

RBI MPC Minutes: Easing inflation opened policy space to support growth

March 13, 2025

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Key takeaways: Minutes of RBI MPC meeting, February 2025

- At the monetary policy meeting that concluded on 7-Feb-2025, the RBI MPC cut the policy repo rate by 25bps to 6.25% by a unanimous vote. The MPC also unanimously voted to maintain the monetary policy stance at 'neutral', which it had changed at its meeting in Oct-2024 from 'withdrawal of accommodation'.

- The MPC and also the RBI have been gradually moving towards easing since the change in stance in October that was followed by 50bp CRR cut in December. In January, the RBI announced measures to replenish system liquidity, followed by the policy rate cut in February, and more liquidity easing measures in February and March. As reiterated by some of the members in the minutes, the liquidity easing steps in January were a precursor to the rate cut in February to enable better transmission of the easing to the system.

- The minutes of the meeting suggest that members were comfortable with the current and expected inflation trajectory. There were concerns, however, about the slowdown in growth that had tilted the balance in its favor in terms of need for policy support. Some members cited low credit growth and high real rate of interest as evidence that monetary policy was contractionary and impinging on growth impulses. One of the external members noted that the combination of persistently low core inflation in the last two years and the slowdown in FY25 indicated that the actual growth in the economy was below the potential rate.

- Most MPC members acknowledged that fiscal policy had played its role in stimulating the economy via income tax relief to middle-income households and sustaining public capital spending in the latest Union Budget for FY26 and that it was now monetary policy's turn to work in tandem with these fiscal efforts to support growth. MPC members weighed the impact of policy rate cut on the exchange rate and capital flows, and noted that these outcomes were either minimal, manageable, or in fact, contrary to standard views. All MPC members noted the escalation in global uncertainties and viewed that the neutral stance of monetary policy would enable the MPC to address these risks in a flexible and nimble way.

- In the post policy conference of the MPC in February, Governor Sanjay Malhotra's comments on the real rate of interest indicated scope for additional 50bp rate cut in the easing cycle from the current level, which would take the policy repo rate to 5.75%. The sluggish pace of recovery, indicated by the latest high frequency data, and further moderation in inflation to sub-4% in February, suggest that the MPC will have scope to deliver another 25bp policy rate cut at its meeting in April. Thereafter, it is plausible that the MPC would prefer to wait and watch before delivering additional easing, given the uncertain external backdrop.

Easing inflation opened policy space to support growth

Most MPC members noted that since their last meeting in Dec-2024, growth-inflation dynamics had evolved in a manner that necessitated support to growth. Economic activity had surprised on the downside, and easing inflation had opened policy space for rate cut.

Comfort on inflation trajectory: The members of the RBI monetary policy committee (MPC) expressed comfort on current and expected inflation trajectory, be it the headline, core or food prices. They noted the moderation in headline CPI from over 6% in October to sub-5% that was expected for January print (actual: 4.3%). Members noted the softness in various measures of core CPI and the fact that only moderate increase was expected in FY26. They also sought respite from the fact that food inflation was likely to ease further amid kharif market arrivals, winter season correction in vegetable prices, and favorable rabi crop prospects. Members noted that global commodity prices were expected to remain benign, limiting spill overs to domestic inflation.

Policy support for growth: MPC members noted the sharp downward revisions to the committee's GDP forecast for FY25 from 7.2% in Oct-2024 to 6.4%, as per NSO's first advance estimate. One member (DG M. Rajeshwar Rao) noted the trimming of forecasts for Q1- and Q2-FY26 as well, though the overall outlook for FY26 marked an improvement from FY25. Members expressed concerns regarding manufacturing sector underperformance, as was reflected in Q3-FY25 results of listed companies, and attributed this to external factors (dumping of excess capacities by China), and internal constraints as well (low credit growth to industry and MSMEs, muted urban consumption and private investment). External member Prof. Ram Singh noted that the combination of persistently low core inflation rate in the last two years and the slowdown in FY25 indicated that the actual growth in the economy was below the potential growth rate.

Contractionary monetary policy: Members cited the slowdown in credit growth and high real rate of interest as evidence that monetary policy was contractionary and impinging on growth impulses. External member Shri Saugata Bhattacharya viewed low credit growth to MSMEs and manufacturing as a matter of concern, while Prof. Ram Singh noted that high real interest rate for capital goods was constraining investment in the economy. These issues called for normalization of monetary policy with a rate cut to address domestic growth concerns, with external member Dr. Nagesh Kumar pushing for a 50bp cut. Dr. Kumar has been advocating policy easing since the time he joined the MPC in Oct-2024.

Need for fiscal-monetary policy coordination for better outcomes

Fiscal-monetary policy coordination: Most MPC members, including Governor Sanjay Malhotra, acknowledged that fiscal policy had played its role in stimulating the economy by announcing income tax relief to middle-income households and sustaining public capital expenditure in the Union Budget for FY26. In addition to these counter-cyclical steps to push to growth, the government's adherence to fiscal consolidation path was likely to keep inflation expectations anchored in the medium term. Also, the Budget proposals to support agriculture were positive for price stability. MPC members noted that it was now monetary policy's turn to work in tandem with these fiscal efforts to support growth.

Impact of rate cut on exchange rate and capital flows: MPC members weighed the impact of policy rate cut on the exchange rate and capital flows, and noted that these outcomes were either minimal, manageable, or in fact, contrary to standard views. For instance, Dr. Rajiv Ranjan quoted observations from two studies on this subject.

- Capital flows to India are driven more by its distinctive growth story rather than interest rate differentials, a phenomenon observed for many EMEs (Report by Asian Development Bank, Aug-2024)
- Interest rate defence of exchange rate could be counter-productive especially during periods of global tide towards outflows driven by factors that do not differentiate across nations such as the risk-taking propensity of global investors or uncertainty driving reserve currency strength (BIS Quarterly Review, Sep-2024).

MPC members noted that the risk of imported inflation was low amid expectations that commodity prices will remain subdued. External member Shri Saugata Bhattacharya noted that the pass through from INR depreciation was not a cause of concern, citing observations from the RBI's latest Monetary Policy report that 5% depreciation in USDINR would lift inflation by 35bps and growth by 25bps, through short-term stimulation of exports.

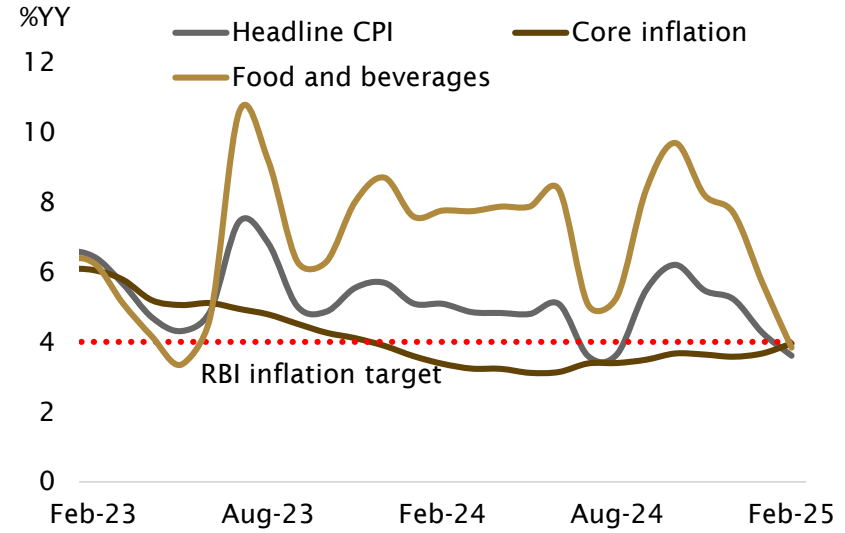
Keeping neutral stance for policy flexibility: All MPC members noted the escalation in global risks emanating from rising protectionism, tariff wars, geopolitical tensions, volatility in financial markets, slowing disinflation, and uncertainty in global monetary policy responses. They viewed that the neutral stance of monetary policy would enable the MPC to address these risks to the growth-inflation balance in a flexible and nimble way.

Growth-inflation outcomes keep policy space open for 25bp cut in Apr

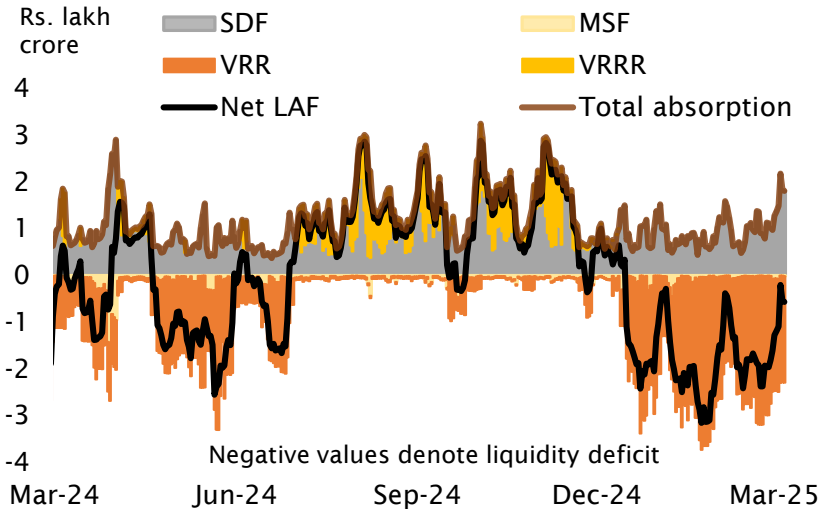
Liquidity easing steps as a precursor to rate cut: MPC members, specifically Dr. Rajiv Ranjan, noted the sequencing of monetary policy measures that indicated a rate cut at the February meeting as the next logical step towards easing. In December, the MPC cut CRR rate to the pre-pandemic level, which was then followed by a number of steps by the RBI in January to infuse liquidity in the system and prepare it for better transmission of the rate cut. Along these lines, the RBI has continued with additional measures in February and March to improve both core and system liquidity. These steps could again be a precursor to another rate cut in April.

In fact, in the post policy conference of the MPC in February, Governor Sanjay Malhotra's comments on the real rate of interest indicated scope for additional 50bp rate cut in the easing cycle from the current level, which would take the policy repo rate to 5.75%. The sluggish pace of recovery, indicated by the latest high frequency indicators, and further moderation in inflation to sub-4% in February, suggest that the RBI will have scope to deliver another 25bp policy rate cut at its meeting in April. Thereafter, it is plausible that the MPC would prefer to wait and watch before delivering additional easing, given the uncertain external backdrop.

Headline, food inflation slipped below 4% in February



Liquidity remains in deficit despite easing measures



Note: Data as on March 6

Appendix I:
Select high frequency indicators

Colour codes based on minimum and maximum Z-score values since April 2023 for respective variables; green shows improvement, red indicates weakening. (Reversed for MGNREGA data where a fall implies improved farm activity)

(%YY, unless mentioned otherwise)		Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Agriculture and rural sector	Fertiliser sales	-1.4	-9.4	-7.7	-7.8	4.6	12.2	8.2	
	Tractor sales	1.4	-5.5	2.4	21.0	-0.9	13.3	11.1	
	Tractor registrations	-11.9	-11.4	14.7	3.1	29.9	25.8	5.2	-14.5
	Two wheeler sales	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1	
	Two-wheeler registrations	17.2	6.3	-8.5	36.3	15.8	-17.6	4.2	-6.3
	Three-wheeler registrations	12.9	1.6	0.7	11.5	4.2	-4.6	6.9	-1.9
	Household work demand under MGNREGA	-19.5	-16.0	-13.4	-7.6	3.9	8.2	14.4	2.9
Industry, construction and urban sector	Industrial production	4.8	-0.1	3.1	3.5	5.2	3.2	5.0	
	Core sector output	6.1	-1.8	2.0	3.1	4.3	4.0	4.6	
	Cement production	5.1	-2.5	7.6	3.1	13.5	4.6	14.5	
	Natural gas production	-1.4	-3.7	-1.6	-1.6	-5.5			
	Electricity requirement	4.0	-5.4	1.2	0.5	4.0	5.2	1.0	
	Steel consumption	14.4	10.0	11.8	8.9	9.5	5.2	5.8	
	Fuel consumption	10.7	-3.1	-4.4	4.1	10.6	2.3	3.0	-5.4
	Passenger vehicle sales	12.9	-1.6	-0.4	1.1	4.3	11.4	3.5	
	Passenger vehicle registrations	10.2	-4.5	-18.8	32.4	-13.7	-2.0	15.5	-10.3
Services	Commercial vehicle sales			-10.7			1.2		
	Commercial vehicle registrations	5.9	-6.0	-10.4	6.4	-6.1	-5.2	8.2	
	Railway freight traffic	4.9	-5.0	-0.1	0.8	1.4	1.6	1.7	-3.2
	Port cargo traffic	5.9	6.7	5.8	-3.4	-4.9	3.5	6.1	
	Toll collection (volume)	9.4	6.8	6.5	11.3	11.9	9.8	14.8	
	Domestic air cargo traffic	8.8	0.6	14.0	8.9	0.3	4.3	6.9	
	International air cargo traffic	24.4	20.7	20.5	18.4	16.2	10.5	7.1	
	Domestic air passenger traffic	7.5	6.7	7.4	9.6	13.8	10.8	14.0	
	International air passenger traffic	8.9	10.9	11.2	10.3	10.8	9.2	11.0	
	Tourist arrivals	-1.3	-4.2	0.4	-1.4	-0.1	-6.6		
	GST e-way bills (total)	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7
	GST revenue collection	10.3	10.0	6.5	8.9	8.5	7.3	12.3	
PMI (Index)	PMI Manufacturing	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3
	PMI Services	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0

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