

India: RBI policy review: RBI changes policy stance to “neutral” but balances it with robust growth outlook

- The RBI MPC voted 5:1 to keep the policy repo rate unchanged at 6.50% at the October meeting in-line with expectations, but changed the policy stance from “*withdrawal of accommodation*” to “*neutral*” unanimously. Newly appointed external MPC member, Dr. Nagesh Kumar voted for a 25bp cut.
- The RBI however, remained upbeat on GDP growth and kept their forecast for FY25 unchanged at 7.2% yoy against our muted growth expectation of 6.5% yoy (Bloomberg consensus: 6.9%), and recent moderation in high-frequency indicators.
- The RBI lowered their inflation forecast marginally by 10bp to 4.5% yoy (GSe: 4.3%, Bloomberg consensus: 4.5%). Governor Das highlighted that headline CPI inflation is expected to ease by Q4 FY25, on easing food inflation, on the back of robust crop production, which is in line with our view. He noted adverse weather related shocks and an escalation in the ongoing geopolitical conflicts as upside risks to the RBI’s inflation forecast.
- Even as the RBI remains optimistic on growth, the slight easing of inflation forecasts along with the shift of stance to “*neutral*” indicates to us that the RBI is likely creating space for a pivot towards monetary policy easing.
- Going forward, we expect headline inflation to remain around RBI’s target of 4% yoy in Q3 and Q4 FY25 on the back of easing food inflation, which, along with a moderation in GDP growth, should open up room for monetary policy easing by the RBI. We continue to expect a shallow easing cycle of total 50bp rate cuts from the RBI, with 25bp each in the December 2024 and February 2025 meeting.

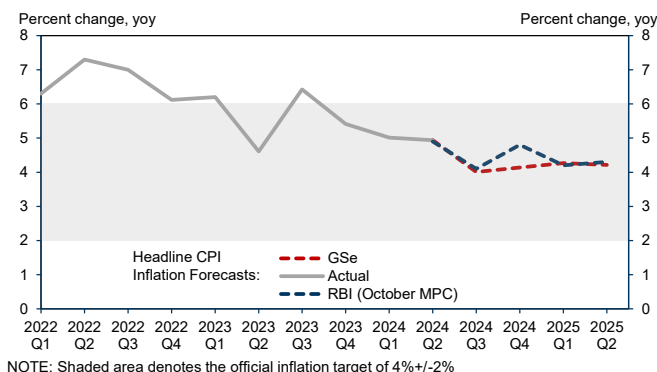
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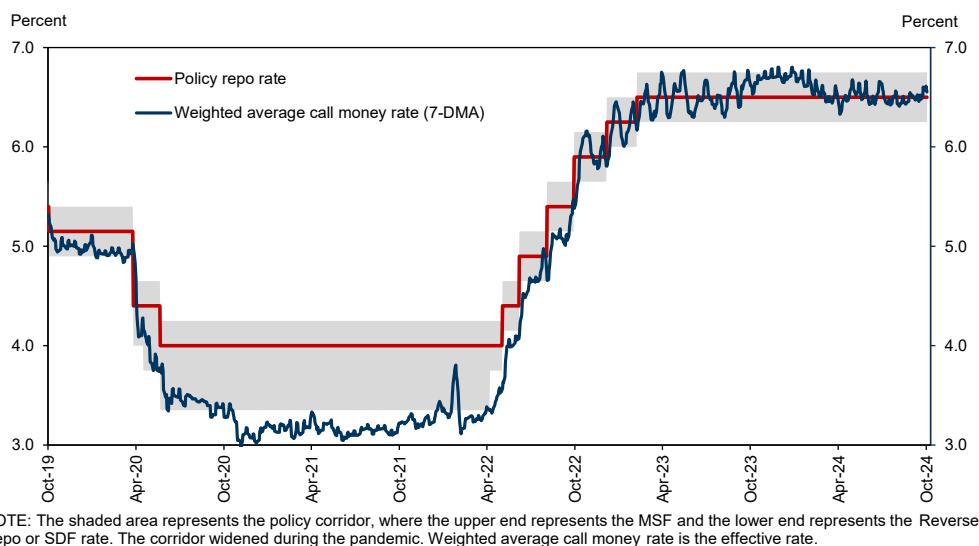
Details of the monetary policy statement, and the post-policy press conference

- **Policy rate - on “hold” with a 5:1 vote:** The RBI MPC voted 5:1 to keep the policy repo rate unchanged at 6.50% at the October meeting in-line with expectations. Newly appointed external MPC member, Dr. Nagesh Kumar voted for a 25bp cut. Consequently, both the marginal standing facility (MSF) rate and the standing deposit facility (SDF) rate remained unchanged at 6.75% and 6.25% respectively. Today’s decision was in line with our and Bloomberg consensus expectations.
- **Policy stance - changed to “neutral” unanimously:** The MPC voted to change their policy stance to “*neutral*” from “*withdrawal of accommodation*” unanimously, against our expectation. Even with the change in stance, the MPC remains “*unambiguously focused on durably aligning inflation to the target, while supporting growth*”.
- **Growth forecast unchanged at 7.2% yoy for FY25**
 - The RBI remained upbeat on growth for FY25 (fiscal year 2024-25 which runs from April 2024 to March 2025) on sustained private consumption, investment and external demand on the back of improving trade volumes. It kept the real GDP growth forecast unchanged at 7.2% yoy as a reduction of 20bp in Q2 FY25 (July-September quarter) was offset by an increase of 10bp in Q3 FY25 and Q4 FY25.
 - The RBI’s growth outlook is against our muted growth expectation of 6.5% yoy (Bloomberg consensus: 6.9%), and recent moderation in high-frequency indicators. (Please see our monthly activity chartbook for further details on high frequency indicators).
- **Inflation: Inflation forecast marginally lower by 10bp to 4.5% yoy for FY25**
 - The RBI marginally lowered its inflation forecast by 10bp for FY25 to 4.5% yoy (GSe: 4.3%, Bloomberg consensus: 4.5% yoy) (Exhibit 1), as a 30bp reduction in Q2 FY25 more than offset a marginal 10bp increase in Q3 FY25.
 - The RBI expects headline CPI inflation to ease, on easing food inflation in line with our view, on the back of higher sowing of summer crops, sufficient inventories for cereals and higher acreage of the winter crops. However, he noted that supply shocks (owing to adverse weather related events) and an escalation in geopolitical conflicts pose “*major upside risks to inflation*”. The Governor reiterated that the MPC is “*unambiguously*” committed to align headline inflation towards the 4.0% target, “*while supporting growth*”.

Exhibit 1: GSe headline CPI inflation forecast is below the RBI in FY25

Source: RBI, Goldman Sachs Global Investment Research

- **Banking system liquidity and financial conditions:** Banking system liquidity has remained in surplus in recent months, which has kept the daily weighted average call rate (WACR) aligned with the policy repo rate ([Exhibit 2](#)). This has aided an easing of financial conditions across the term money market segment in India, such that CP and 3-month T-bill rates have eased over the last three months, while CD yields have increased marginally.

Exhibit 2: Inter-bank rates have traded close to the policy repo rate recently

Source: CEIC, Haver Analytics, Goldman Sachs Global Investment Research

- **External sector:** The Governor reiterated the domestic economy's resilience to global spillovers on the back of adequate buffers, with FX reserves at an all-time high of \$705bn.

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