On June 08, 2023, the RBI's Monetary Policy Committee (MPC) took following policy decisions:

Key Policy Parameter	Status before today's meeting	Decision at today's MPC meeting
Repo Rate	6.50%	6.50%, unchanged (unanimous vote)
Standing Deposit Facility (SDF)	6.25%	6.25%, unchanged
Bank Rate / Marginal Standing Facility (MSF) Rate	6.75%	6.75%, unchanged
Monetary Policy Stance	Remain focused on withdrawal of accommodation	Remain focused on withdrawal of accommodation (5:1 vote)

The RBI's MPC decided to keep the repo rate unchanged at 6.5% unanimously, as expected. The MPC also kept the policy stance unchanged and decided to remain focused on withdrawal of accommodation with a 5:1 vote. The RBI noted that the repo rate has been increased by 250 bps since May 2022 and is still working its way through the system. The full impact of the rate hikes done so far will be visible in the near to medium term.

Executive summary of RBI's press releases/ press conference:

Global economy: The RBI noted that global growth is expected to decelerate in CY23 on account of high inflation, tight financial conditions and geopolitical tensions. On the monetary policy front, the pace of monetary tightening has slowed recently, however, the future trajectory remains uncertain as inflation continues to remain well above central banks' targets. Sovereign bond yields are trading sideways led by expectations of imminent peaking of monetary policy tightening cycle. Weak external demand, elevated debt levels and tighter financial conditions pose risks to growth prospects of several emerging economies.

Domestic growth: India's real GDP grew by 7.2% in FY23, higher than the RBI's earlier estimate of 7.0%. For FY24, demand remains supportive of growth driven by improving household consumption and investment activity. While urban demand remains resilient, rural demand is also on a revival path. The RBI's surveys point towards higher investment intentions of manufacturing companies for FY24. The RBI has projected **real GDP growth for FY24 at 6.5%** with Q1 at 8.0%, Q2 at 6.5%, Q3 at 6.0% and Q4 at 5.7%. Weak external demand, geopolitical tensions, volatility in global financial markets and intensity of El Nino impact pose risks to the growth outlook.

Domestic inflation: India's CPI inflation has moderated recently aided by monetary policy tightening and supply side measures. The RBI believes that future trajectory of inflation is likely to be shaped by food price dynamics. Forecast of a normal monsoon by IMD augurs well for Kharif crops, however, the spatial and temporal distribution of monsoon would need to be monitored to assess the prospects for agricultural production. The RBI has projected **CPI inflation at 5.1% for FY24** (5.2% earlier) with Q1 at 4.6%, Q2 at 5.2%, Q3 at 5.4% and Q4 at 5.2%. RBI Governor emphasized that headline inflation still remains above the medium term target of 4% and being within the tolerance band (2-6%) is not enough.

Domestic liquidity conditions: Average system liquidity was Rs. 1.7 lakh cr during Apr-May 2023, which was lower than Rs. 2.9 lakh cr during the full year FY23. Surplus liquidity moderated on account of seasonal expansion in currency in circulation, built-up of government cash balances and maturity of long term repo operations. The RBI has been conducting variable rate repo (VRR) and variable rate reverse repo (VRRR) auctions, as and when required, to manage the system liquidity.

Fixed Income Outlook:

The RBI remains more cautious on the future trajectory of inflation and emphasized that it remains committed to anchoring inflation close to 4%. We think that this resolve to do "whatever is necessary" to bring inflation down on a sustained basis to the median target is likely to push forward rate cut expectations. That said, it does not mean that the RBI will keep rates on hold until inflation actually reaches 4%. We think that once the inflation uncertainty moderates and a path towards the 4% target is visible, the RBI could start its rate cut cycle, if growth conditions so demand. We do not see this happening before Q1 2024.

We expect real GDP growth at 6% and CPI inflation at 4.8% for FY24. In the post policy press conference, the RBI mentioned that it would like to align the overnight call money rate to the repo rate signaling that the central bank is likely to remain in a liquidity absorption mode and is comfortable with lower levels of liquidity surplus. In the near term, comfortable liquidity balances are likely to result in further steepening of the yield curve.

Other key measures announced:

- Allow Scheduled Commercial Banks (excluding Small Finance Banks) to set their own limits for borrowing in Call and Notice Money Markets within the prescribed limits. This is aimed at providing greater flexibility for managing their liquidity
- Permit issuance of RuPay Prepaid Forex cards by banks to expand the payment options for Indians travelling abroad
- Issue guidelines on Default Loss Guarantee arrangements in Digital Lending to promote responsible innovation and prudent risk management
- Proposal to expand the scope and reach of e-RUPI vouchers to make them accessible to a wider set of users and further deepen the penetration of digital payments