

Fig 1: Macro projections, Dec'24 vs Oct'24 MPC

RBI Projections				
% y/y	GDP growth		CPI inflation	
	Prior	Post	Prior	Post
Q3 FY25	7.4%	6.8%	4.8%	5.7%
Q4 FY25	7.4%	7.2%	4.2%	4.5%
FY25	7.2%	6.6%	4.5%	4.8%
Q1 FY26	7.3%	6.9%	4.3%	4.6%
Q2 FY26	-	7.3%	-	4.0%

Fig 2: UBI vs MPC projections

UBI vs MPC projection comparison				
	GDP		CPI	
	RBI MPC	UBI	RBI MPC	UBI
Q3	6.8%	6.5%	5.7%	5.5%
Q4	7.2%	7.0%	4.5%	4.2%
FY25	6.6%	6.4%	4.8%	4.7%
Q1 FY26	6.9%	-	4.6%	-
Q2 FY26	7.3%	-	4.0%	-

Source: RBI, UBI research

▪ MPC “prudently” balances inflation-growth (and FX) dynamics

The RBI led Monetary Policy Committee (MPC) decided to keep rates unchanged, in line with the consensus view. There were two dissenters this time, both government nominees viz. Dr Nagesh Kumar (repeat dissent) and Dr Ram Singh. Meanwhile, the RBI Governor maintained a balanced tone as he asserted that “inflation needs to decline durably in order to achieve sustainable growth trajectory”. That said, the RBI cut CRR by 50bps to 4% and reverted it back to levels seen before tightening cycle started in April 2022. While we were anticipating liquidity measures in this policy, the quantum of CRR cut came in as a positive surprise. *From banks’ perspective, this provides for a much-needed permanent liquidity injection of Rs 1.16 lakh cr, in two tranches this month, while impact on profitability via improved net interest margins (NIMs) may be limited to 3-4 bps as per our estimates.*

It needs to be noted that historically, CRR has been used as a policy/rate signal and sets the stage for easing in rates in the coming quarters as inflation-growth balance (priority signaled as per the Governor) improves. **On balance, we maintain our call of 25bps cut in Feb’25 & Apr’25 with a risk of delay unless global market volatility subsides after Trump joins office on 20<sup>th</sup> Jan’25** (Pls see report “[India MPC: Status quo likely in December](#)”). *We were surprised with limited mention of global risks especially via FX in policy statement and firmly believe that going forward, if weather does not play spoilsport, it is not inflation rather FX pressures in a volatile world may limit the degrees of freedom for monetary policy. In coming days, we will watch for announcement with respect to the RBI Governor as his current term ends on 10<sup>th</sup> Dec’24.*

▪ Inflation seen trending towards 4% by Q2FY26 and growth slowdown acknowledged (we see further downside on MPC’s revised growth forecasts)

MPC revised higher the CPI inflation forecast to 4.8% for FY25 with Q3 and Q4 CPI now pegged at 5.7% and 4.5% respectively, from 4.8% and 4.2%. Despite the upward revision in near term inflation forecast primarily led by surprise in some food items like veggies, cereals etc, the MPC now expects drop in inflation towards the 4% mark by Q2FY26. In our view, the Q4FY25 inflation projection of 4.5% has a possibility of undershooting if the elevated 42% inflation in veggies in October squares off completely. Post the October hump, inflation has started to ease, in our view, with November CPI estimated at 5.4%. We maintain our view, that unless weather again plays spoilsport for food inflation, the overall macro environment is non-inflationary in our view, with weak demand pressures, low fiscal & credit impulse, subdued commodity prices (especially oil) among others. The FX channel of imported inflation impact is limited with low sensitivity as RBI estimates that 5% Rupee depreciation (FYTD move is less than 2%) pulls up annual inflation by c.35bps.

From growth perspective, the MPC sharply revised lower the FY25 growth forecast to 6.6% from 7.2% previously, primarily led by drop in Q3 projection to 6.8% (from 7.4% despite festive season effects) while the Q4 forecast is reduced by 20bps to 7.2%. In the post policy media conference, when questioned about the growth surprise in Q2, where MPC expected a 7% growth number initially versus 5.4% clocked, RBI DG Patra responded that it is elevated inflation which needs primary policy focus as it is curbing purchasing power and weakening demand pressures thereby reducing incentive to undertake capex. In our view, given the weak credit impulse and likely delay in broad based private capex recovery as global business sentiment may take a hit under Trump 2.0, growth recovery in H2 FY25 may be capped with a 7%+ growth number looking difficult to achieve despite recovery in government spending and rural demand.

▪ CRR cut a policy signal yet transmission may not be swift

We were anticipating liquidity measures in this policy as core liquidity (adjusted for frictional government balances) is likely to switch to sustained deficit at least by Q4FY25 unless FX outflows (USD 25bn+ in last 2 months) reverse (Pls see report “[INR Liquidity: FX outflows make the pathway difficult](#)”). It is interesting to note that while the RBI Governor acknowledged that liquidity conditions are likely to turn tight in the coming weeks on currency leakage, tax outflows among other factors, he did not say that all tools/ options are on the table. The RBI went ahead with use of only one option i.e. CRR with the 50bps cut implemented to inject a large quantum of Rs 1.16 lakh cr of liquidity in two tranches, this month. *From banks’ perspective, apart from the liquidity impact, positive impact on profitability seen yet muted at ~3-4bps in net interest margins (NIMs).*

However, there has been a lot of discussion that a CRR cut will drive transmission of monetary policy ahead of the projected start of the rate cut cycle from Feb’25. In our view, banks may not be in a rush to cut deposit rates due to factors like implementation of revised Liquidity Coverage ratio (LCR) regulations by 1<sup>st</sup> April’25, “Just in Time” on Government CASA deposits reducing their role in usable funds and unequal liquidity distribution within the banking system. That said, the downside impact on short term market rates may help improve cost of deposit for banks via fall in bulk/wholesale deposit rates.

With respect to other regulatory measures, the enhancement of ceiling for FCNR deposits, may have limited impact in our view, as FCNR rates are already prevailing way below the current ceiling which indicates that we may probably need more policy levers (like CRR cut for FCNR deposits) to incentivise banks to attract more flows.

▪ We see rate cuts starting Feb’25 yet global FX volatility remains on close watch

As discussed in our [MPC preview](#), we see the MPC starting a shallow 50bps rate cut cycle from Feb’25. However, in our view, global FX volatility needs close watch as US President takes office on 20<sup>th</sup> Jan’25. We were surprised about the limited mention in the Governor’s statement on Rupee and global FX pressures as Trump 2.0 implies strong Dollar and higher global rates. Nevertheless, we will evaluate a case for stronger monetary policy support once global FX volatility subsides given that domestic growth concerns would need a combination of strong fiscal and monetary policy support to reinvigorate demand and boost domestic growth in a fragile global environment.

By:

Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Jovana Luke George  
[jovana.george@unionbankofindia.bank](mailto:jovana.george@unionbankofindia.bank)

Policy Decision	August 2024	October 2024	December 2024
<b>Repo rate</b>	6.5%	6.5%	6.5%
<b>Stance</b>	Withdrawal of accommodation	Changed to 'Neutral'	Neutral
<b>Growth Projection</b>	FY25 real GDP projection retained at 7.2%. Q1FY25 growth is projected at 7.1% (7.3% earlier), 7.2% in Q2 FY25, 7.3% in Q3FY25 and 7.2% in Q4FY25. Q1FY26 growth is projected at 7.2%. Risks are evenly balanced.	FY25 real GDP projection retained at 7.2%. Q2FY25 growth is projected at 7.0%, 7.4% in Q3FY25 and 7.4% in Q4FY25. Q1FY26 growth is projected at 7.3%. Risks are evenly balanced.	FY25 real GDP projection revised sharply downward to 6.6%, with Q3 and Q4 growth seen at 6.8% and 7.2% respectively. Q1FY26 growth also revised lower to 6.9% from 7.3% and Q2FY26 seen at 7.3%. Risks are evenly balanced.
<b>Inflation Projection</b>	CPI inflation for FY25 projection kept unchanged at 4.5% with Q2 forecast at 4.4% (3.8% earlier), 4.7% in Q3 (4.6% earlier), and 4.4% in Q4 (4.5% earlier). Q1FY26 CPI growth is projected at 4.4%. Risks are evenly balanced. The sharp upward revision in July-Sep'24 CPI forecast by 60bps to 4.4% signals that the policy guidance was hawkish.	CPI inflation for FY25 projection kept unchanged at 4.5% with Q2 forecast at 4.1%, 4.8% in Q3, and 4.2% in Q4. Q1FY26 CPI growth is projected at 4.3%. Risks are evenly balanced.	CPI inflation for FY25 projection revised upwards to 4.8% with Q3 forecast at 5.7%, and 4.5% in Q4. Q1FY26 CPI growth is projected at 4.6% and Q2FY26 projected at 4.0%. Risks are evenly balanced.
<b>Liquidity</b>	System liquidity transitioned from deficit since the June policy to surplus conditions in July/August. Going forward, the Reserve Bank will continue to be nimble and flexible in its liquidity management operations.	In tune with the changing liquidity conditions, the RBI conducted two-way operations under the LAF to ensure alignment of inter-bank overnight rate with the policy repo rate. The RBI will continue to be nimble and flexible in its liquidity management operations.	Systemic liquidity may tighten in the coming months due to tax outflows, increase in currency in circulation and volatility in capital flows. To ease the potential liquidity stress, CRR of all banks to be cut by 50 bps in two equal tranches of 25 bps each to 4.0% of NDTL with effect from the fortnight beginning 14.12.2024 and 28.12.2024, respectively.
<b>Policy guidance</b>	Risks from volatile and elevated food prices remain high which may adversely impact expectations and result in spillover to core inflation. There is a need to continue with the disinflationary stance, until a durable alignment of the headline CPI inflation with the target is achieved.	The balance between inflation and growth is well-poised. India's growth story remains intact. Inflation is on a declining path, although we still have a distance to cover.	MPC was balanced in its guidance, and it emphasised that <i>"strong foundations for high growth can be secured only with durable price stability"</i> . The RBI Governor asserted that <i>"at this critical juncture, prudence and practicality demand that we remain careful and sensitive to the dynamically evolving situation with all its complexities and ramifications"</i> .
<b>Other Regulatory Measures Proposed</b>			
<ul style="list-style-type: none"> <li>➤ Banks permitted to raise fresh FCNR(B) deposits of 1 to 3 years maturity at rates not exceeding ARR plus 400 bps (vs 250bps currently) and deposits with maturity between 3 to 5 years at rates not exceeding ARR plus 500 bps (vs 350bps). This relaxation is available till 31.03.2025.</li> <li>➤ Facilitate the linking of the FX-Retail platform with Bharat Connect operated by the NPCI Bharat Connect.</li> <li>➤ Introduction of the Secured Overnight Rupee Rate (SORR) - a benchmark based on the secured money markets.</li> <li>➤ Initiative for Open Regulation: To launch a programme named 'Connect 2 Regulate' under the ongoing RBI@90 commemorative events.</li> <li>➤ Launch podcasts for wider dissemination of information that is of interest to the general public.</li> <li>➤ Raise the limit for collateral-free agriculture loans from Rs 1.6 lakh to Rs 2 lakh.</li> <li>➤ Permit SFBs to extend pre-sanctioned credit lines through the UPI.</li> <li>➤ Constitute a committee to develop a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the Financial Sector.</li> <li>➤ Reserve Bank Innovation Hub (RBIH) to further develop the MuleHunter.AI™ initiative to deal with the issue of mule bank accounts being used for committing financial frauds.</li> </ul>			

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

**Disclaimer:**

*The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.*