

India Watch

RBI Oct MPC minutes: Watching out for real rates & inflation generalization

When world becomes uncertain, become data-dependent

The minutes of the [Oct 6th RBI MPC meeting](#) were released. All members of the MPC voted for a pause. Prof. Varma dissented with the stance retained as withdrawal of accommodation (Exhibits 1, 2). Most members expressed that the standard operating procedure is for the monetary policy to look through price spikes in perishables, but ready to act if that generalizes. While some members suggested that real rate is high enough to achieve the 4% target, others talked of non-rate measures as more prudent. Generally, most members expressed comfort regarding growth resilience. Rising US yields and crude prices were mentioned as key monitorables. In sum, members are largely data dependent at this juncture. All eyes on Nov FOMC now, [where our economists are looking for a pause](#), followed by a hike in Dec.

Key remarks by MPC members

Dr. Shashanka Bhide: It is necessary to assess the strength of the growth trajectory and inflation outlook in the medium term keeping in view that the projected headline inflation remains above 5% in the final 3 quarters of the current financial year.

Dr. Ashima Goyal: Prudential tightening, such as raising LTV ratios or risk weights, would be preferable to raising policy rates more. The headline inflation forecast of 5.4% for FY24 gives a comfortably positive real repo rate. Vote for the stance on withdrawal of accommodation in order to signal the MPC's determination to reach its 4% target. This stance rules out a rate cut. It allows a rise but that would not be required unless there are second round effects from the repeated supply shocks. So far there are no signs of such pass through. The guidance therefore is that future moves will be data-dependent. There is the lure of high US risk free rates, but since higher Indian rates cannot compensate for this, the latter are best aligned to the domestic cycle.

Prof. Jayanth R. Varma: The real interest rate based on projected inflation is high enough to glide inflation towards the target within a reasonable period. At this point in time, the guidance that the market really needs is not about how high the terminal repo rate would be, but about how long the rate would be maintained at a high level.

Dr. Rajiv Ranjan: Three global trends need to be closely watched – rising crude oil prices, rising US yields & rising USD. Monetary policy needs to hold on while earnestly persevering with disinflationary approach and remaining watchful with readiness to act if the situation demands. This calls for continuation of withdrawal of accommodation stance for monetary policy so as to facilitate further transmission.

Dr. Michael Debabrata Patra: Inflation prints for Sep & Oct will need to be monitored carefully to look out for the moderation that our projections anticipate. If we tame inflation durably, we will prepare the ground for a long innings of strong and stable growth. Monetary policy can contribute by remaining sufficiently disinflationary without being overly restraining

Shri Shaktikanta Das: Monetary policy must remain actively disinflationary to ensure that ongoing disinflation process progresses smoothly. Fundamental goal is to align inflation with the 4% target and anchor inflation expectations. Recurring incidences of large and overlapping supply side shocks bring with them the risks of generalization. Monetary policy has to remain extra alert and ready to act, if the situation warrants. The timing and quantum of OMO sales will depend on the evolving liquidity conditions.

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Glossary

LAF: Liquidity adjustment facility
GDP: Gross Domestic Product
RBI: Reserve Bank of India
MPC: Monetary policy committee
CPI: Consumer Price Index
SDF: Standing deposit facility
MSF: Marginal Standing Facility
CRR: Cash Reserve ratio
LTV: Loan to Value

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Exhibit 1: MPC minutes Aug'23

MPC members unanimously voted for a pause. Barring Prof. Varma all members voted to retain withdrawal of accommodation

Dr. Shashanka Bhide	Broadening of price pressures would be a concern. There are also risks to growth projections, particularly as they relate to export demand it is necessary to ensure that the policy framework is focused on achieving the inflation target while supporting growth.
Dr. Ashima Goyal	Headline inflation forecasts have risen in the short-term but remain slightly above 5% for the next year so that a repo rate of 6.5% still gives a positive real rate of around unity. This is the apt real rate given uncertainties in both growth and inflation
Prof. Jayanth R. Varma	The current level of the repo rate is high enough to bring inflation below the upper tolerance band on a sustained basis and also glide it towards the middle of the band. We would have a couple of months of inflation readings well above the tolerance band, but that does not call for panic
Dr. Rajiv Ranjan	Monetary policy clearly can do little about the first-round effect of a supply side shock emanating from vegetables. If monetary policy responds to such a surge in headline inflation, the policy would likely be excessively tight.
Dr. Michael Debabrata Patra	Withdrawal of excess liquidity should engage primacy in the attention of the RBI going forward Ensuring the sustained easing of core inflation is crucial to the MPC's objective of bringing inflation down to the target.
Shri Shaktikanta Das	We need to be ready to pre-empt any second-round impact of food price shocks on the broader inflationary pressures. We remain steadfastly committed to our goal of aligning inflation to the target of 4%.

Source: RBI

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Exhibit 2: Member-wise voting pattern: On policy rate and stance

Rate actions have largely been unanimous, stance has seen some divergence

	Dr. Shashanka Bhide	Dr. Ashima Goyal	Prof. Jayanth R Varma	Dr. Rajiv Ranjan	Dr. Michael Debabrata Patra	Shri. Shaktikanta Das
Jun'22 Rate	Voted unanimously to increase the rate by 50bps & focus on withdrawal of accommodation					
Jun'22 Stance						
Aug'22 Rate	Voted unanimously to increase the rate by 50bps & focus on withdrawal of accommodation					
Aug'22 Stance						
Sep'22 Rate	Increase by 50bps	Increase by 35bps	Increase by 50bps	Increase by 50bps	Increase by 50bps	Increase by 50bps
Sep'22 Stance	Withdrawal of accommodation	Withdrawal of accommodation	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Dec'22 Rate	Increase by 35bps	Increase by 35bps	Against 35bps hike	Increase by 35bps	Increase by 35bps	Increase by 35bps
Dec'22 Stance	Withdrawal of accommodation	Against the resolution	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Feb'23 Rate	Increase by 25bps	Pause in rate hike	No increase	Increase by 25bps	Increase by 25bps	Increase by 25bps
Feb'23 Stance	Withdrawal of accommodation	Against the resolution	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Apr'23 Rate	Voted unanimously to keep the rate unchanged					
Apr'23 Stance	Withdrawal of accommodation	Withdrawal of accommodation	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Jun'23 Rate	Voted unanimously to keep the rate unchanged					
Jun'23 Stance	Withdrawal of accommodation	Withdrawal of accommodation	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Aug'23 Rate	Voted unanimously to keep the rate unchanged					
Aug'23 Stance	Withdrawal of accommodation	Withdrawal of accommodation	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation
Oct'23 Rate	Voted unanimously to keep the rate unchanged	Voted unanimously to keep the rate unchanged	Voted unanimously to keep the rate unchanged	Voted unanimously to keep the rate unchanged	Voted unanimously to keep the rate unchanged	Voted unanimously to keep the rate unchanged
Oct'23 Stance	Withdrawal of accommodation	Withdrawal of accommodation	Against the resolution	Withdrawal of accommodation	Withdrawal of accommodation	Withdrawal of accommodation

Source: RBI

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