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The RBI Monetary Policy: Major Points

07 June 2024

- The RBI Monetary Policy Committee (MPC) has kept the repo rate unchanged at 6.50 per cent. [However, dissent increased by 4:2, compared to previous 5:1. The details about dissenting members could be known when the MPC members detailed outlook would be published by the end of this month].
- Food inflation remains elevated.
- **GDP growth projections have been enhanced upwards by RBI.**
- **Real GDP growth for 2024-25 is projected at 7.2 per cent (enhanced from 7.0 per cent from the previous projection)** with
- Q1 at 7.3 per cent (enhanced from 7.1 per cent earlier);
- Q2 at 7.2 per cent (enhanced from 6.9 per cent);
- Q3 at 7.3 per cent (enhanced from 7.0 per cent);
- Q4 at 7.2 per cent (enhanced from 7.0 per cent).
- Despite some moderation, pulses and vegetables inflation remained firmly in double digits.
- The exceptionally hot summer season and low reservoir levels may put stress on the summer crop of vegetables and fruits. The rabi arrivals of pulses and vegetables need to be carefully monitored.
- **Hence,** assuming a normal monsoon, **CPI inflation for 2024-25 is projected at 4.5 per cent** with Q1 at 4.9 per cent; Q2 at 3.8 per cent; Q3 at 4.6 per cent; and Q4 at 4.5 per cent. [***CPI projection remains unchanged]***.
- The RBI remains in a wait and watch mode for now to assess domestic developments like the monsoon performance, food inflation, and the new budget before moving on rates.
- Bond market saw a muted reaction to the policy decision. The 10-year stood at 7.01% on 7 June'24 (vs. its previous close of 7.01%).
- The USD/INR was trading at 83.41 level on 7 June'24 vs. its opening level of 83.465 and previous close of 83.47. Looking ahead, it is likely that the USD/INR to trade in the range of 83.0-83.50 in the near term.

- The RBI is likely to remain active to curb any short-term volatility in the pair.
- In the near-term, liquidity could remain volatile with a move back into deficit in the coming days (impact of excise related outflows and advance tax payments). However, government spending can support this.
- System liquidity has moved to a surplus in recent days, due to a pickup in month end Government spending. As of 6th June, system liquidity surplus stood at INR 52,000 crore.
- It is proposed to revise the definition of bulk deposits as 'Single Rupee term deposits of ₹3 crore and above' for SCBs (excluding RRBs) and SFBs.
- On the regulatory front, the increase in bulk deposit limit to INR 3 crore from INR 2 crore for scheduled commercial banks (ex Rural Regional Banks), signals the RBI's intention to encourage banks to garner greater retail deposits to fund credit growth.
- Keeping in view the progressive liberalisation under FEMA 1999 and to impart greater operational flexibility to Authorized Dealer banks, **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 RBI proposed to set up a **Digital Payments Intelligence Platform (DPIP)** which will harness advanced technologies to mitigate payment fraud risks.
- To take this initiative forward, the Reserve Bank has constituted a committee (Chairman: Shri A.P. Hota, former MD & CEO, NPCI) 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.
- **It is now proposed to include payments, such as replenishment of balances in Fastag, NCMC, etc. which are recurring in nature but without any fixed periodicity, into the e-mandate framework.**