

MPC MINUTES INDICATE DICHOTOMY

RBI released minutes of the 7-9 Oct MPC meeting. In its last meeting RBI decided to keep repo rate at 6.50% (tenth-time in a row), however, this time also not unanimously. Within the inflation targeting framework of the RBI, the core objective of price stability is subjected to achieving growth imperative. This is to say RBI objective function is price stability while keeping sacrifice ratio within reasonable limits. The instrumentality of the repo rate, the main tool at disposal, is subject to three gradations – tightening, neutral and accommodation each indicating the priority accorded to core objective and the associated cost. Tightening is secularly focused on price stability; neutrality is trade-off between achieving the objective & current state of costs; and accommodation when core objective is not under threat.

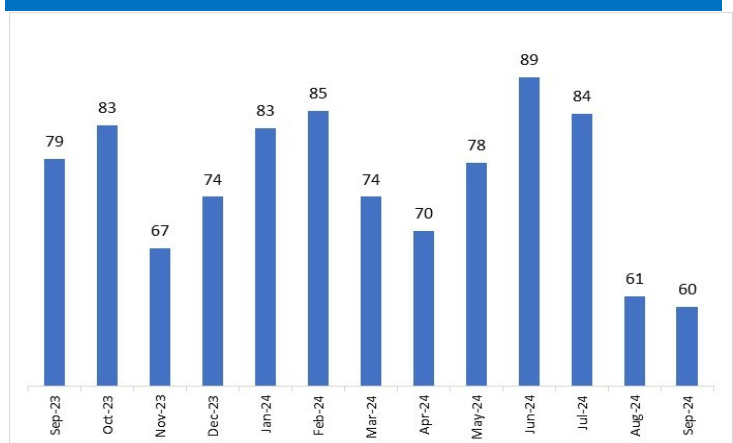
From this perspective the MPC members have approached voting from different vantage points. Dr. Nagesh Kumar proposal to cut rate effectively put the stance in accommodation is totally based on achieving objective and his assessment suggest that sacrifice ratio is beyond threshold. Saugata Bhattacharya position was influenced by ambiguity in signal-to-noise ratio of the incoming data which may lead to policy error and therefore need for conservatism. However, vote for neutral stance appears to be more decided by view on growth rather than inflation. Prof Ram Singh view flow directly from the core objective and the concern that high food inflation may spill over to non-core portion of the inflation. However, that lagged effect of the policy has achieved objective and revision in stance is needed to keep the costs of achieving the objective in check. Dr. Rajiv Ranjan, the only member to have continuity from August meeting has reiterated his position that policy action is on course to achieve the objective and window of opportunity to revise the stance will be open in October. The two members from within the RBI have clearly focused on inflation. Deputy Governor has emphasis tapering of the factors in coming months that imparted persistence to domestic inflation which supports revision instance. The Governor statement has emphasised operational flexibility to evolving situation.

The release of the MPC minutes two weeks after the policy by the RBI is also in line with international best practices, although, under India specific conditions, there is a risk of public perception of new data releases post the MPC's meeting influencing these minutes and hence the release timing of minutes may reduce from 14 days to 7 days.

GROWTH OUTLOOK

- ◆ IMF in it's WEO October 2024 expected India to grow at 7% in the current fiscal year ending March 31, 2025 and 6.5% in the next fiscal year (FY2025-26). World output was expected to grow at 3.2% in 2024 as well as 2025.
- ◆ However, leading indicators are showing mixed signals. For instance, domestic passenger vehicle sales which is an indicator of urban demand as well as other indicators of consumption and demand as diesel consumption, electricity demand and bitumen consumption have eased. Transport and communication indicators as passenger and freight traffic at airports and toll collection are showing traction, however, e-vehicle registration continues to lose steam in Aug'24 and Sep'24.

% of Leading Indicators showing acceleration



Source: SBI Research

RBI MINUTES OF OCTOBER MPC MEETING

- ◆ RBI recently released minutes of the 7-9 Oct MPC meeting. In its last meeting RBI decided to keep repo rate at 6.50% (tenth-time in a row), however, this time also not unanimously. One of the newly inducted members voted to reduce the policy repo rate by 25 bps. However, MPC unanimously decided for a change in stance from withdrawal of accommodation to 'neutral' and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

BETWEEN THE LINES – INFLATION VS GROWTH

- ◆ Within the inflation targeting framework of the RBI, the core objective of price stability is subjected to achieving growth imperative. This is to say RBI objective function is price stability while keeping sacrifice ratio within reasonable limits. The instrumentality of the repo rate, the main tool at disposal, is subject to three gradations – tightening, natural and accommodation each indicating the priority accorded to core objective and the associated cost. Tightening is secularly focused on price stability; neutrality is trade-off between the achieving the objective and current state of costs and accommodation when core objective is not under threat.
- ◆ From this perspective the MPC members have approached voting from different vantage points. **Dr. Nagesh Kumar** proposal to cut rate effectively put the stance in accommodation is totally based on achieving objective and his assessment suggest that sacrifice ratio is beyond threshold. **Saugata Bhattacharya** position was influenced by ambiguity in signal-to-noise ratio of the incoming data which may lead to policy error and therefore need for conservatism. However, vote for neutral stance appears to be more decided by view on growth rather than inflation.
- ◆ **Prof Ram Singh** view flow directly form the core objective and the concern that high food inflation may spill over to non-core portion of the inflation. However, that lagged effect of the policy has achieved objective and revision in stance is needed to keep the costs of achieving the objective in check.
- ◆ **Dr. Rajiv Ranjan**, the only member to have continuity from August meeting has reiterated his position that policy action is on course to achieve the

- ◆ objective and window of opportunity to revise the stance will be open in October. His consideration now tilt towards cost is evident from the statement: "Keeping in mind the balance in the growth-inflation outlook, the risk-reward for a change of stance to neutral is favourable now".
- ◆ The two members form within the RBI have clearly focused on inflation. **Deputy Governor** has emphasis tapering of the factors in coming months that imparted persistence to domestic inflation which supports revision instance. **The Governor** statement has emphasised operational flexibility to evolving situation.
- ◆ A balance assessment shows that revision of stance has been influenced by growth imperatives and there is an onset of natural slowdown in the economy on account of tightening although full symptoms have been masked by ambiguity in signal to noise ratio. The underlying divergence in the reasons for voting a position in the MPC has been influenced by changing paradigm to central mandates due to supply shocks such as food and energy shortages and through a decline in productive capacity which can translate to inflation volatility.

DIVERGENCE IN VOTING PATTERN: PRELUDE TO CHANGE IN RATE AND STANCE

- ◆ Voting records of individual members on the policy rate has exhibited diversity. Thirty-three of the 51 decisions of the MPC on the repo rate have been unanimous with respect to the direction of policy rate change while there was disagreement on 18 decisions.
- ◆ Here one interesting aspect that needs to be analysed is that the increasing or sustained diversity in voting pattern led to change in interest rate decisions or not. Past examples during Dec'16-Aug-17 indicate that change in voting pattern ultimately leads to change in interest rate decision. In the current situation, in the April policy only one member dissented, two of the members dissented in subsequent two policies and in the latest policy one of the newly inducted member dissented. This may ultimately lead to change in rate/stance going forward.

MONETARY POLICY COMMUNICATION PRACTICES IN INDIA

- ◆ The monetary policy communication practices in India mirror global experiences wherein most central banks publish their analysis of economic conditions, including outlooks for growth and inflation with central banks explaining the reasons for their policy decision through press conferences. The release of the MPC minutes two weeks after the policy by the RBI is also in line with international best practices, although, under India specific conditions, there is a risk of public perception of new data releases post the MPC’s meeting influencing these minutes. Accordingly, RBI in its Currency and Finance Report (2020-21) indicate that the requirement of the Act to release the minutes “... at 5 pm on the 14th day from the date of the policy day ...” could be reformulated to “... at 5 pm within seven days from the date of the policy”. This would require amendment to the RBI Act.

Monetary Policy Transparency and Communication across Central Banks					
Country	Structure	Minutes			
		Publish	Publication Lag	Identify votes	
Australia	Board	Yes	Two weeks	No	
Canada		No	-	No	
Chile		Yes	Two weeks	Yes	
Czech Republic		Yes	Eight days	Yes	
ECB		Yes	Four weeks	No	
Hungary		Yes	Two weeks	Yes	
Indonesia		No	-	No	
Peru		No	-	No	
Philippines		Yes	Four weeks	No	
Sweden		Yes	Two weeks	Yes	
South Korea		Yes	Two weeks	Yes	
United States		FOMC	Yes	Three weeks	Yes
Brazil		MPC	Yes	Six days	Yes
United Kingdom	Yes		One day	Yes	
Iceland	Yes		Two weeks	Yes	
India	Yes		Two weeks	Yes	
Israel	Yes		Two weeks	No	
New Zealand	No		-	No	
Norway	No		-	No	
South Africa	No		-	No	
Thailand	Yes		Two weeks	No	
Turkey	Yes		One week	No	

Source: RBI; SBI Research

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