Economic Intelligence Cell
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Macro Insights

8th February, 2023

A. Policy Rate	Rate	Change
Policy Repo Rate	6.50%	**25 bps↑**
Standing Deposit Facility (SDF)	6.25%	
MSF Rate	6.75%	
Bank Rate	6.75%	
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 in the ratio of 4:2 to increase the repo rate by 25 bps.
- ***Stance:***
  Remain focused on withdrawal of accommodation
- ***Rationale:***
  To ensure that inflation remains within target going forward while supporting growth.

GDP Outlook:

- Available data for Q3 and Q4:2022-23 indicate that economic activity in India remains resilient. Urban consumption demand has been firming up, driven by sustained recovery in discretionary spending, especially on services such as travel, tourism and hospitality.
- Passenger vehicle sales and domestic air passenger traffic posted robust year-on-year (y-o-y) growth. Domestic air passenger traffic crossed pre-pandemic levels for the first time in December 2022.
- Rural demand continues to show signs of improvement as tractor sales and two-wheeler sales expanded in December. Several high frequency indicators also point towards strengthening of activity

GDP Projections

	FY23	Q1FY24	Q2FY'24	Q3 FY'24	Q4 FY'24	FY'24
07.12.2022	**6.8%**	**7.1%**	**5.9%**	**-**	**-**	**-**
08.02.2023	**7.0%↑**	**7.8%↑**	**6.2%↑**	**6.0%**	**5.8%**	**6.4%**

Inflation Outlook:

- Headline CPI inflation moderated by 105 basis points during November-December 2022 from its level of 6.8 per cent in October 2022. This was due to a softening in food inflation on the back of a sharp deflation in vegetable prices, which more than offset the inflationary pressures from cereals, protein-based food items and spices. As a result of this earlier than anticipated and steeper seasonal decline in vegetable prices, inflation for Q3:2022-23 has turned out to be lower than projections. Core CPI inflation (i.e., CPI excluding food and fuel), however, remained elevated.
- Taking into consideration these factors, the projections for the CPI Inflation with risk evenly balanced is as under:

Inflation Projections:

	Q4FY23	FY23	Q1 FY24	Q2 FY’24	Q3 FY’24	Q4 FY’24	FY’24
07.12.2022	5.9%	6.7%	5.0%	5.4%			
08.02.2023	5.7%↓	6.5%↓	5.0%↔	5.4%↔	5.4%	5.6%	5.3%

Liquidity and Financial Conditions:

- System liquidity remains in surplus, though of a lower order compared to April 2022. In the period ahead, while higher government expenditure and the anticipated return of forex inflows are likely to augment systemic liquidity, it would get modulated by the scheduled redemption of LTRO and TLTRO funds during February to April 2023.
- The Reserve Bank will remain flexible and responsive towards meeting the productive requirements of the economy. RBI will conduct operations on either side of the LAF, depending on the evolving liquidity conditions.
- As part of gradual move towards normalizing liquidity and market operations, it has been decided to restore market hours for the Government Securities market to the pre-pandemic timing of 9 am to 5 pm.
- Moreover, as part of ongoing endeavor to further develop the government securities market, RBI proposes to permit lending and borrowing of G-secs.

External Sector

- The current account deficit (CAD) for the first half of 2022-23 stood at 3.3 per cent of GDP. The situation has shown improvement in Q3:2022-23 as imports moderated in the wake of lower commodity prices, resulting in narrowing of the merchandise trade deficit.
- Owing to certain favourable conditions, CAD is expected to moderate in H2:2022-23 and remain eminently manageable and within the parameters of viability.

Additional Measures:

- It is proposed to permit lending and borrowing of Government securities which will augment the existing market for 'special repos'. Draft Directions will be issued separately for stakeholder comments.
- To further enhance transparency, reasonableness and consumer protection, draft guidelines on levy of penal charges will be issued to obtain comments from stakeholders.

  Based on the feedback received, it has been decided to issue guidelines for REs on

  I. A broad framework for acceptance of Green Deposits;
  II. Disclosure framework on Climate-related Financial Risks;
  III. Guidance on Climate Scenario Analysis and Stress Testing.
- It is proposed to expand the scope of TReDs by
  i. providing insurance facility for invoice financing;
  ii. permitting all entities/institutions undertaking factoring business to participate as financiers in TReDS; and
  iii. Permitting rediscounting of invoices (that is, developing a secondary market in TReDS).
- It is now proposed to permit all inbound travelers to India to use UPI for their merchant payments (P2M) while they are in the country. To begin with, this facility will be extended to travelers from G-20 countries arriving at select international airports.
- The Reserve Bank of India will launch a pilot project on QR Code based Coin Vending Machine (QCVM) in 12 cities.
- These vending machines will dispense coins against debit to the customer's account using UPI instead of physical tendering of banknotes.
- This will enhance the ease of accessibility to coins.

Views:

- In line with the market expectations, RBI once again delivered a rate hike but quantum wise it is lower than earlier hikes. Growth outlook on GDP and Inflation has been enhanced which is positive sign. Further, allowing of lending and borrowing of G Sec is likely to increase the participation in the market and provide it greater depths and efficiency.
- Amongst Additional measures floating the guidelines on penal charges for comment will bring about the much required transparency in the matter. Issue of guidelines on climate risk and sustainable finance indicate that climate and green financing are of great importance now.
- Extending UPI to inbound travelers will boost the scope and reach of UPI. MSME being the focus of the growth agenda has also been given due recognition by way of expanding the scope of TreDS which is likely to improve the cash flows for MSMEs.

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

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