Economic Intelligence Cell

- Surabhi Tewari, Economist

Macro Insights

07th December, 2022

A. Policy Rate	Rate	Change
Policy Repo Rate	6.25%	**35 bps↑**
Standing Deposit Facility (SDF)	6.00%	
MSF Rate	6.50%	
Bank Rate	6.50%	
B. Reserve Ratios		
Cash Reserve Ratio (CRR)	4.50%	**No Change**
Statutory Liquidity Ratio (SLR)	18.0%	

Highlights:

- **Policy Rates:**
  Reserve Bank of India's (RBI) monetary policy commission (MPC) voted unanimously to increase the repo rate by 35 bps.
- **Stance:**
  Remain focused on withdrawal of accommodation so that inflation remains within the target going forward and be growth supportive as well.
- **Rationale:**
  Inflation has started showing signs of easing and economic growth tapering.

GDP Outlook:

- According to the latest data released by National Statistical Office (NSO), real gross domestic product (GDP) posted a growth of 6.3 per cent year-on-year (y-o-y) in Q2:2022-23, driven primarily by private consumption and investment.
- Economic activity continued to gain strength in October.
- RBI surveys show consumer confidence has further improved.
- The biggest risks to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, global slowdown and tightening of global financial conditions.

GDP Projections

RBI Projection GDP	*Q3FY23*	*Q4FY23*	*FY23*	*Q1FY24*	*Q2FY'24*
30.09.2022	4.6%	4.6%	7.0%	7.2%	-
07.12.2022	4.4%↓	4.2%↓	6.8%↓	7.1%↓	5.9%

Inflation Outlook:

- The inflation trajectory has largely evolved in line with the outlook given by us in June 2022. Going forward, food inflation is likely to moderate with the usual winter softening and the likelihood of a bountiful Rabi harvest, but pressure points remain in the form of prices of cereals, milk and spices in the near-term.
- The main risk is that core inflation (CPI excluding food and fuel) remains sticky and elevated. Overall, the CPI price momentum remains high. Risks from adverse weather events add to uncertainty in the outlook.

Inflation Projections:

RBI Inflation Projection	***Q3FY23***	***Q4FY23***	***FY23***	***Q1 FY24***	***Q2 FY'24***
30.09.2022	**6.5%**	**5.8%**	**6.7%**	**5.0%**	**-**
07.12.2022	**6.6%↑**	**5.9%↑**	**6.7%↔**	**5.0%↔**	**5.4%**

Liquidity and Financial Conditions:

- Liquidity conditions are likely to improve due to several factors which would include moderation in currency in circulation in the post-festival period, pick up in government expenditure in the last few months of the financial year and higher forex inflows due to the return of portfolio investors.
- Reserve Bank remains nimble and flexible in its liquidity management operations to meet the requirements of the productive sectors of the economy. Therefore, although the Reserve Bank remains in absorption mode, ready to conduct LAF operations that inject liquidity as may be needed through main operations.
- Restoring market hours - from 9.00 am to 5.00 pm - in respect of call/notice/term money, commercial paper, certificates of deposit and repo in corporate bond segments of the money market as well as for rupee interest rate derivatives.
- The pace of transmission of monetary policy actions to lending and deposit rates has quickened in the current tightening phase, beginning May 2022.
- On a financial year basis (i.e., from April 2022 to October 2022), the INR has appreciated by 3.2 per cent in real terms, even as several major currencies have depreciated. The story of the INR has been one of India's resilience and stability.

Additional Measures:

- Extending the dispensation of enhanced HTM limit of 23 per cent up to March 31, 2024 and allow banks to include securities acquired between September 1, 2020 and March 31, 2024 in the enhanced HTM limit.
- Enhancements to Unified Payments Interface (UPI) – Processing Mandates with Single-Block-and-Multiple-Debits
- Expanding the Scope of Bharat Bill Payment System (BBPS) to include all Payments and Collections
- Hedging of Gold Price Risk in the International Financial Services Centre (IFSC).

Views:

- The contraction in IIP has been a base effect and the industrial activities are likely to remain sluggish.
- However going forward, there has been slowdown in the quantum of Repo rate hike, this may have some positive impact on the growth of industrial activities.

For any feedback or valuable suggestions: *Reach us at* ***eicsmead@pnb.co.in***

Follow our Official Page

www.pnbindia.in