RBI holds rates steady as inflation looms large

REPO RATE REMAINS AT 6.5%; FY24 INFLATION FORECAST UP AT 5.4%

SURPRISE INCREMENTAL CRR MOVE TO DRAIN OUT OVER ₹1 TRILLION

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Mumbai, 10 August

The Reserve Bank of India (RBI) on Thursday kept the repo rate unchanged at 6.5 per cent for the third straight policy review while ignoring the expected spike in July retail inflation even if it tightened liquidity conditions, albeit temporarily.

The six-member Monetary Policy Committee (MPC) unanimously held the repo rate. Except Jayanth Varma, all members voted to maintain the stance "withdrawal of accommodation". Though the decision on the rates and the stance was expected, the central bank brought in a surprising element by mandating all scheduled commercial banks maintain an incremental cash reserve ratio (I-CRR) of 10 per cent on the increase in their net demand and time liabilities (NDTL) between May 19, 2023, and July 28, 2023, with effect from August 12.

"With respect to incremental CRR, this was considered necessary in the background of a liquidity overhang," RBI Governor Shaktikanta Das said.

Banks parked over ₹2 trillion with the RBI's liquidity adjustment facility in August. The withdrawal of ₹2,000 notes announced in May — 90 per cent of which have come back so far — was one of the main reasons for the liquidity overhang, apart from government spending.

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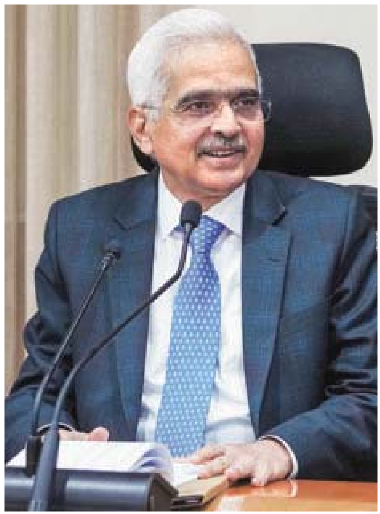
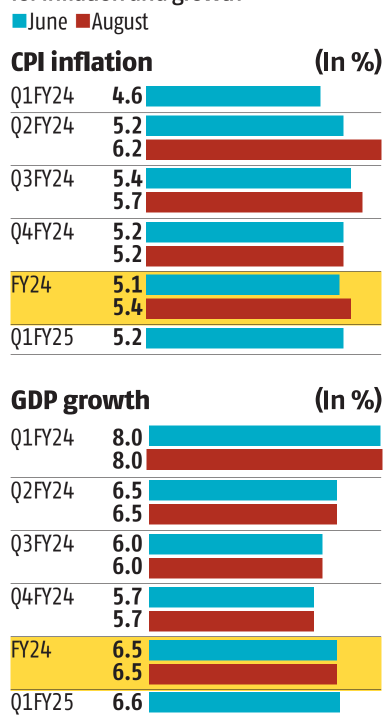


"THE FREQUENT INCIDENCES OF RECURRING FOOD PRICE SHOCKS POSE A RISK TO ANCHORING OF INFLATION EXPECTATIONS, WHICH HAS BEEN UNDERWAY SINCE SEPTEMBER 2022"

Shaktikanta Das, RBI governor

CHANGING TRAJECTORIES

How RBI has tweaked its projections for inflation and growth



Source: RBI

RBI...

"It is a temporary measure and will be reviewed on September 8 or earlier. We will ensure there is adequate liquidity in the system to maintain the credit needs of the economy," Das said, adding the central bank was sensitive to cash requirements ahead of the festival season, which will start in late September/early October.

The incremental NDTL of all scheduled commercial banks during the May 19-July 28 period was around ₹10 trillion. Banks have to maintain an additional CRR of 10 per cent, or around ₹1 trillion, from the fortnight beginning August 12, a report from State Bank of India said, adding that absorption amounted to 0.3 per cent of the current NDTL of scheduled commercial banks.

"With the current move of incremental CRR of 10 per cent, surplus liquidity will come down to ₹2.6 trillion," said Soumya Kanti Ghosh, group chief economic adviser, State Bank of India.

The incremental CRR decision is not likely to have any impact on the bond market because it is temporary but can impact the short-term yield of the 91-day treasury bill. The weighted average call rate was 6.45 per cent on Thursday, as compared to 6.39 per cent on Wednesday. Dealers said overnight rates were also likely to go beyond the repo rate due to the CRR move. The consumer price index-based (CPI-based) inflation rate, which was below 6 per cent in April, May, and June, is expected to rise above the upper tolerance limit of the central bank in July because of rising vegetable prices.