

RBI maintains status quo, turns hawkish on inflation

▶ **REPO RATE RETAINED AT 6.5%; INFLATION TARGET BACK AT 4% AFTER 3 YEARS**

▶ **CENTRAL BANK KEEPS GROWTH PROJECTION FOR FY24 UNCHANGED AT 6.5%**

MANOJIT SAHA
Mumbai, 8 June

The six-member monetary policy committee (MPC) of the Reserve Bank of India (RBI) on Thursday decided to maintain the status quo in the repo rate for the second consecutive review meeting, basing itself on easing inflation and brighter growth prospects.

At the same time, the central bank decided to return to its primary objective of targeting headline inflation of 4 per cent, which was kept in abeyance in the past three years due to successive shocks like the pandemic and a war in Europe.

The MPC's second straight pause comes after surprise hikes in policy rates by the

Reserve Bank of Australia (RBA) and the Bank of Canada (BoC) following their previous pause.

The RBI paused in April after a hike of 250 basis points in the repo rate between May 2022 and February 2023, to 6.5 per cent, emphasising that its decision to pause should not be seen as "pivot".

While all six MPC members were unanimous in keeping the repo rate at 6.5 per cent, external member Jayanth Varma differed with the stance. Turn to Page 7 ▶

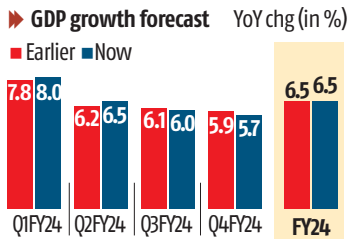
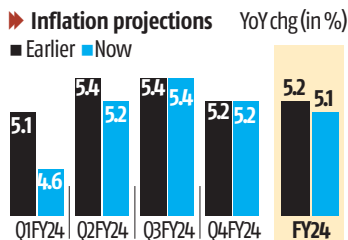
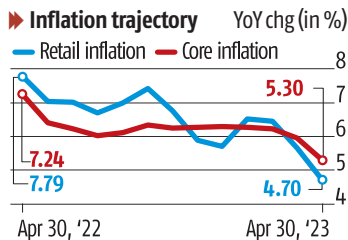
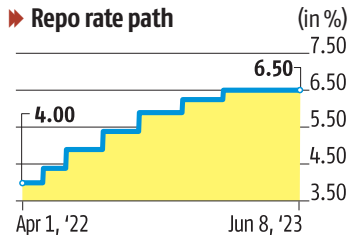


ILLUSTRATION: AJAY MOHANTY

EDIT
ALL BOXES TICKED P9 ▶

“CLOSE AND CONTINUED VIGIL ON THE EVOLVING INFLATION OUTLOOK IS ABSOLUTELY NECESSARY, ESPECIALLY AS THE MONSOON OUTLOOK AND THE IMPACT OF EL NINO REMAIN UNCERTAIN”
SHAKTIKANTA DAS, RBI GOVERNOR

KEY INDICATORS



Sources: RBI, Mospi, Bloomberg
Compiled by BS Research Bureau

CBDC QR CODES MAY BE INTEROPERABLE WITH UPI

Reserve Bank of India (RBI) Deputy Governor T Rabi Sankar on Thursday said the central bank digital currency (CBDC) QR codes would be made interoperable with Unified Payment Interface (UPI) mechanism. ▶

50% OF ₹2K NOTES IN CIRCULATION BACK IN BANKS

Around 50 per cent or ₹1.8 trillion of the ₹3.62 trillion worth ₹2,000 notes have returned to the banks, of which 85 per cent are deposits, Reserve Bank of India Governor Shaktikanta Das said on Thursday. ▶

▶ **RBI DEFINES TECHNICAL WRITE-OFFS FOR RES** P6

▶ **A CAUTIOUS PAUSE, RATE CUT NOT ANYTIME SOON** P7

Tamal Bandyopadhyay writes

Goa, Kerala, Chhattisgarh, and Odisha — were not among the top 10 two-wheeler markets.

Uttar Pradesh was the largest two-wheeler market in 2022, with a 15 per cent share of the 15.58 million two-wheelers sold in the country. But the state had an EV penetration of only 1.04 per cent last year. The story continues this year: 1.11 million two-wheelers were sold in the state till May 31, of which only 15,367 were electric, translating into a penetration of 1.38 per cent.

Madhya Pradesh, Bihar, and West Bengal are among the top 10 two-wheeler markets, with e2W penetration of 3.23 per cent, 1.25 per cent, and 1.49 per cent, respectively -- all below the national average.

Status quo...

The RBI maintained its stance to remain focused on withdrawal of accommodation to ensure that inflation progressively aligned with the target, while supporting growth.

“In India, consumer price inflation eased during March-April 2023 and moved into the tolerance band, declining from 6.7 per cent in 2022-23. Headline inflation, however, is still above the target, according to the latest data, and is expected to remain so according to our projections for 2023-24,” RBI Governor Shaktikanta Das said while emphasising continued vigil on inflation especially as the monsoon outlook and the impact of El Nino remained uncertain.

“It [MPC] will take further monetary actions promptly and appropriately as required to keep inflation expectations firmly anchored and bring down inflation to the target.”

The central bank, however, lowered the FY24 inflation target marginally to 5.1 per cent from 5.2 per cent projected in the April policy. The yield on

the 10-year benchmark government security moved up four basis points to 7.02 per cent as the tone of the policy turned hawkish.

The RBI retained the growth projection for FY24 at 6.5 per cent. “Turning to 2023-24, domestic demand conditions remain supportive of growth on the back of improving household consumption and investment activity ... Rural demand is also on a revival path -- sales of motorcycles and three-wheelers increased at a robust pace (YoY) in April while tractor

sales remained subdued,” Das said. Commenting on the liquidity situation, Das said the RBI would be nimble in liquidity management. On banks’ reluctance to park surplus funds in the variable rate reverse repo auction (VRRR), Deputy Governor Michael Patra said it would be because of advance tax by the middle of this month, which could drain out liquidity. The recent VRRR auctions had sucked ₹1.5 trillion out of the system, Das said.

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Very easy: ★
Solution tomorrow

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