

## RBI keeps repo rate unchanged; cuts CRR by 50bp

Rate cuts could begin from Feb'25 or later

- The Reserve Bank of India (RBI) announced its fifth bi-monthly monetary policy for FY25 on 6<sup>th</sup> Dec'24. The rate-setting panel decided to keep the benchmark repo rate unchanged at 6.5% for the 11<sup>th</sup> consecutive meeting, with four out of six members voting in favor. Dr. Nagesh Kumar and Prof. Ram Singh voted to reduce the policy repo rate by 25bp.
- The MPC unanimously decided to keep the 'neutral' stance. The Governor mentioned that *"a growth slowdown – if it lingers beyond a point – may need policy support"* but also that *"the gains achieved so far in the broad direction of disinflation, notwithstanding the recent upticks, need to be preserved"*.
- Simultaneously, the RBI decided to reduce the cash reserve ratio (CRR) of all banks to 4.0% of net demand and time liabilities (NDTL) in two equal tranches of 25bp each, with effect from the fortnights beginning 14<sup>th</sup> Dec'24 and 28<sup>th</sup> Dec'24. This was announced to ease the *potential* liquidity stress.
- As real GDP growth turned out to be much slower than anticipated, the RBI downgraded its projections to 6.6% for FY25 (from 7.2% earlier) with 3Q/4QFY25/1QFY26 at 6.8%/7.2%/6.9% (from 7.6%/7.4%/7.3% earlier). Real GDP growth is projected at 7.3% in 2QFY26, with risks broadly balanced. At the same time, higher headline inflation in Sep'24 and Oct'24, led by food items, pushed RBI's projections higher. Taking into consideration all the factors, the inflation is projected at 4.8% for FY25 now (from 4.5% earlier) with 3Q/4QFY25/1QFY26 at 5.7%/4.5%/4.6% (from 4.8%/4.2%/4.3% earlier). Headline inflation is projected at 4.0% in 2QFY26, with risks broadly balanced.
- Overall, although the RBI has revised down its growth projections, it expects the growth to recover to 7% YoY in 2HFY25, higher than our [forecast](#) of sub-6%. At the same time, while we expect the headline inflation to be closer to 5.7% in 3QFY25, it could be higher than the RBI's projection in 4QFY25. Consequently, the combination of weak growth and high inflation could present itself in the next monetary policy also. Therefore, while rate cuts could begin from Feb'25, it is not a foregone conclusion.

### I. MPC keeps repo rate unchanged; cuts CRR by 50bp to 4%

- The rate-setting panel decided to keep the benchmark repo rate unchanged at 6.5% for the 11<sup>th</sup> consecutive meeting. Two out of six members – Dr. Nagesh Kumar and Prof. Ram Singh – voted to reduce the policy repo rate by 25bp.
- The MPC unanimously decided to keep the 'neutral' stance. The Governor mentioned that *"a growth slowdown – if it lingers beyond a point – may need policy support"* but also that *"the gains achieved so far in the broad direction of disinflation, notwithstanding the recent upticks, need to be preserved"*.
- Simultaneously, the RBI decided to reduce the cash reserve ratio (CRR) of all banks to 4.0% of net demand and time liabilities (NDTL) in two equal tranches of 25bp each, with effect from the fortnights beginning 14<sup>th</sup> Dec'24 and 28<sup>th</sup> Dec'24.

Exhibit 1: Repo rate was kept unchanged at 6.5%...

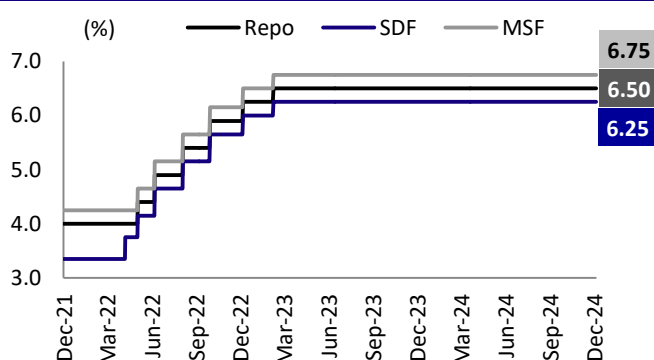
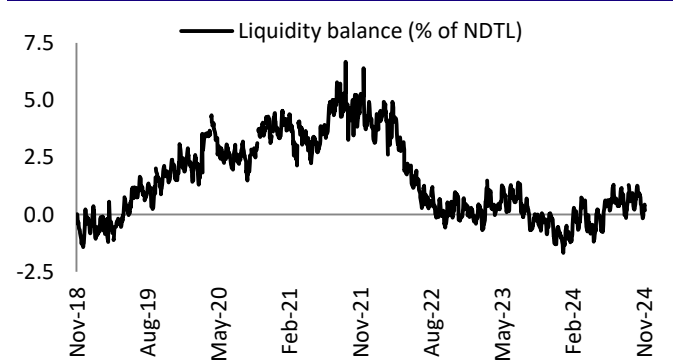


Exhibit 2: ...and liquidity was in marginal surplus in Oct-Nov'24



Updated as of 5<sup>th</sup> Dec'24

Source: RBI, MOFSL

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## II. India's growth story somewhat dented

- As real GDP growth turned out to be much slower than anticipated, the RBI downgraded its projections to 6.6% for FY25 (from 7.2% earlier) with 3Q/4QFY25/1QFY26 at 6.8%/7.2%/6.9% (from 7.6%/7.4%/7.3% earlier). Real GDP growth is projected at 7.3% in 2QFY26, with risks broadly balanced.
- Although the RBI has lowered its growth projections, it still expects growth to recover to ~7% in 2HFY25. *"...Looking ahead, robust kharif food grain production and good rabi prospects, coupled with an expected pickup in industrial activity and sustained buoyancy in services, augur well for private consumption. Investment activity is expected to pick up. Resilient world trade prospects should provide support to external demand and exports. Headwinds from geopolitical uncertainties, volatility in international commodity prices, and geo-economic fragmentation continue to pose risks to the outlook..."*, the RBI statement mentioned.

## III. Inflation projection for FY25 raised to 4.8%

- Higher headline inflation in Sep'24 and Oct'24, fueled by food items, pushed RBI's projections higher. Taking into consideration all the factors, the inflation is projected at 4.8% for FY25 now (from 4.5% earlier) with 3Q/4QFY25/1QFY26 at 5.7%/4.5%/4.6% (from 4.8%/4.2%/4.3% earlier). Headline inflation is projected at 4.0% in 2QFY26, with risks broadly balanced.
- The statement mentioned *"...Going forward, food inflation is likely to soften in Q4 with seasonal easing of vegetable prices and kharif harvest arrivals and good soil moisture conditions along with comfortable reservoir levels auguring well for rabi production. Adverse weather events and rise in international agricultural commodity prices, however, pose upside risks to food inflation. Even though energy prices have softened in the recent past, their sustenance needs to be monitored..."*.

## IV. Our view

Overall, although the RBI has revised down its growth projections, it expects the growth to recover to 7% YoY in 2HFY25, higher than our [forecast](#) of sub-6%. At the same time, while we expect the headline to be closer to 5.7% in 3QFY25, it could be higher than the RBI's projection in 4QFY25. Consequently, the combination of weak growth and high inflation could present itself in the next monetary policy also. Therefore, while rate cuts could begin from Feb'25, it is not a foregone conclusion. [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=59244](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59244)

Exhibit 3: FY25 real GDP growth projected at 6.6%...

Exhibit 4: ...with FY25 inflation being estimated at 4.8%

Chart 1: Quarterly Projection of Real GDP Growth (y-o-y)

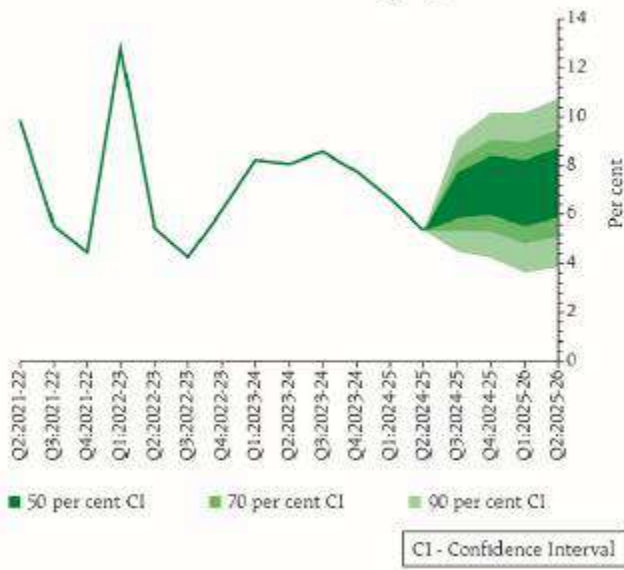
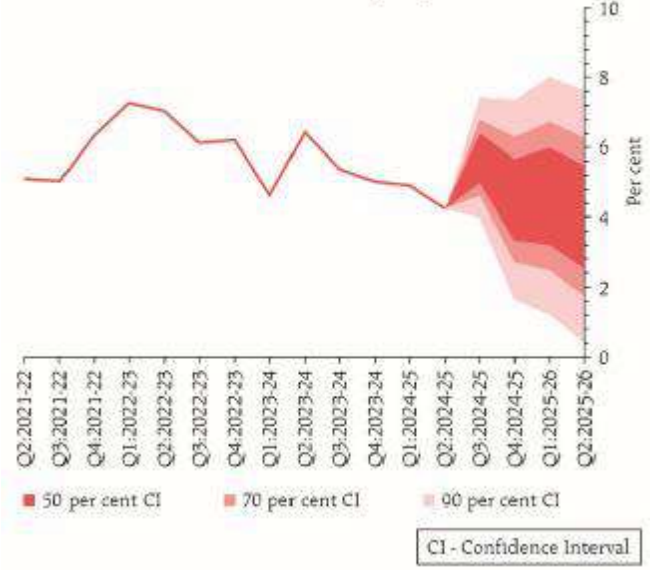


Chart 2: Quarterly Projection of CPI Inflation (y-o-y)



Source: RBI, MOFSL

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NOTES

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