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# RBI Bi-monthly Monetary Policy Statement (MPS)

**December 6, 2024**

In today's policy meeting, the Monetary Policy Committee (MPC) voted to keep the repo rate unchanged at 6.50% and maintained a neutral stance. An interesting point is that two out of the three external members voted for a 25bps reduction in the repo rate, despite the recent CPI print being close to 6%. This raises the question: does this signal that growth concerns are becoming more prominent among policymakers?

On a separate note, the Reserve Bank of India (RBI) has decided to cut the Cash Reserve Ratio (CRR) by 50bps, bringing it back to pre-COVID levels of 4%. It's important to note that CRR decisions are outside the MPC's purview. The CRR reduction will be phased in two equal tranches, on December 14th and 28th, 2024. This move seems well-timed, as banks are struggling to build a sufficient liability base to meet the growing demand for credit while also fulfilling regulatory requirements for the Statutory Liquidity Ratio (SLR) and Liquidity Coverage Ratio (LCR). Additionally, recent dollar capital outflows have led the RBI to sell foreign exchange reserves, causing a simultaneous contraction in rupee liquidity (estimated at INR 2.5 trillion in Q3 FY25). Liquidity conditions were trending towards neutral to marginally tight in the coming months. The CRR cut should help infuse around INR 1.2 trillion of liquidity, providing some support to bank liquidity, although it may still be too early to declare a peak in deposit rates.

Growth expectations for FY25 have been revised down to 6.6% y-o-y from the previous 7.2%, while CPI projections have been raised to 4.8% from 4.5%. Inflation is now expected to average 5.7% in Q3 and 4.5% in Q4 FY25, up from the previous projections of 4.8% and 4.2%, respectively.

Table 1: RBI's growth and inflation projection over the monetary policies

| | RBI's growth projections | | | | | | RBI's CPI projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | February 2024 Policy | April 2024 Policy | June 2024 Policy | August 2024 Policy | October 2024 Policy | December 2024 Policy | February 2024 Policy | April 2024 Policy | June 2024 Policy | August 2024 Policy | October 2024 Policy | December 2024 Policy |
| FY24 | 7.3 | 7.6 | 8.2 | 8.2 | 8.2 | 8.2 | 5.4 | | 5.4 | 5.4 | 5.4 | 5.4 |
| Q1FY25 | 7.2 | 7.1 | 7.3 | 7.1 | 6.7 | 6.7 | 5.0 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Q2FY25 | 6.8 | 6.9 | 7.2 | 7.2 | 7.0 | 5.4 | 4.0 | 3.8 | 3.8 | 4.4 | 4.1 | 4.2 |
| Q3FY25 | 7.0 | 7.0 | 7.3 | 7.3 | 7.4 | 6.8 | 4.6 | 4.6 | 4.6 | 4.7 | 4.8 | 5.7 |
| Q4FY25 | 6.9 | 7.0 | 7.2 | 7.2 | 7.4 | 7.2 | 4.7 | 4.5 | 4.5 | 4.3 | 4.2 | 4.5 |
| FY25 | 7.0 | 7.0 | 7.2 | 7.2 | 7.2 | 6.6 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.8 |
| Q1FY26 | | | | 7.2 | 7.3 | 6.9 | | | | 4.4 | 4.3 | 4.6 |
| Q2FY26 | | | | | | 7.3 | | | | | | 4.0 |

Source: RBI, SBIFM Research; NB: Colored value highlights the actuals

In recent months, India has seen capital outflows, with the rupee coming under depreciation pressure. As a result, the RBI's foreign exchange reserves dropped by nearly US$ 100 billion (both spot and forward book) in October and November 2024. To address this, the RBI has introduced a temporary measure to attract dollar capital by raising the FCNR (B) rates. These rates have been increased from the Alternative Reference Rate (ARR) plus 250bps to 400bps for 1-3 year maturities and from ARR plus 500bps for 3-5 year maturities. This move could potentially boost foreign exchange inflows, provided that banks offer attractive terms to NRIs. The window for this measure is open until March 31, 2024.

Looking at the rupee, its volatility has been significantly managed through conscious policy measures, and its depreciation has been much less severe compared to other emerging market (EM) currencies. We expect the rupee to depreciate modestly to 85/USD by mid-2025.

Looking ahead, the likelihood of a rate cut in the next two MPC meetings has increased considerably. However, the macroeconomic environment has become more volatile and uncertain. For example, in October, a rate cut for December was almost fully priced in, but hawkish comments from Governor Das and a CPI inflation print above 6% tempered those expectations. These discussions resurfaced recently after a disappointing GDP print. These experiences have been humbling, serving as useful learning guidelines for the future. We continue to expect a rate cut in February, but we acknowledge that the events leading up to that decision—such as political developments in the US, the February budget, and the outlook for vegetables over the next two months—will play a critical role in determining the final outcome.

From a broader perspective, it seems that fiscal policy has focused primarily on consolidation, while monetary policy has concentrated on managing inflation and ensuring financial stability, with growth concerns taking a back seat. It is now necessary to shift this outlook. India is supply-side ready: banks have the capacity to expand credit, corporations have the balance sheets to support it, and consumers could potentially take on more debt. But the missing factor is demand. Policy support is still needed to boost capital expenditure and attract private investment to drive growth.

It might be argued that the RBI's primary mandate is to keep CPI at 4%. However, considering that current inflation is concentrated in a narrow set of products, and nearly 60% of the CPI basket has been seeing inflation below 4% for the past year, the growth inflation balance inherent in the flexible inflation targeting regime could start to shift towards ensuring growth impulses aren't disturbed. With Q2 FY26 CPI estimates converging around the 4% range and FY25 growth estimates marked down by 50bps, the shift to easing could potentially be a live event in the coming quarter.

From a rates perspective, as the market starts to price in policy easing, we could see benchmark yields align more closely with policy rates. This would give investors with a tolerance for interest rate risk, opportunities to increase exposure to slightly higher duration assets as the easing cycle progresses. However, external factors, particularly US fiscal and trade policy, remain key sources of uncertainty and will likely continue to drive volatility.

## Comparison of today's policy with previous (October 2024) policy

| | Latest Policy: 5th Bi-monthly MPS 2024-25 | Previous Policy: 4th Bi-monthly MPS 2024-25 |
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| **Date** | 6th December 2024 | 9th October 2024 |
| **Action Points** | • Repo rate: 6.50%<br>• SDF rate: 6.25%<br>• MSF rate: 6.75%<br>• CRR: 4.0% of NDTL<br>• SLR rate: 18%<br>• Reverse repo rate: 3.35%<br>• Majority vote from four out of six members to keep policy repo rate unchanged.<br>• MPC stance maintained at neutral with a unanimous vote with a focus on durable alignment of inflation to target while supporting growth. | • Repo rate: 6.50%<br>• SDF rate: 6.25%<br>• MSF rate: 6.75%<br>• CRR: 4.5% of NDTL<br>• SLR rate: 18%<br>• Reverse repo rate: 3.35%<br>• Majority vote from five out of six members to keep policy repo rate unchanged.<br>• MPC stance changed to neutral with a unanimous vote with a focus on durable alignment of inflation to target while supporting growth. |
| **Bottom-line: Policy rate on a status quo for eleven consecutive meetings. Majority vote of four out of six members to keep policy rate unchanged. Unanimous vote of six members to maintain stance at neutral. CRR cut by 50bps to 4.0% of NDTL.** | | |
| **Real Sector** | • Q2 FY25 Real GDP growth at 5.4% y-o-y (vs. 7.0% RBI projection). Lower than expected growth as private consumption and investment decelerated. On the other hand, government expenditure recovered from contraction in Q1. GVA expanded by 5.6% y-o-y aided by agriculture and service sector activity.<br>• High frequency indicators suggest domestic economic activity bottomed out in Q2FY25.<br>• RBI highlights multiple supply side data ranging from PMI, GST collection, toll collection, capacity utilization, healthy kharif output and rabi sowing, E way bills, easing supply chain pressure, aggregate bank credit and deposit growth and service sector buoyancy which underscores continued improvement in India's output.<br>• On the demand side, continued strengthening of manufacturing and construction activity, increased government revenue expenditure, recovery in rural sector holds positive prospects for household consumption. Govt capex, healthy balance sheet, increased investment intentions and business optimism emphasizes prospect for investment cycle in India.<br>• Net external demand supported by improving global trade volumes. Headwinds from geopolitical tensions, volatility in international financial markets, rising protectionism tendencies, and geoeconomic fragmentation.<br>• Real GDP growth projection for FY25 revised downward to 6.6% (vs. 7.2% in the last policy). Q3: 2024-25 is projected at 6.8% (vs. 7.4% in the last policy) and Q4 at 7.2% (vs. 7.4%). Q1:2025-26 projected at 6.9% (vs. 7.3%) and Q2 at 7.3%. | • Q1 FY25 Real GDP growth at 6.7% y-o-y (vs. 7.1% RBI projection) driven by private consumption and investment. On the other hand, government expenditure contracted. GVA expanded by 6.8% y-o-y.<br>• Domestic economic activity continues to be steady.<br>• RBI highlights multiple supply side data ranging from PMI, GST collection, toll collection, capacity utilization, healthy kharif output, E way bills, domestic port cargo, lower input costs, aggregate bank credit growth and service sector buoyancy which underscores continued improvement in India's output.<br>• On the demand side, continued strengthening of manufacturing and construction activity, increased government revenue expenditure, recovery in rural sector and steady discretionary spending in urban areas holds positive prospects for household consumption. Govt capex, healthy balance sheet, increased investment intentions and business optimism emphasizes prospect for investment cycle in India.<br>• Net external demand supported by improving global trade volumes. Headwinds from geopolitical tensions, volatility in international financial markets, elevated public debt, and geoeconomic fragmentation.<br>• Core industries output fell in August on a high base. Excess rainfall dampened production of coal, electricity and cement sector.<br>• Real GDP growth projection for FY25 retained at 7.2%. Q2:2024-25 is projected at 7.0% (vs. 7.2% in the last policy), Q3 at 7.4% (vs. 7.3%) and Q4 at 7.4% (vs. 7.2%). Q1:2025-26 projected at 7.3% (vs. 7.2%). |
| **Bottom Line: Domestic economic activity bottomed out in Q2 2024:25. Central bank is comfortable on domestic growth resilience in 2H 2024:25 but warrants close monitoring.** | | |

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| **Prices** | • Headline CPI increased to 5.5% in Sep and 6.2% in Oct (from 3.6% avg. in Jul-Aug) mainly owing to rise in food prices. Food inflation contribution rose to ~74% of headline inflation in Oct'24 (vs. 68% in Jul-Aug'24). Deflation in fuel group. Slight rise in core category.<br>• Lingering food price pressure to keep headline inflation elevated in Q3 2024-25.<br>• Moving forward, seasonal correction in vegetable prices, good Kharif harvest and healthy Rabi sowing gives some relief.<br>• On the other hand, there are some concerns on the food price shocks which impedes the ongoing disinflationary process and risks the undoing of gains from easing core inflation. Global food prices (vegetable oil) see an uptick in October. Domestic edible oil prices rise.<br>• FY25 inflation expectation has been revised upward to 4.8% y-o-y (vs. 4.5% in the last policy) (Q3: 5.7% (vs. 4.8% in the last policy), and Q4: 4.5% (vs. 4.2%)). Q1 FY26 inflation projected at 4.6% (vs. 4.3%), Q2: 4.0%. | • Headline CPI moderated to 3.6% in Jul-Aug (June print at 5.1%) mainly owing to base effect in food inflation. Food inflation contribution moderated to ~68% of headline inflation in Jul-Aug'24 (vs. 76% in Jun'24). Deflation in fuel group. Slight rise in core category.<br>• Unfavourable base effect and pick up in food price momentum to push headline inflation upwards in September.<br>• Moving forward, above norm buffer stocks of cereals, good Kharif harvest and healthy Rabi sowing gives some relief.<br>• On the other hand, there are some concerns on the food price shocks which impedes the ongoing disinflationary process and risks the undoing of gains from easing core inflation. Global food and metal prices see an uptick in September. Crude oil prices gain volatility.<br>• FY25 inflation expectation has been retained at 4.5% (Q2: 4.1% (vs. 4.4% in the last policy), Q3: 4.8% (vs. 4.7%), and Q4: 4.2% (vs. 4.3%)). Q1 FY26 inflation projected at 4.3% (vs. 4.4%). |
| **Bottom-line: While near term risks remain, it appears that RBI is relatively more confident on inflation moderating closer to the central bank target in the six month to one year period ahead.** | | |
| **Liquidity** | • LAF remained in surplus in Oct-Nov with higher government spending, despite rise in currency in circulation during festive season and capital outflows.<br>• Oct-Nov'24, RBI actively conducted two-way operations to ensure alignment of inter-bank overnight rate with the policy repo rate. It undertook five main and twenty three fine tuning VRRR auctions to absorb surplus liquidity in the system.<br>• Tightening of liquidity in end Oct-Nov due to large GST outflows led RBI to undertake five fine tuning VRR operations to inject liquidity in the system.<br>• RBI will nimbly manage liquidity.<br>• Weighted average call rate (WACR) hovers around repo rate since Feb. CP yields issued by NBFCs, CD yields and 3m T-bill yields have also eased. 10yr GSec yield remained stable in Oct-Nov.<br>• CRR cut by 50bps to 4.00% of NDTL in two equal tranches to release ~INR 1.16tn liquidity to banking system.<br>• Governor emphasises the strength of India's macroeconomic fundamentals and buffers that imparts resilience to the domestic economy from current global spillovers. | • LAF remained in surplus in Aug-beginning Oct with pick up in government spending and decline in currency in circulation. Liquidity conditions had tightened briefly in latter half of September owing to build up of government cash balance on account of tax related outflows.<br>• Aug-Oct'24, RBI actively conducted two-way operations to ensure alignment of inter-bank overnight rate with the policy repo rate. It undertook four main and thirty fine tuning VRRR auctions to absorb surplus liquidity in the system.<br>• Tightening of liquidity in September led RBI to undertake one main and three fine tuning VRR operations to inject liquidity in the system.<br>• RBI will nimbly manage liquidity.<br>• Weighted average call rate (WACR) hovers around repo rate since Feb. CP yields issued by NBFCs and 3m T-bill yields have also eased while CD yields firmed up marginally. 10yr GSec yield softened Aug-Sep. Term premium remained steady.<br>• Governor emphasises the strength of India's macroeconomic fundamentals and buffers that imparts resilience to the domestic economy from current global spillovers. |
| **Bottom-line: Clear focus to align the system liquidity and overnight rates in line with the policy repo rate. Nimble and flexible liquidity management through main and fine tuning in both repo and reverse repo.** | | |
| **External Account** | • In Q1 FY25 India's CAD widened to 1.1% of GDP (vs. 1% in Q1 FY24). The trade deficit widened in October 2024. However, buoyancy in services exports and strong remittance receipts to keep CAD at a sustainable level. CAD of FY25 to be eminently manageable.<br>• On the financing side, foreign portfolio investment (FPI) flows declined in October 2024 with net FPI inflows of US$ 9.3 billion from Apr-Dec'24 (till 4th). On the other hand, NRI deposits and ECB inflows have increased. | • In Q1 FY25 India's CAD widened to 1.1% of GDP (vs. 1% in Q1 FY24). The trade deficit widened in Q1FY25. However, buoyancy in services exports and strong remittance receipts to keep CAD at a sustainable level. CAD of FY25 to be eminently manageable.<br>• On the financing side, foreign portfolio investment (FPI) flows have seen a turnaround in Jun-Oct'24 (till 7th) with net FPI inflows of US$ 19.2 billion (vs. outflow of US$ 4.2 billion in Apr-May'24). NRI deposits have also increased. However, ECB inflows have moderated. |

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| | • Net FDI inflows declined (US$ 3.6bn in Apr-Sep’24 vs 3.9bn in Apr-Sep’23).<br>• Increase in interest rate ceiling on FCNR(B) deposits to attract more capital flows.<br>• INR has exhibited low volatility in 2024-25 compared to EME peers. | • Net FDI inflows have picked up (US$ 4.9bn in Apr-Jul’24 vs 3.8bn in Apr-Jul’23).<br>• FX reserves stand at an all-time high of US$ 705bn as of 26th Sep 2024. Overall foreign capital inflow is sufficient to meet the current account deficit.<br>• INR has exhibited low volatility in 2024-25. |
| **Bottom-line: RBI draws comfort on external account from buoyant service exports and level of foreign exchange reserves.** | | |

**(Mutual funds’ investments are subject to market risks, read all scheme related documents carefully.)**