

RBI Policy – OCT 2024 – Key Takeaways

RBI Monetary Policy

Repo Rate	Unchanged
Now at 6.50% v/s 6.50%	
Standing Deposit Facility	Unchanged
Now at 6.25% v/s 6.25%	
MSF Bank Rate	Unchanged
Now at 6.75% v/s 6.75%	
Policy Stance	from Withdrawal
Neutral	

RBI on Growth, Inflation

FY25 GDP Growth	Projected at 7.2%
FY25 Inflation Outlook	Projected at 4.5%

- **Pause continues** – RBI keeps rates unchanged for 10th consecutive meet, opted to maintain the repo rate at 6.5% as expected, however changed the monetary policy stance to **'NEUTRAL'** and remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. These actions are consistent with the goal of attaining the medium-term **CPI inflation target of 4%** within a +/- 2% range.
- **Global factors** – Since the last MPC meeting, the global economy has shown **resilience despite risks from geopolitical conflicts**, geoeconomic fragmentation, financial market volatility, and high public debt. **Manufacturing is slowing, but services remain strong**. World trade is improving, and inflation is easing due to lower energy prices. Diverging inflation-growth dynamics across countries have led to varied monetary policy responses.
- **Domestic Demand** – The real gross domestic product (**GDP**) **grew by 6.7% in Q1FY25**, driven by private consumption and investment. Looking ahead, the agriculture sector is expected to perform well due to above-normal rainfall and robust reservoir levels, while manufacturing and services activities remain steady. On the demand side, healthy kharif sowing and sustained momentum in consumer spending during the festival season bode well for private consumption. Consumer and business confidence have improved. The investment outlook is supported by resilient non-food bank credit growth, elevated capacity utilization, healthy balance sheets of banks and corporates, and the government's continued focus on infrastructure spending. External demand is expected to benefit from improving global trade volumes. Considering all these factors, **real GDP growth for FY25 is projected to be 7.2%, with Q2 at 7.0%, Q3 at 7.4%, and Q4 at 7.4%. Real GDP growth for Q1FY26 is projected to be 7.3%.**
- **Inflation** – Headline inflation **declined sharply to 3.6% and 3.7%** in July and August, respectively, **from 5.1%** 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. However, **food inflation is expected to ease by Q4FY25 due to better kharif arrivals** and rising prospects of a good rabi season. Sowing of key kharif crops is higher than last year and the long-period average. Sufficient buffer stocks for cereals are available to ensure food security. Adequate reservoir levels, the likelihood of a good winter, and favorable soil moisture conditions augur well for the ensuing rabi season, though adverse weather events remain a risk. Firms polled in the Reserve Bank enterprise surveys expect input cost pressures to ease; however, the recent upturn in key commodity prices, especially metals and crude oil, needs to be closely monitored. Considering all these factors, **CPI inflation for FY25 is projected at 4.5%, with Q2 at 4.1%, Q3 at 4.8%, and Q4 at 4.2%. CPI inflation for Q1FY26 is projected at 4.3%.**
- **Liquidity and Financial Market Conditions** – System **liquidity remained in surplus during Aug-Sep and early Oct**, with increased government spending and a decline in currency circulation. However, it briefly turned into a deficit in late Sep due to tax-related outflows. The Reserve Bank conducted operations to align the inter-bank overnight rate with the policy repo rate. Yields on 3-month T-bills and CPs issued by NBFCs eased, while CD yields firmed up slightly. The 10-year G-Sec yield softened due to global and domestic cues, including policy changes in major economies and improved investor sentiment. The term premium has remained stable. The INR exchange rate remained range-bound and was the least volatile among peer EME currencies, reflecting India's strong macroeconomic fundamentals and improved external sector outlook.
- **Financial stability:** The **health parameters of banks and NBFCs remain strong**. However, there is some concern about stress buildup in unsecured loan segments like consumption loans, microfinance loans, and credit card outstandings. The Reserve Bank is monitoring this closely and will take necessary measures. Banks and NBFCs need to assess their exposures carefully, ensuring robust underwriting standards and post-sanction monitoring. Attention is also needed for risks from inoperative deposit accounts, cybersecurity, and mule accounts. NBFCs have grown impressively, increasing credit flow to remote and underserved areas, enhancing financial inclusion. However, some NBFCs are pursuing growth without sustainable business practices and risk management, which could be counterproductive. Additionally, some NBFCs are chasing high returns on equity, leading to high interest rates, fees, and penalties, which could pose financial stability risks. NBFCs should also review their compensation practices to avoid target-driven adverse work culture and poor customer service.

- **External Sector:** India's current account deficit (CAD) widened to 1.1% of GDP in Q1FY25 due to a higher trade deficit. However, buoyant services exports and strong remittance receipts are expected to keep CAD within sustainable levels. On the external financing side, foreign portfolio investment (FPI) flows turned around from net outflows of \$4.2 billion in Apr-May 2024 to net inflows of \$19.2 billion during June-October (up to October 7, 2024). FDI flows remain strong in FY25, with both gross and net FDI inflows improving in Apr-Jul2024. While external commercial borrowings moderated, non-resident deposits recorded higher net inflows compared to last year. India's foreign exchange reserves have crossed a new milestone of \$700 billion. Overall, India's external sector remains resilient, with key external sector vulnerability indicators continuing to improve. RBI remains confident of comfortably meeting the external financing requirements.
- **Other Key Measures:**
 - **Responsible Lending Conduct** – Levy of Foreclosure Charges/ Pre-payment Penalties on Loans
 - Discussion Paper on Capital Raising Avenues for Primary (Urban) Co-operative Banks
 - Creation of Reserve Bank Climate Risk Information System (RB-CRIS)
 - **UPI** – Enhancement of Limits
 - Introduction of Beneficiary Account Name Look-up Facility (for RTGS & NEFT)

Disclaimer

Analyst Certification: I, Dhananjay Kansara, research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed Dhananjay Kansara, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.