Note on RBI’s Monetary Policy October 24

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Repo Rate **6.5%** (Unchanged)	SDF (Standing Deposit Facility) Rate **6.25%** (Unchanged)	MSF (Marginal standing facility) Rate **6.75%** (Unchanged)

Highlights

- **Repo rate unchanged, stance changed to neutral:** The Reserve Bank of India (RBI) announced its fourth bi-monthly monetary policy for FY25 on October 9, 2024. The Monetary Policy Committee (MPC), after a three-day meeting, kept the benchmark repo rate unchanged at 6.5% for the tenth consecutive time. However, the policy stance shifted from 'withdrawal of accommodation' to 'neutral,' indicating a potential change in future rate adjustments. This decision aligns with market expectations.

- **MPC Voting and Stance:** The RBI's Monetary Policy Committee (MPC) voted 5-1 to maintain the current policy rates. Shri Saugata Bhattacharya, Professor Ram Singh, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra, and Shri Shaktikanta Das voted to keep the policy repo rate unchanged at 6.50 percent However, Dr. Nagesh Kumar voted for a 25 basis points rate cut. On the change in policy stance from 'withdrawal of accommodation' to 'neutral,' all members supported the shift, focusing on aligning inflation with the target while promoting growth.

- **Domestic Growth and Inflation:** Headline inflation declined sharply to 3.6 and 3.7 per cent in July and August respectively from 5.1 per cent in June. Going forward, the September inflation print may see a significant pick-up as base effects turn adverse and food prices register an upturn. Food inflation, however, is expected to ease by Q4:2024-25 on better kharif arrivals and rising prospects of a good rabi season.

Our view in a nutshell

- RBI’s change in stance to “neutral” from “withdrawal of accommodation” is acceptance of fact that barring the expected spike in next couple of months due to base effect, the inflation is expected to be subdued in coming quarters and that the high frequency growth indicators are slowing.
- Even though the growth forecast has not been revised downwards this change has created space for RBI to cut rates in upcoming polices while maintaining the optionality as geopolitical risk remain elevated.
- Strong monsoon rains suggest good agricultural output, which should help lower food inflation after a temporary rise.
- The Fed's 50-basis-point cut has increased the interest rate gap with India, and more cuts are expected from the US. Potential rate cuts in the US would allow the Reserve Bank of India (RBI) to lower interest rates without significant concerns about capital outflows.
- We recommend investors with a holding period of at least 1 year to consider investing in longer duration funds. Investors with lesser appetite for duration risk can consider Funds with moderate duration of 3-5 years.

RBI's Quarterly CPI inflation forecast		
Q2FY25:	4.1% from 4.4%	Lowered
Q3FY25	4.8% from 4.7%	Raised
Q4FY25	4.2% from 4.3%	Lowered
Q1FY26	4.3% from 4.4%	Lowered
RBI retains FY25 CPI inflation forecast at 4.5%		

RBI Real GDP growth estimates		
Q2FY25:	7% from 7.2%	Lowered
Q3FY25	7.4% from 7.3%	Raised
Q4FY25	7.4% from 7.2%	Raised
Q1FY26	7.3% from 7.2%	Raised
RBI maintained FY25 GDP growth estimates at 7.2%.		

Source: RBI-Monetary Policy Statement