RBI MPC pauses repo rate hike, pegs FY24 inflation at 5.2%

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

Key Highlights:

- **RBI keeps repo rate unchanged at 6.5%**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%**
- The MPC voted on **"withdrawal of accommodation"** highlighting the readiness to act should the situation so warrant.
- **For FY24, retail inflation lowered to 5.2% from earlier 5.3%**
- **FY24 GDP growth forecast increased from 6.4% to 6.5%**
- **Both the bond and the equity markets closed the day in green**

Policy Rates / Reserve Ratio	08 Feb '23	07 Apr '23	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%	⟷

In a scheduled policy meeting held from **April 03 to 06, 2023** amid inflation peeking out, the MPC decided by a majority of 5 members out of 6 to **keep the policy repo rate unchanged to 6.50%**, with immediate effect. The MPC **voted** on **"withdrawal of accommodation"** to ensure that inflation remains within the target going forward, while supporting growth.

Experts Speak on RBI Policy Outcome:

Mahendra Kumar Jajoo,

CIO - Fixed Income,
Mirae Asset Investment Managers (India) Pvt. Ltd.

Taking note of the recent developments in global markets, including the banking system disruptions in US that is expected to result in pivot in monetary policy globally, MPC kept the key policy rates unchanged. Even as the inflation remains on the higher side, the impact of the recent fast paced rate hikes in moderating future inflation trajectory needs to be assessed before further action, especially as the inflation is now projected to moderate to 5.2% in FY24.

Markets are likely to remain positively biased with bond yields likely to remain range bound, after having already come down by 25-30 bps from the recent highs.

Long term rates are likely to have peaked in current cycle and the duration funds are expected to start showing improved performance in coming months.

Mr. Harshil Suvarnkar,

Fund Manager - Fixed Income
Aditya Birla Sun Life AMC

The Monetary Policy Committee kept the repo rate unchanged at 6.5% with a unanimous decision going against consensus expectations of a rate hike in the market, while the Governor also pointed out that today's decision was 'a pause and not a pivot'. The bar for rate hikes from here is now very high and we will need to see fresh turbulence in the form of 6%+ inflation prints (which is unlikely in the short term) or repricing of rate expectations in Developed Markets economies. **Policy rates are likely to stay here for the rest of this calendar year given sticky core inflation, steady growth and 1Y ahead inflation staying well above their target of 4%.**

Given the above, investors having a 3 - 12 months investment horizon to match their investments with the duration of the fund, while investors having a horizon of 12 months+ can look at investing in categories such as corporate bond fund, banking and PSU fund or short duration fund.

Source: RBI Monetary Policy dated 6th Apr'23

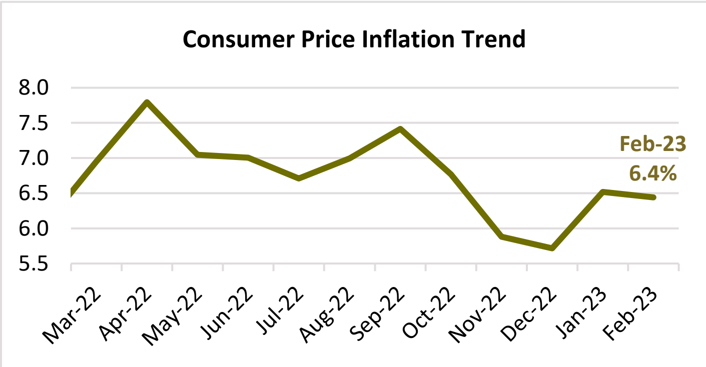
Growth Outlook:

- **Real GDP is expected to have recorded a growth of 7.0% in Q3FY23,** led by robust growth in private consumption and investment demand.
- **High frequency data in January indicated that economic activity remained resilient.**
- On the **supply side**, Rabi foodgrains production is estimated to increase by 6.2% in FY23. The manufacturing and services PMIs for India in March are among the highest in the world at 56.4 & 57.8 respectively.
- The **biggest risks** to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, global slowdown, tightening of global financial conditions & banking system disruptions in the US.
- Considering all these factors, **real GDP growth for FY24 is projected at 6.5% up from 6.4% projected in February 2023.**

	Date	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Growth Projections	06-Apr-23	**6.5%**	7.8%	6.2%	6.1%	5.9%
	08-Feb-23	**6.4%**	7.8%	6.2%	6.0%	5.8%

Inflation Outlook:

- Headline inflation excluding vegetables has been rising well above the upper tolerance band and may remain elevated, especially with high core inflation pressures. Inflation, therefore, remains a major risk to the outlook.
- The governor stated the RBI's current objectives remained the 3 simultaneous targets - to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects.



- The below data assumes an average **crude oil price (Indian basket) of US$ 85 per barrel.**

	Date	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24
CPI Inflation Projections	06-Apr-23	**5.2%**	5.1%	5.4%	5.4%	5.2%
	08-Feb-23	**5.3%**	5.0%	5.4%	5.4%	5.6%

Investment Approach:

In the current scenario given that RBI has not raised rates, **long term rates seem to have peaked and therefore long duration bonds can be expected to start showing an improvement in the performance from hereon.**

Various fixed income instruments are now 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 investing in these instruments which are offering such yields.

Given the recent change in debt taxation, which is now at par with other fixed income instruments, we believe there is still merit in investing in debt funds if bond yields come down in the future. For medium to long term investments, investors can consider **mutual fund categories such medium and long duration as they will see capital gains when interest rates start to fall.** For short term investments, investors can consider money market, ultra-short, low duration and short duration funds. 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.

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