

October MPC decision is pivotal given it is being taken in a volatile global backdrop of easing monetary policy by central banks even as quantum of US Fed rate cut expectations have eased post positive labour market data surprise and spike in geopolitical tensions driving oil prices close to the crucial USD 80/bbl mark. Moreover, high frequency indicators are pointing towards growth slowdown in the domestic economy while focus may remain on recent spike in food prices which are likely to keep next 2-3 CPI reading above 5%. In our view, the newly formed MPC with 3 new government nominees is likely to vote for status quo on both “withdrawal of accommodation” stance and 6.5% repo rate. The policy guidance is likely to turn more balanced vs August.

We believe that the MPC is nearing the inflection point of easing monetary policy yet it is still not there and some conditions need to turn favourable before the policy switch - i) recent spike in geopolitical tensions warrants attention given impact on crude oil prices with Chinese stimulus measures buoying metals prices (Reuters CRY commodity price index up 10.5% in last one month). It needs to be noted that geopolitical tensions were a key concern raised by the RBI Governor in a recent speech. ii) pace of growth deterioration in global economy led by the US. While [our analysis](#) shows that a US soft landing bodes well for the Indian economy, a recession is likely to have an adverse spillover impact. In this regard, the recent sharp improvement in US labour market data provides relief. iii) domestic food prices which have shown high vulnerability to climate shocks have again spiked in Sep’24 after a sequential drop in Aug’24. While surplus monsoon, good sowing and strong reservoir levels were supportive of favourable food and overall inflation outlook, risk of unseasonal rains in October needs close watch ahead of harvest season as LaNina conditions develop. iv) further deterioration in high frequency growth indicators already showing signs of slow down like auto sales, GST, PMIs, credit growth, exports etc; despite festive season effects; and v) financial stability concerns raised by the Governor in August MPC are addressed. With credit-deposit growth wedge narrowing recently, the worries have been partly addressed, yet banks remain under funding stress with 1 year Certificate of deposit (CD) and T-bill rate spread elevated at more than 100bps. This shows that policy transmission on switch in cycle may be constrained by elevated deposit rates still facing upward pressure.

Overall, we continue to believe that the MPC is likely to maintain status quo in the near term. The inflection point from monetary policy perspective is likely to be witnessed in Q4-FY25 in Feb’25 meeting, in our view.

Fig.1: UBI economic activity indicator showing signs of slowdown

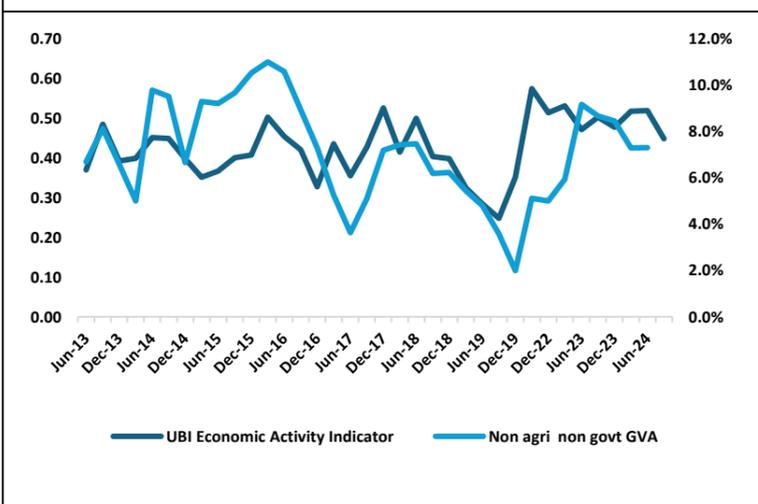


Fig.2: Food prices have spiked in Sep/Oct’24 and may keep next 2-3 CPI prints above the 5% mark

| % Change in Price (m/m) | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 |
|-------------------------|--------|--------|--------|--------|--------|
| Cereals | 0.64 | -0.40 | -1.67 | -0.42 | 0.16 |
| Pulses | 2.56 | 1.86 | -1.09 | -0.59 | 0.05 |
| Oils | 0.49 | -0.14 | -1.92 | 1.73 | 4.81 |
| Vegetables* | 16.61 | 29.43 | -7.09 | 0.42 | 10.01 |
| Milk | 0.55 | 0.34 | 0.02 | -0.89 | 0.15 |
| Sugar | 0.49 | 0.18 | -0.09 | -0.25 | 0.22 |

*includes onion Tomato & Potato prices Source: CEIC, RBI, UBI research

Growth indicators showing initial signs of slowdown

While the Q1 FY25 GDP print clocked below the RBI’s estimate (7.1%) at 6.7%, as noted by the RBI Governor, the underlying growth momentum was resilient with sharp uptick was seen in consumption growth to clock 7.5%, led by urban consumption and improving rural consumption, to align with investment growth. The slowdown was primarily led by weak government spending as it was an election quarter though on a sectoral basis, the underperformance for agriculture was compensated by buoyant manufacturing and services sector GVA growth numbers. While recent months showed some slowdown in growth indicators like auto sales, bank credit, exports, PMIs, GST collections etc a likely recovery during the festive season is anticipated. On balance, the domestic growth momentum has eased, with K-shaped recovery underway. Private capex pickup is yet to be seen in a “big way” and has been led by a few sectors. Despite a lower-than-expected Q1 GDP growth number, we see the MPC keeping the full year FY25 growth forecast unchanged at 7.2%, with growth likely to be backloaded in an election year, rural spending pickup expected in H2 even as global risks need to remain on close watch.

Inflation trends still warrant caution, yet favourable monsoon has improved outlook

Headline CPI eased to 3.6% average in July/August from 4.9% in Q1 FY25 driven by favourable base effects. Meanwhile, core inflation picked up to 3.4% in August from record low of 3% in May/June on impact of telecom tariff hikes. More importantly, food prices have seen a sequential pickup in September led by vegetables after declining in last two months, and are likely to drive the next few CPI readings above the 5% mark as base effects also fade. Food, with 46% weight in CPI, has been the prime driver of inflation dynamics in recent months. In specific, volatility in vegetables inflation (10% in August vs 30% in June) needs close watch as CPI ex vegetables has been at close to 3% for last six months.

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While 5% surplus monsoon, healthy crop sowing and strong reservoir levels bode well for food inflation outlook, we will closely watch out for impact of La Nina trends via unseasonal rains which pose risk of crop disruption. On balance, we expect the MPC to keep the CPI projection unchanged at 4.5%, as food inflation volatility warrants caution. Apart from this, the MPC is likely to stay cautious about spillover impact from upward pressure on oil prices from geopolitical tensions and metal prices on China stimulus measures on core inflation with elevated gold prices already posing upside risk.

Financial stability trends are still work in progress

In the last policy, the RBI Governor raised some concerns regarding financial stability. The gap between credit and deposit growth is, beginning to narrow though complete convergence is still some time away. Credit growth has dropped to 13% currently from 16% in FY24 primarily led by sub-segments which saw RBI action last year viz. unsecured retail and NBFCs ex HFCs sub-segments. Bank deposit growth has been supported by deposit rate hikes and government spending pickup, with credit-deposit growth wedge narrowing to 1.5 percentage points as of latest fortnight ended 20th Sep'24 from 4 ppt as of Mar'24. Despite this, we saw a spike in CD issuances at elevated rates during September, to help plug funding issues which continues to pose risk of Asset Liability mismatch. The 1-year CD-T-bill spread at more than 100bps currently is also reflecting of persistent funding issues for the banking system. Overall, financial stability concerns as flagged in [our paper](#) as well are still work in progress and need attention.

We expect status quo on stance and rates in October with liquidity announcements on close watch

On balance, we see the MPC keeping the stance and hence rates unchanged in the 7-9th October MPC review. We will watch for 3 key points: i) policy guidance - given that easing cycle has been initiated by global central banks even as we firmly believe that domestic macro dynamics are likely to be key driver of the monetary policy decisions. Dissenters if any to the stance need to be watched with 3 new external members (*analysis of their recent research detailed in Annexure*); ii) review of growth/inflation projections - given recent GDP growth and CPI prints were below the MPC's forecasts, some possibility of a downward revision remains though we believe that they are likely to be kept unchanged given the volatile global and domestic backdrop and iii) Liquidity measures - given that banks continue to remain under funding pressure. In specific, any announcements regarding Liquidity coverage ratio (LCR) norms due for implementation from April 2025 will be watched.

Fig.3: Inflation trends likely to see a pickup in Sep'24 to above 5% levels on spike in food prices and fading base effects

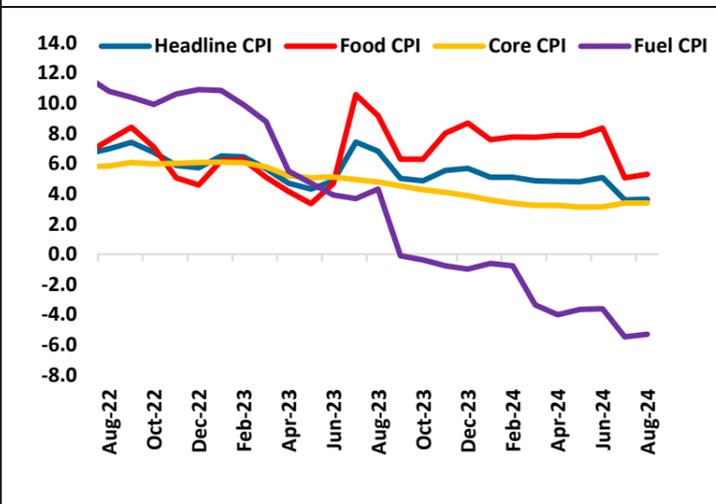


Fig.4: Credit-deposit growth wedge has narrowed to lowest levels since June 2022...

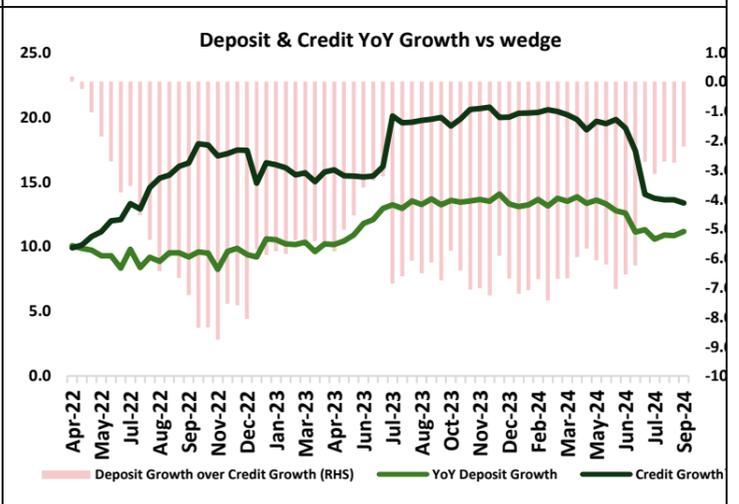


Fig.5: ...though Sep'24 saw fresh spike in CD issuances, a concern raised by RBI Governor in last MPC meeting

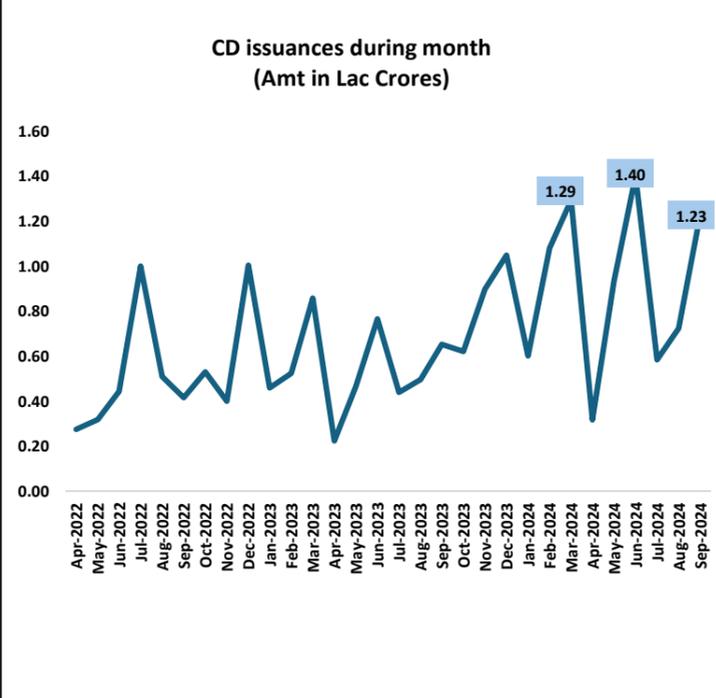
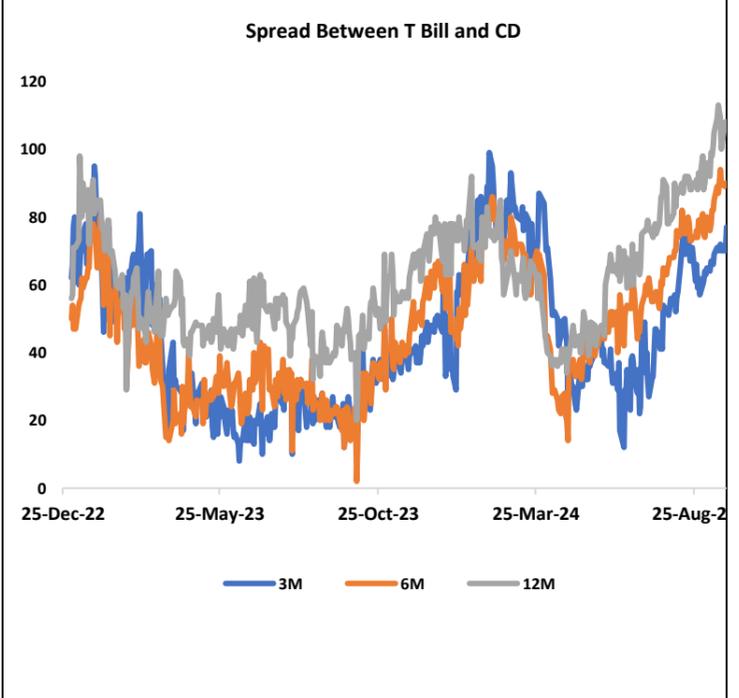


Fig.6: Wide 1-year CD-Tbill spread signals that banks still facing funding pressures



Source: CEIC. RBI. UBI research

Fig.9: High frequency growth indicators show initial signs of slowdown

| MACRO-ECONOMIC DASHBOARD | | | | | | | | | | | | | | | | |
|---|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| Industrial Sector | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| IIP (YoY Gr%) | 6.18 | 10.87 | 6.35 | 11.89 | 2.47 | 4.39 | 4.21 | 5.60 | 5.47 | 5.19 | 6.18 | 4.73 | 4.84 | - | - | improving |
| Mining (YoY Gr%) | 10.68 | 12.35 | 11.50 | 13.14 | 7.01 | 5.20 | 6.02 | 8.13 | 1.30 | 6.77 | 6.56 | 10.30 | 3.66 | - | - | worsening |
| Manufacturing (YoY Gr%) | 5.26 | 9.98 | 5.13 | 10.58 | 1.31 | 4.62 | 3.64 | 4.94 | 5.90 | 4.18 | 4.96 | 3.25 | 4.57 | - | - | improving |
| Electricity (YoY Gr%) | 7.99 | 15.26 | 9.87 | 20.38 | 5.76 | 1.23 | 5.63 | 7.59 | 8.62 | 10.24 | 13.74 | 8.58 | 7.94 | - | - | worsening |
| Core Infra Growth (YoY Gr%) | 8.58 | 13.37 | 9.45 | 12.68 | 7.89 | 5.08 | 4.16 | 7.06 | 6.25 | 6.94 | 6.86 | 5.13 | 6.14 | -1.77 | - | worsening |
| Cement production (YoY Gr%) | 6.89 | 19.74 | 4.73 | 16.95 | -4.75 | 3.84 | 4.06 | 7.82 | 10.58 | 0.16 | -0.63 | 1.90 | 5.48 | -3.02 | - | worsening |
| Steel Production (YoY Gr%) | 14.93 | 16.36 | 14.81 | 13.59 | 9.74 | 8.28 | 9.17 | 9.44 | 7.53 | 9.83 | 8.94 | 6.72 | 6.42 | 4.54 | - | worsening |
| Petroleum Products (YoY Gr%) | 3.54 | 9.55 | 5.49 | 4.29 | 12.36 | 4.09 | -4.30 | 2.63 | 1.59 | 3.92 | 0.50 | -1.54 | 6.62 | -1.03 | - | worsening |
| Fertilizers Production (YoY Gr%) | 3.29 | 1.83 | 4.17 | 5.33 | 3.33 | 5.85 | -0.59 | -9.50 | -1.27 | -0.76 | -1.66 | 2.45 | 5.31 | 3.15 | - | worsening |
| Coal Production (YoY Gr%) | 15.00 | 17.88 | 16.00 | 18.38 | 10.87 | 10.79 | 10.57 | 11.57 | 8.70 | 7.51 | 10.20 | 14.78 | 6.82 | -8.05 | - | worsening |
| Capital Goods Production (YoY Gr%) | 5.15 | 13.05 | 8.37 | 21.67 | -1.11 | 3.70 | 3.24 | 1.72 | 6.99 | 2.81 | 2.92 | 3.82 | 12.05 | 0.00 | - | worsening |
| PMI Manufacturing (YoY Gr%) | 57.70 | 58.60 | 57.50 | 55.50 | 56.00 | 54.90 | 56.50 | 56.90 | 59.10 | 58.80 | 57.50 | 58.30 | 58.10 | 57.50 | 56.50 | worsening |
| PMI Services (YoY Gr%) | 62.30 | 60.10 | 61.00 | 58.40 | 56.90 | 59.00 | 61.80 | 60.60 | 61.20 | 60.80 | 60.20 | 60.50 | 60.30 | 60.90 | 57.70 | worsening |
| Banking Sector | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| Bank Credit (YoY Gr%) | 19.68 | 19.73 | 19.96 | 19.73 | 20.64 | 19.95 | 20.30 | 20.50 | 20.16 | 19.01 | 19.78 | 17.36 | 13.59 | 13.59 | - | improving |
| Agriculture Credit (YoY Gr%) | 16.71 | 16.48 | 16.66 | 17.39 | 18.11 | 19.39 | 19.99 | 20.00 | 19.97 | 19.84 | 21.60 | 17.41 | 18.07 | 17.73 | - | worsening |
| Industry Credit (YoY Gr%) | 5.18 | 5.91 | 6.51 | 5.36 | 6.06 | 8.04 | 7.97 | 8.89 | 8.51 | 7.37 | 9.36 | 8.13 | 10.09 | 9.71 | - | worsening |
| Services Credit (YoY Gr%) | 23.42 | 24.98 | 25.39 | 24.03 | 25.75 | 23.34 | 24.20 | 24.26 | 23.49 | 22.02 | 23.18 | 17.36 | 13.99 | 13.92 | - | worsening |
| Retail Credit (YoY Gr%) | 30.49 | 30.36 | 30.03 | 29.56 | 30.03 | 28.41 | 28.61 | 28.11 | 27.46 | 26.70 | 28.73 | 25.60 | 14.99 | 13.93 | - | worsening |
| Bank Deposits (YoY Gr%) | 12.93 | 13.22 | 9.90 | 13.22 | 14.21 | 13.28 | 13.20 | 13.12 | 13.47 | 12.56 | 14.02 | 11.12 | 10.57 | 10.83 | 11.54 | improving |
| Demand (YoY Gr%) | 10.57 | 9.36 | -1.32 | 8.06 | 15.04 | 10.71 | 9.19 | 10.12 | 12.08 | 9.88 | 14.83 | 6.24 | 8.25 | 10.56 | 13.33 | improving |
| Time (YoY Gr%) | 13.25 | 13.75 | 11.54 | 13.95 | 14.10 | 13.64 | 13.76 | 13.53 | 13.67 | 12.93 | 13.91 | 11.83 | 10.88 | 10.87 | 11.31 | improving |
| C-D Ratio (%) | 77.10 | 77.50 | 78.60 | 79.20 | 79.60 | 79.50 | 80.00 | 80.20 | 80.30 | 79.50 | 79.60 | 79.30 | 79.30 | 79.50 | 79.60 | improving |
| Weighted Average Lending Rate Fresh Rupee Loans (%) | 9.44 | 9.47 | 9.38 | 9.50 | 9.41 | 9.32 | 9.43 | 9.36 | 9.37 | 9.55 | 9.39 | 9.32 | 9.40 | 9.41 | - | improving |
| Weighted Average Deposit Rate (%) | 6.55 | 6.60 | 6.70 | 6.76 | 6.79 | 6.83 | 6.85 | 6.86 | 6.89 | 6.91 | 6.92 | 6.91 | 6.92 | 6.93 | - | improving |
| Banking Sector | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| UPI (No. in Cr) | 996.43 | 1058.60 | 1055.57 | 1140.88 | 1123.53 | 1202.02 | 1220.30 | 1210.27 | 1344.00 | 1330.40 | 1403.58 | 1388.51 | 1443.56 | 1496.30 | 1504.17 | improving |
| IMPS (No. in Cr) | 48.97 | 48.92 | 47.29 | 49.29 | 47.24 | 49.88 | 50.88 | 53.46 | 58.06 | 55.04 | 55.77 | 51.68 | 49.03 | 45.33 | 42.99 | worsening |
| NPCI Retail Transaction value (Y-o-Y Gr%) | 23.89 | 26.71 | 20.61 | 23.52 | 25.99 | 21.14 | 25.16 | 28.51 | 22.19 | 23.95 | 22.01 | 22.83 | 22.96 | 20.51 | - | worsening |
| NPCI Retail transactions volume (Y-o-Y Gr%) | 44.83 | 46.68 | 43.68 | 42.59 | 46.93 | 44.96 | 44.68 | 50.01 | 46.69 | 44.24 | 42.86 | 44.14 | 39.05 | 37.43 | - | worsening |
| Inflation | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| CPI (Y-o-Y Gr%) | 7.44 | 6.83 | 5.02 | 4.87 | 5.55 | 5.69 | 5.10 | 5.09 | 4.85 | 4.83 | 4.80 | 5.08 | 3.60 | 3.65 | - | worsening |
| Core CPI (Y-o-Y Gr%) | 4.94 | 4.79 | 4.52 | 4.26 | 4.11 | 3.89 | 3.59 | 3.37 | 3.24 | 3.23 | 3.12 | 3.14 | 3.39 | 3.40 | - | worsening |
| WPI (Y-o-Y Gr%) | -1.23 | -0.46 | -0.07 | -0.26 | 0.39 | 0.86 | 0.33 | 0.20 | 0.26 | 1.19 | 2.74 | 3.43 | 2.04 | 1.31 | - | improving |
| Consumer | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| Electricity Consumption | 12.12 | 16.12 | 11.76 | 23.46 | 6.15 | 0.80 | 5.54 | 8.86 | 9.99 | 9.02 | 13.62 | 8.01 | 3.98 | -5.15 | - | worsening |
| Petroleum Consumption (YoY Gr%) | 4.87 | 11.69 | -1.97 | 1.91 | -4.37 | 9.41 | 6.46 | -4.84 | 15.31 | -2.56 | 8.18 | 8.97 | 4.34 | 0.75 | - | worsening |
| Consumer Durables (YoY Gr%) | -3.62 | 6.02 | 0.97 | 15.93 | -4.83 | 5.24 | 11.58 | 12.56 | 9.53 | 10.55 | 12.63 | 8.73 | 8.21 | - | - | improving |
| Consumer Non Durables (YoY Gr%) | 8.33 | 9.93 | 2.66 | 9.29 | -3.38 | 3.04 | 0.30 | -3.17 | 5.22 | -2.46 | 2.54 | -1.50 | -4.36 | - | - | improving |
| Unemployment (YoY Gr%) | 7.90 | 8.10 | 7.09 | 9.42 | 8.88 | 8.65 | 7.40 | 8.10 | 7.40 | 8.10 | 7.00 | 9.20 | 7.90 | 8.50 | 7.80 | improving |
| Trade | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| Merchandise Export (YoY Gr%) | -10.03 | 3.41 | -2.78 | 5.80 | -3.27 | 0.80 | 4.26 | 11.87 | -0.63 | 1.99 | 13.30 | 2.45 | -1.73 | -9.33 | - | worsening |
| Merchandise Import (YoY Gr%) | -16.13 | 0.68 | -14.02 | 10.28 | -3.32 | -6.64 | 1.99 | 13.69 | -6.39 | 11.47 | 8.07 | 5.93 | 7.46 | 3.31 | - | worsening |
| Service Export (YoY Gr%) | 8.10 | 8.34 | -2.74 | 10.66 | 4.16 | 1.74 | 10.75 | 3.43 | -1.40 | 17.06 | 9.69 | 3.16 | 16.61 | 5.66 | - | worsening |
| Service Import (YoY Gr%) | -2.26 | -0.87 | -10.41 | -0.41 | -11.13 | -1.05 | 0.10 | 1.72 | -2.12 | 19.99 | 6.18 | -3.08 | 15.72 | 8.83 | - | worsening |
| Logistics | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| E Way bill generated (Nos. in Cr) | 8.80 | 9.34 | 9.20 | 10.03 | 8.76 | 9.53 | 9.60 | 9.73 | 10.35 | 9.67 | 10.32 | 10.01 | 10.49 | 10.55 | - | improving |
| Air Freight (YoY Gr%) | -1.16 | 6.86 | -0.25 | 13.15 | 6.58 | 10.80 | 15.52 | 22.66 | 17.32 | 9.98 | 15.57 | 15.94 | 18.06 | 12.46 | - | worsening |
| Fiscal | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Trend* |
| GST Collection (YoY Gr%) | 10.81 | 10.76 | 10.17 | 13.37 | 15.12 | 10.28 | 10.39 | 12.54 | 11.17 | 12.42 | 10.13 | 7.63 | 10.28 | 9.99 | 6.47 | worsening |
| Govt Expenditure (YoY Gr%) | 84.55 | 10.55 | 3.19 | -14.01 | -13.82 | 7.13 | -14.03 | 20.44 | -0.62 | 39.26 | -37.87 | -18.42 | 0.12 | 20.94 | - | improving |

Source: CEIC, RBI, UBI research

Fig.10: 3 new external members to vote as part of the MPC in October

| Name | Background | Views on growth or inflation or monetary policy |
|----------------------|---|---|
| Ram Singh | <p>Completed his Ph.D. in economics from JNU, followed by a Post-Doctorate (Economics) from Harvard University.</p> <p>Currently serving as the Director of the Delhi School of Economics.</p> <p>He also serves as the Director of the Delhi School of Public Policy and Governance and Chairman of the Agriculture Economics Research Centre.</p> <p>Areas of expertise include public economics, financial regulations, and the Indian economy.</p> | <p>In various academic forums and media articles, Shri Ram Singh has sounded positive and optimistic of India’s growth trajectory. While speaking at a conference organized by the PHD Chamber of Commerce and Industry, he acknowledged India’s stature as the highest-growing democratic country in the world with narrowing income inequalities and softening inflation. He has also written articles with the Chief Economic Adviser, V Anantha Nageswaran who has been propagating taking out food from inflation target.</p> <p>With India seen to have strong growth prospects despite global headwinds and slowing inflation supported by good monsoon, Singh is likely to have a dovish streak while voting in upcoming Oct’24 policy.</p> |
| Nagesh Kumar | <p>Holds a Ph.D. in economics from the Delhi School of Economics.</p> <p>Presently, serving as Director and Chief Executive of the Institute for Studies in Industrial Development (ISID).</p> <p>Prior to ISID, he held senior roles at the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), including Chief Economist and Director of Macroeconomic Policy.</p> <p>He has also served on the boards of prominent global organizations, including the EXIM Bank of India, the World Bank, and the Asian Development Bank.</p> | <p>Dr. Kumar is a trade expert who has written extensively on development cooperation, developmental impact of FDI, industrial and technology development policies, on regional economic co-operation in Asia, among other themes.</p> <p>Although his views on inflation and growth is not explicitly known, we expect him to take a balanced view. Given the volatility in food and oil prices, impact on trade due to middle-east tensions, the MPC members are likely to adopt a cautious approach and is expected to wait for another few months to assess the risks to the inflation trajectory before cutting rates.</p> |
| Saugata Bhattacharya | <p>A noted economist and is a Senior Fellow at Centre for Policy Research, Delhi.</p> <p>He has served as the Chief Economist and Executive Vice President at Axis Bank, where he specialized in financial markets and infrastructure finance.</p> <p>His extensive background ranges from economic analysis, policy advocacy, and consumer behaviour.</p> <p>He also worked as a specialist with the Policy Advisory Group at IDFC, and participated in several key committees of the Central Government, including the PM’s Task Force on Infrastructure.</p> <p>He was also part of the RBI’s Working Group on Monetary Policy (2010) and the Finance Ministry Group on Estimating Foreign Savings (2011).</p> | <p>Saugata Bhattacharya in a recent article published in Business line, “Global volatility will impact MPC decisions” had given his views on the likely path to be taken by RBI with regard to policy rates.</p> <p>He said, “while still resilient, there are early signs of slowing growth momentum. This suggests a need to boost economic growth by gradually lowering interest rates, particularly given the low core CPI inflation. While financial markets volatility is likely to be transient, the longer-term impacts will persist through multiple channels.” “The biggest challenge in MPC’s monetary policy response is a calculated risk that early interest rates cuts, to boost India’s growth amidst global uncertainty, might potentially re-ignite inflation. Given the likely future growth-inflation trade-offs, this maybe a risk worth taking.”</p> <p>While the views expressed in the article indicates a dovish stance, Bhattacharya has also acknowledged the upside risks to inflation owing to uncertainty over food and oil prices. The unseasonal rainfall during the monsoon withdrawal could damage crops and push the food prices higher again. Also with the recent escalation in Iran-Israel tensions, oil prices would come under pressure. So we feel Bhattacharya is likely to take a balanced view and opt for status quo in the Oct’24 policy.</p> |

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