

RBI MPC Minutes: Durable disinflation, below-potential growth prompted further easing in April

May 19, 2025

TRUST
In Partnership. With Trust.

Key takeaways: Minutes of RBI MPC meeting, April 2025

- The minutes of the latest RBI MPC meeting held in April indicate broad consensus among members to further ease monetary policy via a 25bp rate cut and change in stance to 'accommodative.' However, there were slight differences in the points emphasized by members and in their lines of reasoning to support the policy changes.

- Most MPC members noted the rise in external vulnerabilities due to the resurgence of trade wars in the US President Trump's second term in office. These uncertainties had induced financial market volatility and were likely to hurt global trade and growth, with spillovers to individual economies and regions, including implications for India's growth and inflation though various direct and indirect channels.

- All members expressed comfort on the domestic inflation trajectory, expecting it to align with the central bank's target in FY26 on a durable basis. The reasons underlying this confidence included 1) decline in crude oil prices and largely steady global commodity prices 2) softer outlook for future commodity prices 3) decline in domestic food inflation and improvement in outlook due to bumper crop output 4) forecast of a normal monsoon in 2025 5) anchoring of domestic inflation expectations of households and businesses.

- Most MPC members viewed that domestic growth was still recovering from the slump in H1-FY25 and that global trade wars had only amplified the downside risks to growth. In this backdrop, moderating inflation and indications that it was on track to align with the RBI's 4% target in FY26, kept policy space open to focus on and boost domestic growth.

- The views of RBI MPC members on the trends in economic activity were mixed, with some concerned about pockets of weakness, while others noting resilience. But they all agreed that global uncertainties had raised downside risks to domestic growth. The members voted to ease policy to support consumption and investment in the economy, and cushion the impact of external headwinds.

- MPC members noted that India's external sector would be vulnerable to global tariff wars via direct impact on goods trade, and remittances and other capital flows. On the bright side though, most of them cited comfort on foreign exchange reserves to deal with unforeseen risks, and expected services exports to remain resilient.

RBI MPC members noted heightened global risks amid tariff wars

The minutes of the latest RBI MPC meeting held in April indicate broad consensus among members to further ease monetary policy via a 25bp rate cut and change in stance to 'accommodative.' However, there were slight differences in the points emphasized by members and in their lines of reasoning to support the policy changes. Some of these are noted below:

Rise in external risks due to global trade wars: Most MPC members noted the rise in external vulnerabilities due to the resurgence of trade wars in the US President Trump's second term in office. These uncertainties had induced financial market volatility and were likely to hurt global trade and growth, with spillovers to individual economies and regions.

Some of the members alluded to specific channels of disruptions from these trade wars. Dr. Rajiv Ranjan noted, "The broader implications of these tariffs and the individual policy responses of different countries could result in prolonged instability, upended and inefficient global supply chains, a slowdown in international trade and lower investment confidence, ultimately jeopardising the prospects of global economic recovery."

In addition to the spill overs from likely global growth slowdown, the RBI MPC members noted various direct and indirect channels through which the ongoing trade wars could impinge on domestic growth prospects, particularly with the US being India's largest export destination. These included but were not limited to lower contribution from the external sector, financial market volatility, and dented consumer and business confidence that could mar the nascent signs of recovery in private investment.

On a slightly positive note though, Dr. Nagesh Kumar and Governor Shri Sanjay Malhotra mentioned about relative tariff advantage, with India facing comparatively lower tariffs than some of its Asian peers such as China and Vietnam. However, Dr. Kumar also noted that in the backdrop of high US tariffs, dumping of cheap goods by economies such as China to other Asian economies, including India, could be a cause of concern for the local industry, requiring necessary policy support.

But different perspectives were on the table, with Shri Saugata Bhattacharya noting that the dumping of foreign goods, while being adverse for domestic output, could lower input and intermediate goods costs. Governor Malhotra noted the impact of tariff wars on domestic inflation to be two-sided and therefore, largely neutral, with imported inflation due to currency depreciation likely to be offset by softening global commodity prices.

Inflation expected to durably align with 4% target in FY26

Comfort on durable alignment of inflation with target:

Compared to the previous meeting, the MPC pruned its FY26 CPI inflation forecast by 20bps to 4%. All members expressed comfort on the domestic inflation trajectory, expecting it to align with the central bank's target in FY26 on a durable basis. The reasons underlying this confidence included 1) decline in crude oil prices and largely steady global commodity prices, including food 2) softer outlook for future commodity prices due to expectations of slowdown in global demand amid the ongoing tariff wars 3) decline in domestic food inflation and improvement in outlook due to bumper crop output (both Kharif and Rabi) 4) forecast of a normal monsoon in 2025 5) anchoring of domestic inflation expectations of households and businesses.

One of the key highlights was that all members took respite in moderating food inflation, with Shri M. Rajeshwar Rao noting the broad-based deflationary pressures in CPI food sub-groups. Many MPC members also noted that core inflation (excluding food and fuel) remained well-behaved at around 4% and that the recent mild uptick above this rate was largely attributable to higher gold prices that are reflected in personal care and effects component of the CPI index. In fact, while noting that the "underlying inflationary impulses in the economy are benign and well anchored," Governor Shri Malhotra quoted core inflation excluding food, fuel, gold and silver (often cited as super-core inflation) being muted at 3.2% in February.

In addition to the impact of external risks on domestic inflation noted earlier, Prof. Ram Singh reiterated the recurrence of adverse weather-related supply disruptions as an upside risk to the inflation trajectory.

Policy space to support growth:

Most MPC members viewed that domestic growth was still recovering from the slump in H1-FY25 and that global trade wars had only amplified the downside risks to growth. In this backdrop, moderating inflation and indications that it was on track to align with the RBI's 4% target in FY26, kept policy space open to focus on and boost domestic growth. As noted by Dr. Nagesh Kumar, the ongoing fiscal consolidation efforts, with the deficit target of just 4.4% in FY26, also implied scope for monetary easing to support economic activity.

Below-potential growth, external risks prompted policy easing

Growth resilient but below potential:

The views of RBI MPC members on the current trends in economic activity were mixed, with some concerned about pockets of weakness, while others noting resilience. But they all agreed that global uncertainties had raised downside risks to domestic growth, prompting the MPC to trim its FY26 real GDP growth forecast by 20bps to 6.5%. The members voted to ease policy to support consumption and investment in the economy, and cushion the impact of external headwinds.

Dr. Nagesh Kumar noted that the results from recent RBI surveys were mixed, while Prof. Ram Singh noted that growth was still recovering after an underwhelming performance in H1-FY25. Governor Shri Malhotra noted that being a domestic demand-driven economy, India was relatively less insulated from global trade wars but that it was "not immune to the aftershocks and ripple effects associated with global disturbances." While both the Governor and Shri Saugata Bhattacharya noted the resilience in high frequency indicators of economic activity, they differed in their conclusions. The Governor opined that growth was lower than our aspirations and needed policy support, while Shri Bhattacharya viewed this strength in activity as a caution against "actions associated with prospects of a significant growth slowdown."

Prof. Ram Singh and Dr. Rajiv Ranjan also viewed real GDP growth as being below potential and needing policy support. Both Dr. Rajiv Ranjan and Shri M. Rajeshwar Rao noted that the RBI's model-based projection indicated that even in FY27, real GDP growth would remain sub-7% at 6.7%.

External sector vulnerable amid an uncertain global environment:

MPC members noted that India's external sector would be vulnerable to global tariff wars via direct impact on goods trade, and remittances and other capital flows. On the bright side though, most of them cited comfort on foreign exchange reserves to deal with unforeseen risks, and expected services exports to remain resilient.

Change in stance to further enable transmission of policy easing

Change in stance to "accommodative" to further enable transmission of policy rate cuts:

All MPC members supported the change in policy stance to "accommodative" from "neutral". The unanimous view was noted by some as part of normalization of monetary policy (Dr. Nagesh Kumar), while some others viewed it as policy guidance (Prof. Ram Singh, Dr. Rajiv Ranjan). In fact, Dr. Ranjan quoted studies which noted that as an indicator for future rate action, the change in stance would facilitate policy transmission in an uncertain global environment. In his concluding statement, the Governor noted that, "Going forward too, considering the evolving growth-inflation trajectories, monetary policy needs to be accommodative."

However, Shri Saugata Bhattacharya expressed his reservations on the change in stance, noting that his support was based on the premise that an accommodative stance only indicated that "a rate hike is off the table" and that it "does not provide guidance of a pre-determined policy easing path." His caution stemmed from the fact that domestic growth was resilient, and perhaps, did not require the policy support needed in times of sharp growth slowdown.

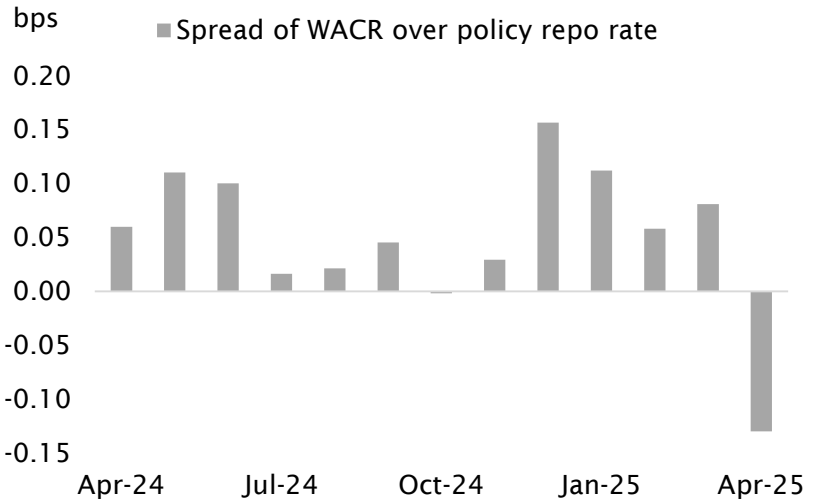
Shri Bhattacharya viewed that RBI liquidity actions would also hasten transmission of easing in policy rates; a view echoed by some of the other members as well. In fact, Prof. Ram Singh noted that monitoring liquidity conditions and adjusting liquidity management tools would be key to ensure the transmission of rate cuts.

Policy caution warranted amid external uncertainties:

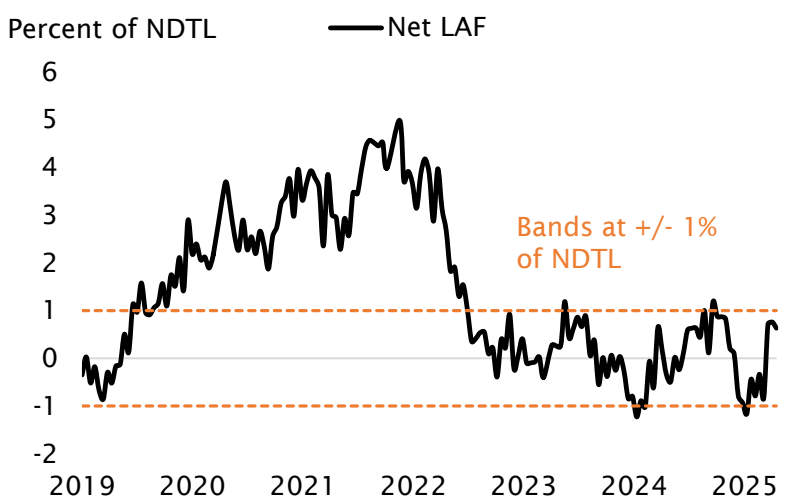
In addition to monetary easing to support domestic growth impulses, MPC members also called for caution in policy making in the backdrop of amplified external risks. The ongoing tariff wars implied a prolonged time of uncertainty, making it challenging to gauge the impact on domestic economy. As noted by Dr. Rajiv Ranjan, other central banks were also being guarded in their latest actions, either by taking a pause or easing with caution. This point was reiterated by Governor Shri Sanjay Malhotra when he noted that the heightened trade and policy uncertainties were "posing complex challenges and trade-offs in policy making."

Liquidity easing kept o/n rates below policy rate in April; financial markets volatile on trade wars, geopolitical tensions

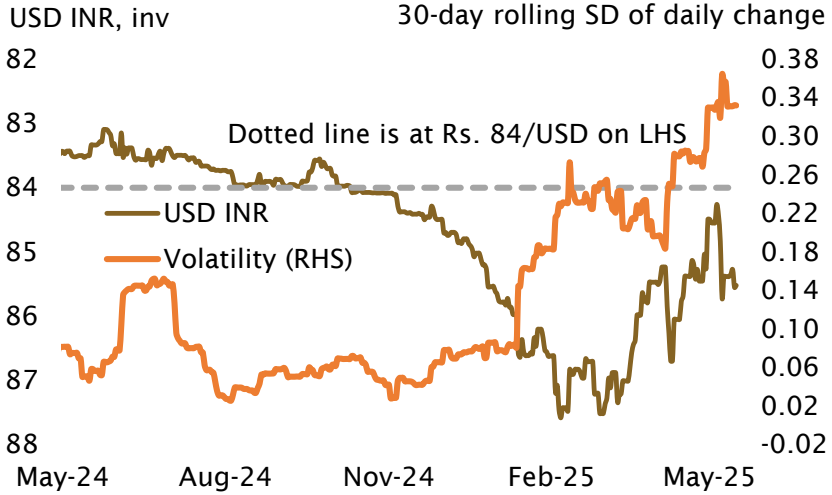
Overnight rate averaged below policy repo rate in April

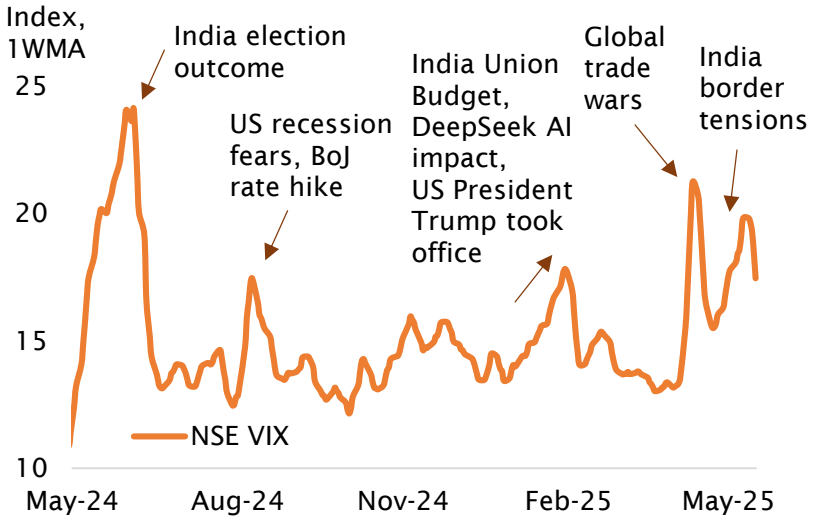


Surplus liquidity sub-1% of NDTL as on 2-May-2025



Indian financial markets remain volatile due to global trade wars and the recent spike in geopolitical tensions





Note: Financial market data as on May 16, 2025

DISCLAIMER:

We are committed to providing completely independent views to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Copyright in this document vests exclusively with Trust Group.

Trust Group

1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in