09 October 2024

RBI maintains status quo on policy rates, but changes stance to neutral

RBI's Stance → **Withdrawal of Accommodation**

Key Highlights:

- **MPC keeps repo rate unchanged at 6.50% by majority.**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%.**
- RBI changed stance to **neutral** from **"withdrawal of accommodation".**
- MSF & SDF facility remains unchanged.
- **FY25 CPI Inflation retained at 4.5%.**
- **FY25 Real GDP growth rate maintained at 7.2%.**
- The monetary policy was **broadly in line with expectations.**
- The RBI will **remain nimble and flexible in liquidity management.**

Policy Rates / Reserve Ratio	08 Aug '24	09 Oct '24	Status
CRR	4.50%	4.50%	⟷
SLR	18.00%	18.00%	⟷
SDF	6.25%	6.25%	⟷
Repo Rate	6.50%	6.50%	⟷
MSF	6.75%	6.75%	⟷
Bank rate	6.50%	6.50%	⟷
Fixed Reverse Repo Rate	3.35%	3.35%	⟷

Experts Speak on RBI Policy Outcome

Mr. Murthy Nagarajan
Head- Fixed Income, Tata Asset Management Company

RBI monetary committee unanimously changed its stance to neutral from withdrawal of accommodation. It maintained policy rates unchanged with five members in agreement and with one dissent for a 25-basis point rate cut. As per RBI MPC, better prospects for both kharif and rabi crops and ample buffer stocks of foodgrains gives greater confidence of achieving its 4% CPI inflation target. There is risk to this forecast due to heightened global geopolitical risks, financial market volatility, adverse weather events and recent uptick in global food and metal prices, which has led to policy repo rate remaining unchanged at 6.50%.

RBI has kept the growth forecast unchanged at 7.2%. CPI inflation forecast is at 4.5% for the current year. Next year inflation for first quarter has been changed from 4.4% to 4.3%. Indian GDP is showing signs of slowdown, reflected in discounts offered in four- wheeler sales and slowdown in GST collection. With global geopolitical disruption, there could be a growth slowdown in the coming months. This should be clear during the next policy statement on December 6, 2024. There is a good probability of a rate cut in the next monetary policy.

India's inclusion in Russell global emerging market index and further inclusion of India in other indices are a positive for the bond market. We should see government bond yields moving down in the coming months due to these developments.

Mr. Rajeev Radhakrishnan
CIO – Fixed Income,
SBI Asset Management Company

A change in the Policy stance was effectively a validation of the operating stance being adopted by the central bank in recent months. Effectively the prevalence of surplus liquidity has anchored the overnight rates around the policy rate in recent weeks. In the above context, a change in stance was probably a live event over the coming months. In having shifted the stance to neutral, the RBI has effectively enabled more flexibility to address evolving macro-economic challenges. Given the current estimates of FY25 real GDP growth at 7.2% and CPI at 4.50%, the RBI would quite possibly keep policy rates stable over the coming months. Emerging trends on the growth outlook would possibly determine the timing and extent of any policy easing.

With visibility emerging on the liquidity dynamics, the elevated levels at the front end of the curve should settle lower over the coming months. This should enable better risk- reward equation for incremental investments at the shorter segment (up to 5y) of the curve. As seen in earlier cycles, as the market starts to price in policy easing, we could potentially see the benchmark yields aligning closer to the policy rates. Given the overall positive tailwind both in terms of strong demand and ongoing fiscal improvements, this scenario is likely to play out over H2 FY25.

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In line with market expectations, the MPC voted 5:1 to **keep the policy repo rate unchanged to 6.50%**. **The MPC voted 5.1 and changed its stance to "neutral" from "withdrawal of accommodation"** to ensure that inflation progressively aligns with the target, while supporting growth. In the quest to preserve the strength and bat for long-term growth, the MPC remains vigilant of the evolving inflation outlook. While major global central banks have initiated a rate-cutting cycle, RBI did not follow similar path in its October policy.

Growth Outlook:

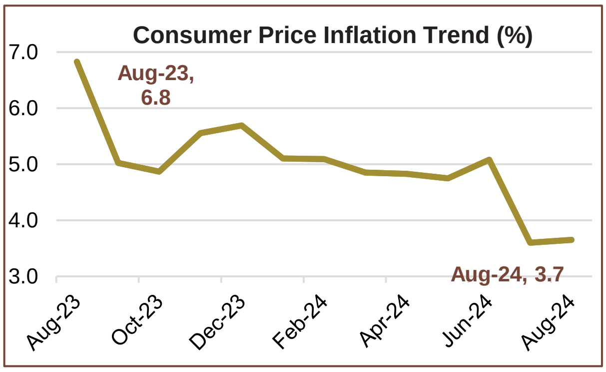
- The **global economy activity remains resilient and is expected to maintain stable momentum over the year, amidst downside risks from intensifying geopolitical conflicts.**
- The agricultural sector is expected to perform well on the back of above normal rainfall, while manufacturing and services remain steady.
- **Investment outlook is supported by resilient non-food bank credit growth, elevated capacity utilisation, healthy balance sheet of banks and corporates, and government's continued investment on infrastructure.**
- Considering all these factors, **real GDP growth for FY25 is projected at 7.2%, Q2 at 7.0%, Q3 at 7.4% and Q4 at 7.4%, each. Real GDP for Q1FY26 is projected at 7.3%.**

	Date	FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Growth Projections	09-Oct-24	7.2%	7.0%	7.4%	7.4%	7.3%
	08-Aug-24	7.2%	7.2%	7.3%	7.2%	7.2%

Source: RBI Governor's Statement 9 October 2024

Inflation Outlook:

- **Headline inflation declined sharply to 3.7% in August from 5.1% in June.** Food inflation is expected to ease by Q4FY25 on better kharif arrivals and rising prospects of a good rabi season.
- **Beyond food price pressures, additional inflation risks have risen from the external sector. The potential escalation in the Middle East conflict could disrupt supply chains and impact global energy prices, which could result in a domino effect on domestic inflation and growth.**
- **Recent upturn in key commodity prices, especially metals and crude oil needs to be monitored closely.**
- Considering all these factors, **inflation projection for the full year was maintained at 4.5%. CPI for Q1FY26 is projected at 4.3%.**



Source: RBI - DBIE

	Date	FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
CPI Inflation Projections	09-Oct-24	4.5%	4.1%	4.8%	4.2%	4.3%
	08-Aug-24	4.5%	4.4%	4.7%	4.3%	4.4%

Source: RBI Governor's Statement 9 October 2024

Investment Approach:

Various fixed income instruments are offering yields between 7-9% for medium to long-term tenure which is quite attractive at this juncture. Investors looking to allocate money in their fixed income allocation can consider locking higher yields at these levels.

For Core portfolio (60-70% of the entire debt portfolio), investors can consider short duration funds, Banking & PSU, Corporate Bond and Target Maturity Funds (matching with the average maturity of the funds and investment horizon). Along with mutual funds, good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return. **For satellite portfolio (30-40% of the entire debt portfolio), investors can consider mutual fund categories such Medium to Long duration, Gilt & Dynamic Bond Funds as they can generate capital gains when the RBI will start cutting interest rates in near future.**

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