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CREDIT RATING AGENCY

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NO CHANGE IN DECEMBER POLICY RATES - HOW AND WHY

05 December 2023

RBI MONETARY POLICY

The MPC is likely to go in for an unchanged benchmark policy rates on Dec , 8, 2023. This Policy would be announced against the backdrop of mixed macro economic and global canvas. Positive cues included unchanged Fed Reserve policy in the range of 5.25 % to 5.50 % for the second time on Nov.2, 2023, average crude price at below \$85 per barrel for 8 months upto Nov, CPI inflation dropping from 5.02 % in Sept 2023 to 4.87 % in Oct., comfortable foreign exchange reserves of \$ 600 billions and current account deficit (CAD) at 1.1 % of GDP in April -June 2023.

There has been a robust GDP growth of 7.6 % on top of 7.8 % in Q1. This growth was spearheaded by manufacturing sector growth of 13.9 % over last year. Fiscal deficit has been restricted at 45% of the targeted estimates of April/Sept 2023 on surging direct and indirect taxes. Tailwinds also include corporate profitability and investments.



Liquidity manifested by net LAF remained in deficit with the current system liquidity deficit at Rs. 0.5 lakh crores and average of 0.7 lakh crores in Nov. 2023. However, with govt surplus cash balances rising to an average of Rs. 3.7 lakh crores in Nov 2023, durable/ core liquidity surplus rose to Rs. 3 lakh crores.

To place matters in perspective, we must, however, also consider the base effect in the growth process, non realisation of the full potential of private investment, spike in personal loans, higher logistics cost vis-a-vis other countries, moderation in the services sector and heightened geopolitical tensions post the Russia- Ukraine war and more recently the Israeli- Hamas war.

Hence, taking an overall view of the global and domestic environment, we don't see a change in the forthcoming RBI's Policy in terms of key benchmark rates.

We also see the stance of the policy to be retained as the withdrawal of accommodation”.