Online Portal & Print:	The Hindu Business Line	Edition:	Mumbai, New Delhi, Chennai, Bangalore Kolkata, Hyderabad
Published Date:	December 06, 2023		
Headline: MPC likely to maintain status quo on policy rates			

MPC likely to maintain status quo on policy rates

Given the upward pressure on food prices and uncertain global conditions, rates may remain unchanged

Rupa Rege Nitsure

For the upcoming RBI's monetary policy review, we expect a status quo on policy rates and stance for the fifth time in a row, given the inflation persistence and better-than-anticipated economic growth in the first half of the current financial year.

The RBI's focus on aligning inflation to the 4 per cent target on a durable basis is beyond doubt. Despite a fall in headline inflation to 4.87 per cent and in core inflation to a 43-month low of 4.30 per cent in October, the RBI has not loosened its grip over liquidity.

In fact, liquidity in the banking system has been oscillating from small surplus to a large deficit every month in tune with the tax outflows and bond auctions. Recently, liquidity deficit in the banking system rose to a five-year high level (₹2-lakh crore plus) on Nov 22 after heavy outflows on account of GST and weekly bond auctions.

Amid such high liquidity deficit in the banking system, November saw the highest issuances of certificates of deposits (CDs) by banks during FY24. Even issuances of commercial papers (CPs) rebounded in November. As liquidity continues to remain tight, banks and NBFCs have been raising funds through short-term instruments.

By tightening liquidity through various tools, the RBI has brought the liquidity from an ultra-surplus situation in the Covid period to a deficit now to contain inflation. And this has worked well, as seen in a significant fall in the core inflation.

BANK CREDIT

The y-o-y growth in non-food bank credit continues to remain high at 20.8 per cent around mid-November but aggregate deposit growth is still lagging at 13.6 per cent. According to an RBI report, the pace of increase in deposit rates (term and savings account deposits taken together) has lagged the pace of increase in lending rates so far. This means the transmission of past policy rate hikes is still incomplete.

Moreover, to control the exuberance in the personal loans' growth, the RBI recently raised risk weights on consumer credit, credit card receivables and NBFC credit, which, in turn, has raised lending rates on these loans. This reflects the RBI's continued thrust on financial tightening.Fortunately, there are no serious concerns on the non-agricultural growth front. The growth rates in infrastructure, capital goods, construction and services excluding the IT & ITES held firm during H1, FY24. Even if the GDP growth in H1, FY24 exceeded the monetary policy committee's (MPC) projection, we do not expect the MPC to revise upwards its growth projection for the full year FY24 (at 6.5 per cent), given the increased downside risks to the growth outlook of "agriculture & allied activities" on account of the patchy monsoon, precariously low water reservoir levels and the extended El Nino phenomenon. There is a possibility of a substitution of capital spending with revenue spending (subsidies) prior to general elections. Moreover, global recessionary trends will continue to impact the growth of merchandise exports and tradable services. Hence, we expect the MPC to retain its full year's growth projection at 6.5 per cent.

RESERVE BANK. Pressing on the pause button REUTERS

The price outlook has again worsened for the commodities of mass consumption like onions, potatoes, tomatoes, okra, etc. Inflation in cereals and pulses will continue to stay in double-digits given the sub-par monsoon. Indian basket of crude oil price is still hovering above $81 per barrel. However, we do not expect the MPC to revise its inflation projection for FY24 (at 5.4 per cent).

The RBI is expected to stay put on rates and stance in its December review.

The writer is Chief Economist, L&T Finance