

"STATUS QUO POLICY"

Quick View – MPC has voted in majority (5 out of 6) for no change in rate – repo rate at 6.5 pc and 5 out of 6 members voted to remain focused on withdrawal of accommodation stance to ensure inflation progressively aligns to the target. Although, there is a softening in core inflation (both goods and services), but uncertainties in food prices would continue to weigh on the headline inflation trajectory. Nimble and flexible management of liquidity conditions would continue to align inflation at the targeted level of 4 pc.

DART View – Overall the policy announcements were on expected lines. Concerns around food inflation are reiterated. Once headline inflation sustainably approaches the target by middle of CY24, there may be a compelling case of calibrating policy rates so that real rate does not become very high. Probable timing for the first rate cut could be either Aug or Oct'24. Overall, we expect 50-75 bps of cuts in FY25. Risks to rate cut expectation is rise in food and commodity prices.

Indian economy continued to enjoy a Goldilocks regime, since the last monetary policy meeting in Feb'24 - growth continued its strong momentum (we have seen higher revisions in real GDP for Q1 and Q2 to 8.2 pc and 8.1 pc and Q3FY24 real GDP came in above estimate i.e. 8.4 pc vs. 6.6 pc) while food inflation continues to remain high albeit core inflation at 3.4 pc in Feb'24 which was one of the lowest in current inflation series.

On the global side, we have seen FOMC revise their forecasts on growth and inflation, although no. of cuts remains the same in 2024. GDP is revised higher from 1.4 pc to 2.1 pc, unemployment rate revised lower and core PCE revised higher from 2.4 pc to 2.6 pc. It is a clear indication that factors like immigration and increase in labor force participation has helped improve the supply side dynamics of labor market which in a way is less inflationary (as it would limit the rise in wage growth). Rise in productivity gives confidence to the FED not to tweak the year end FED fund rate in spite of revisions to growth, unemployment and inflation.

Going into the policy, our view was that the repo rate and stance would remain unchanged. We were also hoping to get more clarity on RBI's assessment of the domestic economy, current geopolitical scenario and its implications on growth and inflation forecasts. In this backdrop, MPC voted in majority (5 out of 6) for no change in rate – repo rate at 6.5 pc and 5 out of 6 members voted to remain focused on withdrawal of accommodation stance to ensure inflation progressively aligns with the target while supporting growth.

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Governor Das highlighted that global economy has remained resilient and global trade is expected to grow faster in 2024. Global central banks are cautious in their communication in terms of timing and magnitude of rate cuts in lieu of inflation being sticky and last mile of disinflation turning out to be challenging. A key risk which was reiterated in this policy is the elevated Debt to GDP ratios, which can generate spillovers for emerging market economies in the form of swings in capital flows and volatility in financial markets.

In India, governor stated that the outlook for rural activity looks bright. Along with improving employment conditions and informal sector activity and sustained momentum in the services and manufacturing sector, he expects private consumption should revive. On inflation front, record rabi wheat production and normal monsoon should augur well to reduce food price pressure. Although, close monitoring is warranted on 1) weather related variations like above normal temperatures, 2) tight demand supply conditions in certain pulse and vegetables and 3) rise in international crude prices.

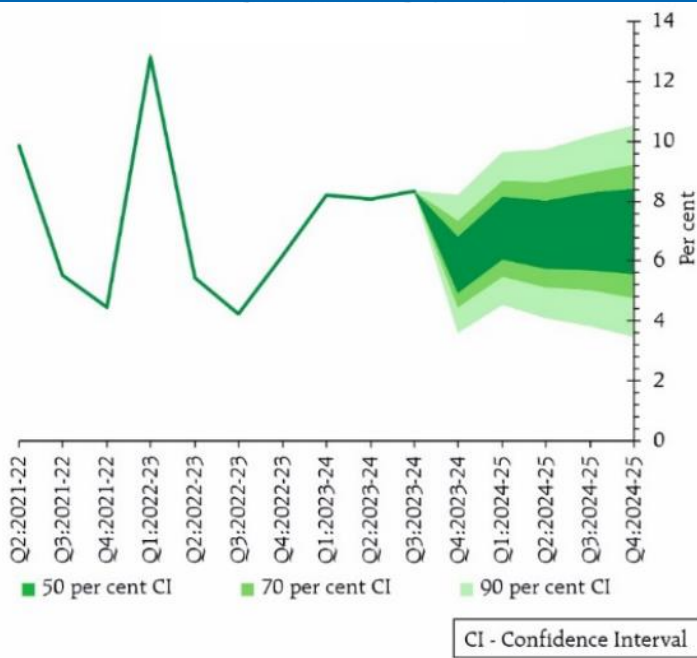
CPI for FY25 remains unchanged at 4.5 pc albeit there is a downward revision in 3 out of the 4 quarters - Q1 estimate which now stands at 4.9 pc, Q2 estimate at 3.8 pc and Q4 estimate at 4.5 pc. GDP for FY25 also remains unchanged at 7 pc - with Q1 at 7.1 pc, Q2 at 6.9 pc, Q3 and Q4 at 7 pc. As per the Monetary policy Report for April'24, headline inflation for FY26 will average 4.1 pc in a range of 3.9 to 4.3 pc and real GDP for FY26 is estimated at 7 pc with quarterly growth rates in the range of 6.7 to 7.4 pc with assumption of normal monsoon and no exogeneous shocks.

On liquidity, conditions eased during Feb and Mar'24 (system liquidity deficit was lower at INR 1 lac cr. vs. INR 1.6 lac cr. in Dec-Jan) in lieu of increased government spending, return leg of USDINR sell buy swap auction worth USD 5 bn and RBI's market operations. RBI through Variable Rate reverse repo (VRRR) and Variable rate repo (VRR) has been nimble, flexible and has managed the overall liquidity situation well so as to ensure the money market rates evolve in an orderly manner.

With MPC's resolve to align headline inflation to a target of 4 pc, the members are expected to continue with their disinflation stance going forward. Read through of the meeting minutes of last policy and current policy statement reflects ongoing concerns of members of the committee w.r.t higher food inflation that may derail the ongoing process of disinflation. The current policy stance is expected to continue as long as members see a risk of second order effects on other components of inflation. Additionally, buoyancy around growth gives a window of opportunity to the MPC to evaluate developments around Red sea and monsoon before the committee gets onto the easing cycle.

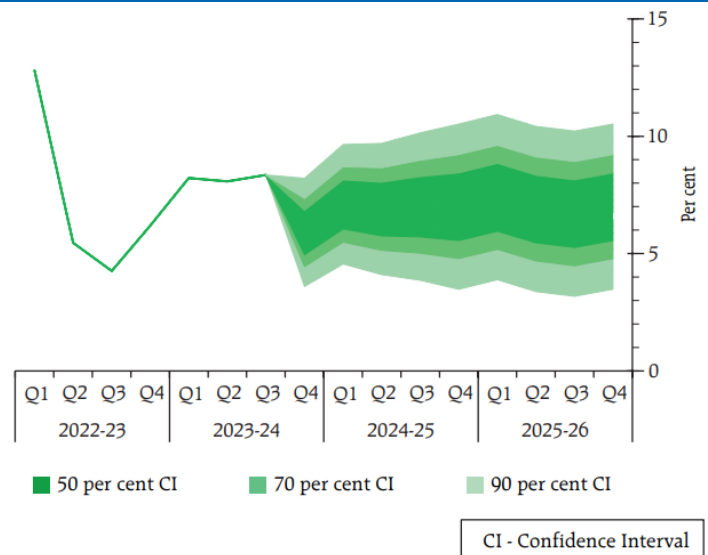
We expect a continued pause in rates in the next policy meeting. Once headline inflation sustainably approaches close to the target by the middle of this year, there may be a compelling case of calibrating policy rates so that the real rate does not become very high. Probable time for the first-rate cut is either in Aug or Oct'24. Overall, we expect 50-75 bps of cuts in FY25. Risks to rate cut expectation is rise in commodity and food prices. Also, if FOMC takes longer to pivot, there lies a possibility that MPC may delay the easing because of narrowing of interest rate differentials.

Exhibit 1: Quarterly Projection of Real GDP (YoY)



Source: RBI

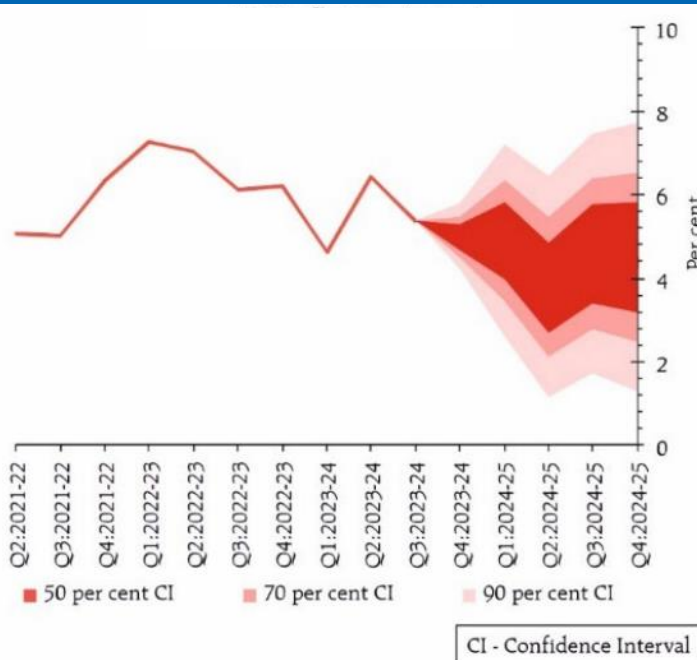
Exhibit 2: Projection - Real GDP (YoY) for 2025-26



Note: The fan chart depicts uncertainty around the baseline projection path. The baseline projections are conditioned upon the assumptions set out in Table I.2. The thick green shaded area represents 50 per cent confidence interval, implying that there is 50 per cent probability that the actual outcome will be within the range given by the thick green shaded area. Likewise, for 70 per cent and 90 per cent confidence intervals, there is 70 per cent and 90 per cent probability, respectively, that the actual outcomes will be in the range represented by the respective shaded areas.

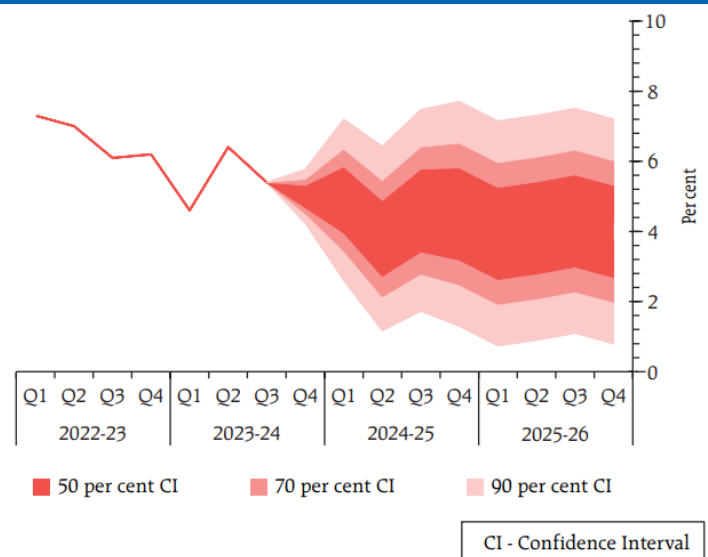
Source: RBI staff estimates.

Exhibit 3: Quarterly Projection of CPI (YoY)



Source: RBI

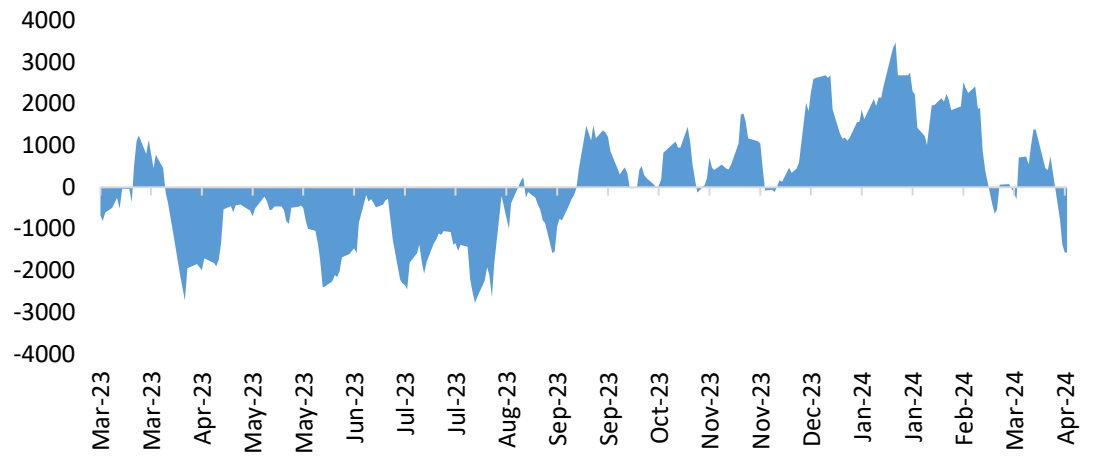
Exhibit 4: Projection - CPI (YoY) for 2025-26



Note: The fan chart depicts uncertainty around the baseline projection path. The baseline projections are conditioned upon the assumptions set out in Table I.2. The thick red shaded area represents 50 per cent confidence interval, implying that there is 50 per cent probability that the actual outcome will be within the range given by the thick red shaded area. Likewise, for 70 per cent and 90 per cent confidence intervals, there is 70 per cent and 90 per cent probability, respectively, that the actual outcomes will be in the range represented by the respective shaded areas.

Source: RBI staff estimates.

Exhibit 5: Outstanding liquidity infused by RBI (in INR bn)



Source: IndiaDataHub, DART, Data as on 04th Apr 2024

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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