

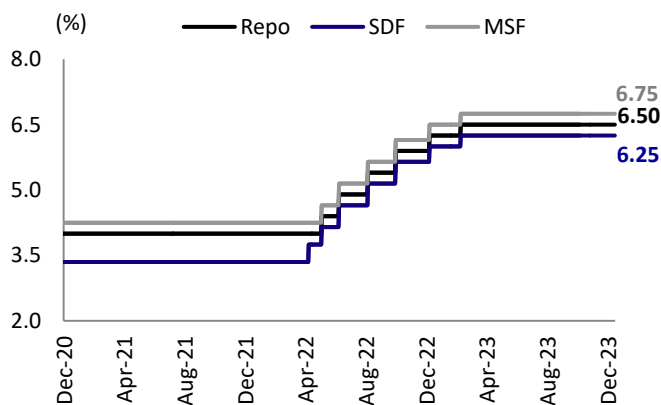
## RBI keeps policy interest rates unchanged

Real GDP growth forecast for FY24 increased to 7% from 6.5%

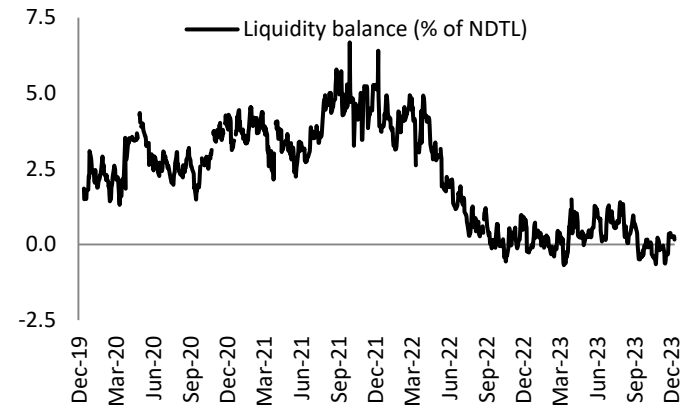
- The Monetary Policy Committee of the Reserve Bank of India (RBI) kept the repo rate unchanged at 6.5% in its fifth meeting for FY24. This decision marks the fifth consecutive meeting wherein the RBI has unanimously voted to keep the repo rate unchanged on the back of substantial moderation in CPI inflation observed in Oct'23.
- The MPC also decided by a majority (of five out of six members) to stay focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth.
- CPI inflation moderated significantly to 4.9% in Oct'23 from 7.4% in Jul'23, led by broad-based easing in all the components of CPI- food, fuel, and core. Core inflation was at a 43-month low of 4.5% in Oct'23, supported by policy rate increases and reduction in cost-push pressures across core goods and services. However, the Governor sounded a bit cautious on the food inflation front. He mentioned that there are upside risks to food inflation which might lead to an inflation uptick in Nov'23 and Dec'23. He further emphasized that the target of 4% CPI is yet to be reached. Inflation projection for FY24 has been maintained at 5.4% (3Q/4Q at 5.6%/5.2%). Inflation for FY25 is expected to average 4.6% in the first three quarters of the fiscal (1Q/2Q/3Q at 5.2%/4%/4.7%).
- The RBI remained optimistic about India's growth. The RBI increased its projection for real GDP growth to 7% in FY24 (3Q/4Q at 6.5%/6%, up from 6% and 5.7% earlier) from 6.5% earlier on the back of better than expected growth for the third successive quarter in 2QFY24 (at 7.6%) and an average growth of 7.7% in 1H FY24. The RBI has given robust growth projections for FY25 as well with growth averaging 6.5% in the first three quarters of the fiscal (1Q/2Q/3Q at 6.7%/6.5%/6.4%). Such optimistic expectations for real GDP growth give space to remain "higher for longer".
- Overall, there was not much to read from today's monetary policy. There were no new measures or announcements to either tighten or lose liquidity. Systemic liquidity remained in deficit in Oct'23 and Nov'23. The Governor mentioned that system liquidity tightened significantly compared to what was anticipated in the last policy, and thus the need for OMO sales has not arisen so far. The Governor sounded cautious on the food inflation front. However, he also mentioned that these are one-off shocks and are transitory.
- It is very difficult to predict a rate cut with such strong growth. At 6.5% growth expected in 2024 (by the RBI), we are unsure about any rate cut next year, unless the growth turns out to be weaker or the US FED eased monetary policy.

### I. MPC decided to keep the policy rate unchanged

- The Monetary Policy Committee of the Reserve Bank of India (RBI) kept the repo rate unchanged at 6.5% in its fifth meeting for FY24. This decision marks the fifth consecutive meeting wherein the RBI has unanimously voted to keep the repo rate unchanged on the back of substantial moderation in CPI inflation observed in Oct'23.
- The MPC also decided by a majority (of five out of six members) to stay focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth. The governor emphasized that the target of 4% CPI is yet to be reached.

**Exhibit 1: Repo rate remains unchanged at 6.5% in Dec'23 policy**

\*Fixed Rate Reverse Repo (FRRR) was replaced by Standing Deposit Facility (SDF) on 8<sup>th</sup> Apr'22

**Exhibit 2: Systemic liquidity remained in deficit in Oct'23 and Nov'23**

Updated as of 6<sup>th</sup> Nov'23

Source: RBI, MOFSL

## II. MPC keeps inflation projection unchanged

- **The RBI has surprisingly kept its inflation projection unchanged at 5.4% for FY24.** CPI inflation moderated significantly to 4.9% in Oct'23 from 7.4% in Jul'23, led by broad-based easing in all the components of CPI- food, fuel, and core.
- Core inflation was at a 43-month low of 4.5% in Oct'23, supported by policy rate increases and reduction in cost-push pressures across core goods and services.
- However, the Governor sounded a bit cautious on the food inflation front. He mentioned that there are upside risks to food inflation which might lead to an inflation uptick in Nov'23 and Dec'23. He further emphasized that the target of 4% CPI is yet to be reached. Inflation projection for FY24 has been maintained at 5.4% (3Q/4Q at 5.6%/5.2%). Inflation for FY25 is expected to average 4.6% in the first three quarters of the fiscal (1Q/2Q/3Q at 5.2%/4%/4.7%).
- **Real GDP growth projection for FY24 increased to 7% from 6.5%:** The RBI remained optimistic about India's growth. The RBI increased its projection for real GDP growth to 7% in FY24 (3Q/4Q at 6.5%/6%, up from 6% and 5.7% earlier) from 6.5% earlier on the back of better than expected growth for the third successive quarter in 2QFY24 (at 7.6%) and an average growth of 7.7% in 1H FY24. The RBI has given robust growth projections for FY25 as well with growth averaging 6.5% in the first three quarters of the fiscal (1Q/2Q/3Q at 6.7%/6.5%/6.4%). Such optimistic expectations for real GDP growth give space to remain "higher for longer".

## III. Our view

- Overall, there was not much to read from today's monetary policy. There were no new measures or announcements to either tighten or lose liquidity. Systemic liquidity remained in deficit in Oct'23 and Nov'23. The Governor mentioned that system liquidity tightened significantly compared to what was anticipated in the last policy, and thus the need for OMO sales has not arisen so far. The Governor sounded cautious on the food inflation front. However, he also mentioned that these are one-off shocks and are transitory.

- Predicting a rate cut amid such strong growth is challenging. With the RBI expecting a growth rate of 6.5% in 2024, the possibility of a rate cut next year remains uncertain unless there’s a substantial weakening in growth or the US FED decided to ease up its monetary policy.

Exhibit 3: FY24 inflation forecast unchanged at 5.4%

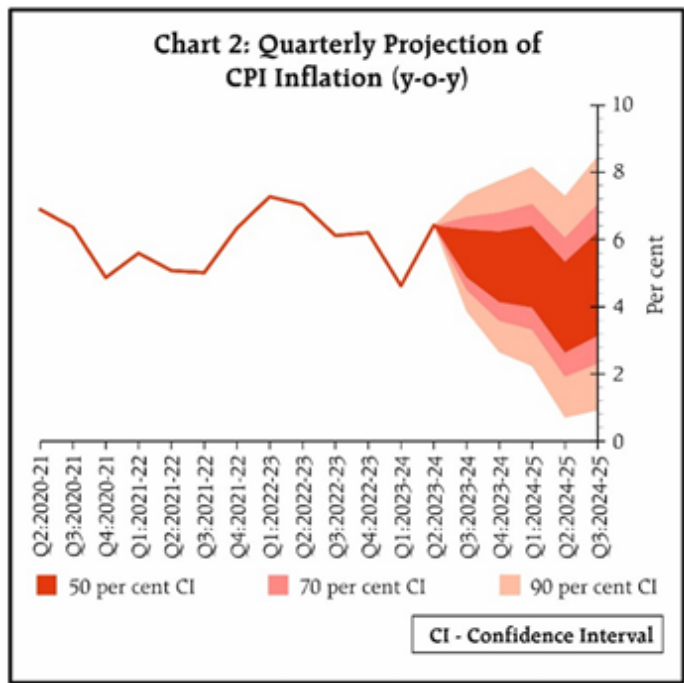
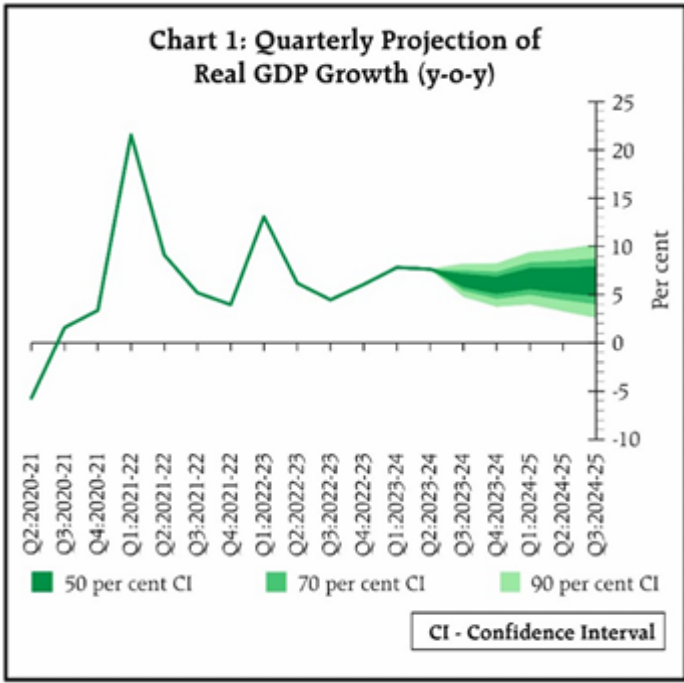


Exhibit 4: FY24 real GDP growth projection increased to 7% from 6.5% earlier



Source: RBI, MOFSL

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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