Note on RBI's Monetary Policy December 24:
RBI Governor Shaktikanta Das keeps repo rate unchanged. Cuts CRR by 50 bps

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Repo Rate	SDF (Standing Deposit Facility) Rate	MSF (Marginal standing facility) Rate	Cash Reserve Ratio (CRR)
6.5% (Unchanged)	**6.25%** (Unchanged)	**6.75%** (Unchanged)	**4.00%** (50 Bps Cut)

Highlights

- **Repo rate unchanged, stance remained neutral:** The Reserve Bank of India (RBI) announced its 5th bi-monthly monetary policy for FY25 on December 06, 2024. The six-member Monetary Policy Committee (MPC) unanimously decided to keep the benchmark repo rate unchanged at 6.5% for the eleventh consecutive meeting. The MPC also maintained its '**Neutral**' policy stance and reduced the CRR by 50 basis points to 4%, aiming to address banking liquidity concerns.

- **MPC Voting and Stance:** RBI's MPC decided by a 4 to 2 majority to keep the policy repo rate unchanged at 6.50%. Saugata Bhattacharya, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra and Shaktikanta Das voted to keep the policy repo rate unchanged at 6.50%. Dr. Nagesh Kumar and Professor Ram Singh voted to reduce the policy repo rate by 25 basis points. All six members of the MPC unanimously voted to maintain a neutral monetary policy stance, prioritizing a steadfast focus on achieving durable alignment of inflation with the target, while continuing to support economic growth.

- **Domestic Growth and Inflation:** CPI inflation rose to a 14-month high of 6.2% in October. The 2024-25 forecast is revised upwards to 4.8%, though Q2 FY25 is expected at 4%. An increased trade-off between growth and inflation is now being faced by the RBI. While growth is being moderated, headline inflation is yet to show significant signs of cooling due to food inflation. The comforting number is lower core CPI which also indicates that there is slack in demand in the economy.

Our view in a nutshell

- RBI retained its policy repo rate on hold at 6.5% for an 11th straight time. The CRR cut announced was in line with liquidity conditions and market expectations. This will ease deposits rates in coming days.
- **Why was CRR cut?:** The decision to cut CRR by 50 bps will free up Rs 1.16 lakh crore to the banking system, Liquidity in the banking system has tightened due to the RBI's dollar sales to stabilize the rupee and FPI Outflows. Additional liquidity pressure is expected in December from Advance tax payments. This has Pushed RBI to slash CRR by 50Bps.
- RBI continues to have optimistic growth target even though it has revised FY 25 forecast down to 6.6%. This assumes Q3 at 6.8 per cent and Q4 at 7.2 per cent, which are still steep targets.
- Second, CPI inflation for 2024-25 is revised upwards at 4.8 per cent though Q2 FY 25 forecast is just at 4%
- An increased trade-off between growth and inflation is now faced by the RBI. While growth is being moderated, headline inflation is yet to show significant signs of cooling due to food inflation. The comforting number is lower core CPI which also indicates that there is slack in demand in economy.
- So, in the coming quarters, as growth slack becomes more apparent, we continue to expect that policy priorities will be shifted from controlling inflation to supporting growth.

We recommend investors with a holding period of at least 1 year to consider investing in longer duration funds. Investors with lesser appetite for duration risk can consider Funds with moderate duration of 3-5 years.

RBI's Quarterly CPI inflation forecast		
Q3FY25	**4.8%** from 4.5%	Raised
Q4FY25	**4.5%** from 4.2%	Raised
Q1FY26	**4.6%** from 4.3%	Raised
Q2FY26	**4%**	New Estimates
RBI FY25 CPI estimates Raised to **4.8%** from 4.6%		

RBI Real GDP growth estimates		
Q3FY25	**6.8%** from 7.4%	Lowered
Q4FY25	**7.2%** from 7.4%	Lowered
Q1FY26	**6.9%** from 7.3%	Lowered
Q2FY26	**7.3%**	New Estimates
RBI FY25 GDP growth estimates Cut to **6.6%** from 7.2%		

Source: RBI-Monetary Policy Statement 6th December 2024.