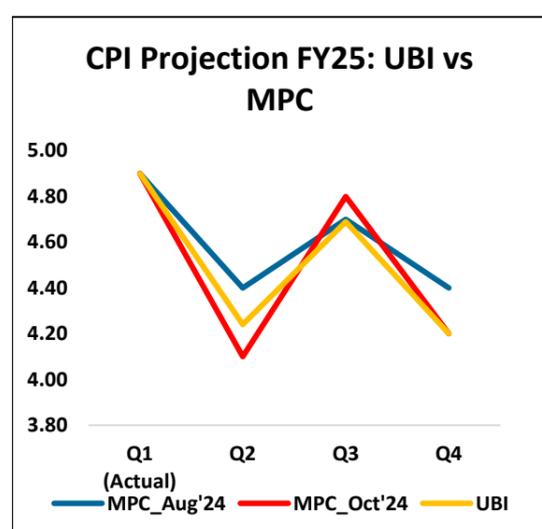


Fig 1: Macro projections, Oct'24 vs Aug'24 MPC

% y/y	GDP		CPI	
	Prior	Post	Prior	Post
Q1FY25 (actual)	6.7		4.9	
Q2FY25	7.2	7.0	4.4	4.1
Q3FY25	7.3	7.4	4.7	4.8
Q4FY25	7.2	7.4	4.3	4.2
FY25	7.2	7.2	4.5	4.5
Q1FY26	7.2	7.3	4.4	4.3

Fig.2: Our CPI forecast better aligned with Oct'24 MPC CPI projections



Source: RBI and UBI research

## Change in policy stance to “neutral” came in as a surprise; wording stayed cautious

The MPC decision to keep repo rate unchanged at 6.5% was in line with our and consensus view, even as a new external member dissented voting for a 25bps rate cut. However, we were surprised by the unanimous vote for change in stance from “withdrawal of accommodation” to “neutral”. Reading the fine print shows that the stance change was driven by the intent to “flexibility to the MPC while enabling it to monitor the progress on disinflation which is still incomplete”. The wording of the statement highlighting shift of stance to neutral also asserts that the MPC “to remain **unambiguously** focused on a durable alignment of inflation with the target, while supporting growth”. The overall **policy guidance in our view was finely balanced**, with unchanged headline growth and inflation projections, even as the Governor flagged risks to inflation from weather shocks and consequent impact on domestic food prices along with geopolitics led spike in commodity prices among others.

In essence, the Governor asserted that “inflation horse has been brought to the stable” but “we must keep the horse under tight leash”. We believe that the change in stance is reflective of greater confidence on the disinflation path while some growth concerns have emerged as well (though not highlighted as much by the MPC with H2-FY25 growth seen at a strong 7.4%). The next 2-3 inflation prints are likely to be in the 5% handle with a seasonal cooling in price pressures seen by Q4-FY25 unless inflation risks materialise. Hence, apart from inflation risks, the pace of deterioration in growth concerns will also help determine the timing of start of rate cut cycle in our view.

We [maintain our call](#) of the first rate cut in Q4-FY25. However, we note that a significant downward revision in growth forecasts from 7.2% is warranted before starting rate cut cycle.

## H2-FY25 growth projection revised up while inflation forecast for Q4 revised lower

Retaining the FY25 projections for both GDP growth and CPI while tinkering the quarterly numbers indicates the Central Bank’s balanced approach with some caution retained especially with respect to inflation risks. CPI projection for Q2-FY25 revised down by 30bps to 4.1% factors in a September reading (due for release on 14<sup>th</sup> Oct’24) of above 5%. Q3-FY25 projection was ticked up by 10bps to 4.8% while trimmed down to 4.2% in Q4 (*see fig. 1*) signalling some confidence on seasonal cooling in price pressures, unless risks flagged above materialise.

Meanwhile, with respect to the growth outlook, the MPC remains positive despite downward revision of Q2 forecast by 20bps to 7%. More importantly, with H2-FY25 growth numbers seen at a strong 7.4%, case for rate cuts would emerge in our view, if apart from decline in inflation pressures, a sustained downward surprise on growth projections is witnessed in the coming quarters.

## Inflection point for policy easing is nearing, yet not there

The RBI Governor re-asserted that “growth and inflation are well poised”. The strong wording of the stance also reflects that the MPC remains focused on inflation dynamics. With the next 2-3 inflation prints likely to switch back to the 5% handle before likely easing in inflation pressures by end-Q3 / Q4-FY25, we maintain our call the start of a shallow 50bps rate cut cycle from Q4-FY25, as highlighted in our pre policy report “[India-MPC nearing the inflection point, yet not there](#)”. We will closely watch for risks for both inflation (domestic food prices amid unseasonal rainfall risks, geopolitics led spike in oil prices, China stimulus & US Presidential election impact on global inflation) and more importantly, growth as a **significant downward revision from the current 7.2% growth forecast is warranted before starting rate cut cycle**.

Apart from macro dynamics, how the RBI addresses liquidity issues for the banking system for better **transmission of rate cuts** will be closely watched. While the credit-deposit growth wedge has narrowed to lowest in more than 2 years at 150bps, funding issues remain for banks with 1-year certificate of deposit (CD) and T-bill spread elevated at more than 100bps currently.

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**Policy statement comparison since Jun'24 (paraphrased)**

Policy Decision	June 2024	August 2024	October 2024
<b>Repo rate</b>	6.5%	6.5%	6.5%
<b>Stance</b>	Withdrawal of accommodation	Withdrawal of accommodation	Changed to 'neutral'
<b>Growth Projection</b>	FY25 real GDP is projected to be a stronger at 7.2% (7.0% earlier). Q1FY25 growth is projected at 7.3% (7.1% earlier), 7.2% (6.9% earlier) in Q2 FY25, 7.3% (7.0% earlier) in Q3FY25, and 7.2% (7.0% earlier) in Q4FY25. Risks are evenly balanced.	FY25 real GDP projection retained at 7.2%. Q1FY25 growth is projected at 7.1%, 7.2% in Q2 FY25, 7.3% in Q3FY25 and 7.2% in Q4FY25. Q1FY26 growth is projected at 7.2%. Risks are evenly balanced.	FY25 real GDP projection retained at 7.2%. Q2FY25 growth is projected at 7.0%, 7.4% in Q3FY25 and 7.4% in Q4FY25. Q1FY26 growth is projected at 7.3%. Risks are evenly balanced.
<b>Inflation Projection</b>	CPI inflation for FY25 projection kept unchanged at 4.5% with Q1, Q2, Q3 and Q4 forecasts retained at 4.9%, 3.8%, 4.6% and 4.5% respectively. Risks are evenly balanced.	CPI inflation for FY25 projection kept unchanged at 4.5% with Q2 forecast at 4.4%, 4.7% in Q3, and 4.3% in Q4. Q1FY26 CPI growth is projected at 4.4%. Risks are evenly balanced. The sharp upward revision in July-Sep'24 CPI forecast by 60bps to 4.4% signals that the policy guidance was hawkish.	CPI inflation for FY25 projection kept unchanged at 4.5% with Q2 forecast at 4.1%, 4.8% in Q3, and 4.2% in Q4. Q1FY26 CPI growth is projected at 4.3%. Risks are evenly balanced.
<b>Liquidity</b>	System liquidity has transited from surplus to deficit conditions, and back to surplus in early June. The RBI aims to deploy an appropriate mix of instruments to modulate both frictional and durable liquidity so as to ensure that money market interest rates evolve in an orderly manner and financial stability is maintained.	System liquidity transited from deficit since the June policy to surplus conditions in July/August. Going forward, the Reserve Bank will continue to be nimble and flexible in its liquidity management operations.	In tune with the changing liquidity conditions, the RBI conducted two-way operations under the LAF to ensure alignment of inter-bank overnight rate with the policy repo rate. The RBI will continue to be nimble and flexible in its liquidity management operations.
<b>Policy guidance</b>	Although headline inflation is easing, the path of disinflation is interrupted by volatile and elevated food inflation due to adverse weather conditions. Inflation is expected to temporarily fall below the target during Q2FY25 due to favourable base effects before reversing subsequently.	Risks from volatile and elevated food prices remain high which may adversely impact expectations and result in spillover to core inflation. There is a need to continue with the disinflationary stance, until a durable alignment of the headline CPI inflation with the target is achieved.	The balance between inflation and growth is well-poised. India's growth story remains intact. Inflation is on a declining path, although we still have a distance to cover.

**Regulatory Measures Proposed**

- Broaden the scope of guidelines, pertaining to non-levy of foreclosure charges/ pre-payment penalties by banks and NBFCs on any floating rate term loan to individual borrowers for purposes other than business, to include loans to Micro and Small Enterprises (MSEs).
- Issue discussion paper on providing increased flexibility and more capital raising avenues for Primary (Urban) Co-operative Banks.
- Create a data repository, Reserve Bank - Climate Risk Information System (RB-CRIS), to bridge the gaps in high quality climate related data to enable regulated entities to undertake robust risk assessment.
- Enhancement of UPI transaction limits: i). per transaction limit in UPI123Pay from Rs.5000 to Rs.10000, ii). UPI Lite wallet limit from Rs.2000 to Rs.5000 and per transaction limit from Rs.500 to Rs.1000.
- Introduce a beneficiary account name look-up facility for the RTGS and NEFT systems to enable the remitter to verify the name of the account holder before effecting funds transfer through RTGS/NEFT.

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