

RBI MPC cut policy repo rate by 25bps to 6.25% by unanimous vote; retained neutral stance

February 12, 2025

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Key takeaways: 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. Accordingly, the standing deposit facility (SDF) rate stood adjusted to 6.00% and the marginal standing facility (MSF) rate and the Bank Rate to 6.50%.
- 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 Economic Survey for FY25, tabled by the Department of Economic Affairs, Ministry of Finance, a day ahead of the Union Budget for FY26, penciled in real GDP growth for the Indian economy in FY26 in the range of 6.3% - 6.8%, which is slightly below the forecast in its previous publication for FY25 at 6.5% - 7.0%.
- In its assessment of growth and inflation outlook, the RBI MPC projected real GDP growth for FY26 at 6.7%, with Q1 growth at 6.7%, Q2 at 7.0%, and both Q3 and Q4 at 6.5% each.
  - Forecasts for both Q1 and Q2-FY26 were trimmed lower from 6.9% and 7.3%, respectively projected at the time of Dec-2024 MPC meet.
- CPI inflation is projected to average 4.4% in Q4-FY25 (revised marginally down from 4.5%), and FY25 full year forecast stays unchanged at 4.8%. Inflation is expected to average 4.2% in FY26, with Q1 at 4.5% (revised marginally down from 4.6%), Q2 at 4.0%, Q3 at 3.8%, and Q4 at 4.2%.
- Despite the policy rate cut being on expected lines, markets were slightly dismayed amid anticipation of additional easing via change in stance and/or more liquidity infusing measures. Lack of guidance on future easing also weighed on sentiment.
- In the post policy conference, the RBI Governor noted that the current real rate of interest would be at around 1.5%. For FY26, the MPC has projected CPI inflation at 4.2% and the policy rate post the latest cut stands at 6.25%. This implies the real rate of around 2%, suggesting scope for additional 50bp cut in the easing cycle from the current level, which would take the policy repo rate to 5.75%.

FY26 real GDP growth forecast at 6.7%, CPI inflation at 4.2%

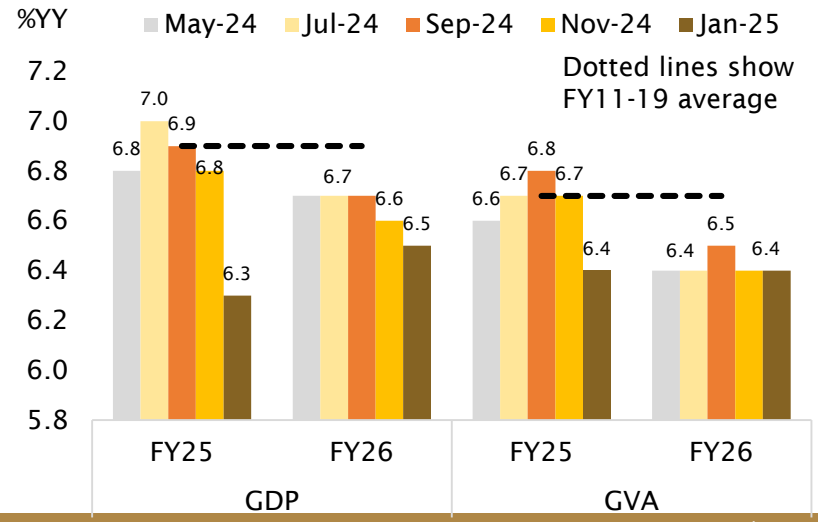
Real GDP %YY	Jun-24	Aug-24	Oct-24	Dec-24	Feb-25
Q3:FY25 F	7.3	7.3	7.4	6.8	
Q4:FY25 F	7.2	7.2	7.4	7.2	
FY25 F	**7.2**	**7.2**	**7.2**	**6.6**	
Q1:FY26 F		7.2	7.3	6.9	6.7
Q2:FY26 F				7.3	7.0
Q3:FY26 F					6.5
Q4:FY26 F					6.5
FY26 F					**6.7**

CPI %YY	Jun-24	Aug-24	Oct-24	Dec-24	Feb-25
Q4:FY25 F	4.5	4.3	4.2	4.5	4.4
FY25 F	**4.5**	**4.5**	**4.5**	**4.8**	**4.8**
Q1:FY26 F		4.4	4.3	4.6	4.5
Q2:FY26 F				4.0	4.0
Q3:FY26 F					3.8
Q4:FY26 F					4.2
FY26 F					**4.2**

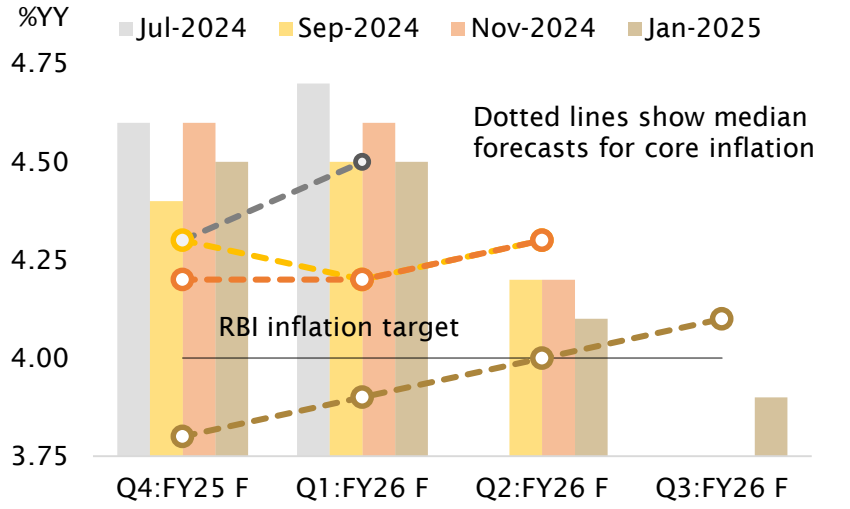
Assessing the rationale for policy rate cut and neutral stance

- The RBI MPC has pencilled in real GDP growth forecast for FY26 at 6.7%, but median estimate as per the latest survey of professional forecasters (SPF) stands at 6.5%, amid 0.5pp moderation in projection for FY25 to 6.3%. This is slightly below the first advance estimate by national statistical office for FY25 at 6.4%. Despite mild improvement in FY26, real GDP growth in both years marks a slowdown from 8.2% in FY24.
- The RBI MPC expects CPI inflation to moderate to 4.2% in FY26 from 4.8% in FY25. This is largely in line with forecasts from latest SPF survey, except that for FY26, median estimate for CPI inflation stands at 4.3%. Core inflation is expected to average 3.6% in FY25 and 4% in FY26, and quarterly forecasts show core inflation to rise above the headline print only in Q3-FY26 at 4.1%, when headline slips below the target to 3.9%.
- As per latest data, CPI inflation eased in November and December after climbing above 6% in October, and is slated to ease further and align close to the target in FY26. Though growth is expected to improve in H2-FY25, after reaching a seven-quarter low of sub-6% in Q2-FY25, it is expected to remain below 7% in both FY25 and FY26. The MPC viewed that these growth-inflation dynamics had opened up policy space to support growth, which triggered the policy rate cut. However, the MPC chose to maintain the neutral stance in the backdrop of external uncertainties around global trade policies, the resultant spill overs to financial markets in the form of excessive volatility, and adverse climate-related events. The MPC viewed that a neutral stand would impart its decision making with the required flexibility to respond to these risks.

SPF median forecasts of real GDP and GVA growth



SPF median forecasts of headline CPI inflation



Assessing factors shaping growth-inflation dynamics; risks to outlook

Factors supporting growth

- Real GDP growth is expected to rebound in H2-FY25 to 6.7%YY from 6.0% in H1, based on full-year forecast of 6.4%, as per the first advance estimate by national statistical office. Some of the factors supporting growth, as cited in the policy and Governor's statements include: 1) Agriculture activity is likely to remain buoyant amid healthy reservoir levels and progress in rabi sowing 2) Manufacturing activity is expected to recover in H2, with mild recovery already indicated by early corporate results for Q3-FY25 3) Rebound in mining and electricity from monsoon related disruptions in Q2.
- On the demand side: 1) Household consumption is likely to receive a fillip from the tax relief in Union Budget FY26 2) Investment is expected to recover amid government's continued thrust on capital expenditure and healthy balance sheets of financial institutions and corporates. Results from some of the latest RBI surveys also continue to indicate positive signals for investment such as capacity utilization close to long-term trend, and improved business outlook for manufacturing and services, particularly in H1-FY26. 3) Resilient services exports are expected to support growth.

Factors influencing inflation

- Food inflation is likely to soften further due to good Kharif output, winter easing in vegetable prices, favorable rabi crop prospects. Also, core inflation is expected to rise but remain moderate.
- The RBI's latest bi-annual monetary policy report (MPR) published in Oct-2024, assumes exchange rate to average Rs.83.5/USD in H2-FY25. It also assesses that if the INR depreciates by 5% over this baseline, inflation could be higher by around 35bps while GDP growth could rise by around 25bps through short term stimulation of exports. So far in H2, the INR has depreciated by close to 2% over baseline assumption, indicating an upside of around 15bps to headline CPI. In the post policy conference following the MPC outcome, held in conjunction with the Ministry of Finance, the Governor noted that the exchange rate was assumed at Rs.87/USD while accounting for CPI inflation forecasts by the MPC. This suggests that the upside risk to CPI inflation due to recent depreciation is likely to be capped and also impinge with a lag. The weakness in INR was long overdue amid the strength in real effective exchange rate in recent months that warranted correction in nominal terms.

Risks to growth outlook

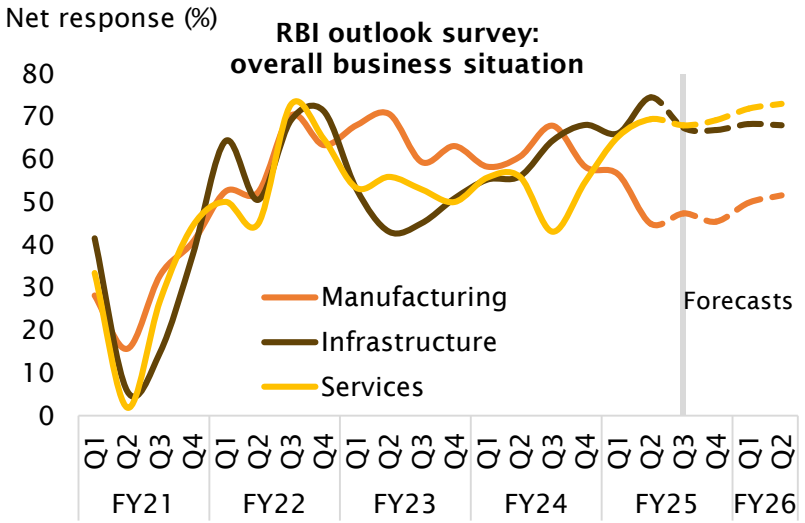
The following factors pose downside risks to growth outlook: 1) geo-political tensions 2) protectionist trade policies 3) volatility in international commodity prices, and 4) financial market uncertainties.

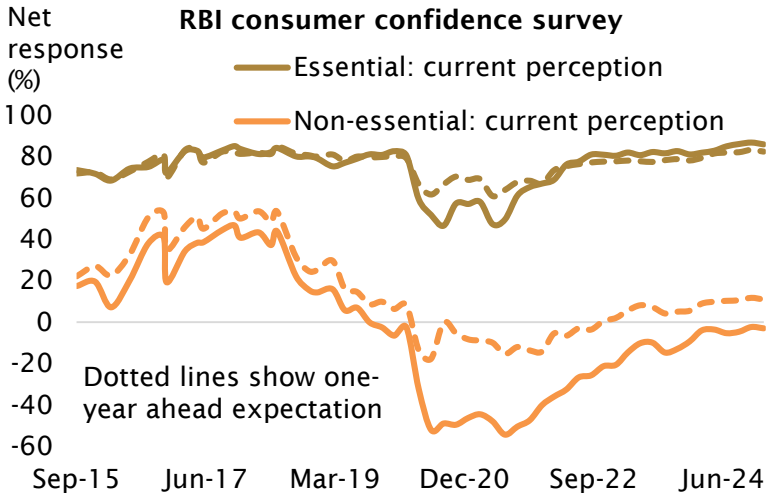
Risks to inflation trajectory

The following factors pose upside risks to inflation trajectory: 1) adverse weather events 2) volatility in energy prices, and 3) financial market uncertainties, for instance, the recent rupee depreciation.

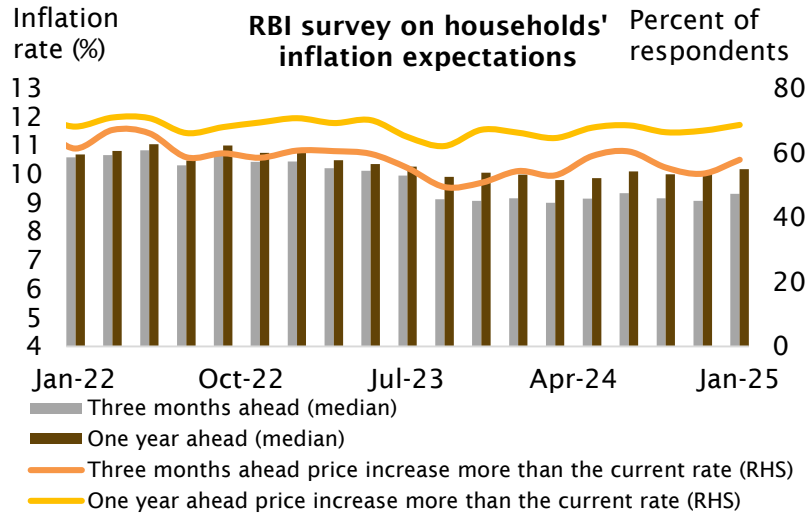
Insights from latest RBI survey results

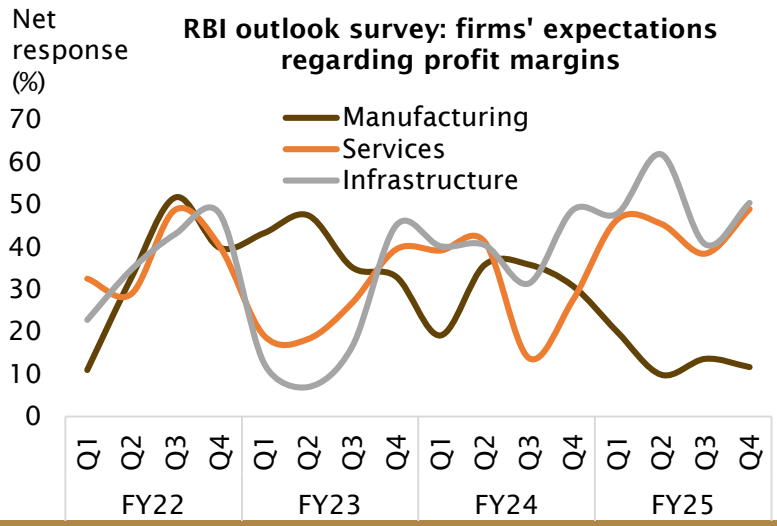
Business situation likely to improve in H1-FY26; spending on non-essential items could rise post tax relief in Budget FY26





Near-term inflation outlook eased except in services; mild rise in firms expecting selling prices to fall in manufacturing



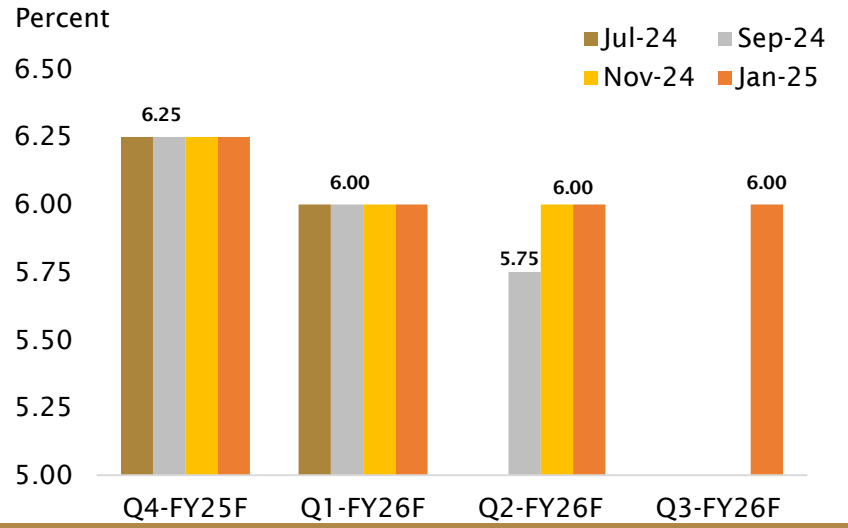


Real interest rate of 1.5% yields scope for additional 50bp easing

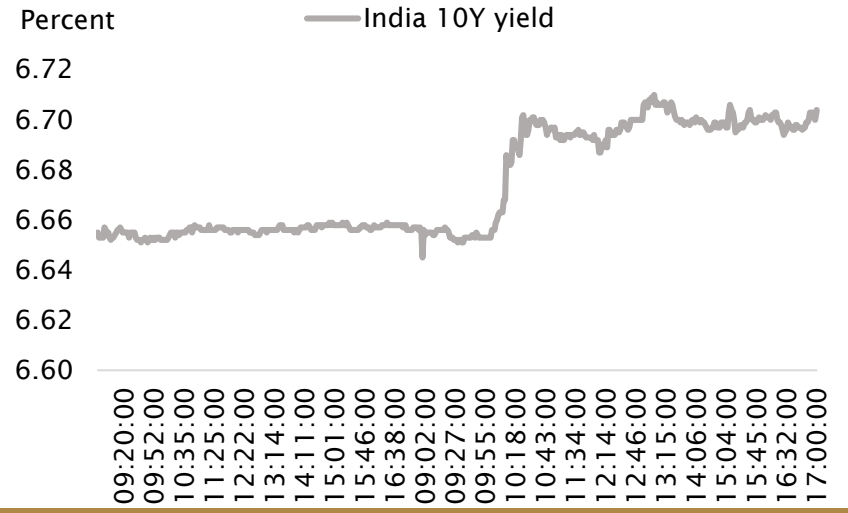
- In the post policy conference, the RBI Governor noted that based on latest inflation prints, the current real rate of interest would be at around 1.5%. For FY26, the MPC has projected CPI inflation at 4.2% and the policy rate post the latest cut stands at 6.25%. This implies the real rate of around 2%, suggesting scope for additional 50bp cut in the easing cycle from the current level, which would take the policy repo rate to 5.75%. Results from the survey of professional forecasters (SPF) indicated median forecast for policy repo rate at this level in September, when the US Federal Reserve had just started to ease but thereafter, has pegged the repo rate at 6%, suggesting further easing of only 25bp.

- Despite the policy rate cut being on expected lines, markets were slightly dismayed, with the benchmark India 10Y rising by around 5bps. This mainly reflected slight disappointment on account of two factors 1) there was a section of markets expecting more easing in the form of additional liquidity easing measures or a change in policy stance to neutral 2) there was also a lack of guidance on future easing, with the policy statement reiterating that the uncertain global backdrop warranted a neutral stance that would enable the MPC to move flexibly and noted that the less restrictive stance was suitable for current meeting, with fresh assessment of macroeconomic conditions required in each of the future meetings.

SPF median quarterly forecasts of policy repo rate



Markets slightly let down as more easing was expected



RBI to balance trade-offs while framing regulatory policies

- **Trade off between stability and efficiency while formulating regulatory policies:** The Governor noted in its statement that the RBI will bear in mind the trade-offs between stability and efficiency while formulating regulatory policies. In such matters, the RBI will strive to strike the right balance by continuing with its consultative process, and give sufficient time to entities for a smooth, phased transition in instances where regulations were expected to have major implications. This point was reiterated by the Governor in the post policy conference, where he indicated that the RBI will defer the implementation of proposed Liquidity Coverage Ratio (LCR) and project financing norms, by a year and not implement these before March 31, 2026.

- Some of the key measures announced as part of developmental and regulatory policies included:

  - **Digital security:** To help avoid banking frauds and for enhanced digital security, RBI plans to implement the 'bank.in' exclusive internet domain for Indian banks, which will be followed by the 'fin.in' domain for the financial sector.

  - **Introduction of forward contracts in Government Securities:** To expand the suite of interest rate derivative products available to market participants to manage their interest rate risks, the RBI will introduce forwards contracts in government securities. This measure is also expected to enable efficient pricing of derivatives that use Government securities as underlying instruments.

  - **Access of SEBI-registered non-bank brokers to NDS-OM:** To enhance access of retail investors to government securities, the Reserve Bank plans to expand the access of NDS-OM to non-bank brokers registered with SEBI. NDS-OM is the electronic trading platform for secondary market transactions in government securities.

  - **Review of trading and settlement timings across various market segments:** The RBI has set up a working group with representation from various stakeholders to undertake a comprehensive review of trading and settlement timing of markets regulated by the central bank. The Group will submit its report by 30-Apr-2025.

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