

India's central bank reduces CRR, leaves repo rate unchanged

The RBI left the repo rate unchanged at 6.5% but cut the cash reserve ratio by 50bp to 4%. The central bank made it clear that it remains focused on price stability as its top priority. We continue to expect the RBI to cut rates in February next year as we forecast CPI inflation to fall by around 100bp by December



Reserve Bank of India
Governor Shaktikanta
Das

No change in repo rate, but RBI cut CRR to address liquidity tightening

The Reserve Bank of India left the repo rate unchanged at 6.5% but cut the cash reserve ratio by 50bp to 4%, in line with our and consensus expectations. The monetary policy stance was left unchanged at neutral. 10-year yields went up by 4bp to 6.71% as part of the market was expecting the RBI to cut rates today. We think today's rate moves and commentary indicate that while central bank has greater confidence that inflation is on a declining trend, the RBI is not comfortable with the recent surge in food inflation that drove headline CPI higher than the central bank's target. The CRR cut indicates the RBI's aim to address the sharp tightening of banking system liquidity arising from RBI's FX operations as well as expected volatility in capital flows.

RBI continues to highlight price stability as its top priority

The RBI made it amply clear that it remains focused on price stability as its top priority, and that it is not in a hurry to cut rates despite recent weaker growth numbers until there are clear signs of inflation easing. The RBI sees risks to GDP growth as balanced in line with our call that while GDP growth is likely to weaken in 2025 vs 2024, it's not falling off the cliff and should remain relatively strong. The RBI expects real GDP growth to accelerate to 6.8% in the fourth quarter of this year from a very weak print of 5.4% in the third quarter.

Measures to attract foreign inflows are positive for INR

The RBI raised interest rate ceilings for Non-Resident Indian deposits to attract more foreign currency inflows, which should be positive for the Indian rupee. INR appreciated by 0.3% to 84.52 vs the USD post the policy announcement. Overall, we expect INR to trade with an appreciating bias in December. Donald Trump's re-election is overall good news for the INR as India is much less exposed to the US for final demand of its exports.

Rate cuts still likely in the first quarter of 2025

We continue to expect the RBI to cut rates in February next year. First, our CPI inflation trajectory has CPI inflation falling sharply to 5.2% in December this year from 6.2% in October, driven by softer crude oil and food prices. Second, GDP growth softened sharply to 5.4% in the third quarter of 2024, much below consensus expectations of 6.5% – suggesting that a cyclical growth moderation is underway. Though YoY numbers should improve from here on, domestic demand is expected to weaken sequentially. Monetary policy easing and continued focus on fiscal consolidation should be positive for long-end bonds in 2025.

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