

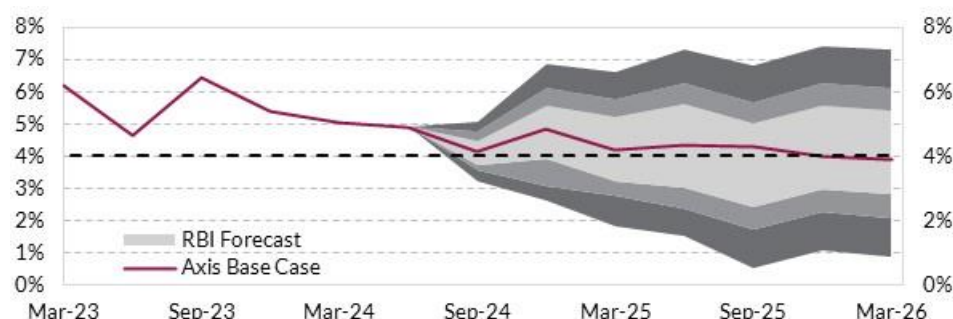
Stance changed to neutral, but focus remains on inflation

The India MPC held rates and changed its stance to neutral as expected. The emphasis on upside risks to inflation from food, global prices or adverse events suggests that rate cuts are unlikely in the near-term. While growth and inflation projections were unchanged, we believe the stance change was due to emerging growth concerns. If growth fails to recover (2Q estimates are at risk), stronger action may be needed. Cautionary words on risks from unchecked growth on unsecured lending and NBFCs aside, we note that the overall credit impulse is weak, and more direct quantitative measures like CRR cuts may be needed.

October 09, 2024

MPC update

Exhibit 1 - India CPI inflation projections – gentle convergence to target



Source: RBI, MOSPI, Axis Bank Research

MPC holds rates, cuts stance to neutral; growth/inflation dynamics balanced

The MPC held rates 5-1 and voted unanimously to change the stance to neutral (from 'withdrawal' of accommodation) to 'have greater flexibility and optionality' given 'prevailing and expected inflation-growth balance'. The RBI maintained its growth projections: FY25 at 7.2% and FY26 at 7.1%. This may be too optimistic: while the likely pick-up in government spending should improve 2H growth, the question is how much. 2Q25 growth of 7.0% itself may be at risk. Inflation projections (Fig 2) were also maintained (FY25 at 4.5%, FY26 4.1%). The governor noted some 'distance to cover' on inflation, 'significant risks' from adverse events, a near-term rise in food prices (Fig 5), and higher global commodity prices (Fig 4).

Emphasis on risks to inflation suggest a cut in December is still unlikely

While the change in stance opens the door to cuts, the detailed description of upside risks, and the need to be 'very careful about opening the gate as the horse (read inflation) may simply bolt again' suggests a cut in December should not be the base case. That said, given that the inflation projections were unchanged, we believe the change in stance was primarily due to emerging concerns on growth. If growth does not pick up, as consensus projections show (Fig 3), policy priorities would skew towards growth, in our view. We maintain our expectation of the first rate cut only in February or April.

Limited focus on liquidity/external, caution on financial stability via NBFCs

The RBI expressed serious concerns on unchecked NBFC business growth without adequate risk management. While the language indicates that further steps might be announced if not self-corrected, we note that this is for a narrow part of overall credit (unsecured loans/MFI). The overall credit impulse remains weak (Fig 7) and may need some intervention. We have noted the changed stance on liquidity ([link](#)) – net surpluses, which have pushed overnight rates to the reverse-repo (Fig 6), should persist, in our view. While the change in stance should help, a CRR cut may also be necessary to transmit these to the 3M/12M CD rates.

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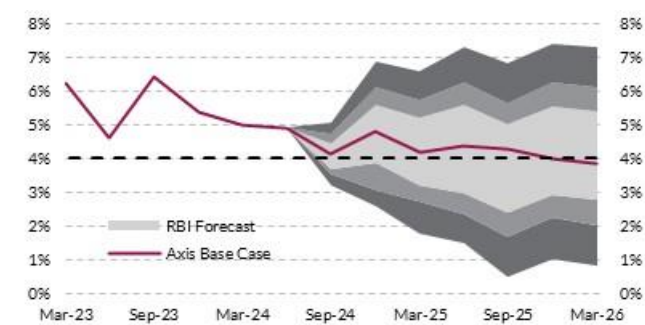
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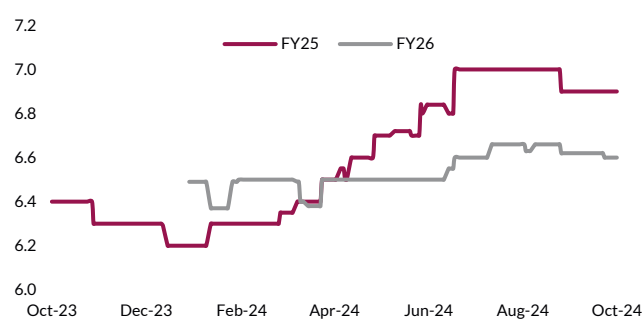
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Exhibit 2 - RBI inflation projections - largely in line with our own, except for another small shock in Monsoon 2025



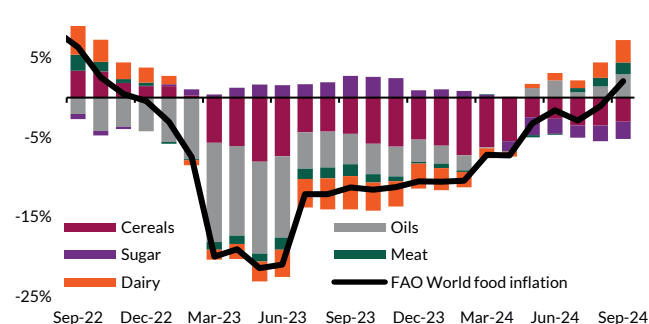
Source: RBI, Axis Bank Research

Exhibit 3 - Markets are now lowering India growth expectations, as seen by the below analyst composite



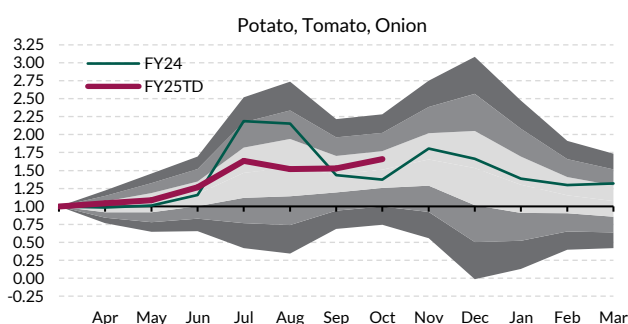
Source: Bloomberg, Axis Bank Research

Exhibit 4 - Global food inflation has begun to turn up, especially in edible oils that India prices track well



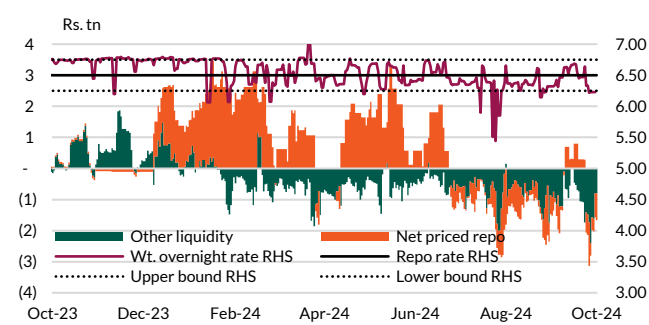
Source: FAO, Axis Bank Research

Exhibit 5 - Representative vegetable prices are at the higher end, can elevate inflation in Q3



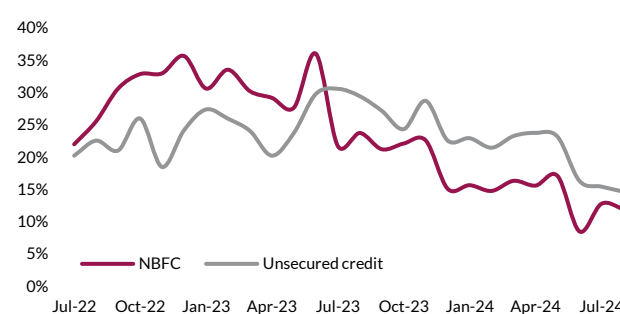
Source: RBI, Axis Bank Research

Exhibit 6 - Liquidity conditions have already turned easy, with overnight rates below repo more often than above



Source: RBI, Axis Bank Research

Exhibit 7 - Loans by the banking system to NBFCs and to unsecured credit has been slowing for some time



Source: RBI, Axis Bank Research

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