5 Apr 2024

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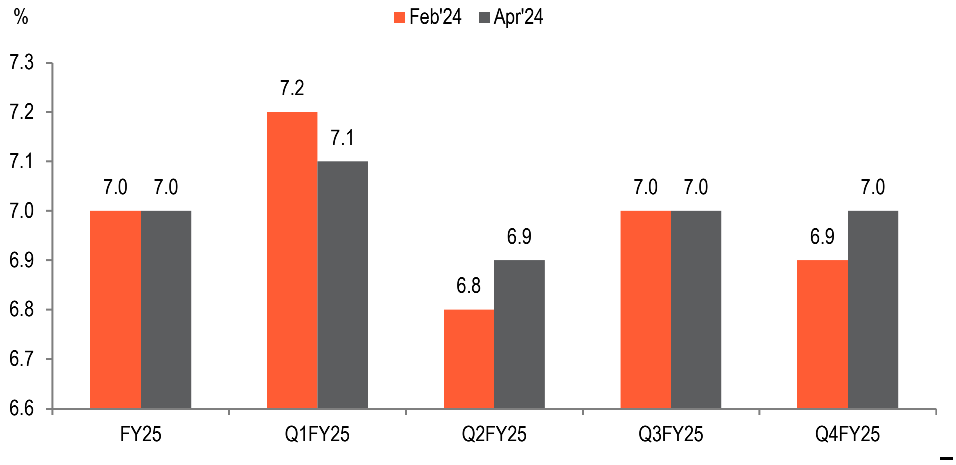
RBI remains on hold

In its first monetary policy for FY25, MPC has kept the policy rates on hold, with repo rate at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. The policy rates have not been changed for the 7th consecutive time. The RBI has also retained the stance of "withdrawal of accommodation". These decisions were voted with the majority of 5-1. MPC noted the policy needs to be disinflationary in order to warrant the anchoring of inflationary expectation and fuller transmission of rates. It was reaffirmed that MPC remains focused in its commitment with the objective to align inflation to the target. RBI expects GDP growth at a robust 7% in FY25 and inflation is projected at 4.5% with downward revision in quarterly projection. On liquidity management, RBI reiterated it will remain flexible and nimble in its approach. In the coming months, we foresee no change in rate decision by RBI before Aug'24.

Policy rates unchanged: In line with our expectation, RBI has maintained status quo on policy decisions, with a vote of 5-1 thereby keeping the repo rate unchanged at 6.5%. Subsequently, SDF rate remains at 6.25% and MSF and Bank rate at 6.75%. RBI has also retained the stance of "withdrawal of accommodation". One of the members out of 6-member panel dissented with the decision and voted for a 25bps rate cut and changing the stance to 'neutral'. It was noted that the MPC continues to 'remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth'. Going forward, we expect RBI will remain data dependent and a rate action is only possible in Aug'24.

GDP growth: Post the second advance estimates by NSO that expects the economy to clock 7.6% growth in FY24, RBI has retained its growth projection for FY25 at 7%. Notably the quarterly projections have been revised, with growth in Q1 now estimated at 7.1% (versus 7.2% in Dec'23 policy), Q2 revised higher at 6.9% (6.8% earlier), Q3 at 7% (same as earlier) and Q4 also revised higher at 7% (from 6.9%). The strong growth in FY25 will be led by support from following factors: upturn in private capex cycle which is expected to turn broad-based, healthy corporate balance sheets, strong and persistent government capital expenditure, rising prospects of global growth and trade, strengthening rural demand and sustained pickup in manufacturing and services activity which will boost private consumption. While the overall risks to the outlook are evenly balanced, there are some headwinds on account of geo political tensions and some disruptions in trade routes. We believe RBI's FY25 growth projection to be slightly less optimistic and retain our estimates at 7.8%.

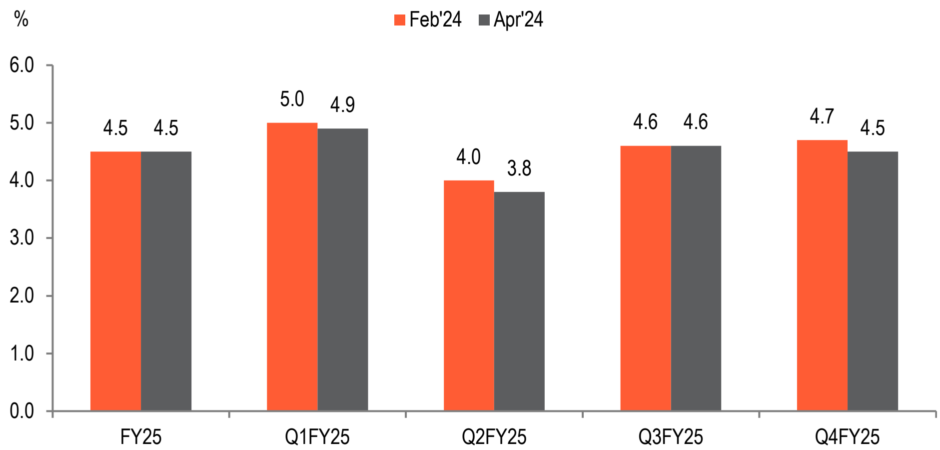
Figure 1: RBI's retains FY25 growth projections



Source: RBI, Bank of Baroda Research

Inflation projections lowered: For FY25, RBI has retained its projection at 4.5%, however it has revised its inflation forecast for quarterly projections. For Q1, inflation is projected tad lower at 4.9% (5% in Dec'23 policy), Q2 at 3.8% (4% earlier), Q3 at 4.6% (unchanged from last policy) and Q4 at 4.5% (4.7% earlier). The downward revisions by the Central bank has been on account of record rabi wheat production which will restrict price rise and expectation of normal monsoon this year bodes well for the agriculture sector. Post the reduction in LPG prices, there is further likelihood of fuel deflation. There are some concerns with respect to lower reservoir levels, and the possibility of above normal temperature during Apr-Jun'24 period. Furthermore, it was noted that given the volatility in financial markets and geo-political tensions which might pose some risk to the inflation outlook.

Figure 2: Headline CPI expected to be closer to RBI's target in FY25



Source: RBI, Bank of Baroda Research

Table 1, highlights indicator wise the baseline assumptions made by RBI, for the growth and inflation projections, from the monetary policy report for Apr'24 and compared with the last policy report in Oct'24.

Table 1: Baseline Assumptions for RBI's projections

Indicators	Oct'23: MPR	Apr'24: MPR
Crude oil	US$ 85/bbl for H2FY24	US$ 85/bbl for FY25
Monsoon	6% below LPA	Normal for FY25
Exchange rate	Rs 82.5/US$ for H2FY24	Rs 83/US$ for FY25
Fiscal Deficit (% of GDP)	Centre: 5.9% for FY24	Centre: 5.1% for FY25

Source: RBI, Bank of Baroda Research

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