DEZERV VIEW ON MPC MEETING ON 6TH DEC. 2024

RBI cuts GDP growth projection and CRR, keeps repo rate unchanged at 6.5%

TL;DR | WHAT YOU NEED TO KNOW

1. Revision in GDP Growth Forecast to 6.6%

The RBI revised its full-year GDP growth forecast from 7.2% to 6.6% due to weaker industrial activity but remains optimistic about recovery driven by rural demand and festive spending.

2. Inflation breaches 6% mark

October's inflation breached the 6% upper tolerance band, attributed to food price shocks. However, inflation is expected to moderate, prompting the RBI to hold interest rates steady.

3. Action taken to inject liquidity into the banking system

A reduction in the Cash Reserve Ratio (CRR) will release primary liquidity of INR 1.16 lakh crore into the banking system to support credit flow and consumption. The outlook suggests potential interest rate cuts in 2025, which could further stimulate growth.

Today's Monetary Policy Committee (MPC) meeting focused on two critical economic aspects: slowing GDP growth and rising inflation dynamics.

GDP growth

Amidst weaker industrial activity, the Reserve Bank of India (RBI) revised its full-year GDP growth forecast downward, from 7.2% to 6.6%. However, the RBI remains optimistic about a recovery, citing encouraging high-frequency indicators like improving rural activity, robust monsoon conditions, and festive demand, which could offset current economic concerns.

Inflation

October saw inflation breach the upper tolerance limit of 6%, driven largely by unexpected food price shocks. While the surge raises concerns, the MPC expects these pressures to subside, leading to easing inflation in the near term. As a result, the RBI has decided to hold interest rates steady for now.



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Liquidity measures

To stimulate economic activity, the RBI announced a reduction in the Cash Reserve Ratio (CRR), which will inject additional liquidity into the banking system. This move is aimed at boosting credit flow, encouraging investments, and increasing consumption to counteract economic slowdown.

Dezerv Outlook

The RBI's approach balances inflationary concerns with the need to sustain growth. Inflation is projected to moderate over time, paving the way for possible interest rate cuts in early 2025.

Such measures are expected to support economic revival, particularly through improved consumption and investment activities.

Conclusion

The combination of liquidity injections and a watchful stance on inflation signals the RBI's commitment to economic stability. Given India's strong macro economic indicators, the India growth story remains steadfast and a gradual revival of the economy appears likely.

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