Repo rate kept unchanged

RBI's monetary policy committee (MPC) maintained the status quo on repo rate keeping the rates unchanged at 6.5% with neutral stance. While CRR has been cut by 50 bps to 4% from 4.5% earlier which is likely to release INR 1.16 trillion. CRR cut, a permanent measure to infuse liquidity, will release more cash in the hand of banks to lend; which is also margin accretive albeit in small way.

Broadly, we expect RBI to change the monetary policy stance from tightening to expansionary one beginning Mar'2025. In our view, ~100 bps of repo rate cut over the period of next 1 yr and ~200 bps over the next 2 years' time is quite possible. This will also have impact on the g-sec yield which is also likely come down by ~100 bps over next 1 yr (from current 6.7%). This shall result in banks booking sizeable trading gains on AFS investment book, which is yet not factored in their consensus numbers.

GDP growth forecast revised downwards by RBI to 6.6% for FY25 period from 7.2% estimated earlier (with Q3/Q4 of FY25 projected at 6.8%/7.2%). This adjustment follows a disappointing GDP growth rate of 5.4% in the second quarter of FY25, marking a seven-quarter low. On the other hand, CPI inflation for FY25 is revised upwards to 4.8% from 4.5% estimated earlier, with Q3FY25 projected at 5.7% and Q4FY25 at 4.5% levels).

Key Highlights of policy

- Repo rate kept unchanged at 6.5% with neutral stance
- CRR is cut by 50 bps from 4.5% earlier to 4% of NDTL in two equal tranches of 25 bps each from the fortnight beginning Dec 14 & Dec 28, 2028. This will restore the CRR which was prevailing before the commencement of the policy tightening cycle in April 2022.
- **Raising limit on interest on FCNR deposits** – Interest rates on FCNR deposits raised from ARR (Overnight Alternative Reference Rate) plus 250-350 bps earlier to 400 bps now for deposits of 1-3 year maturity. And for deposits 3-5 yr maturity, ARR plus 350 bps fixed earlier to ARR plus 500 bps now.

- **Introduction of the Secured Overnight Rupee Rate (SORR) replacing MIBOR** - The Reserve Bank of India (RBI) established a committee chaired by Shri Ramanathan Subramanian to review the Mumbai Interbank Offered Rate (MIBOR) and consider transitioning to new benchmarks. It also proposed the introduction of a new benchmark, the Secured Overnight Rupee Rate (SORR), based on basket repo and tri-party repo (TREP) transactions, which would provide a more stable measure of overnight funding costs - aiming to modernize India's interest rate benchmarks and enhance their reliability in a changing financial landscape.
- There is increase in the limit of collateral free agricultural loans from INR 1.6 lakh to INR 2 lakh.
- **Pre-sanctioned Credit Lines through UPI – Extending the scope to SFBs** - In September 2023, the scope of the Unified Payments Interface (UPI) was significantly expanded to allow Scheduled Commercial Banks, excluding Payments Banks, Small Finance Banks (SFBs), and Regional Rural Banks, to link pre-sanctioned credit lines as funding accounts. This initiative aims to provide low-ticket, low-tenor credit products to 'new-to-credit' customers, thereby enhancing access to finance. SFBs, known for their high-tech, low-cost models that effectively reach underserved populations, are proposed to be allowed to extend these pre-sanctioned credit lines through UPI.
- **GDP growth forecast revised downwards by RBI to 6.6% for FY25 period from 7.2% estimated earlier** (with Q3/Q4 of FY25 projected at 6.8%/7.2%). This adjustment follows a disappointing GDP growth rate of **5.4%** in the second quarter of FY25, marking a seven-quarter low.
- CPI inflation for FY25 is revised upwards to 4.8% from 4.5% estimated earlier, with Q3FY25 projected at 5.7% and Q4FY25 at 4.5% levels)

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