



**PHD Research Bureau**  
PHD Chamber of Commerce and Industry



## Status quo on Repo Rate will boost Economic activity

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According to the Monetary Policy Statement, Status quo on repo rate at 6.5% by RBI will boost economic activity and strengthen growth with enhanced consumption demand. We are happy to note that our economy contribute 15% to global growth. As recent month's escalation in CPI inflation is majorly due to supply side disturbances, the inflation trajectory is expected to become benign in the next few months. The significant fall in WPI inflation at (-) 4.1% is indicative of softening retail prices in the coming times. Going ahead, efforts to stabilise prices of perishables with more and more focus on cold storage facilities and strong Agri markets intelligence will be crucial to address retail inflation trajectory. We look forward to the continuous handholding by the Government and RBI to maintain economic growth and addressing inflationary pressures.

The standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.

As Hon'ble Governor's statement said:

Indian economy is exuding enhanced strength and stability despite the massive shocks to global economy in recent years. Economy has continued to grow at a reasonable pace, becoming the fifth largest economy in the world and contributing around 15 per cent to global growth. Made significant progress towards controlling inflation.

In a moment like this:

Need to continue with our efforts to maintain macro financial stability while pushing our growth frontier further. India is uniquely placed to benefit from the ongoing transformational shifts in global economy in the wake of geopolitical realignments and technological innovations. A large economy marching ahead with vast domestic demand, untapped resources and demographic Advantages, India can become the new growth engine for the world.

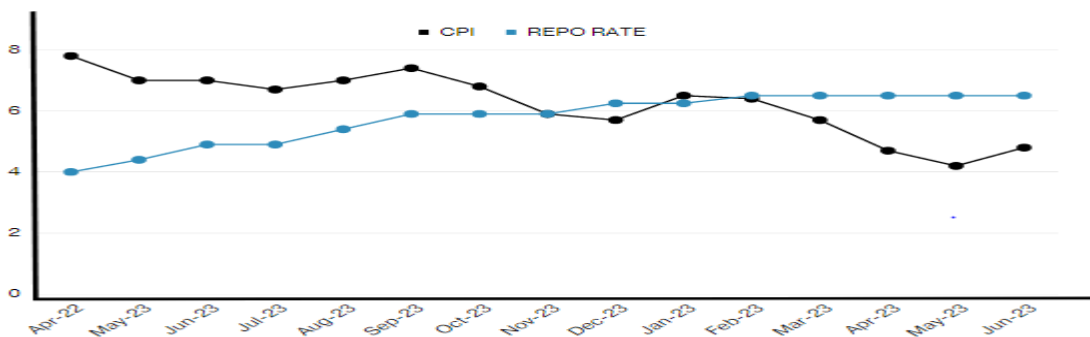


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### Repo Rate Interventions: Balancing of Inflation

The CPI was 7.8 in April, 2022 and the repo rate was 4.0 at the same time. The repo rate has been increased to 6.5% by February 2023 and CPI Inflation has also been decelerated from its peak of 7.8% in April 2022 to 4.8% in June 2023.



Source: PHD Research Bureau, PHDCCI, Compiled from RBI

Headline CPI inflation picked up from 4.3 per cent in May, 2023 to 4.8 per cent in June, 2023, driven largely by food group dynamics on the back of higher prices of vegetables, eggs, meat, fish, cereals, pulses and spices and Consequently, a substantial increase in headline inflation would occur in the near-term. Global food prices are also exhibiting a hardening bias on renewed geopolitical tensions.

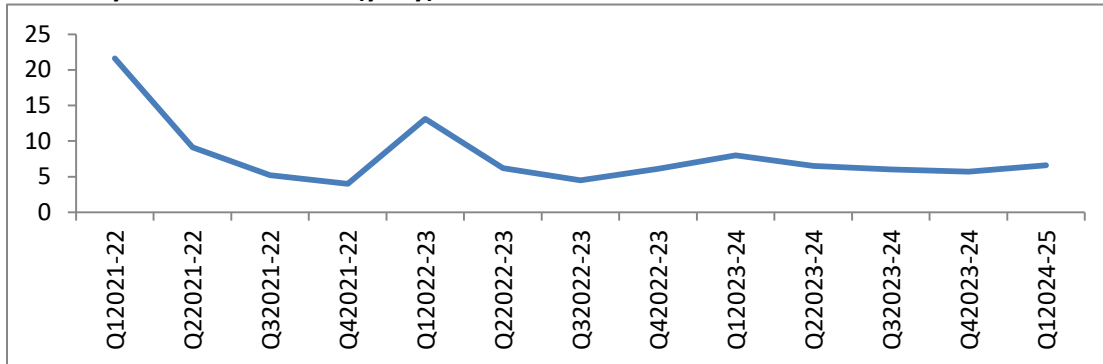
Given the continuing uncertainties, our 6 latest CPI inflation projections for 2023-24 by MPC Statement, assuming a normal monsoon, is revised to 5.4 per cent, with Q2 at 6.2 per cent, Q3 at 5.7 per cent and Q4 at 5.2 per cent. CPI inflation for Q1:2024-25 is projected at 5.2 per cent. The risks are evenly balanced.

### The Growth Projections So Far

The Headwinds from weak global demand, volatility in global financial markets, geopolitical tensions and geo-economics fragmentation, however, pose risks to the outlook. Taking all these factors into consideration, real GDP growth for 2023-24 is projected at 6.5 per cent with Q1 at 8.0 per cent; Q2 at 6.5 per cent; Q3 at 6.0 per cent; and Q4 at 5.7 per cent, with risks broadly balanced. Real GDP growth for Q1:2024-25 is projected at 6.6 per cent. The external factors such as global headwinds are expected to have an impact on most major advanced and emerging nations' economic prospects. However, India is anticipated to withstand external headwinds significantly better than many other countries.



### Quarterly Real GDP Growth (y-o-y)

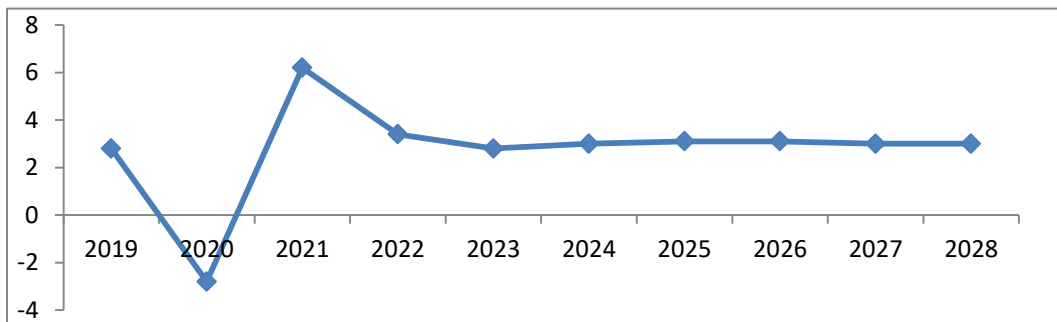


Source: PHD Research Bureau, PHDCCI, Complied from MOSPI and MPC Statement.

The momentum of India's overall economic activity continues firm. The latest data on the index of industrial production (IIP), core industries output, and the purchasing managers' index (PMI) for manufacturing show that industrial activity is staying steady. A solid expansion in e-way bills, toll collections, railway freight, and a sharp increase in services PMI show buoyant services activity.

### Global Growth Scenario

The global economy continues to face daunting challenges of elevated inflation, high levels of debt, tight and volatile financial conditions, continuing geopolitical tensions, fragmentations and extreme weather conditions.



Source: PHD Research Bureau, Complied from IMF, World Economic Outlook, April 2023

World economic growth had recovered sharply in 2021 at 6.2% from a low of (-) 2.8% in 2020, however, world economic growth again decelerated to 3.4% in 2022 and projected to decelerate further at 2.8% in 2023 and 3.0% in 2024.



## **Conclusions**

Going ahead, Continued economic reforms in India would further strengthen the economic fundamentals of the country to maintain steady economic growth trajectory in the coming years. Strengthening of India's connectivity with Global Value Chains (GVCs) will help to improve supply side bottlenecks and reduce costs of doing business. Enhanced competitiveness of the Indian economy will attract more and more investments and help to create more employment opportunities for the growing young population in the country.

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