REPO RATE UNCHANGED: ECONOMY

NEWS: Amid high inflation, RBI keeps repo rate unchanged at 6.5%

WHAT'S IN THE NEWS?

The RBI's Monetary Policy Committee maintained the **repo rate at 6.50%** for the 11th consecutive time to balance inflation and growth, while reducing the **CRR to 4%** to infuse ₹1.16 lakh crore liquidity into the banking system. GDP growth for FY25 was revised to **6.6%**, with inflation projected at **4.8%**, driven by food price pressures.

Repo Rate and Monetary Policy:

- **Repo Rate:** The rate at which the Reserve Bank of India (RBI) lends money to commercial banks in case of short-term liquidity needs.
- The Monetary Policy Committee (MPC) kept the **repo rate unchanged at 6.50%** for the 11th consecutive bi-monthly review. This reflects the RBI's cautious stance in balancing inflation control and growth promotion.

Cash Reserve Ratio (CRR):

- **CRR:** The percentage of a commercial bank's total deposits that it must maintain as reserves with the RBI.
- The RBI reduced the **CRR by 50 basis points to 4%**, injecting **₹1.16 lakh crore of liquidity** into the banking system to address tight conditions.

Growth Projections:

- FY25 GDP growth projection was revised downwards from **7.2% to 6.6%**, citing slower growth momentum.
- **Gross Domestic Product (GDP):** The total monetary value of all final goods and services produced in a country within a specific period, serving as a key indicator of economic performance.
- **Q2 FY25 GDP growth** fell to **5.4%**, reflecting weakened momentum, especially in private consumption.

Inflation Outlook:

- **Inflation:** The rate at which the general level of prices for goods and services rises, eroding purchasing power.
- Retail inflation rose to **6.2% in October 2024**, driven by unexpected surges in food prices.

- The RBI revised its FY25 inflation forecast upward to **4.8%**, expecting relief in Q4 due to seasonal corrections in food prices and robust kharif and rabi harvests.

Balancing act

The RBI on Friday tried to find a balance between inflation management and supporting economic growth

- The RBI kept the repo rate **unchanged at 6.5%** for a record 11th meeting in a row
- The Cash Reserve Ratio — the proportion of deposits that banks must set aside with the central bank — has been cut by **50 basis points to 4%**
- The cut will infuse **₹1.16 lakh crore** into the banking system and will soften short-term interest rates and enhance capacity of banks to extend credit

Liquidity Management:

- **Liquidity:** The availability of cash or easily convertible assets to meet immediate financial obligations.
- Measures like the **CRR cut** aim to ease liquidity stress caused by tax outflows (direct taxes and GST collections).

Foreign Currency Deposits (FCNR-B):

- **FCNR(B):** Foreign Currency Non-Resident (Bank) deposits allow NRIs to deposit foreign currency in Indian banks, offering protection against currency risk.
- Interest rate ceilings for FCNR(B) deposits were raised to attract capital inflows:
    - **1 to <3 years:** ARR + 400 bps (previously ARR + 250 bps).
    - **3 to 5 years:** ARR + 500 bps (previously ARR + 350 bps).

Governor's Key Observations:

- High inflation is **eroding disposable incomes**, reducing private consumption and impacting real GDP growth.
- The RBI adopted a **prudent and cautious approach** while awaiting better visibility on inflation and growth trends.

Source : https://www.thehindu.com/business/Economy/rbi-monetary-policy-committee-repo-rate-unchanged-shaktikanta-das-december-6-2024/article68953744.ece#:~:text=The%20Monetary%20Policy%20Committee%20(MPC,monthly%20review%20in%20a%20row.