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RBI Monetary Policy-First Cut

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Entirely in line with our expectations, the RBI's Monetary Policy Committee (MPC) meeting on June 7, 2024 maintained a status quo on interest rates.

With India's GDP for Q4 of FY 24 growing at 7.8 % and for FY 24 at 8.2 %, the economy revealed remarkable resilience despite higher-rates-for-longer, Russia-Ukraine war, Israel-Hamas/Iran war and lingering Covid concerns.

The Indian government's fiscal deficit of 5.6 % for FY24 was lower than the revised estimate of 5.8 % of GDP, due to strong revenue collection and lower subsidies. Growth rates in Nominal GVA and Nominal GDP for Q4 of FY 2023-24 were estimated at 8 % and 9.9%, respectively. Rising gap between GDP and GVA stemmed from 19.1% rise in net indirect taxes in FY24, compared to 10.6% in the previous year and a decline in subsidies.

The present situation is characterized by geopolitical uncertainty, financial stress, persistent inflation and slowdown in international trade, the priorities of the new Government and the growth-inflation trade off.

Given the downward trending inflation trajectory, the RBI retained its projection for retail inflation at 4.5 % for FY 25 assuming a normal monsoon, while emphasising that uncertainties related to food price outlook warrant a close monitoring.

Given this overarching setting, the RBI did well to hold the rates steady and keep the stance unchanged by a majority of 4:2. The raising of the GDP growth forecast by 20 bps to 7.2 % augurs well for the Indian economy and was, therefore, cheered by the stock market. Banks have been rightly advised not to be so aggressive on credit, particularly unsecured loans because "we are closely monitoring the incoming data to ascertain if further measures are necessary".

The Governor did well to stress "while we do consider the impact of monetary policy in advanced economies on Indian markets, our actions are primarily determined by domestic growth-inflation conditions and the outlook".

Rate cuts are unlikely before October 2024.