

Change in policy stance at April meet gives space to RBI MPC to ease beyond the neutral rate (of 5.50%)

April 17, 2025

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Key takeaways: RBI MPC meeting, April 2025

- At the monetary policy meeting that concluded on 9-Apr-2025, the RBI MPC cut the policy repo rate by 25bps to 6.00% by a unanimous vote. This marked the second successive rate cut after the MPC embarked on easing in Feb-2025 for the first time in five years. Accordingly, the standing deposit facility (SDF) rate stood adjusted to 5.75% and the marginal standing facility (MSF) rate and the Bank Rate to 6.25%. The MPC also unanimously voted to change the policy stance to 'accommodative' after holding it at 'neutral' for three straight meetings.

- The Governor's statement noted that the policy stance signaled the intended direction of policy rates and should not be associated with liquidity conditions. In this context, the change in stance to accommodative implied that "going forward, absent any shocks, the MPC is considering only two options – status quo or a rate cut." In concluding remarks, the Governor's statement noted that "the domestic growth-inflation trajectory demands monetary policy to be growth supportive, while being watchful on the inflation front."

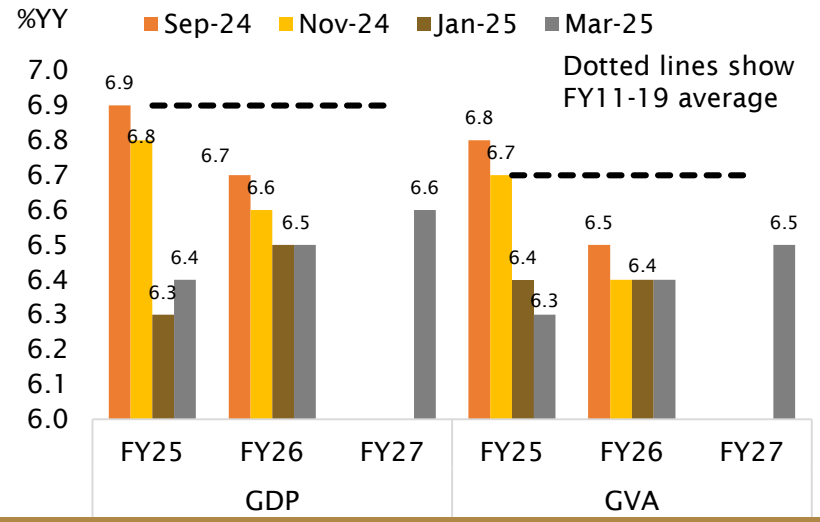
- The MPC noted risks to domestic inflation and growth outlook due to rise in external uncertainties amid the ongoing tariff wars, and accordingly trimmed forecasts for both real GDP growth and CPI inflation for FY26 by 20bps each to 6.5% and 4.0%, respectively from 6.7% and 4.2%, respectively at the meeting in February.

- In the post policy conference, the RBI Governor indicated that the liquidity surplus could be to the tune of 1% of NDTL to enable transmission of recent repo rate cuts to the system. The Governor reiterated the neutral level for the real rate at around 1.50%. The trimming of CPI inflation forecast for FY26 to 4% and the latest easing of policy repo rate to 6% implies scope for additional cut(s) to the tune of 50bps that would take the repo rate to 5.50%. However, the change in policy stance to 'accommodative' has sparked market talk of easing by additional 25bps that would take the terminal repo rate to 5.25%.

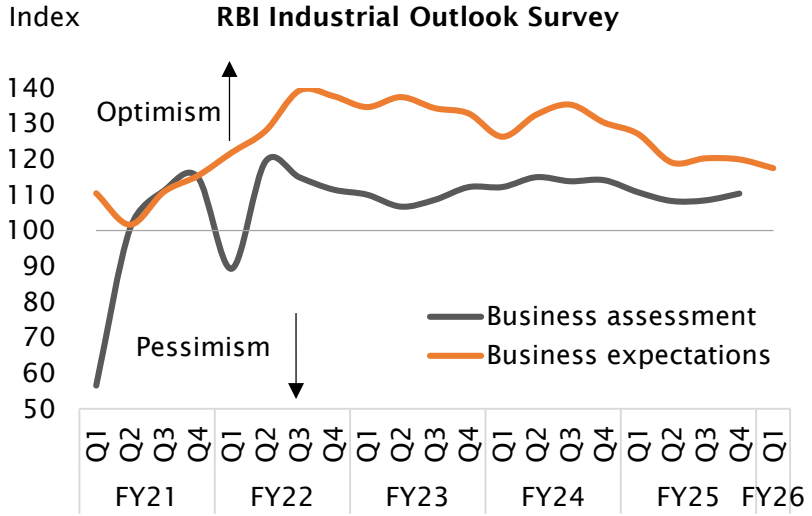
Growth forecasts cut amid rise in downside risks due to tariff wars

- The RBI MPC cut real GDP forecast for FY26 by 20bps to 6.5% with Q1 at 6.5% (-20bps), Q2 at 6.7% (-30bps), Q3 at 6.6% (+10bps), and Q4 at 6.3% (-20bps). In its latest biannual Monetary Policy Report (MPR), the RBI pencilled in baseline projection for real GDP growth in FY27 at 6.7%. The median estimates for real GDP and GVA growth for FY26 from the latest round of SPF surveys remained unchanged from the previous round at 6.5% and 6.4%, respectively, and were introduced for FY27 in the latest round at 6.6% and 6.5%, respectively.
- The MPC noted that domestic growth was recovering after a disappointing performance in H1-FY25 but that it remained lower than expectations. In this backdrop, rise in global uncertainties due to tariff wars had increased downside risks to domestic growth through various channels such as 1) impact of uncertainty on investment and spending decisions of businesses and households 2) impact from lower global growth due to trade frictions 3) negative impact of higher tariffs on net exports. Also, known unknowns such as the government's proposed FTA with the US had made it difficult to quantify the impact on domestic growth.
- The MPC stated factors supportive of growth such as bright prospects for agriculture, signs of revival in manufacturing, and resilience in services sector. On the expenditure side, the MPC noted that rural demand was expected to remain healthy amid a pick up in urban consumption. Investment activity was likely to improve further due to high capacity utilization and government's continued thrust on infrastructure spending. Services exports were expected to remain resilient.

SPF median forecasts of real GDP and GVA growth



Business expectations for Q1-FY25 eased in RBI survey

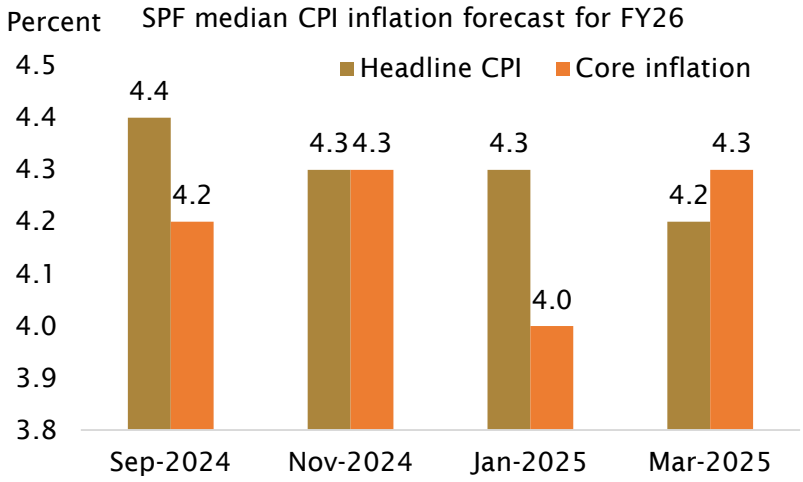


CPI forecasts trimmed due to fall in inflation, improved outlook

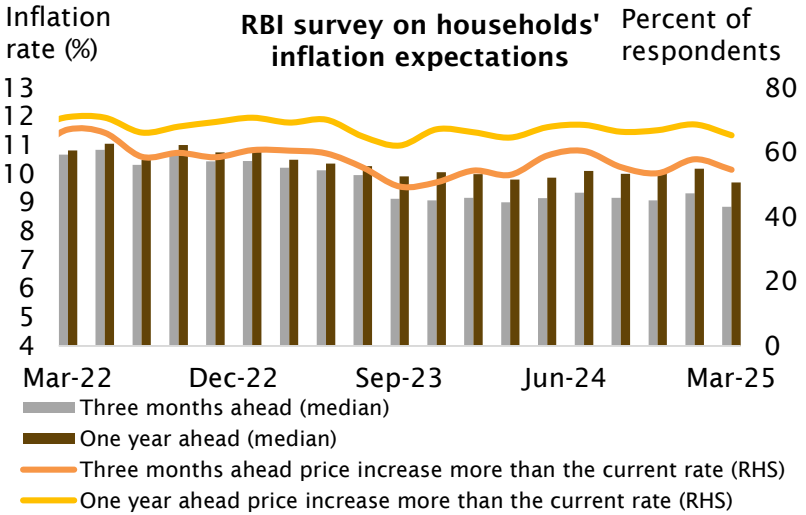
- The MPC statement exhibited confidence on domestic inflation trajectory, including food, reiterating that the headline CPI was on track to align durably with its 4% target. This was reflected in the MPC's forecast for FY26 that was cut by 20bps from the previous meet to 4%, with Q1 at 3.6% (-90bps), Q2 at 3.9% (-10bps), Q3 at 3.8% (unchanged), and Q4 at 4.4% (+20bps). In fact, accounting for actual data for the Jan-Mar period, CPI inflation is slated to average sub-4% in CY2025. For FY27, the MPR noted baseline inflation forecast at 4.3%. As per latest results from the survey of professional forecasters (SPF), median estimates for headline CPI inflation were at 4.2% for FY26 and 4.3% for FY27. For core inflation, these were 4.3% and 4.0%, respectively.

- The factors contributing to positive outlook for food inflation included 1) robust estimates of Kharif and Rabi output in FY25, and 2) decline in the three- and 12-month ahead inflation expectations of households in the latest RBI survey that could anchor inflation expectations going ahead. The MPC statement accounted the forecast of a normal monsoon in 2025 in its estimates for CPI inflation, but also acknowledged the likelihood of adverse weather-related disruptions as a potential upside risk. The statement noted that the impact of global uncertainties was likely to not be a major concern, as lower commodity prices (particularly, crude oil) were expected to offset the risk from imported inflation amid currency depreciation pressures.

Core inflation to slightly exceed headline CPI in FY26



Households' inflation expectations fell in latest survey



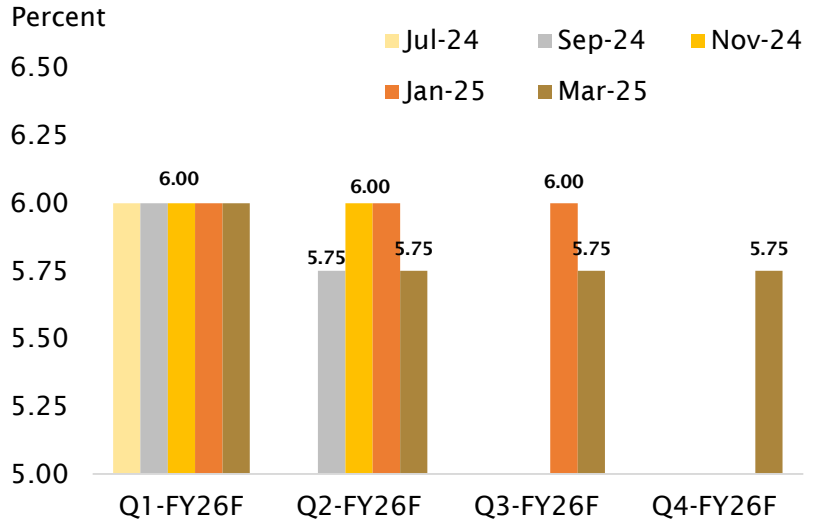
Change in stance makes room for easing beyond neutral rate

- The Governor's statement noted that the RBI will remain proactive to ensure adequate liquidity in the system. In the post policy conference, the RBI Governor indicated that the liquidity surplus could be to the tune of 1% of NDTL to enable transmission of recent repo rate cuts to the system.

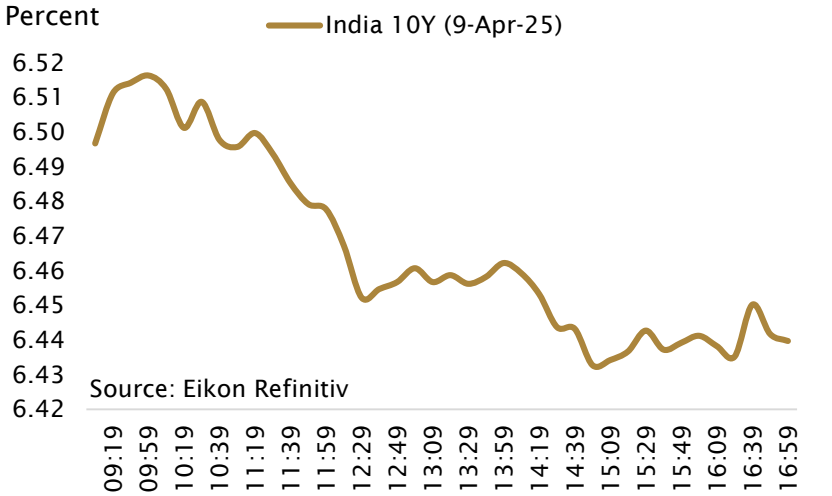
- The Governor also reiterated the comfort or neutral level for the real rate at around 1.50%. The trimming of CPI inflation forecast for FY26 to 4% and the latest easing of policy repo rate to 6% implies scope for additional cut(s) to the tune of 50bps that would take the policy repo rate to 5.50%. However, the change in stance to accommodative suggests that the MPC will have room to ease further if the external environment turns adverse and/or domestic growth needs further impetus. The change in stance has sparked market talk of easing by an additional 25bps that would take the terminal repo rate to 5.25%.

- The quarterly median forecasts for policy repo rate from the latest round of survey of professional forecasters (SPF) shows an additional cut of 25bps in FY26 at the meeting in August that would take the policy repo rate to 5.75%. However, the minimum forecast value at 5.00% for end Q4-FY26 indicates views of further easing, while the maximum value at 6.00% suggests a rather hawkish opinion of certain participants.

SPF median quarterly forecasts of policy repo rate



Bonds rallied as stance change signaled more easing



Harmonization of gold loan norms could rein in ongoing surge

- Some of the key measures announced as part of developmental and regulatory policies included:
  - **Securitisation of stressed assets framework:** The RBI issued draft framework (to solicit public comments) for securitisation of stressed assets through a market-based mechanism, in addition to the existing ARC route under SARFAESI Act, 2002. This is expected to enable resolution of stressed assets by improving risk distribution and providing an exit route from such exposures for lenders.
  - **Framework on co-lending arrangements (CLA):** At present, the guidelines on co-lending are applicable only to arrangements between banks and NBFCs for priority sector loans. The RBI has decided to expand the scope for co-lending to all regulated entities and to all loans – priority sector or otherwise, and has issued draft guidelines for public comments.
  - **Review of guidelines for lending against gold jewellery:** The RBI has issued draft guidelines to harmonise prudential norms and conduct related aspects on gold loans across regulated entities, keeping in view their differential risk-bearing capabilities. This comes in the backdrop of a surge in gold loans, and the draft rules indicate tightening of norms, particularly in terms of the loan-to-value ratio (LTV), its computation and maintenance.
  - **Review of non-fund based credit facilities:** The RBI has issued draft guidelines to harmonize and consolidate norms covering non-fund based facilities (such as Guarantees, Letters of Credit, Co-Acceptances etc.) across regulated entities. This includes review of guidelines on partial credit enhancement (PCE) that is expected to broaden the funding sources for infrastructure financing.
  - **Enhancing transaction limits in UPI:** The RBI has entrusted that the NPCI, in consultation with banks and other stakeholders of the UPI ecosystem, may announce and revise limits on Person to Merchant payments (P2M) based on evolving user needs.
  - **'On Tap' application facility under theme neutral regulatory sandbox:** To foster innovation and keep pace with the evolving FinTech and regulatory landscape, the RBI has decided to make the Regulatory Sandbox 'Theme Neutral' and 'On Tap'.

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