RBI Monetary Policy Insights:
Balancing Growth and Challenges

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The Reserve Bank of India has kept the repo rate unchanged at 6.5%, citing persistent inflationary pressures and a slowdown in GDP growth. Maintaining a neutral monetary policy stance, the central bank emphasized the need to closely monitor inflation and growth dynamics. To enhance liquidity, the RBI reduced the Cash Reserve Ratio (CRR) from 4.5% to 4%, injecting ₹1.16 lakh crore into the banking system. Inflation saw a sharp rise in September and October 2024, driven by unexpected spikes in food prices, with vegetable prices expected to increase seasonally. Although the economic growth outlook remains solid, it calls for careful monitoring. Encouragingly, high frequency indicators showing that economic activity, which dipped in the second quarter of FY25, has started recovering, driven by strong festive demand and a revival in rural areas.

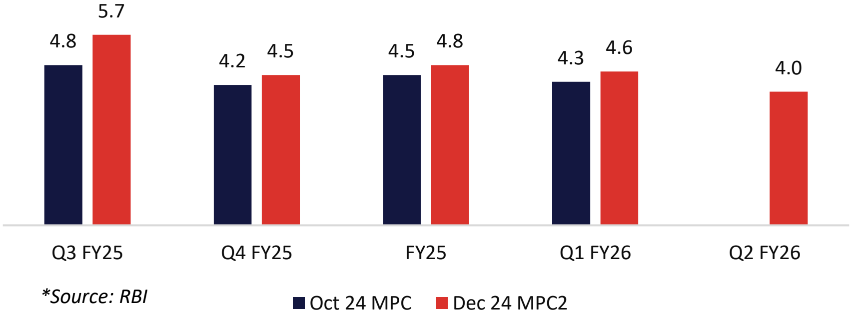
KEY POLICY ANNOUNCEMENTS:

- Policy repo rate unchanged at 6.5%
- Reverse repo unchanged at 3.35%, MSF at 6.75% and Standing Deposit Facility (SDF) maintained at 6.25%.
- Cash reserve ratio (CRR) reduced by 50 bps: 4.0%
- Neutral policy stance
- GDP growth projection reduced from 7.2% to 6.6% in FY25
- Food component of inflation remains stubborn

INFLATION TREND – SUSTAINED FOOD PRICES

Headline inflation rises to 4.0% in October up from 3.8% in September. The surge in inflation can be partly attributed to the fading impact of a favorable base, with persistently high vegetable prices playing a significant role in driving up overall food costs. Food prices have remained consistently high for over a year, exceeding 7% between November 2023 and June 2024, largely due to last year's uneven and below-average monsoon rains. Although food inflation eased in July, it climbed again in August, September, and October. In October, the prices of cereals, meat and fish, oils, fruits, vegetables, prepared meals, snacks, and sweets increased.

RBI CPI Inflation Projections (% Y-o-Y)



**Source: RBI*

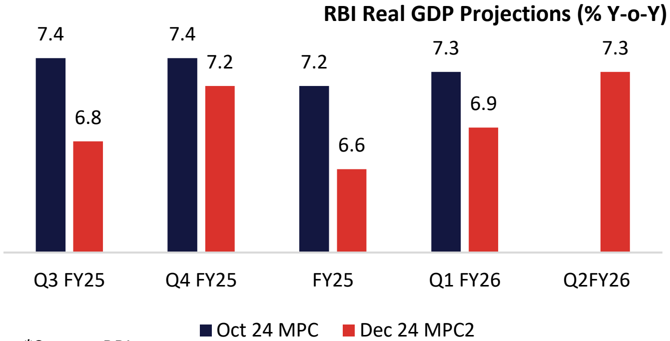
REPO RATE TREND	
Dec,24	6.50%
Oct,24	6.50%
Aug,24	6.50%
Jun,24	6.50%
Apr,24	6.50%
Feb,24	6.50%
Dec,23	6.50%
Oct,23	6.50%
Aug,23	6.50%
Jun,23	6.50%
Apr,23	6.50%

The annual inflation rate in India soared to 6.21% in October of 2024 from 5.49% in the previous month, to mark the highest inflation rate in 14 months. Inflation surged for food (10.87% vs 9.24% in September), which accounts for nearly half of the price basket, amid higher prices for and rose further for vegetables (42.18% vs 35.99%), oils and fats (9.51% vs 2.47%), and meat and fish (3.17% vs 2.66%). In turn, inflation also rose for housing (2.81% vs 2.78%), while deflation slowed for fuel and light (-1.39% vs -1.61%). From the previous month, the Indian CPI soared by 1.34%.

REAL GDP GROWTH SLUMPS

India's real GDP growth dropped to a seven-quarter low of 5.4% in the July-September 2024 quarter, significantly below even the most cautious independent forecasts. This marks a steep decline from the 6.7% growth recorded in the first quarter (Q1). Gross Value Added (GVA) growth also slowed, slipping to 5.8% from 6.8% in Q1. Except for Agriculture and Services, all other sectors experienced a notable slowdown compared to the previous year, with Mining and Quarrying recording a 0.1% contraction, a sharp fall from the 11.1% growth seen in Q2 last year. However, Agriculture, Livestock, Forestry, and Fishing saw GVA growth of 3.5%, more than double the 1.7% increase recorded a year earlier. The weaker-than-expected GDP numbers reflect disappointing corporate earnings, with the manufacturing sector suffering the most significant setback.

RBI Real GDP Projections (% Y-o-Y)

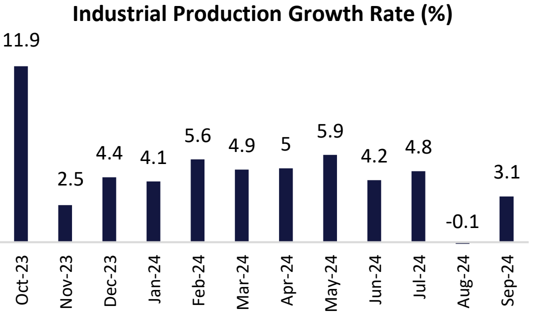


**Source: RBI*

MACRO-ECONOMIC INDICATORS OVERVIEW

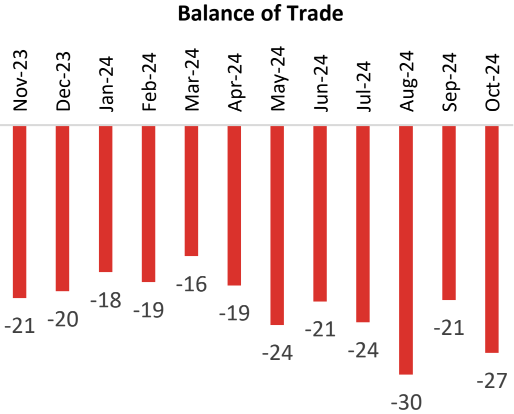
Industrial production in India grew 3.1% year-on-year in September 2024, exceeding expectations of a 2.5% growth and rebounding from a 0.1% contraction in the previous month. Output grew 3.9% for manufacturing, with the biggest upward contributions coming from a rise in the manufacture of coke and refined petroleum products (+5.3%), basic metals (+2.5%), chemicals and chemical products (+4.9%) and food products (+4.4%). Moreover, output grew for electricity and mining by 0.5% and 0.2% respectively. M3 money supply in India rose 11.2% from a year, extending the 11% increase in the fortnight two weeks prior. The merchandise trade deficit in India was at $27.1 billion in October of 2024, narrowing from the $31.5 billion gap in the corresponding period of the previous year, which still stands as India’s record-high deficit. Exports rose by 17.3% from the corresponding period of the previous year to $39.2 billion, aided by the sharp growth in India’s goods output.

Industrial Production Growth Rate (%)



**Source: MOSPI*

Balance of Trade



**Source: Ministry of Commerce & Industry*

POLICY INDICATIVE POINTS

Liquidity conditions in the financial system have been ample in recent months, aided by higher government spending in October and November. The financial sector remains strong, with banks and NBFCs reporting solid performance metrics. Notably, the Indian rupee has shown greater stability compared to other emerging market currencies. While Foreign Portfolio Investments (FPIs) into emerging markets generally slowed in October, India has stood out, attracting $9.3 billion in net inflows during FY25 so far. To encourage further inflows, the RBI has raised interest rate ceilings on FCNR-B deposits and allowed higher rates on FCNR accounts, making the country a more attractive option for foreign investors.

Addressing concerns in specific sectors, RBI remarked that weaknesses in manufacturing are not widespread but localized to certain areas. The RBI's commitment to maintaining financial stability through careful supervision and minimal disruption. The central bank only imposes business restrictions on financial entities when corrective measures are found lacking. Furthermore, the narrowing gap between credit and deposit growth in banks reflects an improvement in financial health. RBI emphasized the need to protect the progress made in reducing inflation and to ensure price stability, which is essential for laying the groundwork for sustained economic growth. While price stability remains crucial for citizens, fostering economic growth is equally vital. The final stages of achieving disinflation are proving to be challenging and protracted for economies worldwide.

To address the issue of unclaimed deposits, the RBI has instructed banks to segregate beneficiary accounts through Direct Benefit Transfers (DBT), with plans to closely monitor these efforts for compliance and effectiveness.

BOOSTING FINANCIAL INCLUSION

The RBI also introduced several initiatives to support various sectors and promote financial inclusion. For farmers, the collateral-free loan limit has been increased from ₹1.6 lakh to ₹2 lakh, providing them with greater financial stability and access to credit. Small Finance Banks (SFBs) have been allowed to offer credit lines to their customers, a move aimed at improving access to affordable credit for small businesses and underserved communities in rural and semi-urban areas. To address the growing role of artificial intelligence in the financial sector, the RBI plans to establish a committee to create a framework for the ethical and responsible use of AI, ensuring safe and secure adoption. Additionally, the RBI has proposed a new benchmark for overnight money market transactions, the Secured Overnight Rupee Rate (SORR), to improve transparency and efficiency. On the technology front, the FX-Retail platform, launched in 2019, is set to get a significant boost through its integration with NPCI's Bharat Connect platform. This linkage will enable users to access FX-Retail services via mobile apps from banks and other payment providers. The aim is to make the platform more user-friendly and accessible while ensuring fairness and transparency in currency pricing.