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RBI'S BI-MONTHLY POLICY- CONTEXTUALLY APPROPRIATE

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INTRODUCTION

Entirely in line with our expectations stemming from the evolving growth-inflation dynamics, the Monetary Policy Committee (MPC) of the RBI by a 5 to 1 majority refrained from any change in the key policy rates and maintained the status quo. The policy stance also continued to be a withdrawal of accommodation.

The overarching macroeconomic setting is characterized by softening of headline inflation from 5.7 per cent in December 2023 to 5.1 per cent during January and February 2024 with core inflation declining steadily over the past three quarters (fuel component of the CPI being deflationary for two consecutive quarters but higher food inflation pressures in February) juxtaposed with real GDP growth at 7.6 per cent for FY 24 and real GDP growth for FY 25 is seen at 7 per cent.

Despite uncertainty on the external front, exacerbated global tensions across geographies, including Palestine, Ukraine, Russia, etc., and the recent hike in crude oil prices, the Indian economy is well and truly on a sustained growth course of about 7 per cent.



Going forward, the policy rate cuts may happen in a gradual and calibrated manner from June 2024 onwards because of the downward trending inflation trajectory and the trade-off between growth and inflation. There is a distinct possibility of 75 basis points cut in the policy rate in FY 25.

There are also measures relating to trading of Sovereign Green Bonds in International Financial Services Centre (IFSC), introduction of Mobile App, review of Liquidity Coverage Ratio (LCR) Framework, permission to Small Finance Banks (SFBs) to deal in Rupee Interest Rate Derivative products, enabling UPI for Cash Deposit Facility, UPI Access for Prepaid Payment Instruments (PPIs) through Third Party Apps and Distribution of Central Bank Digital Currency (CBDC) through Non-bank Payment System Operators. Justified Policy, communicated well.