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RBI's Monetary Policy Review

9th October 2024

RBI Policy Stance

- The MPC decided to keep the policy repo rate unchanged at 6.50% by a 5:1 majority.
- MPC changed its the stance to **neutral** from withdrawal of accommodation with all members in agreement.

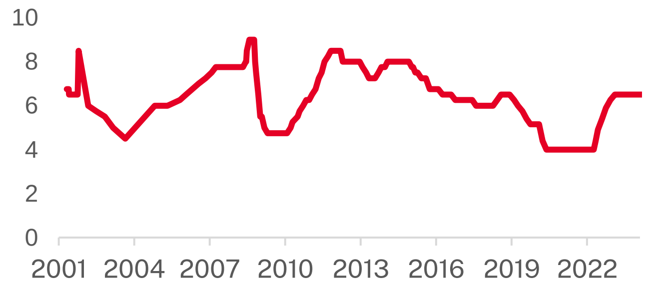
Policy Rates	Pre Policy	Post Policy	Status
Repo	6.50%	6.50%	Unchanged
Reverse Repo	3.35%	3.35%	Unchanged
MSF	6.75%	6.75%	Unchanged
Bank Rate	6.75%	6.75%	Unchanged
CRR	4.50%	4.50%	Unchanged
SDF	6.25%	6.25%	Unchanged
SLR	18.00%	18.00%	Unchanged

Key Highlights

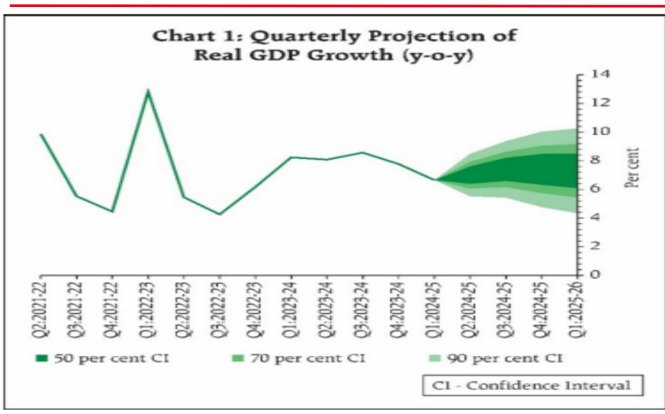
- System liquidity, was, on an average, in surplus of about INR 1.3 lakh crore during Aug-Sep'24. Likewise in Oct'24 (up to 7th), average system liquidity is in surplus of about INR 2.3 lakh crores.
- To absorb surplus liquidity conditions, the RBI conducted VRRR auctions amounting to INR 11.5 lakh crores in the months of Aug-Sep'24.
- The inflation forecast for FY'25 is 4.5%, same as previous policy guidance.
- For FY'25, the GDP forecast at 7.2% also remained the same as previous policy guidance .
- India's current account deficit (CAD) widened to 1.1% of GDP in Q1 2024-25 on account of a higher trade deficit.
- Gross and Net FDI flows remained robust, increasing by 23% and 28.9% respectively during Apr-Jul'25. Net FPI flows also saw a turnaround from net outflows of US $4.2 Bn in Apr-May'24 to net inflows of US $19.2 Bn during June-October (till October 7, 2024).

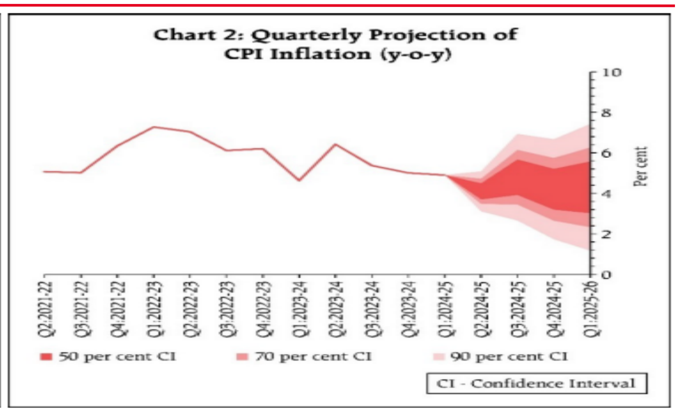
Time Frame	Projection – Inflation		Projection - Real GDP	
	Aug-24	Oct-24	Aug-24	Oct-24
Q2 FY'25	4.4%	4.1%	7.2%	7.0%
Q3 FY'25	4.7%	4.8%	7.3%	7.4%
Q4 FY'25	4.3%	4.2%	7.4%	7.4%
Q1 FY'26	4.4%	4.3%	7.2%	7.3%
FY'25	**4.5%**	**4.5%**	**7.2%**	**7.2%**

RBI Repo Rate Trajectory



RBI's Projection on Inflation and Growth





RBI's Assessment of Global and Domestic Economy

- The global economy continues to remain resilient with OECD revising the global growth forecast for 2024 by 10bps to 3.2%, though, downside risks from increasingly intense geopolitical conflicts, geoeconomic fragmentation, financial market volatility and elevated public debt does pose a challenge. Essentially, services activity is holding up, manufacturing is slowing, and inflation is softening supported by lower energy prices.

- The Indian economy grew by 6.7% in Q1 2024-25 driven by a rebound in private consumption and a rise in investment.

- On the supply side, GVA expanded by 6.8%, outpacing GDP growth, fueled by strong activity in both the industrial and services sectors. Agricultural growth also remained resilient supported by above normal south-west monsoon rainfall and better kharif sowing.

- Urban demand continues to be robust with growth in consumer durables (8.2% in Jul'24) and domestic air passengers (7.6% in Jul'24 and 6.7% in Aug'24). Rural demand is showing an upward trend with wholesale two- wheeler sales expanding by 10.7% in Jul-Aug'24. Demand for MGNREGA dropped by 16.6% from Jul'24 to Sep'24, indicating an improvement in employment within the farm sector.

- **Outlook for Growth –** India's growth narrative remains strong, as its primary drivers—consumption and investment demand—are gaining momentum. The prospects for private consumption look promising due to a favorable agricultural outlook and increasing rural demand. Sustained growth in the services sector is likely to enhance urban demand. Government spending at both the central and state levels is expected to accelerate in alignment with the Budget Estimates.

- **Outlook for Inflation –** Headline inflation fell sharply to 3.6% and 3.7% in Jul'24 and Aug'24, respectively, down from 5.1% in Jun'24. The inflation rate for Sep'24 may experience a notable increase due to unfavorable base effects and a rise in food prices. However, the headline inflation trend is expected to gradually ease in Q4 of this year, owing to a successful kharif harvest, sufficient buffer stocks of cereals, and the prospect of a strong crop in the upcoming rabi season. Unexpected weather events and geopolitical conflicts could create major upside risks to inflation.

Outlook

- We might witness easing of interest rates in the near future as the RBI has shifted its stance from withdrawal of accommodation to neutral aiming for a sustainable alignment of inflation with its target while also supporting growth.The decision was unambiguous given India's growth remains intact, inflation is on a declining path, fiscal consolidation is underway, and forex reserves are scaling new peaks. A 75-100 bps easing cycle is most likely, provided the current economic environment persists.

- The Indian yield curve has witnessed a shift in the overall curvature since Apr'24 with yields across tenors moving lower than 7% handle owing to global interest rate easing cycle, higher participation from FPIs, India's inclusion into JP Morgan's Emerging Market Bond Index and reduction in fiscal deficit.

- Our investment positioning should be able to benefit from further yield compression in the longer end (via continued demand supply skewness, robust fiscal balance and interest rate easing) as well as the shorter end (incremental increase in overnight liquidity via adoption of accommodative stance from RBI). We believe while allocation to duration is well poised, expectations of a shallower rate cut cycle warrants tactical positioning rather than pure long-term allocation.

- Hence, we prefer allocations to Short Term Funds , positioning for decline in shorter end of the yield curve, with some duration build up, and Dynamic Bond Funds, which are judiciously positioned to benefit from declines in longer end yield curve, with an aim to revert to reduced exposures as and when the terminal rates are attained.

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