

07 June 2024

For the eighth time, the Monetary Policy Committee (MPC) decided by 4:2 majority to keep policy rates unchanged as retail inflation has been a persistent concern. Explaining the decisions, the RBI governor noted that while deflation in fuel prices is ongoing, the MPC remains vigilant to any upside risks, particularly from elevated food inflation. Global growth has remained resilient in 2024 and is likely to sustain. Market expectations on the timing and pace of rate cuts are changing based on incoming data. The RBI added that domestic economic activity in FY25 has remained resilient, with private consumption recovering and rural demand getting a boost from farm activities. Non-oil, non-gold imports are positive, and services growth rebounding. The IMD's forecast of an above-normal southwest monsoon is expected to boost Kharif production, potentially improving the inflation-growth balance.

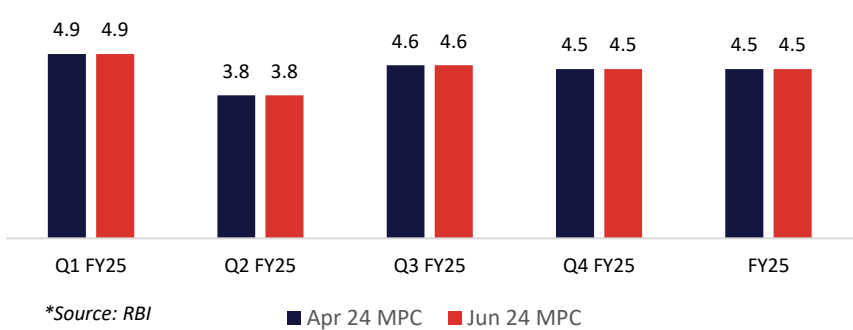
KEY POLICY ANNOUNCEMENTS:

- Policy repo rate unchanged at 6.5%
- Reverse repo unchanged at 3.35%, MSF at 6.75% and Standing Deposit Facility (SDF) maintained at 6.25%.
- Cash reserve ratio (CRR): 4.5%
- Accommodative policy stance continues to withdrawal.
- GDP growth projection increased from 7.0% to 7.2% in FY25
- Positive outlook for agriculture and rural activities.

INFLATION TREND AND EXPECTATION

Food inflation has been a persistent concern, with urban areas experiencing a 1.03 percent rise and rural areas seeing a 0.59 percent increase in April, leading to a combined national food inflation increase of 0.74 percent. The unchanged rate decision comes amid robust growth momentum as retail inflation hit an 11-month low of 4.83 percent in April 2024, staying within the RBI's tolerance band of 2-6 percent. The CPI inflation projection for 2024-25 has been unchanged at 4.5%.

RBI CPI Inflation Projections (% Y-o-Y)



Ritu Prakash Singh
Senior Economist
Head – MSME Research
ritu.singh@ugrocapital.com

UGRO Capital Limited
4th Floor, Tower 3,
Equinox Business Park,
Off BKC, LBS Road,
Kurla (West), Mumbai 70.
www.ugrocapital.com

REPO RATE TREND

June,24	6.50%
Apr,24	6.50%
Feb,24	6.50%
Dec,23	6.50%
Oct,23	6.50%
Aug,23	6.50%
June,23	6.50%
Apr,23	6.50%
Jan,23	6.50%
Dec,22	6.25%
Sep,22	5.90%

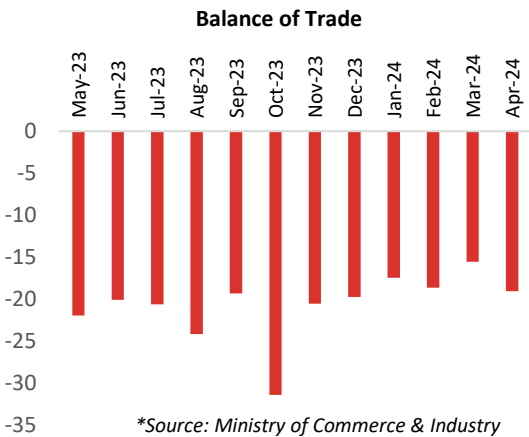
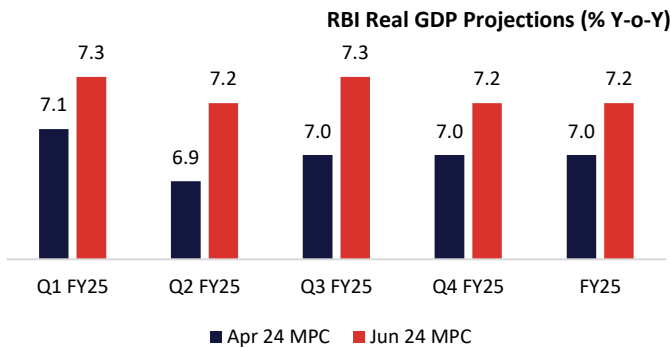
The annual retail inflation rate in India eased slightly to 4.83% in April of 2024 from 4.85% in the previous month, an 11-month low, and loosely in line with market estimates of 4.8%. It was the eighth straight month that Indian inflation remained within the RBI's tolerance band of 2 percentage points from 4%. Prices slowed for housing (2.68% vs 2.77% in March) and clothing and footwear (2.85% vs 2.97%), while prices fell faster for fuel and light (-4.24% vs -3.24%). On the other hand, inflation rose for food and beverages (7.87% vs 7.68%), aligning with the RBI's warning that uncertain agricultural conditions underpin inflation risks in the Indian economy.

REAL GDP GROWTH – FIRM GROWTH

Growth is holding firm, and inflation continues to moderate, mainly driven by the core component, which reached its lowest level in the current series in April 2024. Despite deflation in fuel prices, food inflation remains elevated. The MPC acknowledged the disinflation achieved so far without hurting growth but remains vigilant to any upside risks to inflation, particularly from food prices, which could derail the disinflation path. Despite trading pressures and foreign portfolio investment (FPI) outflows, the Indian rupee (INR) has moved within a narrow range with low volatility. This relative stability underscores India's sound and resilient economic fundamentals, macroeconomic and financial stability, and an improved external outlook. Foreign portfolio investment (FPI) flows surged in 2023-2024, with net FPI inflows of around \$41.6 billion.

MACRO-ECONOMIC INDICATORS OVERVIEW

Industrial output in India rose by 4.9% on an annual basis in March 2024. Manufacturing output which accounts for nearly 78% of total industrial production, expanded by 5.2% with surged growth noted for metal products exc. machinery (+20.3%), electrical equipment (+14%), transport equipment (+25.4%) and furniture (+31%). M3 money supply in India rose 10.9% from a year earlier in the fortnight ended May 17th, 2024, following an 11.1% jump in the earlier two-week period. India's merchandise trade deficit was at \$19.1 billion in April of 2024, and widening sharply from the 11-month low of \$15.6 billion in the earlier month. Imports soared by 10.3% from a year earlier to \$57.28 billion in April, increasing sharply, largely due to higher import bills for gold amid its soaring price, petroleum products, and electronics. In the meantime, exports increased by a softer 1.1% to \$34.99 billion, with sharp increases noted for electronics and chemicals.



POLICY INDICATIVE POINTS

The Reserve Bank will continue to maintain flexibility in its liquidity management through both main and fine-tuning operations in repo and reverse repo. An appropriate mix of instruments will be used to modulate both frictional and durable liquidity, ensuring that money market interest rates evolve in an orderly manner, preserving financial stability. India has a large cushion of FX reserves, which gives it the space to follow an independent monetary policy by focusing on domestic considerations. As demonstrated by recent actions, the Reserve Bank remains committed to maintaining stability and orderliness across all segments of financial markets and institutions under its regulation. In response to the evolving dynamics of international trade and in line with the progressive liberalization of foreign exchange regulations, the RBI intends to rationalize the existing FEMA guidelines on the export and import of goods and services. This initiative aims to promote ease of doing business and provide greater operational flexibility to Authorized Dealer banks. On inflation, while progress has been made, challenges remain. Globally, concerns persist that the final stages of disinflation may be prolonged and difficult due to ongoing geopolitical conflicts, supply chain disruptions, and commodity price volatility. In India, with growth remaining firm, monetary policy has greater flexibility to pursue price stability and ensure inflation aligns with the target sustainably. India's banking system remains resilient, supported by improved asset quality and increased profitability. The NBFCs have also shown strong financials in FY24. Overall, the banking sector, NBFCs, and the broader financial sector remain robust. The central bank plans to take further measures to moderate unsecured loans and advances, observing the guidelines on KFS, noting that some regulated entities have been charging certain fees without proper disclosures.

PAYMENT SYSTEM STRATEGIES

India is making significant strides in the global integration of its payment systems, such as UPI, RTGS, and NEFT, through collaborations with other countries. Domestically, efforts to boost digital payment usage continue with the "Har Payment Digital" campaign. The phased rollout of the Central Bank Digital Currency, e-Rupee, is underway. RBI has announced the inclusion of recurring payments for services like Fastag and the National Common Mobility Card (NCMC) within the e-mandate framework, featuring auto-replenishment. To promote wider adoption of UPI Lite, RBI proposes its inclusion in the e-mandate framework. This would enable automatic replenishment of UPI Lite wallets when the balance falls below a set threshold, facilitating small-value digital payments. RBI has also proposed redefining bulk deposits as 'Single Rupee term deposits of ₹3 crore and above' for SCBs (excluding RRBs) and SFBs, and 'Single Rupee term deposits of ₹1 crore and above' for Local Area Banks, aligning with the existing limit for RRBs. Additionally, the RBI Governor suggests establishing a digital payments intelligence platform for real-time data sharing across the system.

DISCLAIMER

This research report/material (the "Report") is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without UGRO CAPITAL's prior permission. In the preparation of this Report, UGRO CAPITAL has used information that is publicly available as well as data gathered from third party sources. Information gathered and material used in this Report is believed to have been obtained from reliable sources. UGRO CAPITAL, however makes no warranty, representation or undertaking, whether expressed or implied, that such information is accurate, complete or up to date or current as of the date of reading of the Report, nor does it assume any legal liability, whether direct or indirect or responsibility for the accuracy, completeness, currency or usefulness of any information in this Report. Additionally, no third party will assume any direct or indirect liability. It is the responsibility of the user or recipient of this Report to make its/his/her own decisions or enquiries about the accuracy, currency, reliability and correctness of information found in this Report. Any statement expressed as recommendation in this Report is general in nature and should be construed strictly as current opinion of UGRO CAPITAL as of the date of the Report and may be subject to change from time to time without prior intimation or notice. The readers of this Report should carefully read, understand and investigate or enquire (either with or without professional advisors) into the risks arising out of or attached to taking any decisions based on the information or opinions contained in this Report. UGRO CAPITAL or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this Report may have potential conflict of interest with respect to any recommendation and related information and opinions. Neither UGRO CAPITAL nor any of its officers, directors, personnel and employees shall be liable for any loss, claim, damage of whatsoever any nature, including but not limited to, direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this Report or the information therein or reliance of opinions contained in this Report, in any manner. No part of this Report may be duplicated or copied in whole or in part in any form and or redistributed without the prior written consent of UGRO CAPITAL. Any reproduction, adaptation, distribution or dissemination of the information available in this Report for commercial purpose or use is strictly prohibited unless prior written authorization is obtained from UGRO CAPITAL. The Report has been prepared in India and the Report shall be subject only to Indian laws. Any foreign reader(s) or foreign recipient(s) of this Report are requested to kindly take note of this fact. Any disputes relating to the Report shall be subject to jurisdiction of Republic of India only.