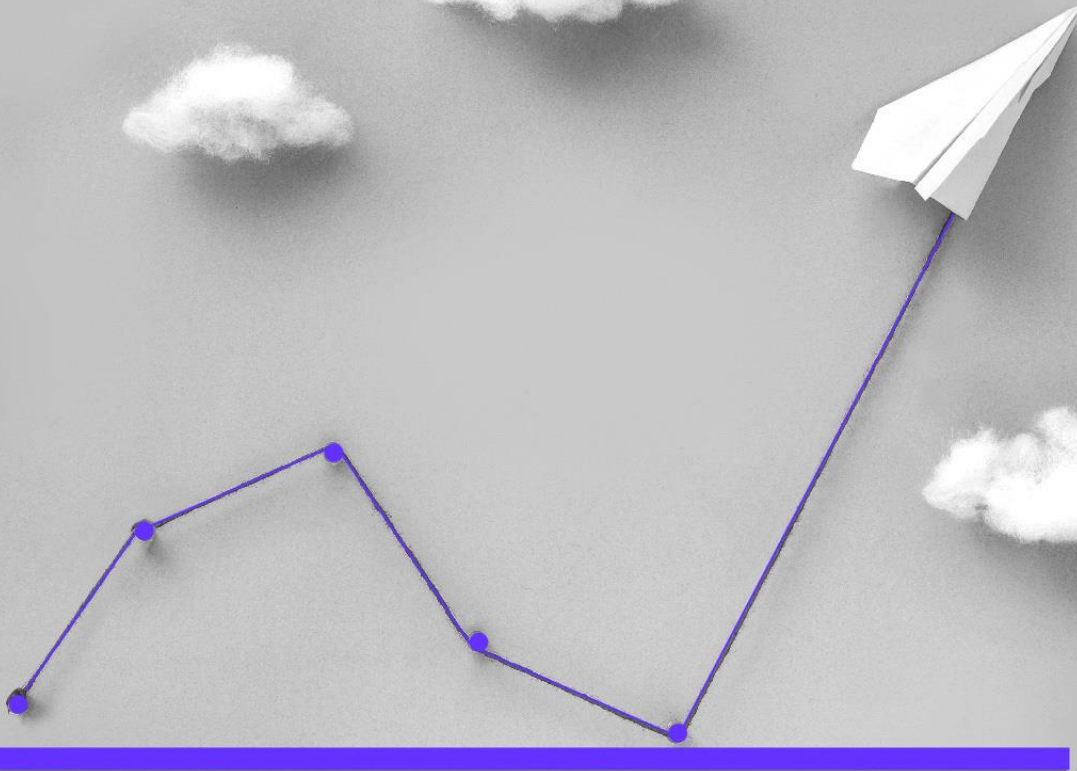


TRENDS & TIDES

**RBI MPC February 2024
maintains repo rate at 6.5%,
retains 'withdrawal of
accommodation' stance**



MPC maintains status quo as policy remains ‘actively disinflationary’

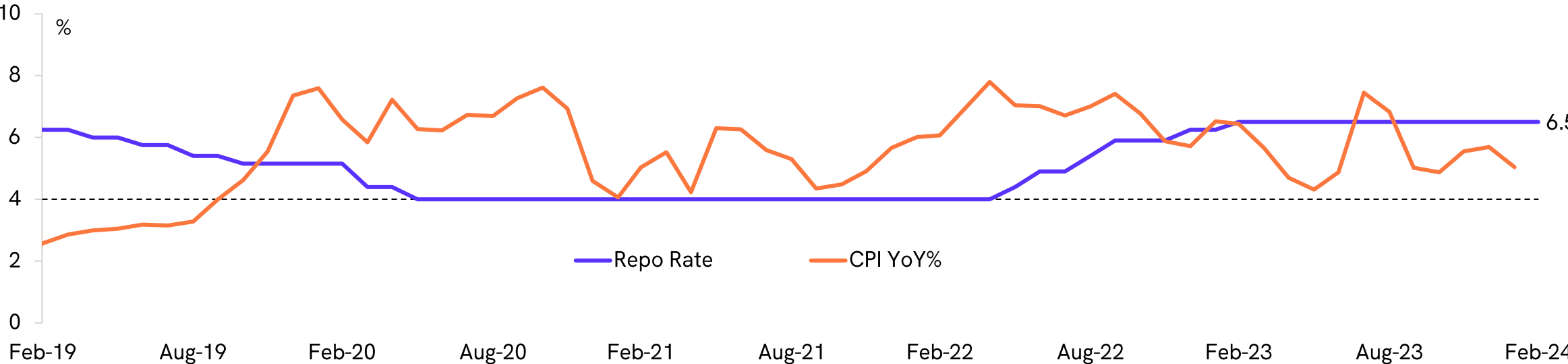
The stance remains unchanged because the transmission of rate hikes to the credit market is incomplete

Monetary policy stance retained at ‘focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth’

The RBI Governor mentioned that **uncertainties in food prices continue to affect the headline inflation trajectory, and the MPC will carefully monitor any signs of generalisation of food price pressures** that could erode the gains in easing core inflation

The stance of withdrawal of accommodation should be seen in the context of incomplete transmission to credit market and inflation ruling above the 4% target

Additionally, the Governor noted that **liquidity conditions are driven by exogenous factors** (high government balances), and the Reserve Bank aims to deploy an appropriate mix of instruments to modulate both frictional and durable liquidity

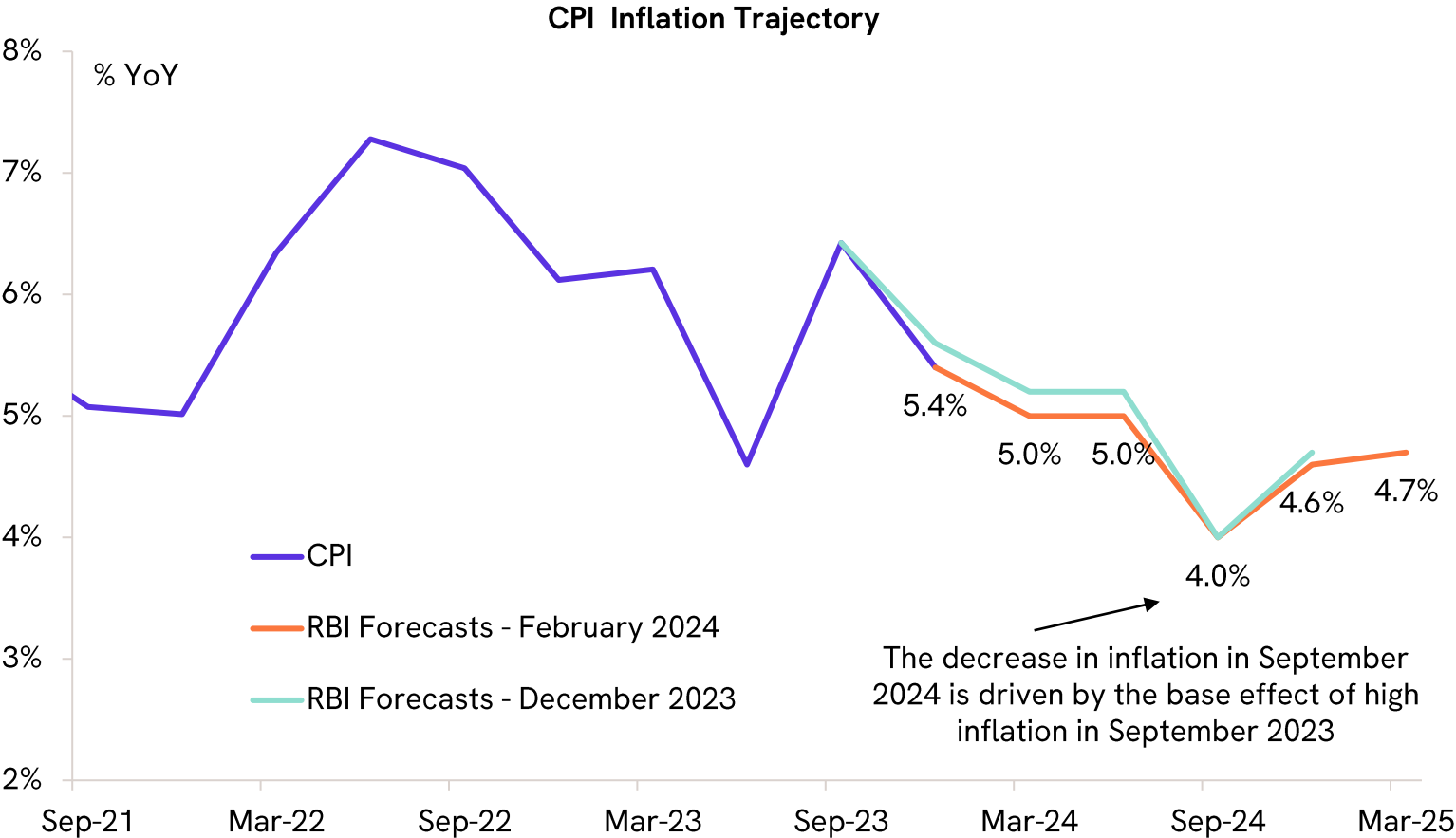


Source: MOSPI, RBI, 360 ONE Asset Research

Note: January 2024 CPI inflation internal forecast

RBI forecasts FY25 inflation at 4.5% YoY, retains FY24 at 5.4%

Inflation projections have been slightly lowered since the last policy as core surprises to the downside and food inflation eases



RBI inflation outlook:

Considerable uncertainty prevails on the food price outlook from the possibility of adverse weather events

Manufacturing firms covered in the Reserve Bank’s enterprise surveys expect some softening in the growth of input costs and selling prices in Q4 FY24

Services and infrastructure firms expect higher input cost pressures and growth in selling prices

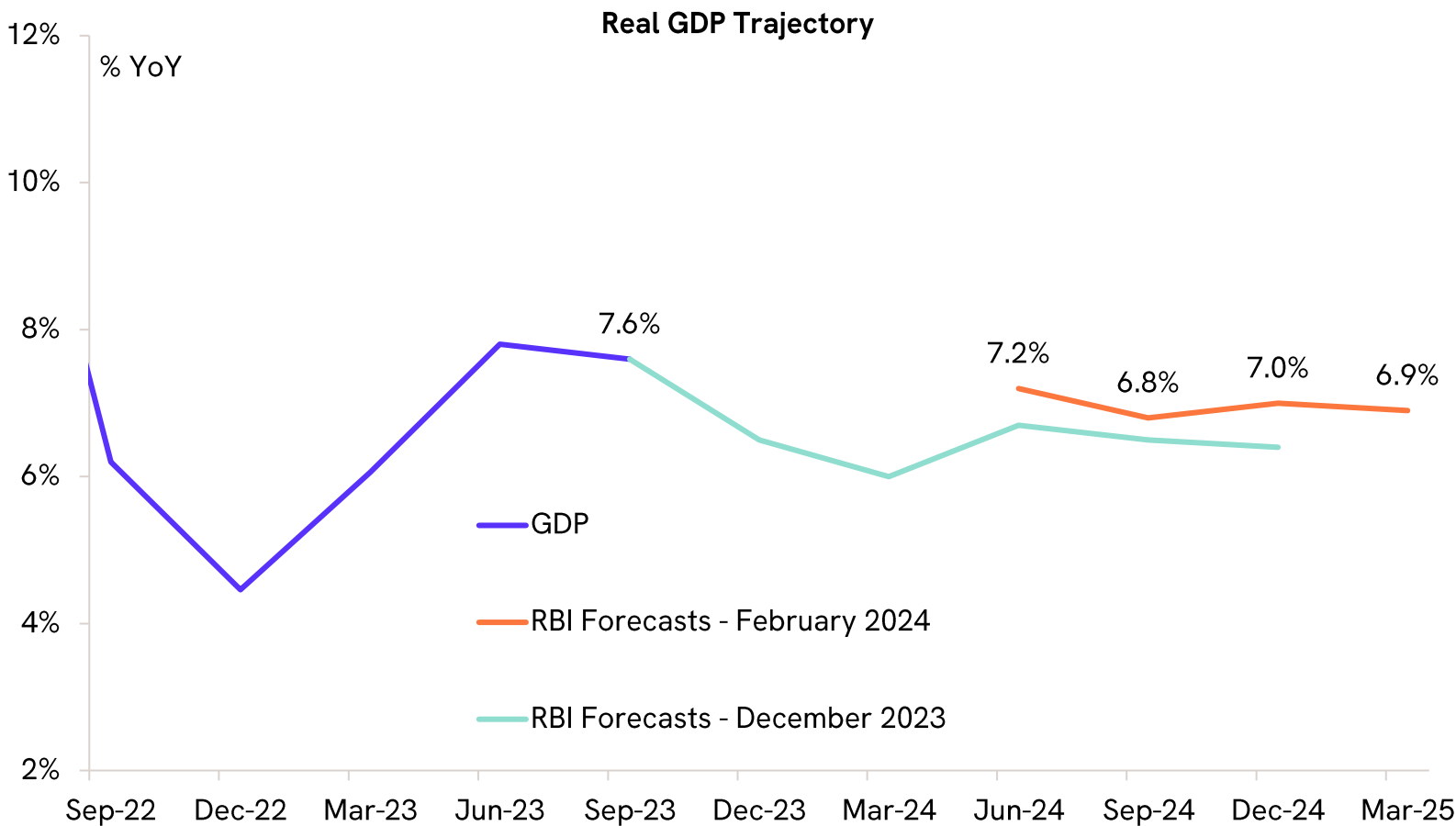
Large and repetitive food price shocks are interrupting the pace of disinflation that is led by the moderation of core inflation

Geopolitical events and their impact on supply chains, and volatility in international financial markets and commodity prices are key sources of upside risks to inflation

Source: MOSPI, RBI, 360 ONE Asset Research

RBI projects FY25 GDP growth at 7% YoY

FY25 quarterly projections have been revised upward in the Feb policy, reflecting sustained economic momentum



RBI growth outlook:

Recovery in rabi sowing, sustained profitability in manufacturing, and underlying resilience of services should support economic activity in FY25

Household consumption is expected to improve

Prospects of fixed investment remain bright owing to an upturn in the private capex cycle, improved business sentiments, healthy balance sheets of banks and corporates, and the government's continued thrust on capital expenditure

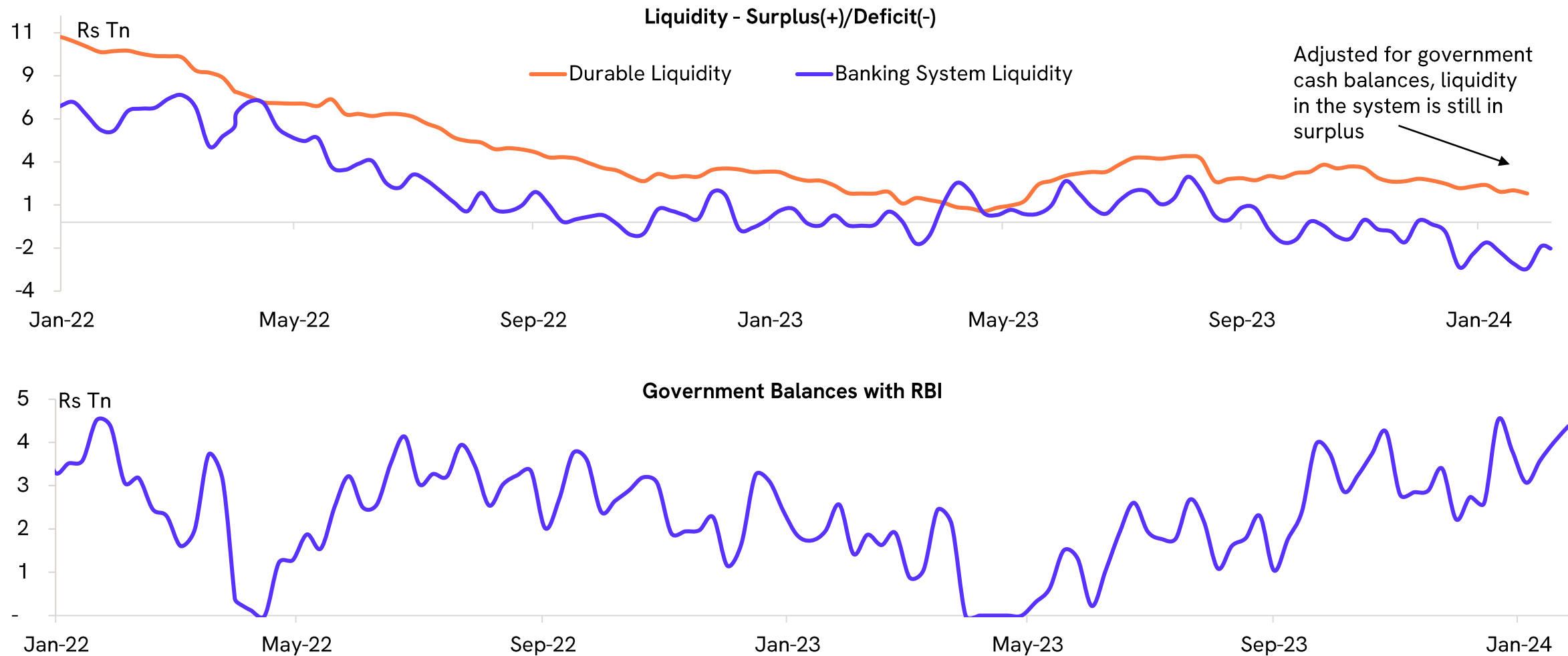
Improving outlook for global trade and rising integration in the global supply chain will support net external demand

Headwinds from geopolitical tensions, volatility in international financial markets and geoeconomic fragmentation pose risks to the outlook

Source: MOSPI, RBI, 360 ONE Asset Research

Liquidity conditions remain tight due to large government balances

Liquidity is expected to improve as government spending picks up and balances with the RBI are drawn down



Source: CMIE, 360 ONE Asset Research

Note: Durable Liquidity = Banking System Liquidity + Government Balances with RBI + Excess CRR maintained

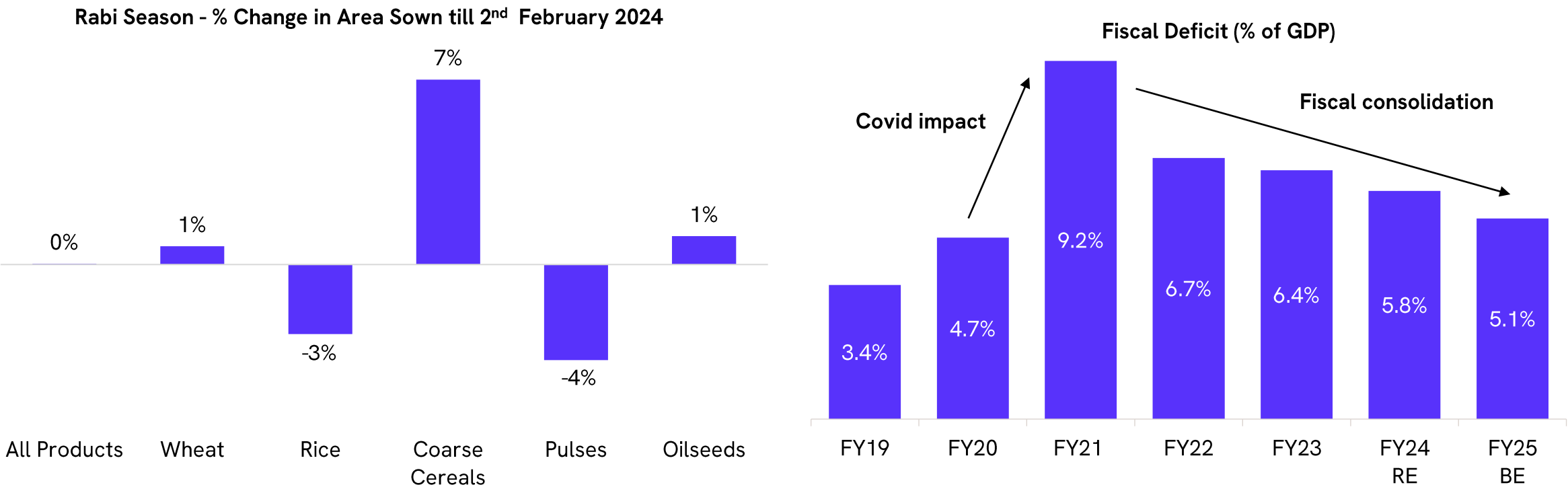
Outlook: RBI is likely to maintain a pause until at least the June policy

Given the comfort regarding GDP growth, monetary policy will remain committed to achieving the inflation target

The government's commitment to stick to the fiscal deficit consolidation path bodes well for the inflation trajectory and opens room for monetary policy easing

The Rabi season production and IMD monsoon forecasts for 2024 are key events to watch for assessing the trajectory of food inflation

The RBI is likely to maintain liquidity close to neutral levels due to financial stability and inflationary risks associated with excess liquidity, and to keep overnight rates aligned with the repo rate



Source: CMIE, Budget Documents, 360 ONE Asset Research

Note: RE - Revised Estimates, BE – Budget Estimates

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