FORECAST FOR GROWTH LOWERED, INFLA

RBI keeps rates unchanged, cuts CRR by 50 bps to 4%

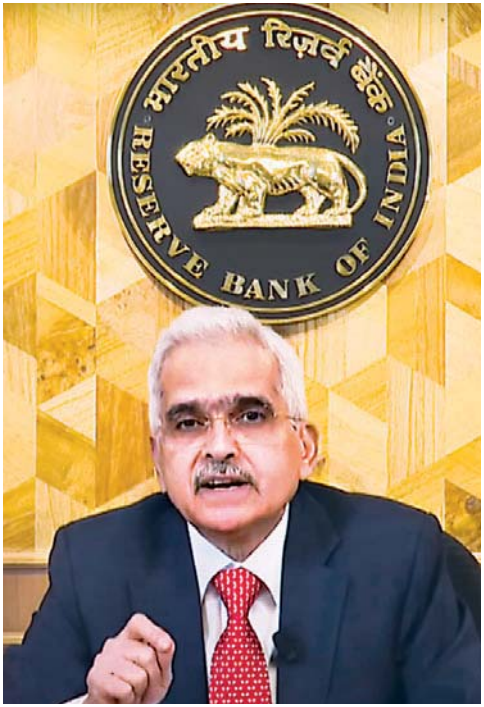

PHOTO: PTI

"IT IS ALL ABOUT DISSECTION OF INFLATION GROWTH CONDITIONS AND ACTING ACCORDINGLY. TIMING OF ACTIONS IS THE KEY"

Shaktikanta Das
Governor, Reserve Bank of India

'The underlying slowdown in growth is due to inflation'

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DE-DOLLARISATION NOT OUR OBJECTIVE, SAYS RBI GUV P6

Maintains neutral stance; sets stage for Feb rate action

MANOJIT SAHA
Mumbai, 6 December

The Reserve Bank of India's (RBI's) six-member monetary policy committee (MPC) on Friday decided to keep the policy repo rate unchanged at 6.5 per cent — the status quo for an 11th straight time — maintaining a "neutral" stance. Even as it reduced the cash reserve ratio (CRR) by 50 basis points to 4 per cent to boost liquidity in the system, it lowered the 2024-25 gross domestic product (GDP) growth projection to 6.6 per cent from 7.2 per cent earlier. The inflation projection for this financial year, meanwhile, was increased by 30 bps to 4.8 per cent.

Repo rate is the rate at which the RBI lends to commercial banks, while CRR is the proportion of deposits that banks must keep with the central bank. One basis point is the hundredth of a percentage point.

In what might make a case for a rate cut in the next policy review in February, food prices, which have lately caused a spike in headline retail inflation, are seen coming down in the January-March quarter.

The two external members of the MPC — Nagesh Kumar and Ram Singh — voted in favour of a 25-bp reduction in the repo rate. Kumar had favoured a rate cut in the previous policy meeting in October too.

The December policy review came against the backdrop of the GDP growth rate declining to 5.4 per cent in the July-September quarter, and retail inflation breaching the central bank's tolerance band of 2-6 per cent to stand at a 14-month high of 6.2 per cent in October. The headline retail inflation rate is projected to reduce to the RBI's target of 4 per cent in the second quarter of next financial year.

RBI Governor Shaktikanta Das, who is completing his second three-year term in office next week, said: "Since the last policy review, inflation has been increasing, while there has been a moderation in growth. Accordingly, the MPC has adopted the prudent and cautious approach of waiting for better visibility on growth and inflation."

"The MPC remains committed to restoring a balance between inflation and growth, which has got unsettled recently," Das said, remarking that the near-term inflation and growth outcomes in India had turned somewhat adverse since the October policy. "It is all about dissection of inflation-growth conditions and acting accordingly. The timing of actions is key."

Most market watchers expect the much-awaited interest rate cut to start from the February policy review.

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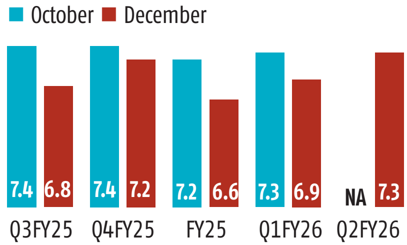
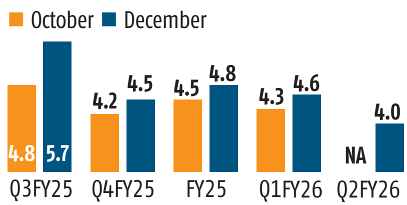
CAUTIOUS APPROACH

RBI's projections at MPC meets (in %)

Growth forecast



Inflation forecast



Source: RBI

BS REPORTER rency assets, a major compo Gold reserves decreased data showed.

FROM PAGE 1

Das attributes CRR cut to tight liquidity conditions

"As the worst of the quarterly growth reading and the peak inflation seem to be behind us, we expect the MPC to derive comfort from that and commence easing the rate from February 2025, cutting the policy repo rate by 25 bps," said Barclays economists in a note. Barclays expects a cumulative reduction of 100 bps over the easing cycle that will follow.

Rahul Bajoria, economist at Bofa Securities, also expects a cumulative rate reduction of 100 bps. "We maintain our call for cuts starting from the February MPC meeting and expect 100 bps of cuts during the cycle, given a durable alignment of headline retail inflation close to 4 per cent through 2025," he said.

Governor Das cited tight liquidity conditions for the RBI's decision to reduce CRR in two tranches. "Even as liquidity in the banking system remains adequate, systemic liquidity may tighten in the coming months due to tax outflows, a rise in currency in circulation, and volatility in capital flows," he said. This CRR reduction is consistent with the central bank's neutral policy stance and would release primary liquidity of about ₹1.16 trillion into the banking system, he said.

He said the growth outlook for the second half of this year and the next year was resilient but warranted close monitoring. On Inflation, Das said the October surge was driven by a sharp uptick in food inflation, which was likely to ease from the fourth quarter. "Food inflation pressures are likely to linger in the third quarter of this financial year and start easing only from the March quarter, backed by a seasonal correction in vegetables prices, kharif harvest arrivals, likely good rabi output and adequate cereal buffer stocks."

He concluded his policy statement on an optimistic note by quoting Netaji Subhas Chandra Bose. "Never lose your faith in the destiny of India," he said.