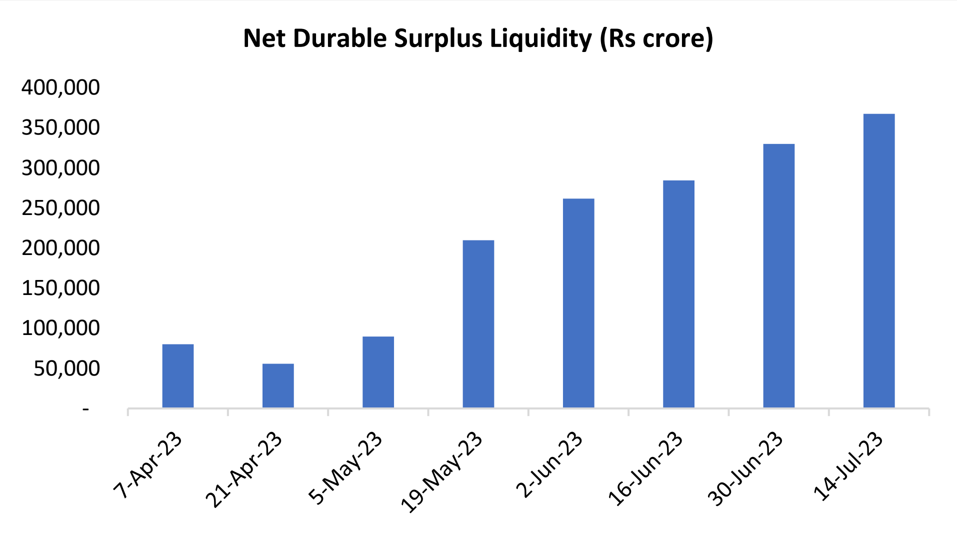
# MPC likely to maintain status quo in August meeting

### Key Expectations from the RBI's MPC meeting

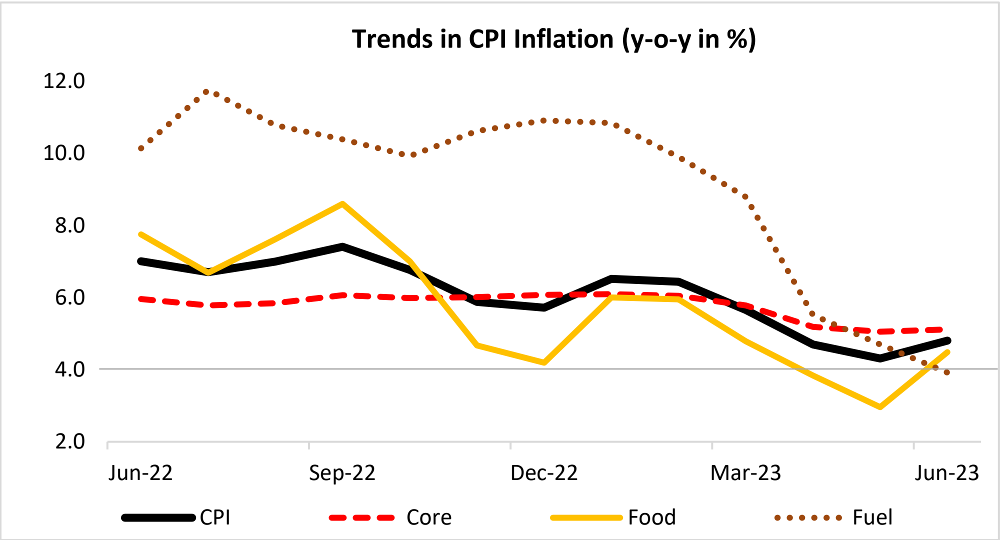
- *Keep key policy rates unchanged*
- *No change in policy stance*
- *Additional measures to manage liquidity*

In the upcoming Monetary Policy Committee (MPC) meeting, the RBI is expected to maintain the status quo and keep the repo rate unchanged at 6.5%. The MPC is also expected to continue with the stance of withdrawal of accommodation given that liquidity in the banking system is still in surplus. Considering the spike in food inflation, it is likely to underline a cautionary note as well. The net durable liquidity averaged above 2 trillion due to the transient events such as the withdrawal of Rs 2000 banknotes announced on 19 May 2023. Although, the average total absorption under the Liquidity Adjustment Facility (LAF) narrowed to Rs 1.6 lakh crore during 16 June to 12 July (from Rs 1.8 lakh crore during 16 May to 15 June), due to advance tax payments and GST related outflows, higher government spending in the beginning of July further augmented surplus liquidity.




Source: RBI press releases on daily money market operations, B2K Analytics

In the June meeting, the MPC had decided to emphasise on the withdrawal of accommodative stance, with a 5-1 majority. Since the last meeting, the RBI has conducted one variable rate repo (VRR) fine tuning operation on 19 June 2023 to inject liquidity amounting to Rs 75,004 crore to the banking system, while conducting variable rate reverse repo (VRRR) on 11 occasions absorbing liquidity in the range of Rs 5,780 crore to Rs 1.06 lakh crore. We expect the MPC to continue to remain agile and flexible in managing liquidity through two-way operations in 2023

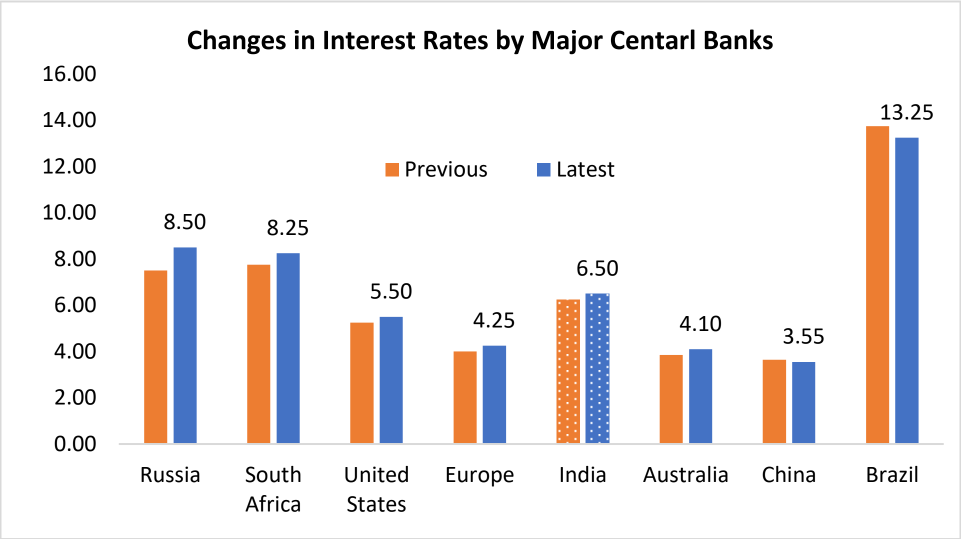



Source: MOSPI, B2K Analytics

On the inflation front, RBI is likely to remain cautious in its outlook for FY24 and may wait for some more time to revise the projections, if necessary, as the CPI inflation rate inched up to 4.8% in June form 4.3% in May 2023. In fact, the overall inflation rate has softened in 2023 compared to 2022 levels, and the number of items out of the 299 items in CPI which have recorded double digit inflation have been reduced to 34 in June 2023 compared to 57 in January 2023. However, in June there was some surge in overall CPI due to a sharp uptick in food prices, particularly in the price of vegetables. Recent spike in crude oil prices also has added to the woes. Although the core inflation has eased to 5% levels since April, the underlying factors such as excess rainfall in some part of the country and the uneven distribution of monsoon is likely to keep the CPI inflation level higher in the coming months.. In particular, the outlook on food inflation remains a matter for concern. The RBI is unlikely to increase the policy rates, but the sticky inflation would push the rate cut possibilities to further away.

On the global front, inflation continues to remain high despite the steepest global interest-rate hiking cycle in four decades. According to IMF's latest World Economic Outlook, inflation could remain high and even rise if further shocks occur, including those from an intensification of the war in Ukraine and extreme weather-related events, triggering more restrictive monetary policy. As per the July 2023 report, global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024.

Most of the major central banks continue to focus on fighting inflation by tightening the monetary policies. The Federal Reserve paused rate hikes at its June meeting, but again hiked the rates by 25 bps on 26 July 2023 and signaled further rises ahead to contain inflation risks. Reserve Bank of Australia, European Central Bank, and South Africa too, have continued to raise rates. On the contrary, RBI has paused the rate tightening cycle since April 2023, after increasing by a cumulative 250 basis points between May 2022 and February 2023. The decision to pause was based on the need to wait and assess the cumulative impact of past monetary policy actions while charting out the future course. In the April and June meetings, RBI stated that past rate hikes are still working through the system and want to wait for its effect to work before raising the rate further.




Source: https://www.global-rates.com, B2K Analytics

Since the last meeting, the domestic growth outlook has improved with high frequency indicators showing steady increase. The growth estimate released by the MOSPI shows that Q4FY23 GDP has accelerated to 6.1% and this marks a strong rebound and holds the promise of continued buoyancy in the economy in the coming quarters. Considering these factors, RBI is unlikely to revise its 6.5% growth estimates for FY24.

***Givern the improving economic fundamentals amid risk of inflation concerns, we expect the RBI to follow a cautious approach and maintain a pause in the August policy meeting as well and keep the repo rate unchanged at 6.5%.***

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### About B2K

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The B2K team has experienced domain experts and industry practitioners who have provided such services and implemented solutions across institutions in different countries. As such, team members are experts in regulatory and management practices in these areas and have helped many clients in adopting best practices.

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