last year. However, core inflation may remain sticky due to the lagged pass-through of input costs and potential upside risks from increased imports. Hence we believe there is no room for any monetary policy easing from the Central Bank at this point of time.

- In the current context, we recommend an accrual strategy and active duration management in the fixed income space.

- Continue with our positive stance on floating rate instruments due to their high carry and remain positive on the shorter end of the curve due to low duration risk.

*Data source: RBI's First Monetary Policy Meet statement for FY2023-24 dated 6th April, 2023*
*Note: FY refers to 1-year period ending March*

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