MPC: Status quo likely on both rates and liquidity

7th February, 2024

1. We expect status quo on both repo rate and policy stance

- We expect repo rate to be maintained at 6.5% with stance retained as "withdrawal of accommodation"
- Shift to neutral stance not likely as the MPC stays committed towards aligning CPI inflation towards 4% in the medium term
- While the MPC would acknowledge the cooling in core CPI to below 4% and sharp pace of fiscal consolidation in Budget, it would likely guard caution on global supply disruptions (Red sea crisis) and volatility in food CPI (the true "core" of inflation)

2. Continuity on liquidity stance also likely

- We do not expect incremental steps to address liquidity with the call rate easing towards the repo rate this week after hovering at the upper end of the policy rate corridor in recent weeks
- Drawdown of government cash balance likely to continue to help ease liquidity till the end of FY24
- We expect the RBI to continue with VRR and VRRRs to provide liquidity to the banking system

3. Tone of the statement to be closely watched

- While we expect a status quo policy outcome, any change in language in the policy will be closely watched
- Inflation has started to cool on seasonal drop in food prices and is expected to average at c.4.8% in FY25 vs 5.4% in FY24
- We expect the MPC to maintain a pause on rates with a shallow 50bps rate cut cycle seen starting August 2024 post start of rate cutting cycle by the US Fed. Prior to rates, the shift in liquidity stance will be in focus and likely by April/June

RBI's Previous & Expected Policy Decision

Policy Decision	October 2023 Policy	December 2023 Policy	February 2024 (Expected)
Repo rate	6.50%	6.50%	6.50%
Stance	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Growth Projection	Real GDP growth for FY24 was projected at 6.5% (Q2: 6.5%; Q3: 6.0%; Q4: 5.7%). The risks are evenly balanced. Q1:FY25 GDP growth projected at 6.6%.	Real GDP growth for FY24 revised to 7.0% (Q3: 6.5%; Q4: 6.0%). Real GDP growth for Q1:FY25 revised to 6.7% with Q2 at 6.5%; and Q3 at 6.4%. The risks are evenly balanced.	RBI likely to revise FY24 GDP growth to 7.3% (same as advance GDP estimate). High frequency data signal sustained growth resilience. FY25 growth numbers to be closely watched.
Inflation Projection	CPI inflation was projected at 5.4% for FY24 (Q2: 6.4%, Q3: 5.6%, Q4: 5.2%). The risks are evenly balanced. CPI inflation for Q1:FY25 projected at 5.2%.	FY24 CPI inflation projected at 5.4% assuming normal monsoons (Q3: 5.6%, Q4: 5.2%). CPI inflation for Q1:FY25 is projected at 5.2%; Q2 at 4.0%; and Q3 at 4.7%. The risks are evenly balanced.	Inflation undershot RBI’s Q3-FY24 projections by 20bps at 5.4%. We see further cooling in inflation, with core CPI at sub-4% providing relief. We expect FY25 forecasts to be maintained.

RBI's Previous & Expected Policy Decision

Policy Decision	October 2023	December 2023	February 2024 (Expected)
Liquidity	While remaining nimble, RBI may consider **open market operation (OMO) sales** to manage liquidity, consistent with the stance of monetary policy. The timing and quantum of such operations will depend on the evolving liquidity conditions.	Decided to allow reversal of liquidity facilities under both SDF and MSF even during weekends and holidays with effect from December 30, 2023. This measure will be reviewed after six months or earlier, if needed and is expected to facilitate better fund management by the banks.	RBI has preferred to keep liquidity tight since mid-Sep'23 with the deficit touching highs of c. Rs 3.5 lakh crores on elevated government cash balances. This kept the call rate closer to MSF. However, government spending has supported easing in liquidity in Feb'24. Meanwhile, the bias to keep liquidity tight remains with the RBI conducting two VRRR (variable reverse repo rate) auctions in last one week. We do not expect incremental liquidity measures, with the RBI expected to manage liquidity using VRR and VRRRs.

RBI's Previous & Expected Policy Decision

Policy Decision	October 2023 Policy	December 2023 Policy	February 2024 (Expected)
Guidance	The RBI's commentary was hawkish and emphatically reiterated that it would be **actively disinflationary**. The MPC also hinted that a relook at its stance would not be possible till inflation cools down sustainably towards 4%.	The RBI refrained from providing any forward guidance on interest rates, given the prevailing uncertainty. Future policy decisions would depend on the evolving situation.	While the RBI would acknowledge the sharp fiscal consolidation in the Budget and cooling of core CPI to sub-4%, it is likely to continue to stay data dependent.

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Thank you!