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RBI'S AUGUST 2023 POLICY – STAYING THE COURSE

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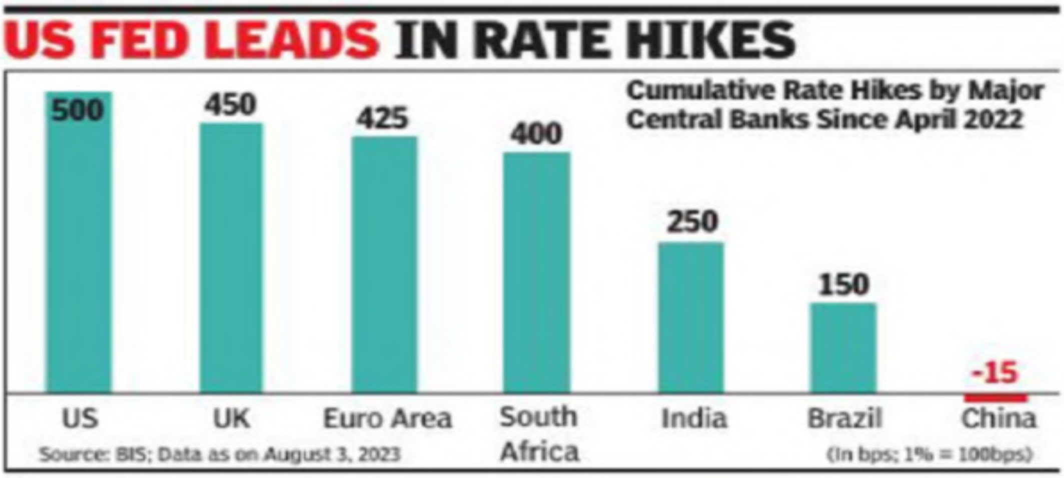
GLOBAL PERSPECTIVE

The present global situation is challenging because of shifts in global trade dynamics, incipient global demand, commodity price fluctuations, uncertainties stemming from pandemic recovery and the dynamics of geo-politics. Geo-politics is marked by high inflation, deteriorating financial conditions, Russia Ukraine war and growing economic fragmentation. The financial system is constrained by higher inflation, rising interest rates and stress in financial markets.

According to the World Economic Outlook (WEO, July 2023), global growth is projected to fall from an estimated 3.5 per cent in 2022 to 3 per cent in both 2023 and 2024, while global headline inflation is expected to fall from 8.7 per cent in 2022 to 6.8 per cent in 2023 and 5.2 per cent in 2024. China is still struggling with the ravages of the Covid 19 and real estate related disruptions. China's central bank cut the one-year loan rate by 15 bps to 2.5 per cent, which was followed by July 2023 data indicating weak consumer spending, declining investment, and increasing unemployment. Further, Russia's central bank hiked its major interest rate from 8.5 per cent to 12 per cent after the rouble crashed to an over 16-month low against the dollar.

According to the Bureau of Economic Analysis (BEA), the real GDP of the US grew at an annualized rate of 2.4 per cent in Q2 of 2023. The US Federal Reserve and European Central Bank continue to be hawkish. The Federal Reserve on July 26 hiked its key policy rate by 25 bps to 5.25 per cent. It has been on a rate hike spree over the past 18 months to curb inflation. On August 3, Bank of England also raised its key rate for the 14th time by 25 bps to bring its sticky high inflation within manageable proportions.

The financial system is being tested by higher inflation and rising interest rates at a time when inflation in many jurisdictions remains uncomfortably above central banks' targets. The emergence of stress in financial markets is complicating the task of central banks. This makes it necessary to assess the key vulnerabilities the global financial system is exposed to while putting in policies that may mitigate systemic risks, thereby contributing to global financial stability and sustained economic growth. This Policy came shortly after the US Federal Reserve, the European Central Bank, and the Bank of England raised interest rates to check inflation.



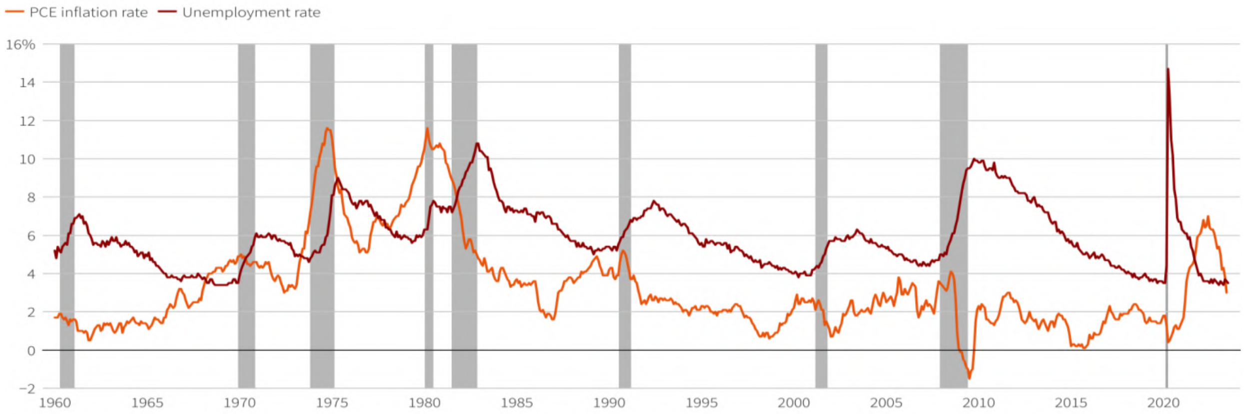
The US inflation reduced from 4.0 per cent in May 2023 to 3.0 per cent in June 2023. UK inflation also decreased to 7.9 per cent in June 2023 from 8.7 per cent in May 2023. However, inflation in Japan increased slightly from 3.2 per cent in May to 3.3 per cent in June 2023. Accordingly, the central banks in major economies still remain hawkish till the inflation falls to targeted levels. As a result, the global stock markets and overseas investment in many parts are vulnerable to policy change-led volatility exacerbating market risks.

US ECONOMY IN 'UNCHARTED WATERS'?

Given the multi-layered challenges faced by the US economy, it is not uneasy to understand why Richmond Fed staff's analysis of a central bank rate cycle deemed it "unlike any other". This analysis brought to the fore "The current rate episode sees us in uncharted waters", with the Fed facing the largest chasm between inflation and the target federal funds rate since March 2022. Despite the `highest interest rate in the last 22 years (this rate was last reached in January 2001) and the fastest increase in interest rates in at least 40 years, the unemployment rate remains stable and low.

Falling inflation, steady unemployment

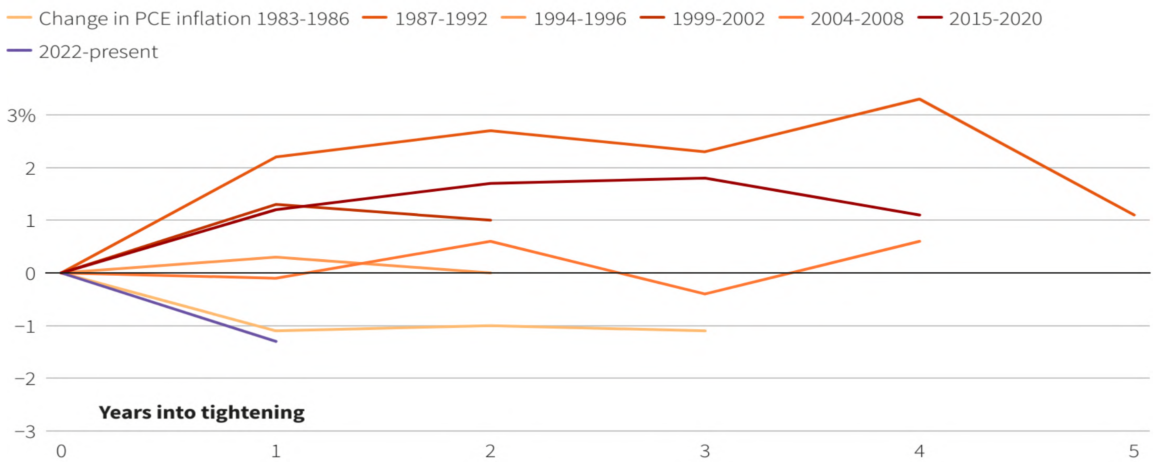
Sharp declines in inflation are typically associated with rising unemployment. So far that has not happened, though concern remains that increased joblessness could still develop.



Gray bars denote recession.
Data Source: Bureau of Labor Statistics

Inflation over Fed rate cycles

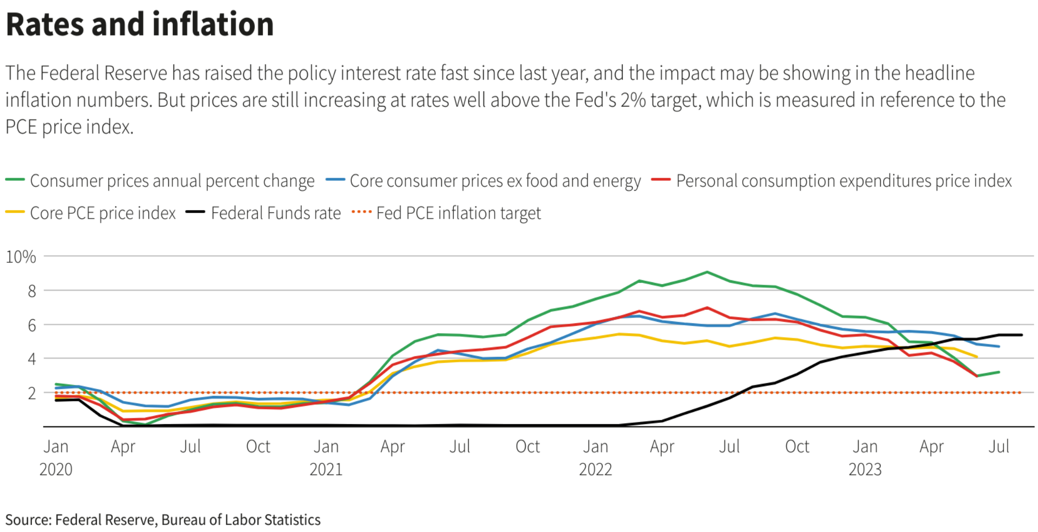
The Richmond Fed looked at changes in inflation and unemployment over rate hiking cycles and found a fast relative drop in inflation this time.



Note: Data are through April 2023, and normalized to zero at the start of each Fed rate hiking cycle.
Source: Richmond Federal Reserve

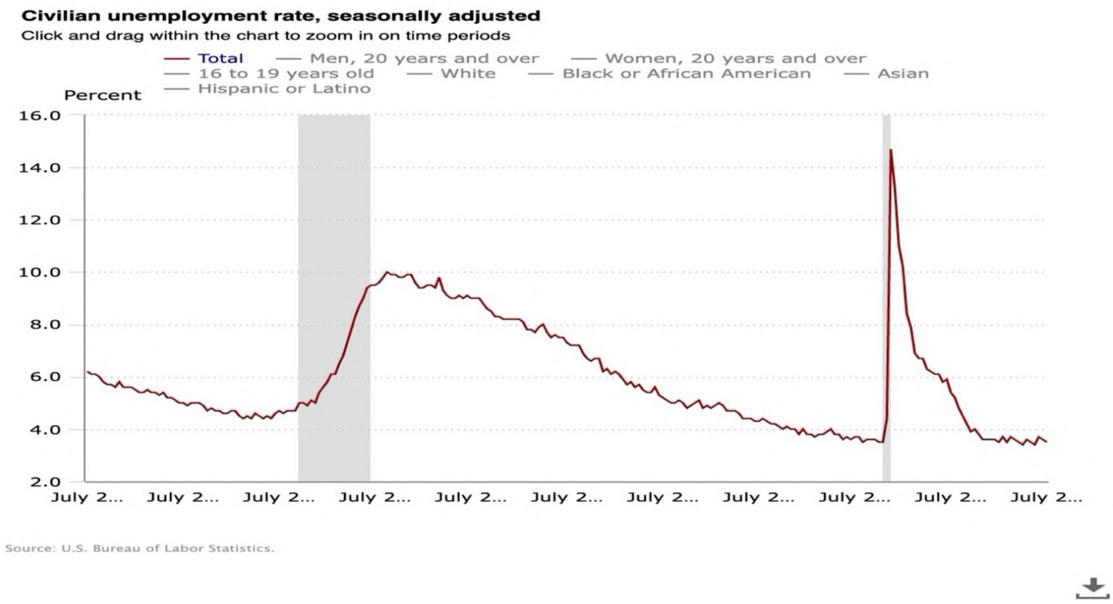
The Consumer Price Index rose marginally from June's 3 per cent to 3.2 per cent in July. The annual "core" CPI fell to 4.7 per cent in July from 4.8 per cent in June largely because of rising housing costs. But there are real and worrisome concerns that inflation could raise its ugly head once again because several data points exceed expectations. According to Bloomberg's Lisa Abramowicz, "investors are throwing in the towel on hopes for near-term central bank rate cuts. Global bond yields are at the highest levels since 2009 as economic data keeps coming in hotter than expected." Clearly, an unsavoury situation, if ever there was one.

Richmond Fed staffers justifiably maintained "The current cycle is the first time over the entire post-war period the (Federal Open Market Committee) has made significant progress in lowering inflation without an associated increase in the unemployment rate". Lisa Abramowicz has, however, drawn attention to "a San Francisco Fed study estimates that US consumers have about $190 billion of excess savings left and that it'll likely be depleted during the current quarter".

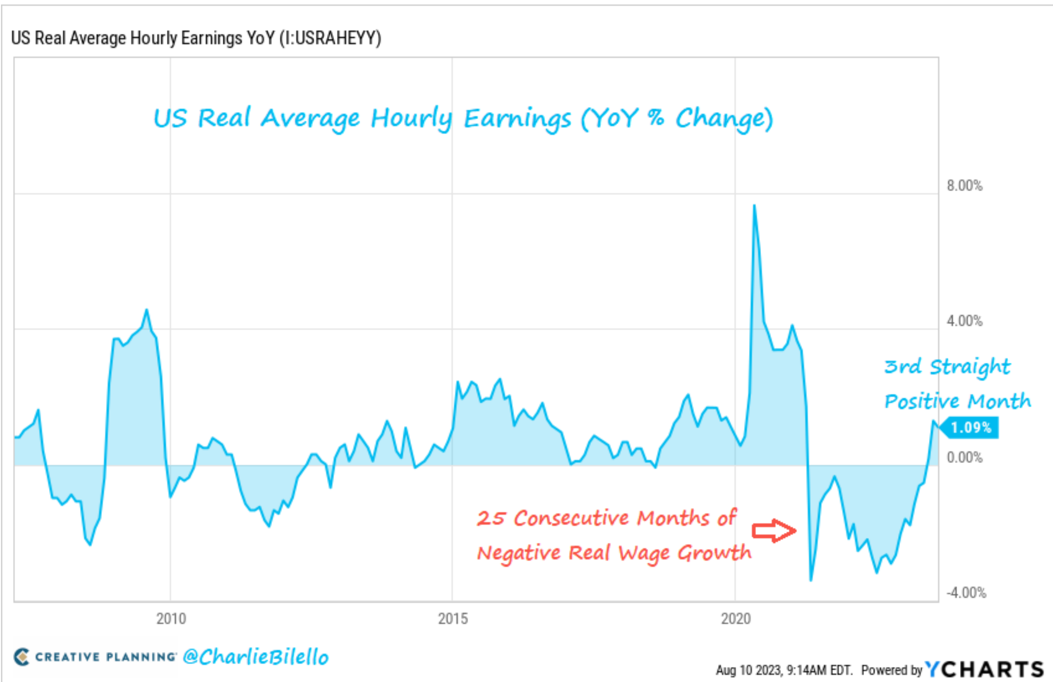


There are some concerns as, for example, articulated Paul Ashworth, Chief North America economist for Capital Economics. Ashworth visualized "Disinflationary pressures continued to build".

The Fed has raised the federal funds rate to 5.25 per cent since March 2022, with rate increases at 11 of the last 12 meetings to check borrowing and spending, and slow both the economy and the pace of price increases. But the unemployment rate has remained below 4 per cent since February 2022, and stood at 3.5 per cent in July 2023. Such cognizable dilemmas have been explained in terms of "labor hoarding", slow correction in supply chains and lagged adjustment to higher interest rates.



Charlie Bilello points out, "after a record 25 consecutive months of negative real wage growth, wages have now outpaced inflation on a year-over-year basis for 3 straight months. This is a great sign for the American worker that hopefully continues".



The Richmond Fed researchers demonstrate the current Fed "has been uniquely successful thus far in lowering inflation while leaving the unemployment rate at its lowest levels in roughly half a century" with the potential that policy tightening so far "may bring about further declines in inflation without a dramatic rise in the unemployment rate. This would be a first in the postwar U.S. economic experience". Still, "with little guidance from past rate cycles, the FOMC will have to remain vigilant to avoid missing its target should the economy prove more resilient than anticipated".

US PCE inflation (Fed's preferred measure of inflation) eased to its lowest levels in over two years. Headline and core PCE inflation fell to 3 per cent in June 2023 on a year on year (yoy) basis (from 3.8 per cent in May) and 4.1 per cent yoy (from 4.6 per cent in May), respectively. The US situation has improved but inflation remains range-bound with consumption trends remaining stable. However, Fitch downgraded the debt rating of the US to AA+ from AAA citing likely fiscal deterioration over the forthcoming years caused by a growing government debt burden.

While inflation may fall marginally below 5 per cent by end 2023, there are extensive concerns of infirm economic growth and inflationary pressures becoming more ingrained and structural. Higher interest rates help dampen inflation but also hamper economic growth by making it more expensive for goods and services across the development spectrum-homes, cars, or equipment. This trade-off makes the task of increasing interest rates high enough to contain the inflationary spiral, without debilitating the macro-economy so that the economies do not slip into recession, high unemployment and deflation onerous.

ECB SCENARIO - A NEW NORMAL OR A NEW ABNORMAL

The European Central Bank after nine consecutive ECB rate hikes since July 2022 may pause in September 2023 leaving the ECB deposit rate at 3.75 per cent. Core euro zone inflation, which excludes food and energy, remained at 5.5 per cent in July and headline inflation, which the ECB targets at 2 per cent, reduced slightly to 5.3 per cent. Core inflation is forecast to average 5.0 per cent this year and 2.9 per cent in 2024. In the event of any further ECB hike, it would be the highest deposit rate since the Euro's introduction in 1999 with the cumulative hike being 450 bps in the current cycle. The inflationary spiral, which was initially triggered by surging energy costs, has become more generalized and continues to significantly influence consumer demand.

Germany has been one of the economies hardest hit by spill-overs from the war in Ukraine and high energy prices, imperilling growth for the entire Euro zone economy. The euro zone economy is likely to grow 0.1 per cent and 0.2 per cent in the current and next quarter, respectively, and average growth of 0.9 per cent in 2024.

The ECB's economy could broadly stagnate over the next few quarters as the Euro area is saddled with heightened uncertainty, the lagged impact of the ECB tightening cycle and inadequate fiscal support making further hikes well-nigh impossible.

MIXED PICTURE IN UK

While wage growth and inflation show discernible improvement, inflationary concerns continue to persist. This situation makes it difficult for the Bank of England to effectively walk the tight rope between growth and price stability- 'knife-edge equilibrium' of sorts. July's UK CPI fell to 6.8 per cent yoy (which marked a sequential reduction from 7.9 per cent in June) - the lowest rate since the Russia-Ukraine war. But core CPI (excludes food, energy, alcohol & tobacco) remained unchanged at 6.9 per cent and services CPI outstripped consumer goods inflation for the first time since April 2021 returning to its recent 31-yr high of 7.4 per cent. These two factors individually and collectively could throw a spanner in the works.

CHINA'S ECONOMIC MODEL 'WASHED UP ON THE BEACH'?

The steady deceleration in the Chinese economy, despite a surge in stock markets this year, has evoked widespread debate and discussion. A structural downward trend is discernible in relatively much smaller contributions from property and manufacturing, which customarily drove Chinese growth for decades.

President Xi himself provided a refreshingly candid assessment, when he said that circumstances are creating "a once-in-100-year storm"-a storm, which imperils the leadership's "Mandate of Heaven." The gravity of the situation is clearly reflected in the fact that the growth target of 5 per cent for 2023- well below the mean 9 per cent annual GDP growth since 1978-seems something of a stretch. The grim macro-economic setting is exacerbated by the changing demographics in China with devastating implications for a market often estimated to power between 20 per cent and 30 per cent of the country's GDP. While debt restructuring of the kind resorted by Zhu Rongji in the late 1990s is necessary but given the enormity of the underlying issues, it would clearly be insufficient. The scale is different this time. Adroit management of the deleveraging process requires coordinated and concerted measures with a sense of urgency. Such measures relate to credit/debt/economic dynamic, the internal political dynamic, the external geopolitical setting, natural calamities (i.e., droughts, floods, and pandemics), and human inventiveness (especially of new technologies) are certainly called for in these turbulent times.

It has, therefore, been argued that global stock markets are in for a steep correction stemming from geopolitical and macroeconomic risks. David Roche, president and global strategist at Independent Strategy, maintains China's economic model is "washed up on the beach" and "not going to take off again". Evidently, such a crash will hugely impact on global markets.

While the Chinese situation is uncannily similar to what Sir Winston Churchill said about Russia in October 1939 "a riddle, wrapped in a mystery, inside an enigma", some leading development indicators seem to emerge about the conundrum that is China. Some of these development indicators are manifested in the triple whammy of a worsening property slump, weak consumer spending and tumbling credit growth. This brought into focus the compelling need for greater fiscal policy support and the interest rate cut by the People's Bank of China (PBC) to stimulate credit demand. The PBC, however, kept the five-year rate unchanged amid broader concerns about a rapidly depreciating currency. But the scope for deft manoeuvring by the Central Bank is limited because further widening of China's yield differentials with other major economies could trigger yuan selloffs and capital flight.

James R. Gorrie, who is the well-known author of the book "The China Crisis" (Wiley, 2013) has isolated and identified seven reasons why 'The China Crisis' has finally arrived. These reasons relate to:

- Excessive Overuse of Factors of Production
- Inefficient Allocation of Economic Goods, Activity
- Stifling Innovation in Middle Class
- Lack of Enforcement of Regulations, Standards
- A False Economy: Debt-based 'Growth' Is a Cancer on Economy
- Rampant Pollution Making China Unlivable, Causing Social Unrest
- Dystopian Depression Among Young Generation

A careful analysis of the disconcerting Chinese scenario clearly brings out that these reasons are still valid and continue to resonate even though these were first succinctly summed-up about a decade ago.

IMPACT ON EMERGING MARKET ECONOMIES (EMEs

The EMEs face onslaughts of a stronger Dollar. The IMF shows negative spill-overs from US Dollar appreciating to 20-year high disproportionately impacted EMEs as against smaller advanced economies. Flexible exchange rates and anchored inflation expectations are needed to withstand the onslaughts of a 'new normal' or shall we say, a 'new abnormal'?

The external sector risks are gradually abating though spill-over risks continued to endanger emerging economies, including India. Though US Federal Reserve and EU hiked interest rates in July 2023 and Fitch downgraded US debt, inflation is receding and growth is gaining traction.

MACROECONOMIC BACKDROP

The Indian economy has emerged ‘a bright spot’ despite heightened geo-political uncertainties and a volatile international demand-supply equation. In view of global cues, improved crop sowing, uneven monsoon, good industrial growth, healthy balance sheets of banks and corporates, supply chain normalization, buoyant services activity, buoyant aggregate demand conditions, rising investment activity, and 2 per cent current account deficit (CAD), real GDP growth for 2023-24 is seen at 6.5 per cent with Q1 growth at 8 per cent, Q2 at 6.5 per cent, Q3 at 6 per cent and Q4 at 5.7 per cent. While this growth of 6.5 per cent FY 24 marks a deceleration from the 7.2 per cent growth in FY 23, the Indian economy continues to largely outperform most of its global peers. The Governor placed India’s economic development in a proper historical and comparative perspective, when he said “At the moment, there is a twin balance sheet advantage. Both bank and corporate balance sheets are strong and deleverage, so there is space for making investments. Eventually, it depends on individual companies but private investment in some key sectors is happening such as in iron and steel, automobile, petroleum, metals, chemicals. Going forward, it should happen in other sectors because the ground conditions are favourable for investments”. This marks a paradigm shift from a twin balance sheet problem to a twin balance sheet advantage.

While the industrial sector performed well in Q1, particularly in the construction and consumer non-durables segments, the agricultural sector’s growth remained subdued, and the services sector grew sluggishly during this period. The index of industrial production (IIP) grew by 5.2 per cent in May 2023. The corporate balance sheets are robust with lower leverage, improved debt servicing capacity, and strong profitability. The capital expenditure of the government rose by 59.1 per cent yoy during Q1 of FY24. Demand continues to be buoyant with higher sale of vehicles and products in the FMCG sector.

Among demand segments, investment is gaining steam, led by government capital expenditure. Private capex is also reviving with capacity utilisation in the manufacturing sector at 76.3 per cent in Q1—above the long-term average of 73.7 per cent. The urban economy continues to lead consumption demand, while rural demand is recovering slowly. Robust domestic economic growth is reflected in Purchasing Managers Index (PMI) of manufacturing staying at 57.7 in July. The service sector PMI rose to 62.3 in July as against 58.5 in June powered by robust demand and new business gains with the sharpest expansion in output since June 2010.

India’s eight core sectors rose by 8.2 per cent in June 2023. The growth in India's eight key infrastructure sectors - coal, crude oil, steel, cement, electricity, fertilisers, refinery products, and natural gas - in June was the highest in five months. The gross GST revenue collected in the month of July, 2023 was ₹1,65,105 crore of which CGST was ₹29,773 crore, SGST is ₹37,623 crore, IGST is ₹85,930 crore (including ₹ 41,239 crore collected on import of goods) and cess was ₹11,779 crore (including ₹ 840 crore collected on import of goods).

June 2023 exports (both goods and services) along with Q1, 2023-24 exports moderated due to slowdown in growth coupled with demand contraction across the globe. Major economies, including US and China showed a downward trend in exports, along with the stressed Eurozone and shrinkage in their GDP including UK. Net FDI fell to USD 5.5 billion during April-May compared to USD 10.6 billion in the corresponding period last year.

Despite some caveats (e.g., July CPI inflation rising to 7.44 per cent, weak global demand, volatile global financial markets, geopolitical tensions and geo-economics fragmentation), as a consequence partly of global dynamics, India is among one of the fastest growing economies. The RBI's forward-looking surveys show that economic growth will be sustained until FY25 with the real Gross Fixed Capital Formation (GFCF) expected to rise to 7.4 per cent in FY25 from 6.8 per cent in FY24. Consumer confidence in the domestic economy has been improving post the pandemic.

BANKING LANDSCAPE

Banks have struck a purple patch. The RBI' Financial Stability Report (FSR) shows that greater recovery post the enactment of the IBC, 2016 and rejigging of loans portfolio from corporate loans to personal loans led to GNPAs and NNPAs declining to 3.9 per cent and1 per cent, respectively in March 2023, the lowest since 2015. Similarly, return on assets (RoA) rose steeply from a negative 0.2 per cent in 2018 to a healthy 1.1 per cent in 2023. But there is a manifest need to maintain the growth momentum in profits by a broad spectrum strategy.

In this overarching setting, Public sector banks (PSBs) performed remarkably well with profit of ₹ 34,774 crore for Q 1of FY 24. Resuscitating measures included the 4R's strategy of recognition, resolution, recapitalisation and reforms, NPAs of banks plummeted to a 10-year low at 3.9 per cent of total advances. Simultaneously, banks recovered bad loans worth over ₹ 8.6 lakh crore in the last eight financial years. The government infused ₹ 3,10,997 crore to recapitalise PSBs from 2016-17 to 2020-21. The reforms focused on credit discipline, ensured responsible lending and improved governance. Besides, there was greater technology adoption, consolidation of banks and upbeat bankers. What is important is that the growth and structural transformation of banks has to become more sustainable over the medium-term.

Bank lending also seems to be in a roll. In aggregate terms, bank loans advanced 16.3 per cent in June. Retail loans rose more than a fifth on year, supported mainly by home and vehicle loans. Bank loans to non-bank lenders climbed as also the disbursements to large companies. India's resilient consumer demand, which will ensure sustained economic expansion, was reflected in the granular data on loans as buyers of homes, cars, vacations or college education accounted for a disproportionately higher share for retail customers in total bank credit raising concerns of concentration risk and higher sectoral NPAs. For, there is a steadily burgeoning body of literature and empirical cross-country evidence that excessively high lending rates inevitably lead to a surge in NPAs and the attendant issues of due diligence, fixing of responsibility, accountability, malafide interest, etc. With growth in bank credit, low NPAs and adequate capital and liquidity buffers, the Indian financial sector is stable and resilient.

NO GENERALIZED INFLATION

India's CPI inflation rose to 4.81 per cent in June after hitting a 25-month low of 4.25 per cent in May on an annual basis, driven by food prices which accounts for nearly half of the overall consumer price basket. Higher food inflation in July stemmed not wholly (e.g., increase in prices of cereals and pulses) but largely from tomato price increases. Tomato-price surges are largely attributable to monsoon anomalies, viz., the late onset of the monsoon with a drier than usual June but wetter than normal July though the spatial monsoon distribution was uneven. Food items constitute nearly 40 per cent of the Consumer Price Inflation Index. Crude oil prices also rose above $80 a barrel after hovering at around $74 a barrel in May.

Crude prices' outlook is clouded by demand-supply dynamics. Inflation, excluding food and fuel, however, softened by 100 bps from its recent peak in January 2023.

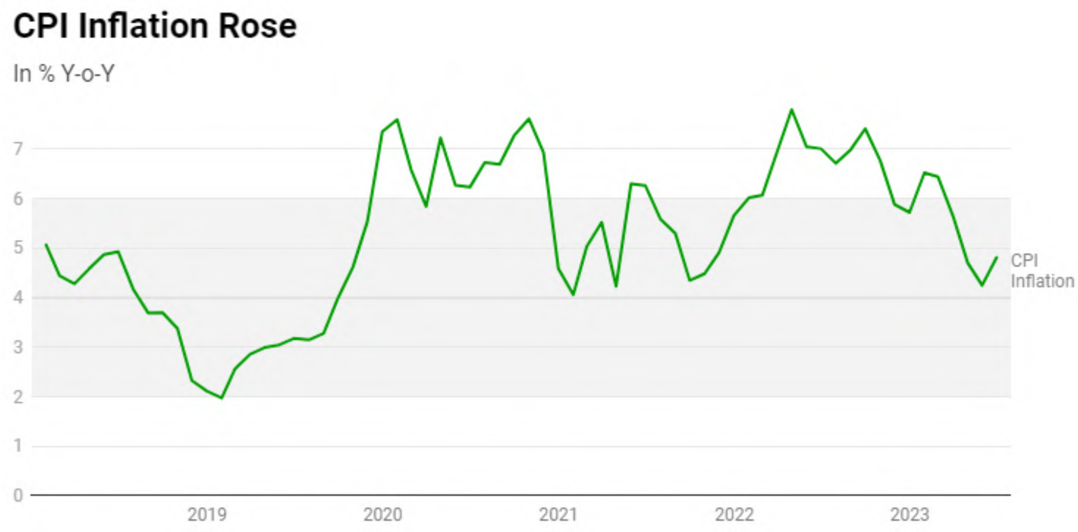
Although the weight of tomato in CPI inflation is only 0.6, this increase is likely to add 120 bps to headline. Tomato, onion and potato together account for only 2.2 per cent of headline CPI inflation but contribute nearly 50 per cent to the variance in headline inflation. The usual drivers of such spikes are deficient or excess rainfall, heat-waves or strikes in mandi, speculation and hoarding. Since the demand for them is relatively inelastic, inflation management becomes difficult.

A report by Bank of America Securities (BofAS) showed while tomato prices have vaulted 444 per cent since June 1 this year and other vegetable prices risen sharply, the RBI has mostly refrained from acting on such events because of its seasonal nature. Aastha Gudwani, India Economist, BofAS India said, “Potato prices increase after every two years and onion prices rise after every 2.5 years. A vegetable price shock is thus not new to India…We analyzed about 12 episodes of vegetable price fluctuation since FY2010. These price spikes fizzle out within a few months, though duration of each cycle differs ranging from 61 days in 2010-11 to 142 days in 2016-17 (both in tomatoes)”.

Similarly, a recent RBI paper said that tomato prices increase almost every June-July. As many as 6 out of 12 times, the RBI has kept the policy rate unchanged even in the face of record high food inflation. “Twice they reduced the repo rate by 25 bps (including the 2019 onion price peak) and only 4 out of 11 times, the RBI increased the repo rate”.

According to the RBI’s ‘State of the economy’ report, the recent spike in tomato prices on account of crop damage due to inclement weather and pest attacks in the major production areas hit households’ budgets. The RBI said, “Historically, tomato prices have been an important contributor to volatility in overall inflation. Its volatility also gets transmitted to prices of other vegetables in both retail and wholesale markets…Tomato, being a highly perishable item with a very short crop duration, exhibits considerable seasonal variation in prices but these episodes are short lived”. The RBI said “The average duration of a high price episode, derived from the Markov Chain transition probability matrix, shows that prices stay above ₹ 40 for an average duration of 2.6 fortnights whereas prices remain below ₹ 20 for an average duration of 10 fortnights”.

Shortly after the Policy announcement, CPI inflation in India reached a 15-month high of 7.44 per cent and breached the RBI's 6 per cent upper limit for the first time since October 2022. This has been attributable to both seasonal (prices of vegetables, particularly tomatoes) and structural inflation (inelastic demand for cereals despite changing weather patterns, lower production and higher distribution of cereals, declining government's cereal stocks).



Uncertainties making for an elevated near-term inflation outlook also stem from El Niño conditions, global food prices and crude oil prices raising annual inflation projection to 5.4 per cent. The inflation outlook for FY24 was raised from 5.1 per cent to 5.4 per cent in the RBI's August 2023 Policy with price rise likely to well exceed 5 per cent for the rest of the year.

RBI's Inflation Forecast

	Current Forecast	Previous Forecast
FY 24	5.4 %	5.1 %
Q 2 FY 24	6.2%	5.2 %
Q 3 FY 24	5.7%	5.4 %
Q 4 FY 24	5.2%	5.2 %
Q 1 FY 25	5.2%	--

Source: RBI.

Retail inflation would, however, be contained within the RBI's upper threshold level of 6 per cent (our CPI band is at 5.6-5.7 per cent in FY24) because of the lagged effect of monetary policy transmission of the cumulative rate hike of 250 basis points effected by the MPC (Monetary Policy Committee) in six instances since May 2022, resilience in local manufacturing and services activity and broad-based decline in food, energy, and core inflation, excluding food and fuel. But things could get worse before they get any better and there is a distinct likelihood of some near-term blips (inflation could surge to over 8.5 per cent yoy in August) before inflation reaches the midpoint of the inflation target of 4 per cent by Q2 of FY25.

In sum, the MPC sagaciously decision transcended the transient nature of the inflationary upsurge. Both the monetary and fiscal policy must work in tandem to contain the inflationary spiral with timely supply side interventions to 'limit the severity and duration of such shocks'. But there is no way India can be oblivious to the broader concerns of price stability without severely denting macroeconomic stability and growth. Given the compelling need to maintain low and stable inflation, the Governor stressed "The MPC remains resolute in its commitment to aligning inflation to the 4 per cent target and anchoring inflation expectations".

BANKING LIQUIDITY

Surplus liquidity rose to ₹ 1.7 lakh crore to ₹ 1.8 lakh crore because of return of ₹2000 banknotes, RBI's surplus transfer to the government, pick up in government spending and capital inflows. Hence the RBI move to impose an incremental cash reserve ratio (I-CRR) of 10 per cent on the increase in net demand and time liabilities (NDTL) between May 19, 2023, and July 28, 2023 to absorb surplus liquidity makes sense in view of the surplus liquidity in the system due to various factors, including the deposit of ₹2,000 currency notes. This temporary measure for managing the liquidity overhang, which is unlikely to significantly impact liquidity in the system, will be reviewed on September 8, or earlier. As the Governor rightly pointed out "Even after the temporary ICRR, there will be adequate liquidity in the system to meet the credit needs of the economy". But with about ₹ 1 lakh crore ($12.07 billion) system liquidity likely to be withdrawn, there could be an upward bias on the short term rates in the busy season but banks will see a "slight impact" on lending margins.
The incremental CRR was imposed after banks stayed away from parking funds with the central bank using variable rate reverse repo (VRRR) auctions. Auction for the 14-day variable rate reverse repo will continue to be the main liquidity management tool. Shorter duration VRRR auctions would be used for "fine-tuning".

DEVELOPMENTAL MEASURES

The widening of options in payment systems, the creation of a digital public tech platform, and putting in place a transparent framework for External Benchmarks Lending Rate (EBLR) are enabling provisions for the creation of an efficient and effective market microstructure.

Changes in UPI payments, allowing offline payments using near-field communication and increased payment limit via UPI Lite from ₹ 200 to ₹ 500 is well-conceived.

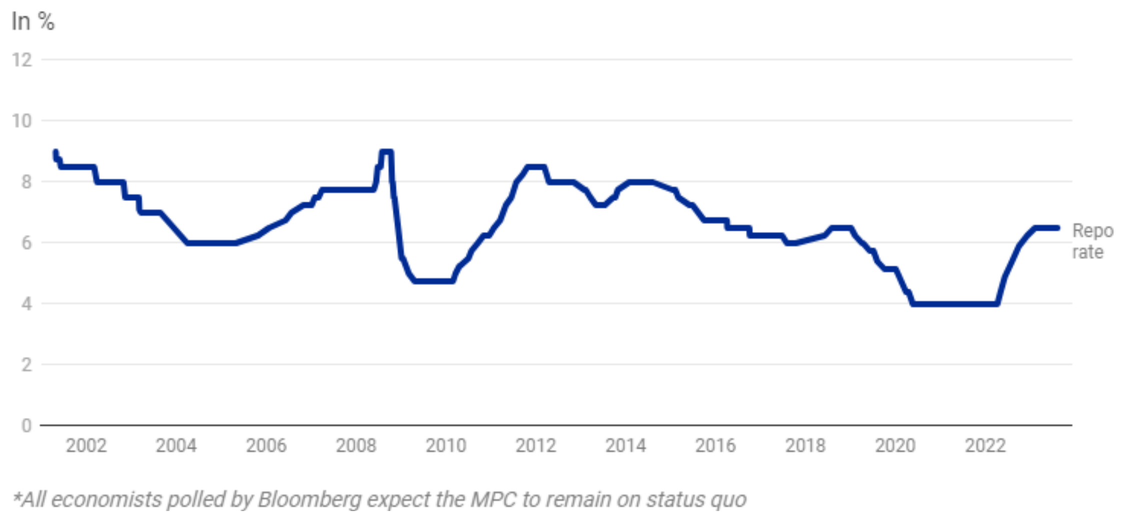
The proposed framework for the transparent reset of home loan rates and EMIs is also contextually significant and greatly welcome because of the inherent difficulties in resetting home loans.

CONCLUDING OBSERVATIONS

The RBI's monetary policy has a crucial impact on India's economic recovery, inflation dynamics, and overall financial stability. In view of the evolving macro-economy and the trade-off between growth and inflation, the RBI rightly kept the rates and stance unchanged. Right call!

Holding policy rates steady will bolster consumer demand for the real estate sector amid moderate inflation, further promoting economic growth. While the cost-sensitive affordable housing segment was severely impacted by the pandemic, the rise in home loan rates was restricted to 160 bps despite the repo rate rising by 250 bps.

Repo Rate: Status Quo To Continue



Going ahead, the RBI's data-driven and evidence-based policy could be impacted by rising crude prices, the inflation trajectory and geo-political dynamics, including the Fed's stance. Policy rates could stay higher for longer. As things stand now, we do not visualise any rate cut before early FY25. But let us sound a note of caution here: while a week may be a long time in politics, a few months may be a long time in economic discourse because of sweeping assumptions underpinning the entire economic edifice and the limitations, despite increasing rigor, of econometric modelling as was starkly brought to the fore by the global economic crisis of October 2008.