



RBI Monetary Policy Meet Outcome – October 2024

**RBI Holds Rates Steady: Shift to 'Neutral' Stance;
Inflation Concerns Persist**

Maintains repo rate at 6.5%;

Shift to Neutral Monetary Policy Stance: Aim to Balance Inflation Control and Economic Growth Support

The Reserve Bank of India (RBI) has maintained its repo rate at 6.5% for the tenth consecutive time, following its MPC meeting on October 9, 2024

Key Highlights from the RBI Monetary Policy Committee (MPC) Meeting:

Repo Rate Unchanged: RBI has decided to maintain the repo rate at 6.5% for the tenth consecutive meeting, with a 5-1 vote in favour of this decision.

- The repo rate has remained stable at 6.5% since February 2023, aimed at managing inflation and supporting economic growth.

Monetary Policy Stance Shifted to Neutral: The MPC has changed its stance from "withdrawal of accommodation" to "neutral," enabling greater flexibility in adjusting interest rates based on economic conditions, especially inflation trends.

Economic Growth Projections: The RBI has revised its GDP growth forecast for FY25 to 7.2%, with slight adjustments made to Q2 and Q3 and Q4 FY25 projections

- The RBI's FY25 GDP growth forecast of 7.2% suggests a strong economic outlook, possibly influencing interest rate decisions, potentially supporting or increasing rates if inflationary pressures rise unexpectedly

Real GDP Growth Estimates		
Period	Current Forecast	Previous Forecast
FY 2024-25	7.2%	7.2%
Q2	7.0%	7.2%
Q3	7.4%	7.3%
Q4	7.4%	7.2%
Q1 FY2025-26	7.3%	-

Food Inflation Concerns: The RBI remains cautious despite a decrease in retail inflation, largely due to persistent inflationary pressures, especially from food prices and global commodity fluctuations

- Food inflation, contributing 70% to retail inflation, is a significant concern, prompting the RBI to monitor this area closely to prevent broader inflationary pressures

Inflation Outlook: The MPC predicts inflation at 4.5% for FY25, with quarterly estimates increasing to 4.1% in Q2, 4.8% in Q3, and slight decreases in Q4 and Q1 FY26.

- The RBI is monitoring food prices, predicting inflation to hover around 5% in the coming months due to global commodity prices
- The MPC acknowledges inflation risks from rising global commodity prices and geopolitical tensions, but maintains optimistic growth outlook due to favourable agricultural conditions and increased government infrastructure spending.

Inflation Estimates		
Period	Current Forecast	Previous Forecast
FY 2024-25	4.5%	4.5%
Q2	4.1%	4.4%
Q3	4.8%	4.7%
Q4	4.2%	4.3%
Q1 FY 2025-26	4.3%	4.4%

Global Economic Context: RBI's decision is made amid global economic uncertainties, including rising crude oil prices due to geopolitical tensions, which could potentially affect domestic inflation rates

Global Economic Considerations: The RBI has emphasized the potential impact of geopolitical tensions and financial market volatility on domestic inflation and economic stability

BWR ANALYSIS

The RBI's decision reflects a cautious approach, despite a resilient domestic economy, is aimed at sustaining growth and maintaining inflation within the target range of 4%

RBI Governor stated sustained domestic growth and resilient global economy, despite geopolitical conflicts, financial market volatility, and public debt, while world trade shows improvement

RBI's future policies will be influenced by geopolitical tensions and global economic conditions, with a stable environment potentially allowing rate cuts, while uncertainties may lead to a cautious approach

The RBI's neutral policy enables flexibility in future repo rate changes, allowing it to respond dynamically to economic conditions while focusing on inflation control and growth support.

The RBI's neutral stance signifies a strategic shift towards greater monetary policy flexibility, aiming to manage inflation while supporting economic growth through real-time rate adjustments.

The RBI's economic outlook is cautiously optimistic, despite sustained domestic growth. However, geopolitical tensions and rising commodity prices pose risks. The MPC predicts inflation pressures could rise if food and metal prices continue to rise

The RBI maintains a neutral stance, balancing inflation control with economic growth, despite projected inflation of 4.5% for FY25 and food inflation concerns, avoiding abrupt policy changes

The RBI's neutral stance at the policy meet demonstrates its commitment to managing inflation while responding to economic growth needs, crucial as India faces domestic and external challenges

The neutral policy and recent rate cuts by central banks in advanced economies, despite global economic uncertainties, may boost investor confidence in the banking sector due to its balanced monetary approach. This could boost foreign investment in Indian debt securities, potentially benefiting the banking sector through increased capital inflows

The Reserve Bank of India (RBI) has adopted a neutral stance, with future adjustments influenced by domestic inflation trends and global economic conditions. This balance is crucial for sustaining economic growth without triggering inflation spikes, ensuring liquidity in the banking sector

India's neutral stance prioritizes inflation management while fostering economic growth, a crucial balance for navigating potential challenges in the country's economic landscape

Neutral Stance Impact on Repo Rate Changes

- RBI's decision to shift its monetary policy stance to 'Neutral' at its October 2024 meeting has significant implications for future interest rate changes
- **Flexibility in Policy:** The RBI's neutral stance allows it to adjust interest rates based on economic conditions particularly inflation and growth trends, allowing a more responsive approach to inflation changes for FY25
- This is unlike the previous "withdrawal of accommodation" approach, which restricted rate cuts

Future Interest Rate Changes

- **Potential for Rate Cuts:** RBI's neutral stance may allow for adjustments based on inflation developments, with the RBI potentially lowering interest rates in subsequent meetings if inflation stabilizes or decreases
- **Inflation Management:** The RBI aims to maintain stable inflation target of 4%, allowing it to respond dynamically to market conditions, despite inflation risks from food and commodity prices
- Geopolitical tensions, particularly in West Asia, could potentially increase crude oil prices, exacerbating inflationary pressures and complicating the situation

Implication for Inflation Control

- **Inflation Targeting:** The RBI's long-term inflation target is 4%, with a tolerance band of +/- 2%. This neutral stance indicates prioritizing inflation targets while monitoring economic growth, aligning with the flexible targeting framework established in 2016, which has maintained price stability
- The MPC's cautious approach to inflation implies they acknowledge the necessity to support growth amid global economic uncertainties

Implications of the Neutral Stance:

- **Stability in Borrowing Costs:** The RBI maintains a steady repo rate to prevent external benchmark lending rates from increasing, thereby ensuring borrowers' EMIs remain unchanged, thereby promoting economic growth
- **Liquidity Management:** The RBI's neutral stance suggests a willingness to accommodate surplus liquidity in the banking system, potentially leading to lower overnight rates than the repo rate. However, banks may adjust interest rates on loans linked to the marginal cost of funds-based lending rate
- **Impact on Credit Growth:** The RBI's cautious approach to fostering economic growth and managing price stability aligns with its target of 4% inflation, despite credit growth outpacing deposit growth

RBI's decision to shift to a neutral stance was influenced by key factors

RBI changed its monetary policy stance from 'withdrawal of accommodation' to 'neutral' on October 9, 2024, reflecting a strategic adjustment to current economic conditions

- **Economic Conditions:** The RBI's decision is prompted by a slowdown in economic activity and lower-than-expected GDP growth, highlighting the need for a more accommodating stance to support growth
- Recent data shows weaker-than-expected GDP growth in urban sectors, prompting the MPC to reassess its stance, viewing this slowdown as normalization rather than a significant downturn
- **Inflation Trends:** The MPC's decision was also influenced by moderating inflation rates observed in recent months. The RBI reported CPI inflation at 3.65% in August 2024, below its target of 4%. RBI anticipates seasonal factors may cause temporary inflation rise, but expected to moderate in subsequent months
- This easing of inflationary pressures allows the RBI to adopt a more neutral position, enabling it to balance inflation control with the need for economic support

- **External Monetary Policies or Global Influences:** The US Federal Reserve's recent rate cut signalled a global shift towards looser monetary policy, influencing the MPC's decision to adopt a more flexible approach

Sector-Specific Reactions

- **Banking Sector:** With ample liquidity in the banking system, banks are likely to benefit from lower borrowing costs, which could enhance their lending capabilities. However, if inflationary pressures persist, banks might face challenges in managing interest margins
- **Consumer Goods:** Sectors reliant on consumer spending may see mixed effects; while stable interest rates can support consumer confidence and spending, persistent inflation could erode purchasing power
- **Infrastructure and Real Estate:** These sectors may benefit from sustained investment flows due to stable borrowing costs, but they remain vulnerable to shifts in economic sentiment driven by inflation concerns.

Additional Measures proposed by the RBI:

- The Reserve Bank plans to expand its guidelines to include loans to Micro and Small Enterprises (MSEs), extending the prohibition on foreclosure charges and pre-payment penalties for floating rate term loans
- **Creation of Reserve Bank Climate Risk Information System (RB-CRIS):** The Reserve Bank proposes to create the Reserve Bank – Climate Risk Information System (RB-CRIS) to address gaps in climate-related data for robust climate risk assessment
- **UPI 123Pay Transaction Limit:** RBI proposes to increase per-transaction limit for UPI 123Pay from ₹5,000 to ₹10,000, enabling feature phone users to access UPI services without an internet connection
- **UPI Lite Wallet and Transaction Limits:** UPI Lite wallet limit has been increased from ₹2,000 to ₹5,000, and per-transaction limit from ₹500 to ₹1,000, allowing small-value transactions without a UPI PIN
- **Introduction of Beneficiary Account Name Look-up Facility:** RBI also proposes the introduction of a facility for verifying the name of the account holder in the Real Time Gross Settlement System (RTGS) and National Electronic Funds Transfer (NEFT) system, which will reduce the risk of wrong credits and frauds

Other Takeaways

Financial Stability

- The RBI has maintained ample liquidity in the banking system since July 2024, with overnight rates remaining below the repo rate, aiming to support credit growth and manage inflation risks.
- RBI Governor Shaktikanta Das warns Non-Bank Financial Companies (NBFCs) against unsustainable growth practices and emphasizes the need for robust risk management frameworks for long-term stability and regulatory compliance
- RBI Governor stated that some NBFCs are aggressively pursuing growth without sustainable business practices and risk management frameworks. They are also chasing excessive returns on their equity, which could pose financial stability risks
- Additionally, NBFCs may need to review their compensation practices, which may lead to adverse work culture and poor customer service

External Sector

- India's current account deficit rose to 1.1% of GDP in Q1 FY 2024-25 due to a higher trade deficit. However, buoyancy in services exports and strong remittance receipts are expected to maintain CAD within sustainable levels
- Foreign portfolio investment and foreign direct investment flows have improved, and India's foreign exchange reserves have crossed a new milestone of \$700 billion

BWR View

The RBI's recent MPC meeting outcomes underscore a balancing act between controlling inflation and supporting economic growth. While the immediate impact of maintaining the repo rate is stability, ongoing monitoring of both domestic and global economic indicators will be crucial in shaping future monetary policy decisions

* Views are personal.

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