RBI Policy – Feb 2024 – Key Takeaways

RBI Monetary Policy

Repo Rate Now at 6.50% v/s 6.50%	**Unchanged**
Standing Deposit Facility Now at 6.25% v/s 6.25%	**Unchanged**
MSF Bank Rate Now at 6.75% v/s 6.75%	**Unchanged**
Policy Stance Withdrawal	**Continues**

RBI on Growth, Inflation

FY25 GDP Growth	**Projected at 7%**
FY25 Inflation Outlook	**Projected at 4.5%**

- **Pause continues –** RBI has opted to maintain the repo rate at 6.5% as expected, focusing on the **withdrawal of accommodation** to make sure that inflation continues to be within the goal going forward while supporting growth. These actions are consistent with the goal of attaining the medium-term **CPI inflation target of 4%** within a +/- 2% range.

- **Global factors –** Global growth is likely to remain steady in 2024 after a surprisingly resilient performance in a turbulent year gone by. Inflation is edging down from multi-decade highs, with intermittent upticks. Financial market sentiments have been fluctuating with changing views about an early pivot by central banks in advanced economies (AEs). The likelihood of lower interest rates has spurred rallies in equity markets, although uncertainty about the timing of interest rate reduction is reflected in bidirectional.

- **Domestic Demand –** The domestic economy is growing. According to the National Statistical Office's (NSO) first advance estimates (FAE), robust investment activity is expected to support real gross domestic product (GDP) growth of 7.3% YoY in FY24. Gross value added (GVA) increased 6.9% on the supply side in FY24, primarily driven by changes in the US dollar and sovereign bond yields in the manufacturing and services sectors. Amid fluctuating capital flows, emerging market economies (EMEs) are dealing with currency fluctuations. The recovery in rabi sowing, sustained manufacturing profitability, and service resilience are expected to support economic activity in FY25. Household consumption is expected to improve, and fixed investment prospects remain bright due to an upturn in the private capex cycle, improved business sentiments, healthy balance sheets, and government capital expenditure. Global trade and supply chain integration will support net external demand. However, geopolitical tensions, volatility in financial markets, and geoeconomic fragmentation pose risks. Real GDP growth for FY25 is projected at 7.0%, with Q1 at 7.2%, Q2 at 6.8%, Q3 at 7.0%, and Q4 at 6.9%.

- **Inflation –** Following a low point of 4.9% in Oct23, CPI inflation rose steadily over the following two months, reaching 5.7% by Dec23. Even as fuel deflation deepened, food inflation-specifically, YoY increases in vegetable prices was the primary driver of the headline inflation rise. Core inflation (CPI inflation excluding food and fuel) softened to a four-year low of 3.8 % in Dec23. The inflation trajectory will be influenced by the evolving food inflation outlook. Rabi sowing has exceeded last year's level, and vegetable prices are adjusting unevenly. However, uncertainty remains due to weather events. Effective supply side responses may help manage food price pressures. Monetary policy actions are keeping core inflation low, but crude oil prices remain volatile. Manufacturing firms expect some softening in input cost and selling prices in Q4FY24, while services and infrastructure firms anticipate higher input cost pressures and growth in selling prices. CPI inflation is projected at 5.4% for FY24 and 4.5% for FY25, with Q1 at 5.0%, Q2 at 4.0%, Q3 at 4.6%, and Q4 at 4.7%.

- **MPC stated that** domestic economic activity is robust, supported by investment demand, optimistic business sentiments, and rising consumer confidence. However, large food price shocks are disrupting the pace of disinflation, causing inflation to moderate. Geopolitical events, international financial market volatility, and commodity price volatility pose upside risks to inflation. The MPC will monitor any generalization of food price pressures to non-food prices to prevent losses in core inflation easing. The MPC has decided to keep the policy repo rate at 6.5% to sustain the path of disinflation. Monetary policy must remain actively disinflationary to anchor inflation expectations and ensure fuller transmission. The MPC will remain committed to aligning inflation to the target and withdrawing accommodation to support growth.

- **Liquidity and Financial Market Conditions –** The Reserve Bank experienced a 4.5 yrs gap in system level liquidity from Apr-Aug23, which then turned into a deficit from Sep23. Despite this, potential liquidity in the banking system remains in surplus. The bank injected liquidity through main and fine-tuning repo operations in December-January to ease system tightness. In Feb24, it took six fine-tuning variable rate reverse repo auctions to absorb surplus liquidity.

- **Forex –** The Indian rupee remains stable despite a stronger US dollar and elevated US treasury yields, indicating the strength and stability of the Indian economy, sound macroeconomic fundamentals, financial stability, and improvements in India's external position, such as moderation in the current account deficit, comfortable foreign exchange reserves, and capital inflows.

- **Current Account Deficit:** India's CAD decreased to 1% of GDP in Q2FY24 from 3.8% in Q2FY23. However, the net balance under services and remittances is expected to remain in a large surplus, partly offsetting the trade deficit. India's services exports, driven by software, business, and travel services, remain resilient. With a 10.2% share in world telecommunications, computer, and information services exports, India is the largest recipient of remittances globally, making the CAD for FY24 and FY25 manageable.

- **Other Key Measures:**
  - Review of the Regulatory Framework for Electronic Trading Platforms (ETPs)
  - Hedging of Gold Price Risk in the (OTC) Market in the (IFSC)
  - Key Fact Statement (KFS) for Retail and MSME Loans & Advances
  - Principle-Based Framework for Authentication of Digital Payment Transactions
  - Enhancing the Robustness of Aadhar Enabled Payment (AePS)
  - Introduction of Programmability and Offline Functionality in Central Bank Digital Currency (CBDC) Pilot

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