CCIL Research

Macro-Economic Updates

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Monetary Policy Statement, October 2024:
MPC holds rate steady; Stance changed to Neutral

Monetary and Liquidity Measures

- The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) kept the policy repo rate unchanged for the tenth time in a row in its latest policy meeting in October 2024 but decided to change the monetary policy stance to 'neutral'. Accordingly,
  - The policy repo rate under liquidity adjustment facility (LAF) stands unchanged at 6.50%.
  - The standing deposit facility (SDF) remains unchanged at 6.25%.
  - The marginal standing facility (MSF) rate and the bank rate stand unchanged at 6.75%.
- The MPC decided by a majority to change the monetary policy stance to 'neutral' and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

Regulatory Updates

- The RBI has proposed extending the prohibition of foreclosure and pre-payment penalties on floating rate term loans, currently applicable to individual borrowers for non-business purposes, to also cover loans given to Micro and Small Enterprises (MSEs) by RBI-regulated entities. This move aims to improve transparency and customer centricity. A draft circular will be issued for public consultation.
- Climate change is becoming a major risk to the financial system, making it essential for regulated entities to conduct climate risk assessments to ensure stability. However, current climate data is fragmented and inconsistent. To address this, the RBI plans to create the Reserve Bank – Climate Risk Information System (RB-CRIS), a data repository with a publicly accessible directory of climate-related data sources and a restricted-access portal for processed datasets available in phases.
- To boost UPI adoption, the RBI has proposed to increase limits for two products. The per-transaction limit for UPI123Pay, enabling feature phone users, will double from ₹5,000 to ₹10,000. For UPI Lite, the wallet limit will rise from ₹2,000 to ₹5,000, and the per-transaction limit from ₹500 to ₹1,000, enhancing its use for small value payments.
- The RBI has proposed introducing a "beneficiary account name look-up" feature for RTGS and NEFT systems. This facility will allow remitters to verify the name of the beneficiary by entering the account number and IFSC code before initiating a fund transfer. It aims to enhance customer confidence by reducing the risk of wrong credits and fraud.

Macro-economic Outlook

- **Global Scenario:** The global economy continues to face downside risks from escalating geopolitical tensions, geo-economic fragmentation, financial market instability, and high public debt levels. While manufacturing is beginning to slow, the services sector remains steady, and global trade shows signs of improvement. Inflation is easing, driven by lower energy costs. However, the differing inflation-growth trends across countries have led to varied monetary policy responses.
- **Indian economy:** Domestic economic activity remains robust in both rural and urban areas, with high-frequency indicators indicating steady performance. Agricultural growth is bolstered by above-average southwest monsoon rainfall and improved kharif sowing. Higher reservoir levels and favorable soil moisture conditions are promising for the upcoming rabi crop. Manufacturing activity is improving due to rising domestic demand, lower input costs, and a supportive policy environment. Although output from eight core industries fell by 1.8% in August due to excess rainfall affecting sectors like electricity, coal, and cement, the manufacturing PMI remains strong at 56.5 for September. The services sector continues to expand rapidly, with a PMI of 57.7 in September. Private investment is increasing, driven by non-food credit expansion, higher capacity utilization, and rising investment intentions. Overall, India's growth outlook remains positive, with key drivers—consumption and investment demand—gaining momentum. Real GDP growth for 2024-25 is projected at 7.2%, with quarterly estimates of 7.0% for Q2, 7.4% for Q3, and 7.4% for Q4. Real GDP growth for Q1:2025-26 is projected at 7.3 per cent.
- **Price levels:** Headline CPI inflation significantly softened in July and August, largely due to base effects, while food inflation showed some correction, albeit with considerable divergence among sub-groups. Core inflation, however, edged up during these months. A notable increase in the September CPI is expected due to unfavorable base effects and rising food prices, influenced by production shortfalls in onions, potatoes, and chana dal for 2023-24. Despite this, headline inflation is projected to moderate in Q4, supported by a good kharif harvest, ample cereal stocks, and an anticipated good rabi crop. Major upside risks to inflation include unexpected weather events and geopolitical conflicts, along with volatility in international crude oil prices in October. Taking these factors into consideration, CPI inflation for 2024-25 is projected at 4.5 per cent, with Q2 at 4.1 per cent; Q3 at 4.8 per cent; and Q4 at 4.2 per cent. CPI inflation for Q1:2025-26 is projected at 4.3 per cent. The risks are evenly balanced.
- **Systemic liquidity:** System liquidity remained in surplus during August-September and early October, supported by increased government spending and a decline in currency circulation. However, a brief liquidity deficit occurred in the latter half of September due to rising government cash balances from tax-related outflows. In response to these changing conditions, the Reserve Bank conducted two-way operations to align the inter-bank overnight rate with the policy repo rate. Yields on 3-month treasury bills (T-bills) and commercial papers (CPs) issued by non-banking financial companies (NBFCs) eased, while yields on certificates of deposit (CDs) increased slightly. The 10-year G-Sec yield softened during August-September due to global and domestic factors, including a policy shift in the US and other major economies, improved global investor sentiment, low domestic inflation, and

accelerated fiscal consolidation. Going forward, the Reserve Bank plans to remain agile in its liquidity management, using a mix of instruments to regulate both frictional and durable liquidity, ensuring orderly evolution of money market interest rates.

Outlook: The Monetary Policy Committee (MPC) has shifted its stance to neutral, with a clear emphasis on inflation. The MPC has chosen to adopt a wait-and-watch approach, especially following the recent rate cuts by the Federal Reserve, which may also be influenced by escalating geopolitical issues and rising U.S. bond yields. Moving forward, a divergence in policy stances compared to other economies is possible, particularly if geopolitical tensions escalate further or if there is a shift in stance from other central banks. The focus on inflation is evident, as current inflation levels have fallen below the Reserve Bank of India’s target of 4%. The RBI's stance sends a clear message: prioritizing stability over stimulus and ensuring that inflation is durably anchored before committing to a looser monetary policy. Therefore, future rate cuts are likely to occur only if food inflation is moderated.

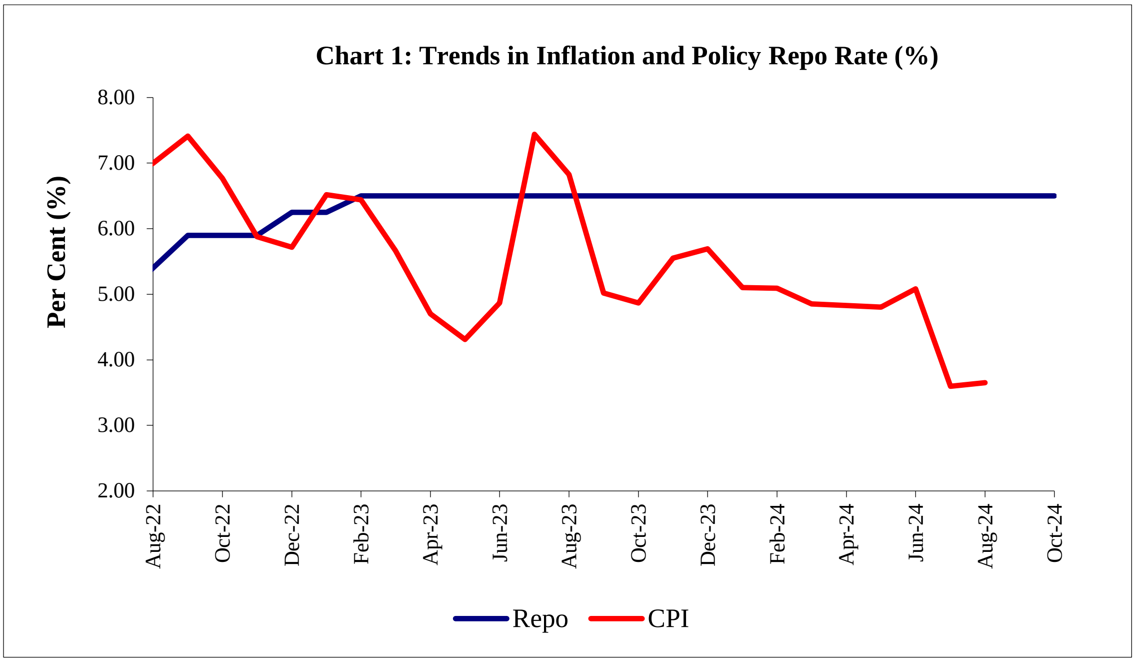

Table 1: Trends in Major Monetary Indicators (%)

Indicators	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Repo	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Fixed rate Reverse Repo	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
SDF	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
CPI	5.69	5.10	5.09	4.85	4.83	4.80	5.08	3.60	3.65	-	-
CRR	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
SLR	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00

**SDF: Standing Deposit Facility*
**CPI: Consumer Price Inflation (%)*
CRR: Cash Reserve Ratio
SLR: Statutory Liquidity Ratio
Source: Reserve Bank of India, Ministry of Statistics & Programme Implementation, CCIL Research

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