



Bajaj Finserv Mutual Fund

Note on RBI's Monetary Policy

(June 2024)

Overview of RBI MPC June 24

The Monetary Policy Committee (MPC) voted to keep the repo rate steady at 6.50%, with 4 out of 6 members in favor, and maintained the stance of "withdrawal of accommodation." Two external members, Dr. Goyal and Prof. Varma, preferred a 25 basis points (bps) cut and a shift to a neutral stance. The policy tone remains cautious due to uncertainties surrounding food inflation, exacerbated by heatwave conditions and low reservoir levels.

The Reserve Bank of India (RBI) Governor emphasized the risk of consecutive food price shocks, which could unsettle inflation expectations and hinder the disinflation process. The current policy stance indicates that an interest rate cut is unlikely in the near future.

The inflation forecast for FY25 remains at 4.5%, with headline inflation expected to dip to 3.8% in Q2 due to the base effect, then rise to 4.6% in the second half of FY25. Food inflation poses a significant risk, while core inflation has moderated to historic lows, spread across goods and services. However, rising input costs, like metal prices, need close monitoring.

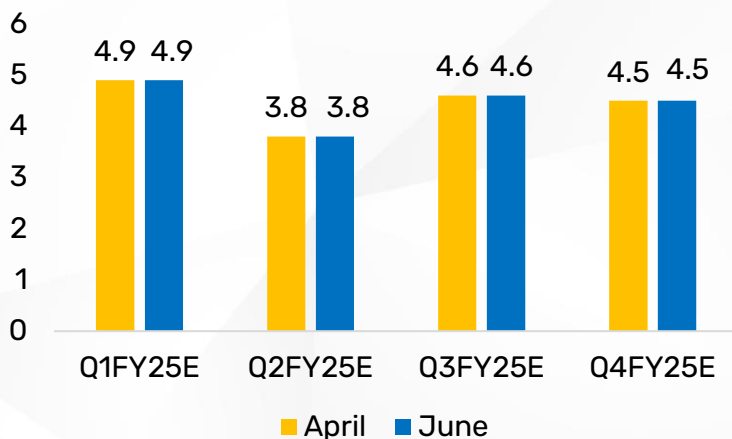
The Gross Domestic Product (GDP) growth estimate for FY25 has been revised upward to 7.2% from 7.0%, with growth expected across all quarters. Consumption and capital expenditure (capex) will drive this growth, supported by a favorable monsoon for rural consumption and strong services sector activity for urban consumption. The capex cycle will benefit from improved corporate and bank balance sheets and continued government support. Banking sector and Non-Banking Financial Company's (NBFC's) gross non-performing assets (GNPA) has reduced to multi-year lows, at sub 3% by March 2024.

Policy-wise, the RBI has the flexibility to remain on pause, given the strong growth conditions, until there is more clarity on food inflation risks. Heatwave conditions pose short-term risks to food inflation, expected to ease with the monsoon. Core inflation at historical lows suggests reduced overheating risk, supported by a low current account deficit, which bodes well for the inflation outlook.

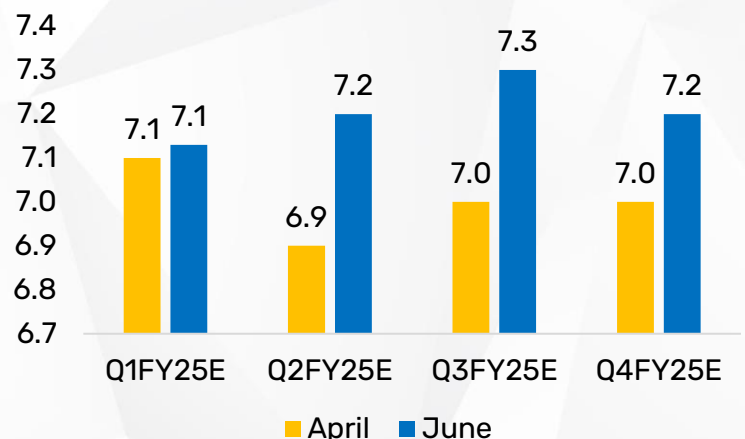
Further fiscal policy clarity will emerge with the final Union Budget in mid-July, likely focusing on fiscal consolidation and continued capex push. The higher-than-expected RBI dividend provides additional fiscal space of 0.2% of GDP.

The RBI may wait for more data to obtain clarity on food inflation risks post-monsoon and on the Federal Reserve's policy stance. The RBI is expected to follow the Fed in terms of the timing and magnitude of rate cuts, as the interest rate differential between India and the US has narrowed to historical lows.

RBI CPI inflation YoY% forecast



RBI GDP growth YoY%



Source: RBI-Monetary Policy Statement

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