



Macro-Economic Updates

December 06, 2024

Monetary Policy Statement, December 2024:

MPC holds rate steady; cuts cash reserve ratio

Monetary and Liquidity Measures

- The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) kept the policy repo rate unchanged once again in its latest policy meeting in December 2024, while keeping the monetary policy stance to 'neutral'. Accordingly,
 - The policy repo rate under liquidity adjustment facility (LAF) stands unchanged at 6.50%.
 - The standing deposit facility (SDF) remains unchanged at 6.25%.
 - The marginal standing facility (MSF) rate and the bank rate stand unchanged at 6.75%.
 - The MPC decided to reduce the cash reserve ratio (CRR) to 4%, in two equal tranches of 25 basis points (bps) each, on the fortnight starting December 14 and December 28, 2024, respectively.
- The MPC decided to continue with the neutral monetary policy stance and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

Regulatory Updates

- In order to attract more capital inflows, the RBI has permitted banks to raise the interest rate ceiling on FCNR (B) deposits of 1 year to less than 3 years maturity at rates not exceeding Overnight Alternative Reference Rate (ARR) plus 400 bps, and deposits with maturity between 3 to 5 years at rates not exceeding ARR plus 500 bps. This relaxation will be available till March 31, 2025.
- To expand the reach of FX-Retail platform and enhance user experience, the RBI has proposed to facilitate the linking of the FX-Retail platform with Bharat Connect (earlier known as Bharat Bill Payment System) operated by the NPCI Bharat Connect.
- The RBI has proposed to develop a benchmark based on the secured money markets (both basket repo and TREP) – the Secured Overnight Rupee Rate (SORR), with the Financial Benchmarks India Limited (FBIL) requested to take the proposal forward.
- The RBI has proposed to launch a regulatory connect programme, through which stakeholders can share their ideas and inputs in the form of case studies/ concept notes, etc. on the topics announced by the Reserve Bank from time to time.
- The RBI has proposed to launch podcasts for wider dissemination of information that is of interest to the general public.
- The RBI has proposed to raise the limit for collateral free agriculture loans from Rs 1.6 lakh to Rs 2 lakh, to enhance coverage of small and marginal farmers in the formal credit system.

- The RBI has decided to permit small finance banks (SFBs) to extend pre-sanctioned credit lines through the Unified Payments Interface (UPI).
- The RBI has proposed to constitute a committee to develop a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the financial sector.
- The RBI has encouraged banks to collaborate with the RBI, to enhance and develop its' AI model – MuleHunter.AI to identify money mule accounts used by fraudsters to channel proceeds of financial frauds.

Macro-economic Outlook

- **Global Scenario:** The global economy continued to grow at a slow pace, amidst decelerating inflation. Geopolitical risks and uncertainty surrounding trade policies have imparted heightened volatility to global financial markets.
- **Indian economy:** Real GDP growth was muted in the second quarter of FY25 due to deceleration in private consumption and investment, while weakness in industrial activity also contributed to the sub-par growth. Robust food grain production, a revival in industrial activity and resilient services sector augur well for resurgence in consumption. Headwinds from geo-political uncertainties, volatility in international commodity prices and geo-economic fragmentation continue to pose risks to the outlook. The MPC revised the FY25 forecast for GDP growth down to 6.6%, from 7.2% earlier.
- **Price levels:** A sharp rise in food and core inflation pushed consumer price inflation (CPI) to 6.2% in October 2024, from below 4% levels just two months prior. The MPC expects food inflation to soften in Q4 FY25, although adverse weather events and rise in international commodity prices pose upside risk to the outlook. The Committee revised its inflation forecast for FY25 upwards by 30 bps to 4.8% (4.5% earlier).
- **Systemic liquidity:** System liquidity remained in surplus during October-November, supported by increased government spending despite a rise in currency circulation during the festive season and capital outflows. The RBI conducted variable rate reverse repo (VRRR) auctions to absorb excess liquidity, and variable rate repo (VRR) auctions to alleviate liquidity stress periods brought about by GST outflows, thus helping align the policy repo rate with the interbank overnight rate. The cut in the CRR rate is expected to release INR 1.16 lakh crore in to the banking system

Outlook: The MPC remained committed to achieving its primary target of price stability, while acknowledging the momentary slowdown in growth during the second quarter. The Committee however believes that a sustainable path towards disinflation is necessary to support growth. The RBI Governor however acknowledged that a growth slowdown, if lingering beyond a certain point, might require policy support. Therefore, the MPC adopted a cautious approach towards policy decision making, relying on sustainable incoming data, and avoid rushed decision-making, which might jeopardize its primary target, which is price stability.

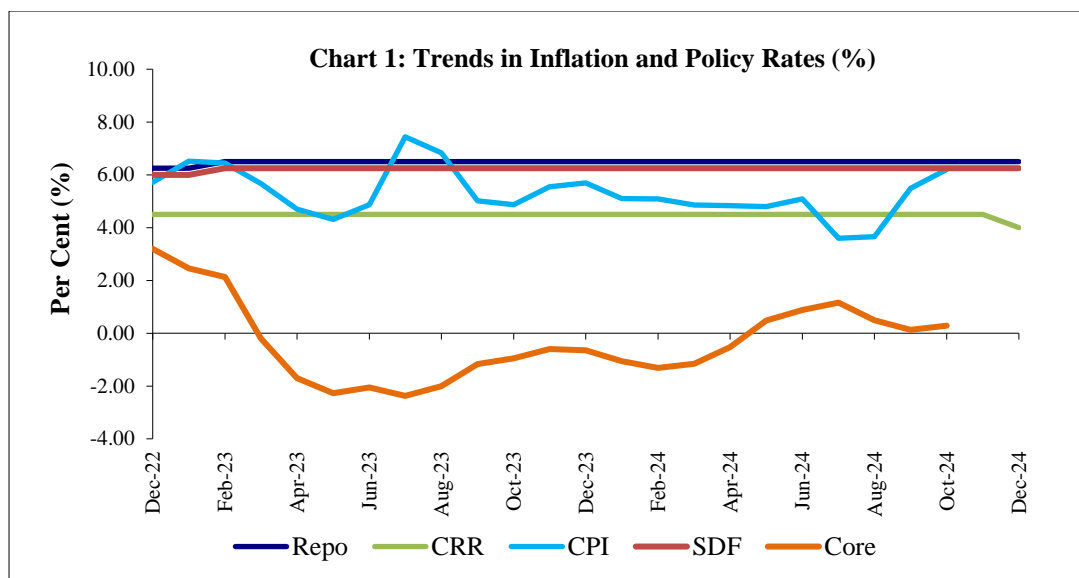


Table 1: Trends in Major Monetary Indicators (%)

Indicators	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Repo	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Fixed rate Reverse Repo	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
SDF	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
CPI	4.83	4.80	5.08	3.60	3.65	5.49	6.21	-	-
Core Inflation	-0.53	0.48	0.88	1.15	0.50	0.13	0.28	-	-
CRR	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.00

SDF: Standing Deposit Facility

CPI: Consumer Price Inflation (%)

CRR: Cash Reserve Ratio

SLR: Statutory Liquidity Ratio

Source: Reserve Bank of India, Ministry of Statistics & Programme Implementation, CCIL Research

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