

RBI MPC kept policy repo rate unchanged at 6.5% by 4:2 vote; cut CRR by 50bps to 4%

December 9, 2024

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Key takeaways: RBI MPC meeting, December 2024

- The RBI MPC kept the policy repo rate unchanged at 6.5% by 4:2 majority vote. Accordingly, the standing deposit facility (SDF) rate remained unchanged at 6.25% and the marginal standing facility (MSF) rate and the Bank Rate at 6.75%.
  - There was a change in voting pattern from the previous meeting, with an additional external member of the MPC, Professor Ram Singh, voting for a 25bp cut. At the MPC meeting in October, Dr. Nagesh Kumar was the only member in favor of a rate cut.

- The MPC unanimously voted to maintain the monetary policy stance at 'neutral', which it had changed at its meeting in October from 'withdrawal of accommodation'.

- The RBI cut the cash reserve ratio (CRR) by 50 basis points to 4% of NDTL (net demand and time liabilities). This will be implemented in two equal tranches of 25 bps each with effect from the fortnight beginning December 14, 2024 and December 28, 2024.
  - The CRR cut would release primary liquidity of around Rs.1.16 lakh crore to the banking system, and is expected to ease potential liquidity stress that is expected to build up in coming months due to tax outflows, increase in currency in circulation and volatility in capital flows.

- The MPC lowered growth forecast for FY25 by 60bps to 6.6% from 7.2% in October, and raised inflation projection for FY25 by 30bps to 4.8% from 4.5%.

- Below are select highlights from changes to the developmental and regulatory policies:
  - To attract more capital flows, the RBI has increased interest rate ceilings on FCNR(B) deposits, effective till March 2025.
  - To further develop the interest rate derivatives market in India, the RBI has proposed to introduce a new benchmark - SORR - based on all secured money market transactions – overnight market repo and TREPS.

FY25 growth forecast lowered, inflation revised up

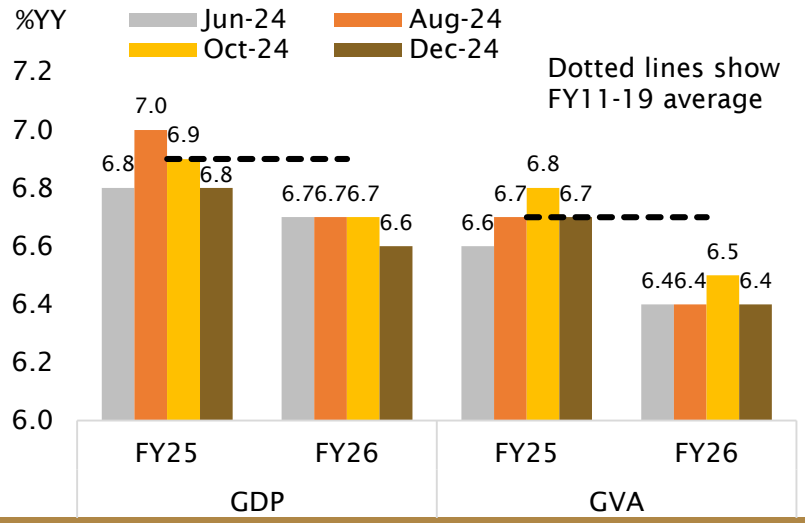
Real GDP %YY	Jun-24	Aug-24	Oct-24	Dec-24
Q3:FY25 F	7.3	7.3	7.4	6.8
Q4:FY25 F	7.2	7.2	7.4	7.2
FY25 F	**7.2**	**7.2**	**7.2**	**6.6**
Q1:FY26 F		7.2	7.3	6.9
Q2:FY26 F				7.3

CPI %YY	Jun-24	Aug-24	Oct-24	Dec-24
Q3:FY25 F	4.6	4.7	4.8	5.7
Q4:FY25 F	4.5	4.3	4.2	4.5
FY25 F	**4.5**	**4.5**	**4.5**	**4.8**
Q1:FY26 F		4.4	4.3	4.6
Q2:FY26 F				4.0

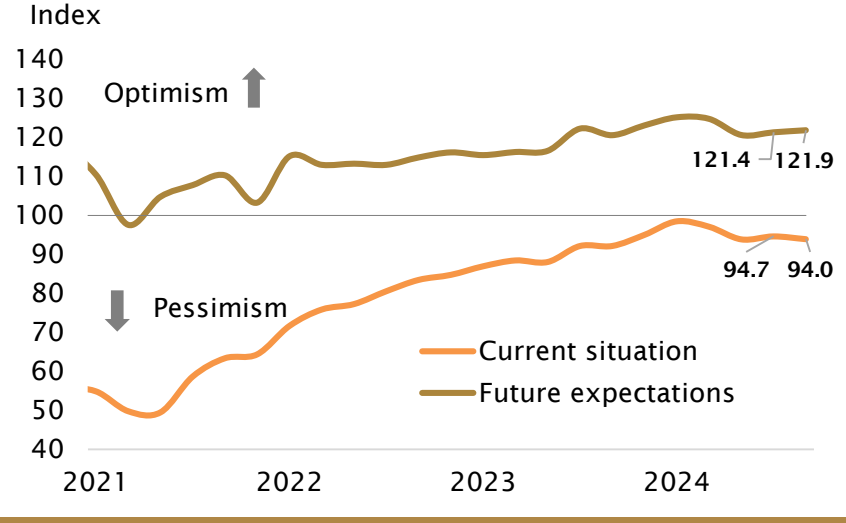
RBI MPC cut FY25 growth forecast; expects rebound to 7% in H2

- The RBI MPC lowered growth forecast for FY25 by 60bps to 6.6% from 7.2% projected at its October meet. Despite cutting estimates across quarters, the MPC expected real GDP growth to rebound in H2-FY25, averaging 7%, compared to 6% in H1. Though the growth slowdown in Q2 was sharper than expected, in the post policy conference, the Governor emphasized the need to avoid knee-jerk reaction to a singular data point, and indicated that the MPC would rather wait for further evidence on the evolving growth-inflation outlook to avoid decision reversals later that could impact its credibility. However, there was an acknowledgment that persistent slowdown in growth could necessitate policy support.
- The disappointing real GDP growth in Q2-FY25 prompted most market participants to trim their forecasts for the full year, and also for FY26, which was reflected in the RBI's latest round of survey of professional forecasters (SPF). The median GDP forecast for both FY25 and FY26 stood lower by 10bps each from the previous round at 6.8%YY and 6.6%, respectively, lower than the long-term pre-pandemic average (FY11-19) of 6.9%. Real GVA forecasts were also cut by 10bps each for FY25 and FY26 to 6.7% and 6.4%, respectively.
- In the latest round of RBI's consumer confidence survey, consumers remained pessimistic regarding current general economic situation and in fact, sentiment deteriorated, while one-year ahead perception improved across parameters, except for inflation. Details show consumers' concerns regarding inflation as reflected in current perceptions regarding household spending that rose for both essential and non-essential items.

SPF median forecasts of real GDP and GVA growth



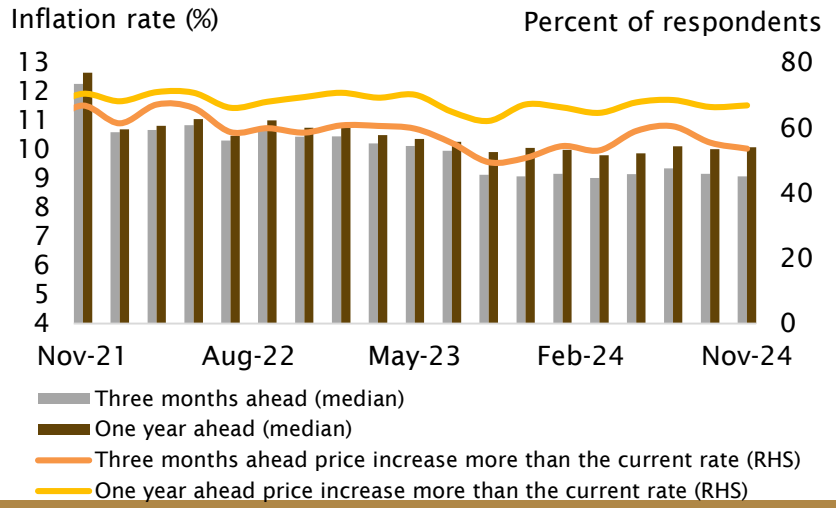
Consumer confidence indices from RBI survey



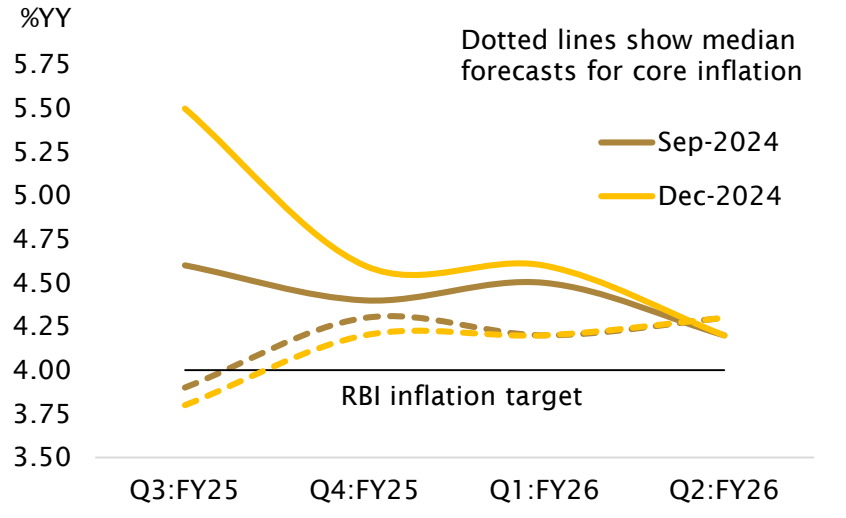
RBI MPC raised FY25 CPI forecast; expects easing to 4% in Q2-FY26

- The RBI MPC raised headline inflation projection for FY25 by 30bps to 4.8% from 4.5% and expects it to ease to the 4% target by FY26. In addition to the latest spike in headline CPI above the upper tolerance band of 6% as the probable rationale to hold the policy repo rate at the October meet, the Governor's statement noted the need to preserve gains from disinflation so far, and the adverse impact of persistently high inflation on purchasing power of consumers, dampening consumption and investment, and therefore, growth. The later point was also reiterated by DG Dr. Patra in the post policy conference.
- Food inflation is expected to ease in coming months due to record Kharif output, on-track Rabi sowing, and seasonal winter correction in vegetable prices, though upside risks remain such as adverse weather events, geopolitical uncertainties, and financial market volatility. Idiosyncratic factors such as edible oils inflation, and firms' expectations of higher input costs and selling prices in Q4-FY25 also need to be watched out for.
- Even as the RBI MPC expects headline CPI to ease to 4% by Q2-FY26, median projection from RBI's latest survey of professional forecasters (SPF) shows that inflation is likely to remain slightly above the target at 4.2% in Q2-FY26. In the same quarter, SPF results show that core inflation will rise above headline CPI.
- Results from the latest round of households' inflation expectations survey show that respondents continued to expect near-term (three-month ahead) inflation to moderate for the second straight round, even as there was a mild uptick in one-year ahead median inflation expectation.

Households' inflation expectations



SPF median forecasts of headline CPI inflation



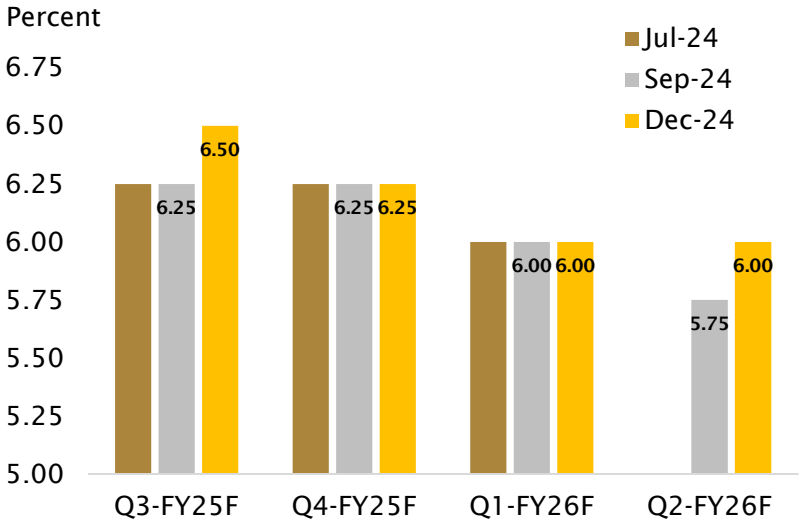
RBI MPC acknowledged imbalance in growth-inflation dynamics

- The policy statement acknowledged that the near-term growth and inflation outcomes had turned adverse since the last MPC meet, with growth surprising on the downside and inflation on the upside. In this scenario, as the MPC awaited for realignment towards a better balance, the Governor's statement noted the importance of "prudence, practicality and timing of decisions" to derive maximum impact from policy outcomes.
- Results from the latest round of survey of professional forecasters (SPF) showed median expectation of 50bp cut by Q2-FY26, with the first cut in Q4-FY25 and another one in Q1-FY26. This is suggestive of a shallower cycle compared to median forecast of 75bp cut in the earlier round.
- Some of the key measures announced as part of developmental and regulatory policies included:
  - **CRR cut:** The RBI cut the cash reserve ratio (CRR) by 50bps to 4% of NDTL (net demand and time liabilities). This will be implemented in two equal tranches of 25 bps each with effect from the fortnight beginning December 14 and December 28. The cut would release primary liquidity of Rs.1.16 lakh crore to the banking system, and ease potential liquidity stress that is likely to build up in coming months due to tax outflows, increase in currency in circulation and volatility in capital flows. This was the main highlight of the policy outcome, and a potential precursor to policy repo rate cut at the next MPC meeting in February.
  - **Interest rates on FCNR(B) deposits:** To attract more capital flows, the RBI has raised interest rate ceilings on FCNR(B) deposits, effective December 6, 2024 to March 31, 2025.

Deposit term	Current ceiling	Revised ceiling
1-3 years	ARR + 250bps	ARR + 400bps
3-5 years	ARR + 350bps	ARR + 500bps
ARR: Overnight Alternative Reference Rate		

  - **Secured Overnight Rupee Rate (SORR):** To further develop interest rate derivatives market, the RBI has proposed to introduce a new benchmark rate based on all secured money market transactions, including overnight market repo and TREPS.
  - **Collateral-free agriculture loan:** The RBI has raised limit on collateral-free agriculture loans to Rs.2 lakh from Rs.1.6 lakh, to account for overall inflation and rise in farm input costs, and to enhance coverage of small and marginal farmers in formal credit system

SPF median quarterly forecasts of policy repo rate



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