

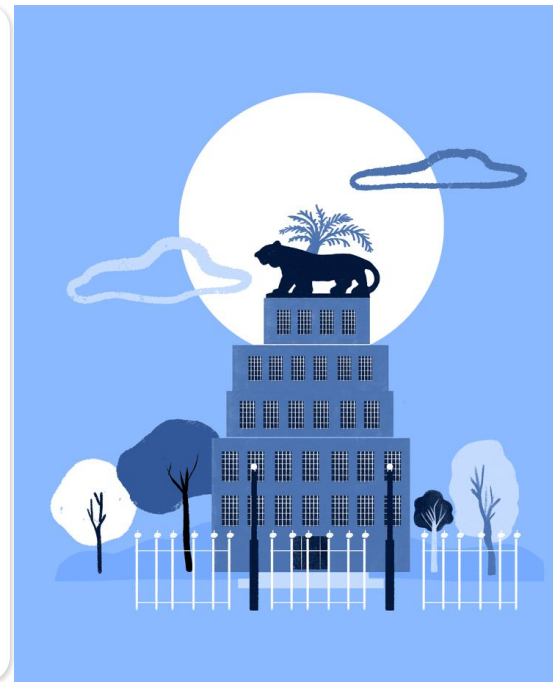
Analysis of Monetary Policy Statement

2024 -25



Govind Gurnani, Former AGM, RBI

April 2024



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Thank you!

What is Monetary Policy?

Monetary Policy

- > Managing the money supply and credit availability
- > to achieve a **stable & growing** economy

Monetary Policy Committee Members

Dr. Shashanka Bhide, Honorary Senior Advisor, National Council of Applied Economic Research, Delhi

Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai

Prof. Jayanth R. Varma, Professor, IIM Ahmedabad

Dr. Rajiv Ranjan, Executive Director, RBI

Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy at RBI.

Chaired by **Shri Shaktikanta Das**, Governor, RBI.



Objectives of Monetary Policy

- **Price Stability:** Controlling inflation is a top priority. The RBI targets a specific inflation range to keep prices in check.
> To achieve the medium target for consumer price index inflation (CPI) of 4% within a band of $\pm 2\%$.
- **Economic Growth:** The RBI aims to promote economic growth by ensuring adequate credit availability for businesses and individuals.
- **Financial Stability:** The RBI aims to build a financial system strong enough to promote economic well-being, avert crisis, and protect the interests of citizens.



Types of Monetary Policy



Expansionary Policy

Aims to stimulate economic growth by increasing money supply and lowering interest rates. This is used during economic downturns.



Contractionary Policy

Aims to control inflation by tightening money supply and raising interest rates. This is implemented to control rising prices.

Monetary Policy Rates & Reserve Requirements as on April 5, 2024

(unchanged since Feb 2023)

Repo Rate: 6.50%

Cash Reserve Ratio: 4.50%

Standing Deposit Facility(SDF) Rate: 6.25%

Statutory Liquidity Ratio: 18%

Marginal Standing Facility Rate: 6.75%

Bank Rate: 6.75%

Reverse Repo Rate: 3.35%

Policy Rate Trends in the Central Banks of Advanced Economies & India



Federal Reserve
5.25-5.5%



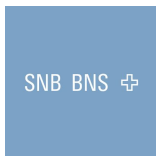
Reserve Bank of India
6.50%



Central Bank of Brazil
10.75%



Bank of England
5.25%



Swiss National Bank
1.5%



Central Bank of Chile
6.5%



European Central Bank
4.50%



BANK OF JAPAN

Bank of Japan
0% - 1%%

Real GDP Growth - Actual

2021-22

9.7%

2022-23

7.0%

2023-24
(Second Advance Estimate)

7.6%

Real GDP Growth Forecast

FY 2024-25
7%

Apr 2024 - March 2025

Q1
7.1%

(Apr-June '24)

Q2
6.9%

(Jul-Sep '24)

Q3
7.0%

(Oct - Dec '24)

Q4
7.0%

(Jan - Mar '25)

Headline Inflation - Actual

December 2023

5.7%

January 2024

5.1%

February 2024

5.1%

Consumer Price Index Inflation Forecast

2024-25
4.5%

Apr 2024 - March 2025

Q1
4.9%

(Apr-June '24)

Q2
3.8%

(Jul-Sep '24)

Q3
4.6%

(Oct - Dec '24)

Q4
4.5%

(Jan - Mar '25)

Governor's Statement on Inflation

Two years ago, around this time, when CPI inflation had peaked at 7.8 per cent in April 2022, **the elephant in the room was inflation.**

The elephant has now gone out for a walk and appears to be returning to the forest. **We would like the elephant to return to the forest and remain there on a durable basis.**

In other words, it is essential, in the best interest of the economy, that CPI inflation continues to moderate and aligns to the target on a durable basis. Till this is achieved, our task remains unfinished.



Net FPI Flows [Foreign Portfolio Investment]

2021-22

\$14.1Bn

(Net Outflows)

2022-23

\$4.8Bn

(Net Outflows)

2023-24

\$41.6Bn

(Net Inflows)

Foreign Exchange Reserves as on March 29, 2024 - USD 645 Bn.

Developmental and Regulatory Policy Measures

1. Trading of Sovereign Green Bonds in IFSC

- Government of India issued Sovereign Green Bonds (SGrBs) in January 2023
- Foreign portfolio investors (FPIs) registered with SEBI are permitted to invest in SGrBs
- Aim is to also permit eligible foreign investors in the International Financial Services Centre (IFSC) to also invest in such bonds.



2. RBI Retail Direct Scheme - Introduction of Mobile App

- RBI Retail Direct Scheme, launched in November 2021
- Allows access to individual investors to maintain gilt accounts with RBI and invest in government securities.
- The app will enable investors to buy and sell instruments on the go, at their convenience. [App will be launched shortly]



3. Review of LCR Framework

- LCR means Liquidity Coverage Ratio
- Banks covered under LCR framework are required to maintain a stock of high quality liquid assets (HQLA) to cover the expected net cash outflows in the next 30 calendar days.
- Let's discuss why we need to review LCR Framework.....

$$\text{Liquidity Coverage Ratio (LCR)} = \frac{\text{High-Quality Liquid Asset Amount (HQLA)}}{\text{Total Net Cash Flow Amount}}$$

4. Dealing in Rupee Interest Rate Derivative products – Small Finance Banks

- Extant guidelines permit Small Finance Banks (SFBs) to use only Interest Rate Futures (IRFs) for the purpose of proprietary hedging.
- Now, SFB's will have greater flexibility.
- SFBs are allowed to deal in permissible rupee interest derivative products



5. Enabling UPI for Cash Deposit Facility

- **Cash Deposit Machines (CDMs)** deployed by banks enhance customer convenience while reducing cash-handling load on bank branches.
- The facility of cash deposit is presently available **only through use of debit cards**.
- It is **now proposed** to facilitate cash deposit facility through use of UPI. Operational instructions will be issued shortly.



6. UPI access for Prepaid Payment Instruments (PPIs) through third-party applications

- At present, UPI payments from bank accounts can be made by linking a bank account through the UPI App of the bank or using any third-party UPI application.
- To provide more flexibility to PPI holders, it is now proposed to permit linking of PPIs through third-party UPI applications.
- This will enable the PPI holders to make UPI payments like bank account holders. Instructions in this regard will be issued shortly.



7. Distribution of CBDCs through Non-bank Payment System Operators

- It is proposed to make CBDC-Retail accessible to a broader segment of users by enabling non-bank payment system operators to offer CBDC wallets.
- Aim: To enhance access and expand choices available to users apart from testing the resiliency of the CBDC platform to handle multi-channel transactions.
- Necessary changes will be made to the system to facilitate this.



My Perception on Monetary Policy Rate Cut



For more updates on Finance & Monetary Policy follow
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Govind Gurnani, Former AGM, RBI

Thank you!