RBI Policy – Dec 2024 – Key Takeaways

RBI Monetary Policy

Repo Rate Now at 6.50% v/s 6.50%	Unchanged
Standing Deposit Facility Now at 6.25% v/s 6.25%	Unchanged
MSF Bank Rate Now at 6.75% v/s 6.75%	Unchanged
Policy Stance Neutral	Unchanged

RBI on Growth, Inflation

FY25 GDP Growth	Projected at 6.6% from 7.2%
FY25 Inflation Outlook	Projected at 4.8% from 4.5%

Cash Reserve Ratio Now at 4.00% v/s 4.50%	Changed

- **Pause continues –** RBI keeps **rates unchanged for 11th consecutive meet**, opted to maintain the **repo rate at 6.5%** as expected, keeping the monetary policy stance to **'NEUTRAL'** and remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. These actions are consistent with the goal of attaining the medium-term CPI inflation target of 4% within a +/- 2% range.

- **Growth and Inflation Outlook –** The global economy remains stable, albeit at a slow growth rate amid declining inflation. However, geopolitical risks and trade policy uncertainties have increased volatility in financial markets. Domestically, real GDP growth for Q2FY25 was lower than expected at 5.4%, owing to a slowdown in private consumption and investment, amid a recovery in government spending. On the supply side, growth in gross value added was supported by strong services and an improving agriculture sector, but industrial activity in manufacturing, electricity, and mining lagged. Looking ahead, strong Kharif foodgrain production and positive rabi prospects, along with anticipated improvements in industrial activity and sustained service sector growth, bode well for private consumption and investment. Resilient global trade conditions should bolster external demand and exports. However, risks from geopolitical uncertainties, fluctuating international commodity prices, and economic fragmentation remain. Overall, real GDP growth for FY25 is projected at 6.6%, with Q3 at 6.8% and Q4 at 7.2%. For Q1FY26, growth is expected at 6.9%, rising to 7.3% in Q2.

- **Inflation –** Headline CPI inflation rose to 6.2% in October, up from 5.5% in September and below 4.0% in July and August. This increase was primarily driven by a significant rise in food inflation and a slight uptick in core inflation (CPI excluding food and fuel). Looking ahead, food inflation is expected to ease in Q4 due to seasonal declines in vegetable prices and the arrival of kharif harvests. Favorable soil moisture and reservoir levels also support a positive outlook for rabi production. However, adverse weather events and rising international agricultural commodity prices present potential upward risks to food inflation. While energy prices have recently softened, its stability remains key monitorable. Businesses anticipate continued pressure on input costs, with selling price growth expected to accelerate starting in Q4. Taking these factors into account, CPI inflation for FY25 is projected at 4.8%, with Q3 at 5.7% and Q4 at 4.5%. For Q1FY26, CPI inflation is expected to be 4.6%, decreasing to 4.0% in Q2.

- **Liquidity and Financial Market –** The cash reserve ratio (**CRR**) for all banks will be **reduced by 50 bps** in two tranches of 25 bps each, effective from December 14, 2024, and December 28, 2024. This will restore the CRR to 4% of net demand and time liabilities (NDTL), the level before the policy tightening began in April 2022. **This reduction will release approximately ₹1.16 lakh crore of primary liquidity into the banking system.**

  To attract more capital inflows, **the interest rate ceilings on Foreign Currency Non-Resident Bank deposits have been increased**. Effective December 6, 2024, banks can now offer rates up to ARR plus 400 bps for deposits of 1 to less than 3 years, and up to ARR plus 500 bps for deposits of 3 to 5 years. This relaxation is available until March 31, 2025.

- **Other Key Measures –**
  - To enhance coverage of small and marginal farmers in the formal credit system, limit of collateral-free agriculture loans increased from ₹1.6 lakh to ₹2 lakh per borrower.
  - To expand the scope of Unified Payments Interface (UPI) in credit lines, the regulator proposed to permit SFBs to extend pre-sanctioned credit lines through the UPI.
  - To attract capital inflows, interest rate ceilings on FCNR (B) deposits of 1-3Yr, have been increased from ARR+240bps to ARR+400bps and for 3-5Yr deposits from ARR+350bps to ARR+500bps.
  - To improve the scope of public awareness activities, RBI proposes to launch podcasts for wider dissemination of information.

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