

## Repo rate kept unchanged

Equity Research Desk

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RBI's monetary policy committee (MPC) maintained the status quo on repo rate and kept the rates unchanged at 6.5%. Cumulative repo rate hike so far has been to the tune of 250 bps. Major reasons for the status quo stance is banking sector in the global economies is facing fresh headwinds which may result in bank failures and contagion risk. Hence, a possible pause in Fed rates has impacted RBI's stance as well in order to ensure that domestic rates are in tandem with global ones. Also, inflation is expected to moderate in FY24 which is currently above RBI's comfort zone. MPC would like to wait and watch to witness the progress made so far on rate hikes. It also highlights *"The MPC will not hesitate to take further action as may be required in its future meetings"*.

RBI has increased the real GDP growth projections marginally for FY24 from 6.4% estimated earlier to 6.5%. Inflation is projected to moderate to 5.2% in FY24.

Overall, RBI stance has changed from hawkish to more accommodative now. However, it remains vigilant on the inflation trajectory going forward and doesn't rule out repo rate hike in case of higher than estimated inflation numbers.

### Key Highlights of policy

- CPI Inflation is expected to moderate from 6.2% in Q4FY23 to 5% in Q1FY24, 5.3% in Q2, 5.5% in Q3 and 5.2% in Q4. Overall, inflation is projected to moderate to 5.2% in full year FY24. Consumer price inflation, however, has increased since December 2022, driven by price pressures in cereals, milk and fruits.
- Real GDP growth is estimated to be at 4.6% in Q4FY23 (as per professional forecasters poll done in March 2023). Full year FY23 GDP is expected to have recorded growth of 7%.
- Policy rate hike has been to the tune of 250 bps in last one year. This increase has been fully transmitted into weighted average call money rate (WACR), the operating target of the monetary policy, which has gone up from 3.3% in Mar'22 to 6.5% in Mar'23.

### Additional measures have been announced listed below

- **Operation of pre-Sanctioned credit lines at banks through the UPI** – In order to widen the scope of UPI by permitting operation of pre-sanctioned credit lines at banks through the UPI. The Unified Payments Interface (UPI) has transformed retail payments in India. UPI's robustness has been leveraged to develop new products and features from time to time. Recently, RuPay credit cards were permitted to be linked to UPI. This was in addition to the existing facility of linkage of UPI with deposit accounts
- **Development of centralised web portal for the public to search unclaimed deposits**
- **Developing an onshore non-deliverable derivative market** - It is proposed to permit banks with IBUs (ISFC Banking Units) to offer NDDCs (Non-Deliverable Foreign Exchange Derivative Contracts) involving INR to resident users in the onshore market.

## Baseline assumptions for projections

	MPR Sep 2022	MPR April 2023
Crude Oil	US\$ 105 per barrel during H2:2022-23	US\$ 85 per barrel during 2023-24
Exchange rate	` 80/US\$ during H2:2022-23	` 82/US\$ during 2023-24
Monsoon	6 per cent above normal for 2022-23	Normal for 2023-24
Global growth	3.2% in 2022	2.9% in 2023
	2.9% in 2023	3.1% in FY24
Fiscal deficit	To remain within BE 2022-23	To remain within BE 2023-24
(% of GDP)	Centre: 6.4%	Centre: 5.9%
	Combined: 9.3%	Combined: 8.5%
Domestic macroeconomic/ structural policies during the forecast period	No major change	No major change

Source: RBI

## Projections – Reserve Bank &amp; Professional Forecasters

	FY23	FY24	FY25
<b>RBI's baseline projections</b>			
Inflation , Q4 (y-o-y)	6.2	5.2	4.4
Real GDP growth	7	6.5	6.5
<b>Median Projections of Professional Forecasters</b>			
Inflation , Q4 (y-o-y)	6.2	5.2	
Real GDP growth	7	6	
Gross Domestic Savings (% Of GNDI)	29.2	29.2	
Gross Capital Formation (% of GDP)	31.1	30.8	
Credit growth of SCBs	15	12	
Combined gross fiscal deficit (% of GDP)	9.5	8.9	
Central govt. gross fiscal deficit'	6.4	5.9	
Repo rate	6.5	6.75	
Yield on 91 Day T-Bill (end-period)	6.7	6.5	
Yield on 10 yr paper	7.4	7.2	
Overall balance of payments (US\$bn)	-20	4.2	
Merchandise export growth	4.1	-2.3	
Merchandise imports growth	16	-3.8	
Current account balance (% of GDP)	-2.6	-2	

Source: RBI

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