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THE RBI EASED FURTHER, AS EXPECTED

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I. Introduction:

As expected, the RBI has reduced its policy rate by 25 bps at 6.00% in its 9th April 2025 monetary policy. In the previous Feb'25 RBI policy, RBI Monetary Policy Committee (MPC) reduced the policy repo rate by 25 bps from 6.50% to 6.25% However, in this latest April'25 policy, the RBI has altered its previous stance from 'neutral' to 'accommodative', while acknowledging that the rapidly evolving situation requires continuous monitoring and assessment of the economic outlook.

The MPC noted that inflation is currently below the target, supported by a sharp fall in food inflation. As per projections, there is now a greater confidence of a durable alignment of headline inflation with the target of 4 per cent over a 12-month horizon. On the other hand, the RBI has emphasized that supporting growth in a time of heightened global volatility has become more important, hence it has decided to take a softer stance.

II. Supporting Growth remains the major focus of the RBI:

Real GDP is estimated to grow at 6.5 per cent in 2024-25. On the output side, the largest fall emanates from the manufacturing sector, whose growth fell from 12.3% in FY24 to 4.3% in FY25. The real Gross Value Added (GVA) for the Primary sector remains at 5.2% during the year 2024-25, while for the Secondary and Tertiary sector the real GVA growth rates remain at 4.8% and 7.4% respectively. The agricultural sector shows a sustainable growth trend, while the real GVA has increased by 5.3% in Q3FY25 from 1.8% in Q3FY24 and from the second quarter (Q2FY25) of 3.6%. On the other hand, the secondary sector including manufacturing, construction and electricity have shown subdued growth at 4.8% in Q3FY25 compared to 12.4% during Q3FY24, though it has shown marginal uptick from Q2FY25. The tertiary sector has also shown similar growth trends.

However, merchandise exports could face some hit due to the uncertain and volatile global economic landscape, while services exports are expected to be resilient. The agriculture sector seems bright, while industrial activity continues to recover. **In this backdrop, real GDP growth for 2025-26 is now projected at 6.5 per cent,** with Q1 at 6.5 per cent; Q2 at 6.7 per cent; Q3 at 6.6 per cent; and Q4 at 6.3 per cent.

III. Inflation is expected to be range-bound:

Due to a strong seasonal correction in vegetable prices this year, food inflation declined to a 21-month low of 3.8 per cent in Feb'25, while the fuel group continued to remain in deflation. Core inflation, after remaining stable in Dec'24-Jan'25, increased to 4.1 per cent in February 2025, driven primarily by a sharp increase in gold prices. WPI inflation was also benign at 2.4% in February 2025, although increasing marginally from 2.3% in January 2025. In March'25, the CPI is expected to decline further at around 3.5%. If monsoon remains normal along with softer crude oil prices, the full-year CPI is likely remaining below RBI's projection of 4.8%.

The outlook for food inflation has improved substantially, with broad-based seasonal correction in vegetable prices. The second advance estimates point to a record wheat production and higher production of key pulses over last year. Along with robust kharif arrivals, this is expected to set the stage for a durable softening in food inflation. Moreover, the crude oil prices remain range bound. Therefore, assuming a normal monsoon, **CPI inflation for the financial year 2025-26 is projected at 4.0 per cent,** with Q1 at 3.6 per cent; Q2 at 3.9 per cent; Q3 at 3.8 per cent; and Q4 at 4.4 per cent.

After retaining the policy repo rate at 6.5% since February 2023, the Monetary Policy Committee (MPC) has resorted towards monetary easing during the second half of FY25, i.e. H2:2024-25. It changed the stance from withdrawal of accommodation to neutral in October 2024 and reduce the policy repo rate by 25 basis points (bps) to 6.25 per cent in its February 2025 meeting. In December 2024, the Reserve Bank reduced the cash reserve ratio (CRR) maintained by banks by 50 bps.

IV. RBI is focusing more on enhancing economic growth, while monitoring inflation risk:

It is notable that, the Governor has clarified *that change in stance from 'neutral' to 'accommodative' means that going forward, absent any shocks, the MPC is considering only two options – status quo or a rate cut*.

The RBI Governor has further clarified the following:

"That the stance should not be directly associated with liquidity conditions. While liquidity management is important for monetary policy including decisions related to policy rate, it is an operating tool with the RBI for various purposes including monetary policy transmission. Monetary policy decisions to change policy rates do however have implications for liquidity management, being the operational tool to carry out the policy changes. To summarise, our stance provides policy rate guidance, without any direct guidance on liquidity management."[1]

The current context demands further monetary policy easing. The RBI is clearly weighing more on growth of the Indian economy. The risks to inflation, on the other hand, are two sided. On the upside, uncertainties may lead to possible **currency pressures** and **imported inflation**. On the downside, slowdown in global growth could entail further softening in commodity and crude oil prices, which could be favourable from the inflation viewpoint. Hence, while acknowledging that global trade and policy uncertainties shall hamper growth, the RBI has stated that its impact on domestic inflation, while demanding to be vigilant, is not expected to be of high concern as of now, vis-à-vis the concern about enhancing economic growth.

V. Liquidity rebalancing remains a challenge:

The Reserve Bank of India (RBI) is continually struggling in pumping liquidity amid GST and advance tax outflows, overspending during festival and wedding times as well as government cash balances with RBI etc. One of the biggest challenges remains the '*liquidity rebalancing*', which remains an 'Achilles Heel" in the Indian banking system in recent times. The RBI is continually infusing liquidity through various measures, e.g. via USD/INR buy-sell swaps, daily variable rate repo (VRR) auctions of varying

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[1]

tenures and open market operations (OMOs). An additional ₹80,000 crore in OMOs has been announced to be conducted in different phases until 29 April'25.

According to the latest announcement, the RBI will be conducting OMO purchase for an aggregate amount of ₹20,000 crore on April 08, 2025.[2] System liquidity was in deficit in January 2025 with net injection under the liquidity adjustment facility (LAF) scaling a peak of ₹ 3.1 lakh crore on 23rd January 2025. However, because of a slew of measures injecting liquidity of about ₹ 6.9 lakh crore, the system liquidity deficit situation has been improved during February-March 2025 and turned into surplus on 29th March 2025. As the government spending picking up pace during the latter half of Mar'25, system liquidity improved, and it stood at a surplus of ₹1.5 lakh crore as on 7th April 2025.

Regulatory Measures:

1. *Securitisation of Stressed Assets Framework*: Based on a previously published discussion paper; after taking insights from stakeholders, ***it is proposed to enable securitisation of stressed assets through market-based mechanism***. This is in addition to the existing ARC route under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.[3]

2. *Framework on Co-lending arrangements (CLA):* The extant guidelines on co-lending are presently applicable only to arrangements between banks and NBFCs. Moreover, they are restricted to priority sector loans. To exploit the huge potential of such lending arrangements, ***it is proposed to extend them to all regulated entities (REs) and to all loans – priority sector or otherwise***.

3. *Review of Guidelines for Lending against Gold Jewellery*: Loans against the collateral of gold jewellery and ornaments are extended by regulated entities (REs) for both consumption and income-generation purposes. Prudential and conduct related regulations for such loans have been issued from time to time and they vary for different categories of REs. With a view to harmonizing such regulations across REs while keeping in view their risk-taking capabilities, and to address a few concerns that have been observed, ***it has been decided to issue comprehensive regulations, on prudential norms and conduct related aspects, for such loans.***

4. *Review of Non-Fund Based Facilities*: Non-fund based (NFB) facilities like Guarantees, Letters of Credit, Co-Acceptances etc. play a significant role in facilitating effective credit intermediation, besides enabling seamless business transactions, including trade transactions. It has now been decided to harmonize and consolidate guidelines covering these facilities across all REs. ***This is expected to broaden the funding sources for infrastructure financing.***

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[2] RBI Press Release: 2025-2026/30.

[3] RBI had released a discussion paper on Securitisation of Stressed Assets Framework in January 2023, to seek comments from market participants on various aspects of the framework. After factoring in the suggestions received from the stakeholders on the discussion paper, the draft framework for securitisation of stressed assets is being issued for public comments. The framework intends to enable securitisation of stressed assets through a market-based mechanism, in addition to the existing ARC route under SARFAESI Act, 2002. The link of the discussion paper is here- https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=21728

5. *Enhancing transaction limits in UPI*: At present, the transaction amount for UPI, covering both Person to Person (P2P) and Person to Merchant payments (P2M), is capped at ₹1 lakh except for specific use cases of P2M payments which have higher limits, some at ₹2 lakh and others at ₹5 lakh. To enable the ecosystem to respond efficiently to new use cases, ***it is proposed that NPCI, in consultation with banks and other stakeholders of the UPI ecosystem, may announce and revise such limits based on evolving user needs***.

6. *'On Tap' application facility under theme neutral Regulatory Sandbox*: The Reserve Bank has been operating the Regulatory Sandbox (RS) framework since 2019, and four specific thematic cohorts have been announced and completed till date. An 'On Tap' application facility for themes of closed cohorts was announced in October 2021. A fifth 'Theme Neutral' cohort with a specified time window for receiving applications was also announced in October 2023, which will close in May 2025. Under this cohort, any innovative product or solution within the regulatory ambit of RBI could be tested if found eligible. ***Based on the experience gained and feedback received from stakeholders, it is now proposed to make the Regulatory Sandbox 'Theme Neutral' and 'On Tap'***.

VI. Concluding Remarks:

The World is facing heightened uncertainty amid the different tariff rates announced on different countries by the US President Donald Trump, and the possible retaliatory effects from other countries. The Global stock indices including Asia and Europe have witnessed sharp decline, with the worst fall in US indices.

It may be noted that since the Covid-19 crisis, various external crises including geopolitical issues, trade risks have increased the global volatility. The RBI has not been able to reduce the repo rate for a reasonably longer period, however, after the improved outlook for the inflation scenario, the growth has become the primary focus. According to the RBI's inflation expectations survey, Inflation expectations are found to be negatively associated with the change in the policy interest rate in the long run for financial sector employees and the self-employed.

Looking ahead, the inflation outlook will be conditioned by several factors, both global and domestic. Food inflation may continue to ease due to robust kharif harvest arrivals which, coupled with favourable rabi crop. However, lingering uncertainty in global financial markets, volatility in energy prices, adverse weather events, rising global supply chain pressures and continuing geopolitical strife remain major challenges. The challenge, as always, lies in maintaining a fine balance between the economic growth and inflationary trends, with a trade-off between the two.