

### RBI MPC August Minutes: Divide remains between doves and (RBI-led) hawks

- **Members stay cautious about food inflation outlook**

The MPC meeting with status quo decision on rates and stance (except for Varma & Goyal) saw most members (especially RBI Governor and DG Patra) showing caution towards inflation outlook particularly that of food. (Please see our report: [India August'24 MPC](#)). Similar to the policy statement, the MPC minutes reiterated that a progressive decline in food inflation would be necessary to achieve the 4% headline inflation target on a sustainable basis. "High food inflation would hit growth adversely as it affects consumption and requires restrictive monetary policy to soften core inflation, especially when faced with significant spill overs of persistent food price pressures to core components." The RBI stays focused on elevated food inflation (above 8% consistently since Nov'23) as it endangers a spill over impact on near record low core CPI of c.3.3% (as July'24).

- **Policy easing based on neutral real policy rate seen premature**

Food inflation may soften due to good monsoon, steady improvement in kharif sowing, rising reservoir levels and a likely favourable rabi season output. However, uncertainty comes from frequent recurrence of adverse weather events, resurgence of geo-political tensions and financial market volatility. Further, core inflation might just have bottomed out. The Governor asserted that "At this stage, when durable disinflation to the 4% target is still a work in progress, the issue of equilibrium natural interest rate is premature. Policy making in the real world cannot be based on an abstract, theoretical and model specific construct which is unobservable and time varying. Hence, any justification for policy easing based on so-called high real rates can be misleading".

- **Outgoing external members push for rate cut(s)**

Professor Jayanth R Varma has voted to reduce the repo rate by 25 bps since the April policy meeting. He opined that "RBI's projections show inflation bouncing up and down from quarter to quarter, but the trend line is clearly downward, and the projected inflation for the first quarter of 2025-26 is 4.4%. On a forward-looking basis, the current repo rate of 6.5% translates into a real rate of 2.1%". In his view, this is well above what is needed to drive inflation to the target of 4%. Disinflation has been protracted, so restrictive monetary policy must be maintained for a few more quarters. However, the real interest rate of 1.5% itself is sufficiently restrictive.

Agreeing with Varma, Dr Goyal (another dissenter) also believes that "the real rate affects the real sector. The MPC, whose mandate covers all groups, has to be concerned about 'correct' real rates to balance interests and seize (growth) opportunities." Both the dissenters criticized the optimistic growth projections and pushed for a rate cut, warning against lags in monetary policy.

Further, it was the last policy meeting for the two dissenter's Dr Varma and Dr Goyal, as their tenor as government nominees (along with Dr Bhide) ends by Oct'24. In their final meeting, they strongly advocated for a more accommodative monetary policy, specifically calling for a reduction in rates. The government is likely to appoint new external members to the RBI's Monetary Policy Committee by the end of September or early October. In the run up to the October policy, the views and stance likely to be taken by the new external members would be under scrutiny.

### RBI Governor also stays focused on financial stability: Banks have to monitor credit-deposit gap to avoid liquidity issues

With credit growth continuing to outpace deposit growth, the RBI Governor in a media interview last week stressed the need for banks to carefully monitor the gap for avoiding potential structural liquidity issues. While credit disbursements have become fast paced due to technology, deposit mobilisation, done largely through physical channels, was lagging. Banks must therefore garner more deposits through innovative products and service offerings.

The issue of credit-deposit imbalance was also highlighted in the latest RBI bulletin, which raised concerns regarding a significant increase in certificate of deposit (CD) issuances by banks, reaching Rs 3.49 trillion during FY25 (until August 9), vs Rs 1.89 trillion during the same period last year. This surge in CD issuance, with an asset-liability mismatch issue, is attributed to the slower growth in (core) deposits while credit growth stays relatively high, pushing banks to seek alternative funding sources.

### RBI to launch Unified Lending Interface (ULI) with a JAM, UPI and ULI trinity to drive a digital financial revolution

The RBI will launch nationwide a technological platform called the Unified Lending Interface (ULI) in due course to speed up disbursement of credit, especially to rural and smaller borrowers. The new platform aims at 'enabling frictionless credit'. By digitising access to customer's financial and non-financial data that otherwise resided in disparate silos, ULI is expected to cater to large unmet demand for credit across various sectors, particularly for agricultural and MSME borrowers. The platform is currently in the pilot stage started in August last year. As per the RBI Governor, "*the 'new trinity' of JAM-UPI-ULI will be a revolutionary step forward in India's digital infrastructure journey*".

### Data last week: HSBC Composite flash PMI for August

As per the latest HSBC flash PMI survey, India's Composite Output Index stood at 60.5 in August, little changed from 60.7 in July and pointing to a sharp rate of expansion that was above its long-run trend level (54.6). The data indicated a 37<sup>th</sup> consecutive monthly rise in private sector output, but the softest pace since May, with the manufacturing sector growing the least in three months while services firms saw a slightly quicker rise in output.

### Data to watch out for on 30<sup>th</sup> August: Q1FY25 GDP

India's GDP for the April-June 2024 quarter will be released 30<sup>th</sup> August 30. We expect GVA growth for Q1FY25 to have slowed down to 5.8% due to a slowdown in industry. Besides, June is a seasonally weak quarter and election related uncertainty combined with lagged government spending exacerbated the impact. High frequency indicators also signalled a slowdown as reflected in our economic activity index. Q1FY25 GDP growth rate is estimated to slow down to 6.7%, on back of sequential moderation in aggregate demand, after consistently clocking more than 7.5% in previous four quarters. For the full year FY25, we expect the GDP to grow by 7.0% vis-à-vis 8.2% of FY24. (Please see our report: [Q1FY25 GDP likely clocked 6.7%](#)).

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# Economy Dashboard

MACRO-ECONOMIC DASHBOARD														
<b>Industrial Sector</b>	Jun-23	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
IIP (YoY Gr%)	4.05	6.18	10.87	6.35	11.89	2.47	4.39	4.21	5.60	5.47	4.98	6.18	4.24	
Mining (YoY Gr%)	7.56	10.68	12.35	11.50	13.14	7.01	5.20	6.02	8.13	1.30	6.77	6.56	10.30	
Manufacturing (YoY Gr%)	3.51	5.26	9.98	5.13	10.58	1.31	4.62	3.64	4.94	5.90	3.89	4.96	2.61	
Electricity (YoY Gr%)	4.22	7.99	15.26	9.87	20.38	5.76	1.23	5.63	7.59	8.62	10.24	13.74	8.58	
Core Infra Growth (YoY Gr%)	8.37	8.55	13.42	9.44	12.67	7.94	5.05	4.13	7.09	6.26	6.67	6.32	3.95	
Cement production (YoY Gr%)	9.95	6.89	19.74	4.75	16.98	-4.79	3.81	4.04	7.83	10.56	-0.46	-0.61	1.88	
Steel Production (YoY Gr%)	21.31	14.92	16.35	14.79	13.61	9.77	8.28	9.19	9.41	7.52	8.78	6.73	2.69	
Petroleum Products (YoY Gr%)	4.58	3.56	9.49	5.55	4.24	12.44	4.04	-4.29	2.64	1.57	3.92	0.48	-1.56	
Fertilizers Production (YoY Gr%)	3.44	3.29	1.79	4.21	5.35	3.36	5.85	-0.56	-9.51	-1.29	-0.78	-1.68	2.45	
Coal Production (YoY Gr%)	9.76	14.95	17.89	16.03	18.41	10.90	10.75	10.57	11.61	8.72	7.49	10.22	14.75	
Capital Goods Production (YoY Gr%)	2.87	5.15	13.05	8.37	21.67	-1.11	3.70	3.24	1.72	6.99	2.71	2.92	2.42	
PMI Manufacturing	57.80	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
PMI Services	58.50	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
<b>Banking Sector</b>	Jun-23	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
Bank Credit (YoY Gr%)	16.16	19.68	19.76	19.96	19.73	20.64	19.95	20.30	20.50	20.16	19.01	19.78	17.36	
Agriculture Credit (YoY Gr%)	19.72	16.71	16.48	16.66	17.39	18.11	19.39	19.99	20.00	19.97	19.84	21.60	17.41	
Industry Credit (YoY Gr%)	7.44	5.18	5.91	6.51	5.36	6.06	8.04	7.97	8.89	8.51	7.37	9.36	8.13	
Services Credit (YoY Gr%)	26.77	23.42	24.98	25.39	24.03	25.75	23.34	24.20	24.26	23.49	22.02	23.18	17.36	
Retail Credit (YoY Gr%)	21.32	30.49	30.36	30.03	29.56	30.03	28.41	28.61	28.11	27.46	26.70	28.73	25.60	
Bank Deposits (YoY Gr%)	15.45	12.94	13.22	12.30	13.22	14.21	13.28	13.20	13.12	13.47	12.56	14.02	11.12	10.57
Demand Deposits (YoY Gr%)	25.35	10.61	9.36	7.83	8.06	15.04	10.71	9.19	10.12	12.08	9.88	14.83	6.24	8.20
Time Deposits (YoY Gr%)	14.13	13.25	13.75	12.95	13.95	14.10	13.64	13.76	13.53	13.67	12.93	13.91	11.83	10.89
C-D Ratio (%)	75.10	77.10	77.50	77.80	79.20	79.60	79.50	80.00	80.20	80.30	79.50	79.60	79.30	79.30
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.20	9.44	9.47	9.38	9.50	9.41	9.32	9.43	9.36	9.37	9.55	9.45	9.32	
Weighted Average Deposit Rate (%)	6.47	6.55	6.60	6.70	6.76	6.79	6.83	6.85	6.86	6.89	6.91	6.92	6.91	
<b>Banking Sector</b>	Jun-23	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
UPI (No. in Cr)	933.51	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
IMPS (No. in Cr)	46.81	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
NPCI Retail Transaction value (Y-o-Y Gr%)	21.14	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
NPCI Retail Transactions volume (Y-o-Y Gr%)	42.09	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
<b>Inflation</b>	Jun-23	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
CPI (Y-o-Y Gr%)	4.87	7.44	6.83	5.02	4.87	5.55	5.69	5.10	5.09	4.85	4.83	4.80	5.08	3.54
Core CPI (Y-o-Y Gr%)	5.11	4.94	4.79	4.52	4.26	4.11	3.89	3.59	3.37	3.24	3.23	3.12	3.14	3.35
WPI (Y-o-Y Gr%)	-4.18	-1.23	-0.46	-0.07	-0.26	0.39	0.86	0.33	0.20	0.26	1.19	2.74	3.36	2.04
<b>Consumer</b>	Jun-23	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
Two wheeler registration (YoY Gr%)	7.10	8.52	6.76	22.24	-12.03	21.69	27.99	15.44	13.70	5.72	33.56	2.70	4.91	17.28
Passenger Vehicle registration (YoY Gr%)	1.60	2.90	11.60	3.10	17.30	4.30	3.20	13.90	5.70	8.90	1.20	4.30	4.90	-2.50
Tractor registration (YoY Gr%)	4.20	6.10	1.10	-14.70	-4.30	6.40	-19.80	-15.30	-30.60	-23.10	-3.00	0.00	3.60	1.60
Power Generation (YoY Gr%)	2.70	6.10	13.50	9.20	22.50	6.00	0.40	7.90	6.50	8.00	10.00	14.60	9.90	
Petroleum Consumption (YoY Gr%)	9.77	4.87	11.69	-1.97	1.91	-4.37	9.41	6.46	-4.84	15.31	-2.56	8.18	9.35	4.28
Consumer Durables (YoY Gr%)	-6.78	-3.62	6.02	0.97	15.93	-4.83	5.24	11.58	12.56	9.53	9.99	12.63	8.65	
Consumer Non Durables (YoY Gr%)	0.55	8.33	9.93	2.66	9.29	-3.38	3.04	0.30	-3.17	5.22	-2.46	2.54	-1.43	
<b>Trade</b>	Jun-23	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
Merchandise Export (YoY Gr%)	-18.82	-10.03	3.47	-2.78	5.80	-3.27	0.80	4.26	11.87	-0.57	1.99	13.41	2.54	-1.48
Merchandise Import (YoY Gr%)	-16.84	-16.12	0.68	-14.03	9.55	-4.33	-7.79	0.98	12.19	-5.98	10.69	7.44	4.96	7.46
Service Export (YoY Gr%)	3.25	8.10	8.34	-2.74	10.66	4.16	1.74	10.75	3.43	-1.40	17.65	10.25	3.68	8.41
Service Import (YoY Gr%)	-1.02	-2.26	-0.87	-10.41	-0.41	-11.13	-1.05	0.10	1.72	-2.12	19.14	5.43	-3.77	5.87
<b>Logistics</b>	Jun-23	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
E Way bill generated (Nos. in Cr)	8.61	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
Railway Freight Traffic (YoY Gr%)	-1.90	1.50	6.40	6.70	8.50	4.30	6.40	6.40	10.10	8.60	1.40	3.70	10.10	
Air Freight (YoY Gr%)	-0.76	-1.16	6.86	-0.25	13.15	6.58	10.80	15.52	22.66	17.32	9.98	15.57	15.94	
<b>Fiscal</b>	Jun-23	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
GST Collection (YoY Gr%)	11.67	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
Govt. Expenditure (YoY Gr%)	17.27	84.55	10.55	3.19	-14.01	-13.82	7.13	-14.03	20.44	-0.62	39.26	-37.87	-18.42	

Source: CEIC, RBI, UBI research

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