Economic Intelligence Cell
- Surabhi Tewari, Economist

Macro Insights

10th August, 2023

A. Policy Rate	Existing	Now	Change
Policy Repo Rate	6.50%	6.50%	No Change
Standing Deposit Facility (SDF)	6.25%	6.25%	
MSF Rate	6.75%	6.75%	
Bank Rate	6.75%	6.75%	
B. Reserve Ratios			
Cash Reserve Ratio (CRR)	4.50%	4.50%	
Statutory Liquidity Ratio (SLR)	18.0%	18.0%	

Highlights:

- ***Policy Rates:*** *Reserve Bank of India's (RBI) monetary policy commission (MPC) kept the repo rate unchanged at 6.50%. The RBI had already hiked key benchmark lending rate by 250 basis points (bps) since an off-cycle 40 bps increase in repo in May 2022.*
- ***Stance:*** *RBI maintains its stance of withdrawal of accommodation*
- ***Rationale:*** *MPC decided to remain focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.*

i. Economic and Inflation Outlook

Economy Outlook

- The momentum of overall economic activity in India continues to be positive.
- On the supply side, crop sowing has picked up with steady progress in the south-west monsoon.
- The temporal and spatial distribution of monsoon has, however, been uneven. Industrial activity is holding ground as is evident from the latest data on Index of Industrial Production (IIP), core industries output and purchasing managers' index.
- According to the IMF, annual average global growth rate during 2000 to 2019 was 3.8 per cent. The total area sown under kharif crops was 0.4 per cent higher than a year ago as on August 4, 2023.
- The storage in major reservoirs on August was at 56 per cent of the full capacity, higher than the decadal average of 50 per cent, but below 60 per cent a year ago.
- On the other hand, commercial vehicle sales and domestic air cargo traffic contracted during Q1: 2023-24. Taking all these factors into consideration, GDP projections are as under where risks are evenly balanced:

RBI Projection GDP	Q1 FY24	Q2 FY'24	Q3 FY'24	Q4 FY'24	FY'24	Q1 FY'25
08.06.2023	8.0%	6.5%	6.0%	5.7%	6.5%	-
10.08.2023	8.0%↔	6.5%↔	6.0%↔	5.7%↔	6.5%↔	6.6%

Inflation Outlook

- The moderation in headline inflation to 4.6 per cent in Q1 of 2023-24 was in line with the projections set out in the June MPC meeting. There was a pick-up in headline inflation to 4.8 per cent in June due to an upturn in food inflation.
- On the positive side, inflation excluding food and fuel (core inflation) has softened by more than 100 basis points from its recent peak in January 2023. The month of July has witnessed accentuation of food inflation, primarily on account of vegetables. The spike in tomato prices and further increase in prices of cereals and pulses have contributed to this.
- Taking into account these factors, the projections for CPI Inflation is as under:

RBI Inflation Projection	Q2 FY'24	Q3 FY'24	Q4 FY'24	FY'24	Q1 FY'25
08.06.2023	5.2%	5.4%	5.2%	5.1%	-
10.08.2023	6.2%↑	5.7%↑	5.2%↔	5.4%↑	5.2%

ii. Liquidity and Financial Market Conditions

- The level of surplus liquidity in the system has gone up in the recent months on the back of return of ₹2000 banknotes to the banking system, RBI's surplus transfer to the government, pick up in government spending and capital inflows.
- The overall daily absorption under the liquidity adjustment facility (LAF) was ₹1.7 lakh crore in June and ₹1.8 lakh crore in July 2023.
- The efficient liquidity management requires continuous assessment of the level of surplus liquidity so that additional measures are taken as and when necessary to impound the element of excess liquidity. Accordingly, it has been decided that with effect from the fortnight beginning August 12, 2023, scheduled banks shall maintain an incremental cash reserve ratio (I-CRR) of 10 per cent on the increase in their net demand and time liabilities (NDTL) between May 19, 2023 and July 28, 2023.
- The ICRR will be reviewed on September 8, 2023 or earlier with a view to returning the impounded funds to the banking system ahead of the festival season. The existing cash reserve ratio (CRR) remains unchanged at 4.5 per cent.

Financial Stability.

- The Indian financial sector has been stable and resilient, as reflected in sustained growth in bank credit, low levels of non-performing assets and adequate capital and liquidity buffers.
- Macro stress tests for credit risk reveal that scheduled commercial banks (SCBs) would be able to comply with the minimum capital requirements even under severe stress scenarios. There is, however, no room for complacency because it is during tranquil and good times that vulnerabilities may creep in

iii. External Sector

- India's current account deficit (CAD) was contained at 2.0 per cent of GDP in 2022-23 as compared with 1.2 per cent in 2021-22. Merchandise trade deficit has narrowed in Q1 of 2023-24 with contraction in imports exceeding contraction in exports.
- Services exports and remittances are, however, expected to provide cushion to the current account deficit. It is therefore expected that CAD to remain eminently manageable during the current financial year also.
- On the financing side, foreign portfolio investment (FPI) flows have remained buoyant in 2023-24 so far. Net FPI inflows have been US$ 20.1 billion up to August 8, 2023 which is the highest since 2014-15. In the corresponding period of the previous year, there were net outflows of US$ 12.6 billion.
- The Indian rupee has remained stable since January 2023. Foreign exchange reserves have crossed US$ 600 billion mark.

iv. Additional Measures

I. Financial Markets

a) Review of Regulatory framework for Financial Benchmark Administrators

Considering the evolution of the domestic financial markets and global best practices, the regulations for financial benchmarks have been reviewed and it has been decided to put in place a comprehensive, risk-based framework covering administration of all benchmarks related to foreign exchange, interest rates, money markets and government securities such as benchmarks on certificate of deposits (CDs) rates, repo rates, and FX Options

II. Regulation & Supervision

b) Review of Regulatory Framework for NBFC – Infrastructure Debt Funds (IDF-NBFCs)

- To enable the IDFs to play a greater role in financing of the infrastructure sector and to move towards the regulatory objective of harmonisation of regulations applicable to various categories of NBFCs, a review of the extant regulatory framework for IDFs has been undertaken in consultation with the Government of India.

- The revised framework envisages – (i) withdrawal of the requirement of a sponsor for the IDFs; (ii) permission to finance Toll Operate Transfer projects (ToT) as direct lenders, (iii) access to ECBs; and (iv) making tri-partite agreement optional for PPP projects. Detailed guidelines shall be issued shortly.

c) Responsible Conduct in Lending: Greater transparency in Interest Rate Reset of Equated Monthly Instalments (EMI) based Floating Interest Loans

- To address the issue, it is proposed to put in place a proper conduct framework to be implemented by all REs to address the issues faced by the borrowers.
- The framework envisages that lenders should clearly communicate with the borrowers for resetting the tenor and/or EMI, provide options of switching to fixed rate loans or foreclosure of loans, transparent disclosure of various charges incidental to the exercise of these options, and proper communication of key information to the borrowers..

d) Consolidation and harmonisation of instructions for Supervisory data submission

- The Reserve Bank of India has, from time to time, issued several guidelines and instructions to its supervised entities (SEs) viz. SCBs, NBFCs, UCBs, AIFIs etc. for submission of supervisory returns. Certain issues are being faced by SEs while complying with these instructions due to changes in technology platforms, modes of submission, and variations in the return submission timeframes.
- In order to consolidate and harmonise the instructions for submission of applicable Supervisory Returns, provide greater clarity and reduce the compliance burden, it is proposed to consolidate all the existing instructions on submission of data into a single Master Direction which will be a single point of reference for all SEs

III. Payment and Settlement Systems

e) Conversational payments in UPI

- As Artificial Intelligence (AI) is becoming increasingly integrated into the digital economy, conversational instructions hold immense potential in enhancing ease of use, and consequently reach, of the UPI system. It is, therefore, proposed to launch an innovative payment mode viz., "Conversational Payments" on UPI that will enable users to engage in a conversation with an AI-powered system to initiate and complete transactions in a safe and secure environment. This channel will be made available in both smartphones and feature phones-based UPI channels, thereby helping in the deepening of digital penetration in the country.

f) Offline payments in UPI

- To increase the speed of small value transactions on UPI, an on-device wallet called "UPI-Lite" was launched in September 2022 to optimise processing resources for banks, thereby reducing transaction failures.
- The product has gained traction and currently processes more than ten million transactions a month. To promote the use of UPI-Lite, it is proposed to facilitate offline transaction using Near Field Communication (NFC) technology.

g) Enhancing transactions limits for small value digital payments

- By removing the need for two-factor authentication for small value transactions, these channels enable faster, reliable, and contactless mode of payments for everyday small value payments, transit payments etc. Since then, there have been demands for enhancing these limits.
- To encourage wider adoption of this mode of payments and bring in more use cases into this mode, it is now proposed to increase the per transaction limit to ₹500. The overall limit is, however, retained at ₹2000 to contain the risks associated with relaxation of two-factor authentication. Instructions in this regard will be issued shortly

IV. <u>FinTech</u>

h) Public Tech Platform for Frictionless Credit

- With rapid progress in digitalization, India has embraced the concept of digital public infrastructure which encourages FinTech companies and start-ups to create and provide innovative solutions in payments, credit, and other financial activities.
- Based on the learnings from the above pilots and expand the scope to all types of digital loans, a digital Public Tech Platform is being developed by the Reserve Bank Innovation Hub (RBIH).

Views:

RBI has once again kept the rates unchanged as was widely anticipated, Further it has maintained the stance which clearly indicates that RBI is watchful of inflation. With the efforts on developmental and regulatory front, the RBI has given clear signal on continuous watch is required to keep the pace with the changing requirements of the economy and the Banking system.

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