05 April 2024

MPC leaves repo rate, stance unchanged

RBI's Stance → **Withdrawal of Accommodation**

Key Highlights:

- **MPC keeps repo rate unchanged at 6.50% by majority.**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%.**
- MPC voted by majority on **"withdrawal of accommodation".**
- MSF & SDF facility remains unchanged.
- **FY25 CPI Inflation retained at 4.5%.**
- **FY25 Real GDP growth rate maintained at 7.0%.**
- The monetary policy was **broadly in line with expectations.**
- The RBI will **remain nimble and flexible in liquidity management.**

Policy Rates / Reserve Ratio	08 Feb '24	05 Apr '24	Status
CRR	4.50%	4.50%	⟷
SLR	18.00%	18.00%	⟷
SDF	6.25%	6.25%	⟷
Repo Rate	6.50%	6.50%	⟷
MSF	6.75%	6.75%	⟷
Bank rate	6.50%	6.50%	⟷
Fixed Reverse Repo Rate	3.35%	3.35%	⟷

Experts Speak on RBI Policy Outcome

Mr. Bhupesh Bameta
Fund Manager – Fixed Income, Aditya Birla Sun Life Asset Management Co. Ltd.

The MPC decided unanimously to keep policy repo rate unchanged. Policy stance was retained to remain focus on "withdrawal of accommodation". GDP projection for FY24 is estimated at 7.6% and 7% for FY25, with risk evenly balanced. CPI Inflation for FY25 is projected at 4.5%. While food prices in the near-term pose upside risks, monetary policy continues to remain disinflationary to anchor inflation expectations. On the liquidity management, the RBI stated it will deploy an appropriate mix of instruments to modulate both short and long-term liquidity to ensure that money market interest rates evolve in an orderly manner and financial stability is maintained.

India's current account deficit (CAD) narrowed on account of a moderation in merchandise trade deficit coupled with robust growth in services exports and strong remittances. Overall, the CAD for 2024-25 and 2025-26 is expected to be eminently manageable. The RBI will continue to monitor evolving inflation dynamics and incoming data for the economic outlook for its alignment while supporting growth.

Mr. Mahendra Kumar Jajoo
CIO – Fixed Income, Mirae Asset Investment Managers (India).

The MPC maintained status quo on policy rates as well its withdrawal of accommodation stance. The RBI may find itself in a pole position with growth momentum going strong, core inflation dropping and expectations of normal monsoon providing comfort on the headline inflation, particularly taming food inflation. However, possible spill overs from ongoing geopolitics developments, reversion in commodity prices from recent lows and lingering impact of global food price volatility creates caution amongst the members. Space for rate cut likely has opened up though the RBI seems in no hurry to cut rates presently but use its pole position to align inflation structurally to its long-term target of 4%. As such, markets may find confidence in projecting rate cuts in later part of the year and interest rates may remain stable with a downward bias.

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In line with market expectations, the MPC voted 5:1 to **keep the policy repo rate unchanged to 6.50%**. **The MPC voted 5:1 on its stance to remain focused on "withdrawal of accommodation"** to ensure that inflation progressively aligns with the target, while supporting growth. In the quest to preserve the strength and bat for long-term growth, the RBI will look to maintain vigil and not in any rush to cut rates.

Growth Outlook:

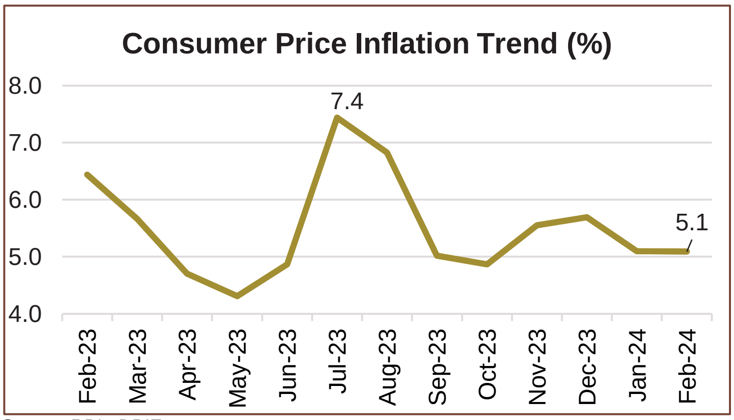
- The **global economy exhibits resilience and is likely to maintain steady growth in 2024.**
- Equity markets are rallying, while sovereign bond yields and the US dollar are exhibiting bidirectional movements. Gold prices have surged on safe haven demand.
- **Domestic economic activity remains strong with healthy corporate and bank balance sheets, robust government capital expenditure and signs of upturn in the private capex cycle. Few headwinds such as geopolitical tensions, red sea disruptions and extreme weather events pose some risks to the outlook.**
- Considering all these factors, **real GDP growth for FY25 is projected at 7.0% with Q1 at 7.1%; Q2 at 6.9%; Q3 and Q4 at 7.0%, each.**

	Date	FY24	Q4FY24	FY25	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Growth Projections	05-Apr-24	**7.3%**	6.0%	7.0%	7.1%	6.9%	7.0%	7.0%
	08-Feb-24	**7.3%**	6.0%	7.0%	7.2%	6.8%	7.0%	6.9%

Source: RBI Governor's Statement 5 April 2024

Inflation Outlook:

- **Headline inflation softened to 5.1% during Jan-Feb'24 from 5.7% in Dec'23**. Food inflation edged up to 7.8% in Feb'24 primarily driven by vegetables, eggs, meat and fish. Fuel prices remained in deflation for the sixth consecutive month in Feb'24.
- **Early indications of a normal monsoon augur well for kharif crops**. However, increasing **geopolitical tensions are leading to supply chain disruptions with price volatility being noticed in crude oil.**
- Considering all these factors, **inflation projection for the full year was maintained at 4.5%.**



Source: RBI - DBIE

	Date	FY24	Q4FY24	FY25	Q1FY25	Q2FY25	Q3FY25	Q4FY25
CPI Inflation Projections	05-Apr-24	**5.4%**	5.0%	4.5%	4.9%	3.8%	4.6%	4.5%
	08-Feb-24	**5.4%**	5.0%	4.5%	5.0%	4.0%	4.6%	4.7%

Source: RBI Governor's Statement 5 April 2024

Investment Approach:

Various fixed income instruments are offering yields between 7-9% for medium to long-term tenure which is quite attractive at this juncture. Investors looking to allocate money in their fixed income allocation can consider locking higher yields at these levels.
For Core portfolio (60-70% of the entire debt portfolio), investors can consider short duration funds, Banking & PSU, Corporate Bond and Target Maturity Funds (matching with the average maturity of the funds and investment horizon). Along with mutual funds, good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return. **For satellite portfolio (30-40% of the entire debt portfolio), investors can consider mutual fund categories such Medium to Long duration, Gilt & Dynamic Bond Funds as they can generate capital gains when interest rates cuts by central banks happen in future.**

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