08 August 2024

RBI keeps repo rate unchanged, FY25 GDP forecast steady at 7.2%.

RBI's Stance → **Withdrawal of Accommodation**

Key Highlights:

- **MPC keeps repo rate unchanged at 6.50% by majority.**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%.**
- MPC voted by majority on **"withdrawal of accommodation".**
- MSF & SDF facility remains unchanged.
- **FY25 CPI Inflation retained at 4.5%.**
- **FY25 Real GDP growth rate maintained at 7.2%.**
- The monetary policy was **broadly in line with expectations.**
- The RBI will **remain nimble and flexible in liquidity management.**

Policy Rates / Reserve Ratio	05 Apr '24	07 Jun '24	Status
CRR	4.50%	4.50%	↔
SLR	18.00%	18.00%	↔
SDF	6.25%	6.25%	↔
Repo Rate	6.50%	6.50%	↔
MSF	6.75%	6.75%	↔
Bank rate	6.50%	6.50%	↔
Fixed Reverse Repo Rate	3.35%	3.35%	↔

Experts Speak on RBI Policy Outcome

Mr. Murthy Nagarajan
Head- Fixed Income, Tata Asset Management Company

RBI maintained its monetary policy stance of withdrawal of accommodation and kept all the policy rates unchanged. GDP growth is expected to remain at 7.2% due to good monsoon, higher sowing and expected pick up in rural demand.

RBI governor indicated a shift in focus from Core Inflation to headline inflation from, and forecasted CPI inflation to come down to 4.5% for FY25. The pace of reduction is expected to be uneven due to repeated food shocks. The governor stated food- which constitute around 46% of CPI basket, contributed 75% of the rise in CPI inflation for June. Of which, vegetables inflation contributed 35% of the rise in CPI inflation.

The market is expected to trade on a bullish note with the Indian 10-year Government Securities trading in the band of 6.80% to 6.90% in the coming months.

Mr. Suyash Choudhary
Head– Fixed Income, Bandhan Mutual Fund

The monetary policy review was largely around expected lines with both rates and stance kept unchanged with a majority of 4:2. That said, there were outlier expectations both on the dovish and hawkish side and from that standpoint it was not an entirely uneventful policy.

The policy today kept focus on the volatile food inflation with RBI / MPC drawing comfort from the ongoing strength in growth. This is especially possible since continued focus implies continued inaction with an underlying context that policy rate in India is not very far from what would be deemed as long-term neutral rate. Thus, there is very little chance of a 'policy error' in the case of RBI, much unlike its Western world counterparts. That said, inflation composition is heavily skewed, and the volatile vegetable component may (hopefully) soon provide some relief.

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In line with market expectations, the MPC voted 4:2 to **keep the policy repo rate unchanged to 6.50%**. **The MPC voted 4.2 on its stance to remain focused on "withdrawal of accommodation"** to ensure that inflation progressively aligns with the target, while supporting growth. In the quest to preserve the strength and bat for long-term growth, the RBI will look to maintain vigil and not in any rush to cut rates.

Growth Outlook:

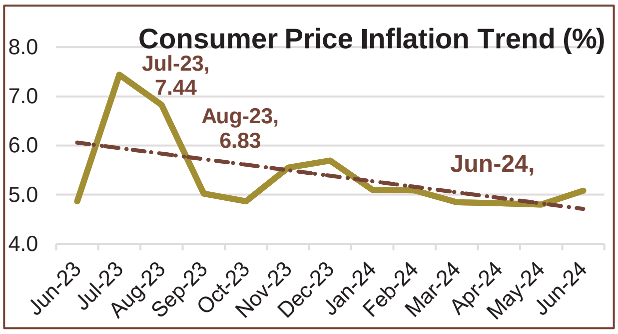
- The **global economy activity remains resilient although with some moderation in pace.**
- After a weak and delayed start, the cumulative southwest monsoon rainfall has picked up with improving spread.
- **Amid recent global sell offs in equity, the dollar index has weakened, sovereign bond yields have eased sharply, and global prices have soared to record highs.**
- **Domestic economic activity remains strong with healthy corporate and bank balance sheets, robust government capital expenditure and optimism in business sentiments. Few headwinds such as geopolitical tensions, volatility in commodity prices and geoeconomic fragmentation pose some risks to the outlook.**
- Considering all these factors, **real GDP growth for FY25 is projected at 7.2% with Q1 at 7.1%; Q2 at 7.2%; Q3 at 7.3% and Q4 at 7.2%, each. Real GDP for Q1FY26 is projected at 7.2%.**

	Date	FY25	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Growth Projections	08-Aug-24	7.2%	7.1%	7.2%	7.3%	7.2%	7.2%
	07-Jun-24	7.2%	7.3%	7.2%	7.3%	7.2%	-

Source: RBI Governor's Statement 8 August 2024

Inflation Outlook:

- **Headline inflation increased to 5.1% in Jun'24 after remaining steady at 4.8% during Apr-May'24**. Food inflation remains elevated due to persistence of inflation pressures in vegetables, pulses, cereals, and edible oils.
- **Adverse climate events remain an upside risk to food inflation. Crude oil prices continue to remain volatile on demand concerns and geopolitical concerns.**
- Considering all these factors, **inflation projection for the full year was maintained at 4.5%. CPI for Q1FY26 is projected at 4.4%.**



Source: RBI - DBIE

	Date	FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
CPI Inflation Projections	08-Aug-24	4.5%	4.4%	4.7%	4.3%	4.4%
	07-Jun-24	4.5%	3.8%	4.6%	4.5%	-

Source: RBI Governor's Statement 8 August 2024

Investment Approach:

Various fixed income instruments are offering yields between 7-9% for medium to long-term tenure which is quite attractive at this juncture. Investors looking to allocate money in their fixed income allocation can consider locking higher yields at these levels.

For Core portfolio (60-70% of the entire debt portfolio), investors can consider short duration funds, Banking & PSU, Corporate Bond and Target Maturity Funds (matching with the average maturity of the funds and investment horizon). Along with mutual funds, good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return. **For satellite portfolio (30-40% of the entire debt portfolio), investors can consider mutual fund categories such Medium to Long duration, Gilt & Dynamic Bond Funds as they can generate capital gains when interest rates cuts by central banks happen in future.**

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