

The April MPC meeting minutes reflect RBI's comfort on favourable domestic dynamics, while concerns remained around the possibility of food price spikes. The MPC also seems to be focused on maintaining stability in markets, in contrast to repricing seen in DMs, with anchoring inflation expectations a key factor for keeping rates on hold. Better growth dynamics also provide more room to focus on inflation. Thus, with comfortable domestic conditions, global dynamics will play a major role in the RBI's reaction function. We maintain that the RBI will not precede the Fed in any policy reversal in CY24, but policy management will have to stay vigilant

#### Policy position remains comfortable yet watchful

The April MPC meeting minutes reveal that the MPC's overall stance has not changed much from the February meeting. There was encouragement taken from the domestic growth dynamics, while the ongoing moderation in headline and core inflation was also acknowledged. However, concerns around the possibility of upcoming food price shocks due to adverse weather, as well as a need to durably anchor inflation expectations, and the healthy domestic growth trajectory, meant that the majority of MPC members (5-1) continued to back a pause in rate action as well as status quo on the stance.

#### Maintaining financial stability a key factor behind continued pause

Most MPC members, including the Governor, mentioned the need to anchor inflation expectations decisively, and maintaining financial stability, as major factors behind the rate pause at present. Dr. Ranjan mentioned the fact that market expectations of early DM rate cuts have seen significant and rapid repricing due to incoming data, which has added uncertainty and volatility to the market. This was also echoed by Dr. Goyal, who also explicitly ruled out providing forward guidance for rates by citing the example of the US. Dr. Ranjan stated that market expectations are far better aligned with the MPC in India, and this is allowing long-term inflation expectations to be anchored. Further, even if price shocks from food or commodities were to materialize, this would allow the pass-through of such shocks to be lower. Additionally, both Dr. Patra and Gov. Das stated that while inflation expectations are getting anchored, achieving this on a durable basis is crucial to achieve the inflation target. Dr. Patra also mentioned that financial stability risks in India need to be continuously monitored and pre-emptively tackled despite improving growth trends. The overall tone and comments therefore suggest that the RBI does not want to introduce unnecessary volatility in the market, especially during a phase of global geopolitical uncertainty, and therefore rates are likely to be on hold for some time going ahead.

#### Higher real interest rates do not seem to be a concern...

There were a couple of comments on real interest rates but with differing inferences. Prof. Varma's dissent was largely based on the fact that current real policy rates of 2% (based on FY25 projected inflation) are excessive, and that a real rate of 1-1.5% should be sufficient to bring inflation down to target without sacrificing growth. Dr. Goyal also stated that real rates are currently higher than the neutral rate, but this is not a concern at present since growth remains strong and investment is rising along with robust credit growth. She also opined that maintaining stability is a priority at this juncture as justification for holding rates steady.

#### ...due to better domestic growth dynamics

Gov. Das and Dr. Ranjan also stated that the current growth momentum and dynamics provide more room for the MPC to focus on inflation, with price stability playing a crucial role in maintaining the high growth trajectory going forward. With only Prof. Varma speaking about slower growth projections for FY25 vs FY24, it is clear that the MPC's focus is on inflation rather than growth at present, in terms of domestic factors. However, we continue to maintain that global dynamics will continue to play a major role in the RBI's reaction function, especially with a comfortable domestic macro environment. We maintain that the RBI will not precede the Fed in any policy reversal in CY24, but policy management will have to stay vigilant. We see FY25E inflation at 4.6% (RBI: 4.5%), with core at 3.7-3.8%.

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#### Key highlights:

- Policy position comfortable but watchful
- MPC seems focused on maintaining financial stability
- Better growth provides more room to focus on inflation
- RBI to not precede Fed in any policy reversal in CY24

**Exhibit 1: Summary of the Monetary Policy Committee members' views**

MPC member	Key comments	Tone
<b>Shri Shaktikanta Das</b>	<ol style="list-style-type: none"> <li>1) Success in disinflation so far should not distract from vulnerability to supply shocks, especially for food inflation</li> <li>2) Strong growth momentum provides the space to focus on price stability</li> <li>3) Price stability will set the foundation for high growth</li> </ol>	Hawkish
<b>Dr Michael Patra</b>	<ol style="list-style-type: none"> <li>1) Downward pressure on inflation is necessary to be maintained until the balance of risks improves</li> <li>2) Despite improving growth trends, financial stability risks need to be continuously monitored and pre-emptively tackled</li> <li>3) Restoring price stability is essential to ensuring a sustainable rising growth trajectory</li> </ol>	Hawkish
<b>Dr Rajiv Ranjan</b>	<ol style="list-style-type: none"> <li>1) FY23 provides a stark reminder that macro assumptions can change sharply in a short span of time due to unforeseen events</li> <li>2) Stronger growth so far provides space to focus on inflation; history shows that taking risks on the inflation front could lead to unhinging of inflation expectations</li> <li>3) While global market expectations of rate cuts in DMs have not aligned with incoming data, market expectations seem aligned with the MPC in India, which will contribute towards aligning of long-term inflation expectations</li> <li>4) Caution, Credibility and Consistency have been the hallmarks of the MPC's approach during this cycle</li> <li>5) On that note, patience rather than haste is needed to align inflation to the target</li> </ol>	Neutral
<b>Prof Jayanth R Varma</b>	<ol style="list-style-type: none"> <li>1) A real rate of 1-1.5% should be sufficient to bring inflation to target; the current real policy rate of 2% (based on FY25 inflation forecasts) is excessive</li> <li>2) Growth being projected to slow by over half a percent in FY25 compared to FY24 is proof that there is a growth sacrifice being paid due to high rates</li> </ol>	Dovish
<b>Dr Ashima Goyal</b>	<ol style="list-style-type: none"> <li>1) Real interest rates are now higher than the neutral rate, but this is not a worry as corporate profits remain high and growth remains resilient</li> <li>2) With core inflation below 4% and falling despite robust growth, there cannot be excess demand</li> <li>3) As long-run causality shows that headline converges to core, core staying around the target and average headline &lt;5% suggests a gradual approach for headline to the target</li> <li>4) Even if the neutral rate is raised to 1.5%, real policy rates are presently at 2%, so even with cuts real rates will remain contractionary for some time</li> <li>5) However, maintaining stability has priority, and providing indicators for future rates can create turbulence in the market, as the example of the US shows</li> </ol>	Neutral
<b>Dr Shashanka Bhide</b>	<ol style="list-style-type: none"> <li>1) The inflation scenario is the same as that in February, while the outlook for growth has improved</li> <li>2) Given strong growth momentum, it is necessary to remain focused on bringing inflation trends down to the target</li> </ol>	Neutral

Source: RBI, Emkay Research's assessment of tone

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