RBI Cuts Repo Rate Again By 25 Bps to 6%, Shifts Stance To ‘Accommodative’;

FY26 GDP Growth Forecast Trimmed to 6.5%

- Inflation projection lowered to 4% for FY26
- Signals Growth Push Amid Global Trade Storms

BRICKWORK RESEARCH **APRIL 2025**

RBI Cuts Rates Again amid Easing Inflation and Global Trade Tensions

1. **Repo Rate Cut:** The Reserve Bank of India (RBI) cut the repo rate further by 25 basis points to 6% on April 9, 2025, marking its second consecutive rate reduction under Governor Sanjay Malhotra

- The RBI also revised its inflation projections downward and shifting its policy stance to "accommodative" to counter global economic uncertainties amid global trade tensions triggered by U.S. tariff hikes

- This decision followed a three-day Monetary Policy Committee (MPC) meeting where the MPC unanimously cut repo rates by 25 bps to stimulate economic growth amid inflation, global trade tensions, and U.S. tariffs on Indian imports

Other Key Highlights:

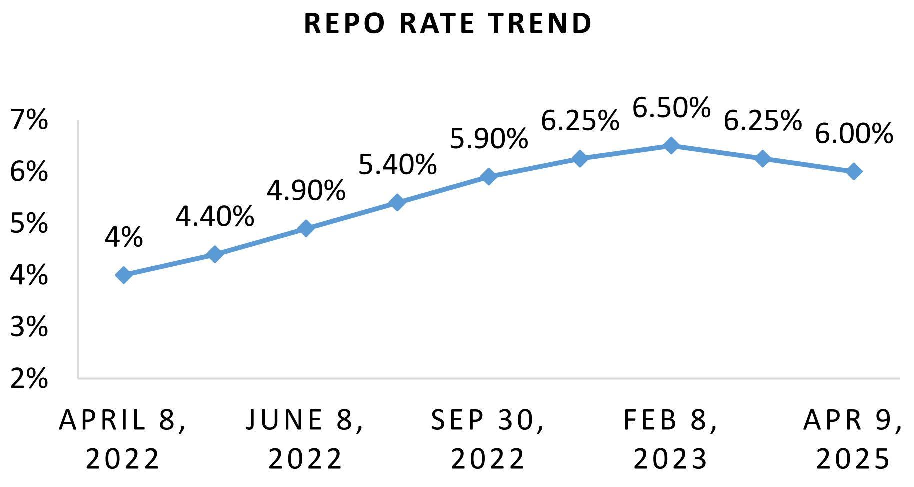
2. **Policy Stance Shift:** In addition to the rate cut, the RBI shifted its policy stance from ‘neutral’ to ‘accommodative’, signalling openness to further rate cuts and a readiness to support economic expansion. This contrasts with the cautious approach seen during 2022–2024, when inflation concerns dominated

   - The standing deposit facility (SDF) rate was adjusted to 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate were set at 6.25%

3. **Inflation Projections Adjusted amid Improved Outlook and Easing Food Prices**

   - RBI revised its FY26 CPI inflation projections lower to 4%, with February 2025 CPI easing to a seven-month low of 3.61%, a slight decrease from the earlier 4.2% estimate. This is due to improved agricultural output, falling crude oil prices, and a sharp decline in food inflation expectations. Sharper-than-expected food price declines provided comfort, though RBI remains vigilant about global tariff impacts

Interest Rate Trend



Inflation Estimates

Period	Current Forecast	Previous Forecast
FY 2025-26	4.0%	4.2%
Q1 FY26	3.6%	4.5%
Q2 FY26	3.9%	4.0%
Q3 FY26	3.8%	3.8%
Q4 FY26	4.4%	4.2%

GDP Growth Forecast Revised Downward

- RBI emphasized food price moderation and record wheat production as key factors, stating that inflation risks remain balanced.

4. FY26 GDP Growth Forecast Trimmed to 6.5% as US Tariff Hikes Fuel Global Economic Uncertainty

- The RBI slashed its FY26 GDP growth forecast to 6.5% from the previous estimate of 6.7%, due to global uncertainties, external risks including an estimated 20-40 bps impact from U.S. tariffs on Indian exports. This adjustment reflects concerns over potential impacts on trade, investment, and domestic growth momentum
- This rate cut by RBI, which marks the second consecutive rate cut, aimed at stimulating economic growth amid escalating global trade tensions, particularly following the recent increase in U.S. tariffs on Indian imports

Real GDP Growth Estimates

Period	Current Forecast	Previous Forecast
FY 2024-25	6.5%	6.4%
FY 2025-26	6.5%	6.7%
Q1 FY26	6.5%	6.7%
Q2 FY26	6.7%	7.0%
Q3 FY26	6.6%	6.5%
Q4 FY26	6.3%	6.5%

- Primary risks include dampened global trade from tariff wars, reduced export competitiveness, and delayed business spending decisions due to policy unpredictability

5. Risks and Liquidity:

- RBI Governor Sanjay Malhotra emphasized the importance of maintaining a liquidity surplus of around 1% of total deposits, which is around ₹2 trillion, for effective policy transmission and economic activity
- **Foreign Exchange Reserves:** $676.3 billion forex reserves (11 months of import cover) cited as a buffer against external shocks. RBI committed to maintaining "sufficiently surplus" liquidity to support credit growth
- **Merchandise** exports may weaken due to global uncertainties, while services exports and remittances are expected to remain resilient
- US-China tariff war flagged as a key risk to global trade and domestic exports

RBI Announces Gold Loan Measures:

6. The RBI has announced plans to introduce standardized guidelines for loans backed by gold jewellery and ornaments across all regulated entities, aiming to harmonize conduct and prudential norms, address risks, and ensure a fair and transparent lending environment for borrowers. Key measures include:

    - **Comprehensive gold loan regulations:** The RBI plans to establish standardized guidelines for loans against gold jewellery and ornaments across all regulated entities to combat irregularities such as third-party sourcing without customer presence, inadequate due diligence, and lack of transparency

    - **Portfolio monitoring mandate:** RBI's review identifies risks in gold loan portfolios, requiring banks and NBFCs to tighten oversight, including improved controls over outsourced activities and third-party service providers

    - The RBI has emphasized that these measures aimed at making gold loans safer, fairer, and more consumer-friendly, highlighting its commitment to strengthening the regulatory framework governing gold-backed loans, though specific details are yet to be disclosed

7. Additional Measures Announced by the RBI:

- **UPI transaction limits** revised for person-to-merchant payments via NPCI

- **Manufacturing** sector revival noted, with resilient services exports offsetting merchandise trade challenges

- **Agriculture** prospects remain strong due to healthy reservoir levels and robust crop production

- The RBI emphasized vigilance on global trade developments while prioritizing liquidity support and growth stability.

Factors that Influenced RBI's Decision to Cut Rates and Shift to Accommodative Stance

1. **Subdued Inflationary Pressures**

   - **Below-target Inflation:** India's retail inflation reached a 7-month low of 3.61% in February 2025, below the RBI's 4% target, thanks to declining food prices and potential rate cuts, thus provided room for rate cuts to stimulate growth

2. **External Economic Risks from U.S. Tariffs**

   - The imposition of US tariffs, including a 26% levy on India, poses external economic risks, threatening export competitiveness and growth momentum, prompting the RBI to take preemptive action

3. **Growth Concerns**

   - The RBI revised its FY26 GDP growth projection due to suboptimal economic performance, aiming to stimulate credit demand in critical sectors like housing and manufacturing
   - India's GDP growth slowed to 6.5% in FY2024-25, its weakest post-pandemic performance
   - The US's 26% tariff on Indian exports, effective April 9, is expected to decrease FY2025-26 growth by 20-40 basis points, leading to downward revisions in forecasts

4. **Global Trade Tensions:** US-China reciprocal tariffs and trade wars have heightened market volatility and recession risks, prompting proactive monetary easing

   - Governor Sanjay Malhotra highlighted that the tariffs exacerbated global economic challenges, weakened the US dollar, and heightened external pressures
   - The US tariff on Chinese goods has exacerbated global trade tensions, potentially affecting India's exports and economic growth

5. **Liquidity and Credit Support:** The RBI has injected over $80 billion in liquidity through banking channels in recent months to tackle credit constraints

   - The move towards an accommodative stance aligns with February's 25 bps rate cut and a 50 bps CRR reduction to improve credit flow

Factors that led RBI Shift to accommodative Stance

6. **Inflation Trajectory:** The Reserve Bank of India (RBI) is confident in achieving a sustainable 4% inflation rate over the next 12 months, citing a “decisive improvement” in the outlook and stronger-than-expected food price declines and stable oil prices

7. **Global Monetary Policy Alignment**

   - The RBI has implemented liquidity infusion measures, totaling ₹7 lakh crore since February 2025, alongside rate cuts, to mitigate falling oil prices and moderate global growth risks

8. **Domestic Financial Market Conditions**

   - Bank yields reached multi-year lows, indicating sustained easing expectations. Banks promptly transmitted February rate cut, reinforcing further reductions in domestic financial market conditions.

- **Shift to Accommodative Policy Stance**

  - The MPC has shifted its policy stance from neutral to accommodating, signaling openness to further rate cuts, aligning with forecasts of additional easing up to 150 basis points in 2025

RBI Flagged Concerns Over US Tariffs and Their Impact On Exports And Domestic Growth

Global Trade Risks Highlighted:

- The Reserve Bank of India (RBI) has expressed significant concerns about escalating global trade risks, particularly from US tariff measures, and their potential to disrupt India’s exports and domestic growth. Key points:

- **Impact of US Tariffs:** The RBI acknowledged the challenges posed by the recent 26% U.S. tariffs on Indian imports and emphasized the need to support domestic growth

- **Export Risks:** Higher US tariffs (e.g., 26% on Indian imports) are expected to reduce net exports

- **Uncertainty dampening growth** by affecting investment and spending decisions of businesses and households

- **Global Spillovers:** Retaliatory tariffs (e.g., China’s 34% on US goods) and supply chain disruptions could further dampen global demand, indirectly affecting India’s trade

- **Investment Uncertainty:** Trade tensions are discouraging business and household spending, slowing domestic economic momentum.

- **Global trade frictions** slowing worldwide economic activity, which in turn impedes India's domestic growth

The full impact of U.S. tariffs on India's economy remains uncertain, with factors like export and import demand elasticity and potential policy responses. The RBI is committed to monitoring these developments and implementing necessary measures to support economic stability

Implications of Rate cut on Home Loan Borrowers

The RBI's 25 basis points (bps) repo rate cut has several implications for home loan borrowers particularly those with floating rate loans:

Immediate Impact on Borrowers:

1. **EMI Reductions:** Existing borrowers with floating-rate loans linked to external benchmarks, like repo rate, will see their EMIs decrease, with timing depending on bank rate resets
    - Floating rate home loans are linked to external benchmarks like the RBI repo rate, reducing lending rates. This results in lower EMIs for existing borrowers, though the actual benefit may take 1-3 months to reflect, depending on the bank's reset period
    - **E.g.:** A home loan with a 9% interest rate of ₹50 lakh over 20 years has an EMI of approximately ₹43,745, but a 50 bps reduction to 8.5% reduces it to ₹41,785, saving ₹1,960 monthly. Smaller rate cuts, like 25 bps, lead to proportional savings, such as a 0.25% rate drop on a ₹50 lakh loan reducing monthly EMI by approximately ₹ 725
2. **New Borrowers:** Banks may reduce loans for new borrowers, but spreads may widen, limiting full benefit. Lower rates may boost affordable housing, especially for first-time buyers, as they improve loan eligibility and reduce costs
3. **Boost for New Home Loan Seekers:** Banks and housing finance companies (HFCs) may lower interest rates for new home loan seekers, making home loans more affordable, boosting home purchases, particularly in affordable and mid-income segments
4. **Stimulus for Housing Demand and Real Estate:** Cheap home loans can boost housing demand in tier-2 and tier-3 cities, benefiting real estate developers and allied sectors like cement, steel, tiles, and paints, leading to improved sales. This can potentially boost real estate sales, especially in the affordable and mid-income housing segments
5. **Possible Shift from Fixed to Floating Rate Loans:** Fixed-rate home loan borrowers won't benefit directly from the rate cut unless they refinance or switch to floating rate plans, which may incur charges. Existing borrowers with higher interest rates may benefit from refinancing or transferring loans to banks offering lower rates post-cut, potentially leading to substantial interest savings. Lower interest rates may prompt borrowers to opt for floating rate loans, but immediate benefits may require refinancing for fixed-rate loan borrowers
6. **Faster Transmission Compared to Earlier Systems:** The external benchmark system, in place since 2019, has made interest rate transmission quicker than under the MCLR or base rate regimes. This means that repo-linked loan borrowers may see a rate drop within weeks or sooner after the RBI's cut

RBI’s Rate Cut Decision Carry’s Potential Risks

The RBI's April 9, 2025 decision to reduce the repo rate by 25 basis points to 6% and adopt an accommodative stance raises several potential risks

1. **Inflationary Pressures from External Tariffs:** The 26% tariffs imposed by the US on India could increase import costs, disrupt supply chains, and potentially fuel inflation. Despite current CPI inflation at 3.61%, the tariffs could reverse this trend by raising input costs for industries reliant on imported goods

2. **Growth-Protection Trade-offs:** The rate cut aims to counter recessionary risks from global trade tensions, but aggressive easing could overheat sectors sensitive to cheap credit, potentially leading to asset bubbles if not calibrated with liquidity measures

3. **Currency Depreciation Pressures:** Lower interest rates could decrease Indian debt's appeal to foreign investors, exacerbate currency volatility due to US protectionism, and increase imported inflation from tariff-hit goods

    - The rate cut could potentially cause the Indian rupee to depreciate, as lower interest rates often result in reduced investor returns, potentially leading to capital outflows and currency weakness

4. **Policy Ammunition Depletion:** The depletion of conventional policy tools, particularly monetary easing, poses significant risks amid escalating trade tensions and recessionary pressures in the US as front-loading rate cuts may limit future stimulus if growth worsens due to prolonged tariff wars

5. **Inflation Targeting Credibility:** While FY26 inflation is projected at 4%, the RBI faces a delicate balance between supporting growth and maintaining price stability in FY26, with any upward inflation surprise from food/fuel shocks or currency pass-through potentially undermining confidence

6. **Financial Stability Risks:** The accommodative stance and liquidity infusion measures, including ₹7 lakh crore since February, could encourage excessive risk-taking in credit markets, especially in sectors like gold loans under new guidelines

7. **Global Spillover Effects:** The policy shift, amidst global monetary easing, increases the risk of competitive devaluations and capital flow volatility as other central banks respond to US tariff impacts

8. **Transmission Mechanism Challenges:** The repo rate cut aims to reduce borrowing costs, but risks aversion due to tariff uncertainties may delay benefits, necessitating effective liquidity management

9. **Impact on Savings:** Lower interest rates can discourage savings as deposit returns reduces, potentially affecting domestic capital accumulation, long-term investment, and economic growth

RBI's April 2025 Repo Rate Comparison

The RBI’s repo rate cut on April 9, 2025, mark its second consecutive rate cut in 2025, following a 25 bps reduction in February 2025, the first rate cut in nearly five years

Key Comparisons to Historical Trends:

- **Post-2020 Context:** Prior to February 2025, the RBI had maintained a pause on rate cuts since May 2020, when the repo rate was last reduced to 4.0% during the Covid pandemic

- **Pre-Pandemic Levels:** By early 2023, rates had risen to 6.5% as the RBI shifted focus to inflation control. The April 2025 rate of 6.0% represents a 50 bps cumulative reduction from that peak

- **Policy Stance Shift:**

  - The RBI has shifted its monetary policy from neutral to accommodative, indicating openness to further rate cuts to counter growth risks, contrasting with the cautious approach during 2022-2024. The current repo rate of 6.0% is the lowest since early 2023, aligning with pre-pandemic averages but higher than pandemic-era lows.

BWR VIEW

- The RBI is expected to implement further rate cuts in 2025, ranging from 50 to 100 basis points, to support economic growth amid global trade challenges if inflation remains low. This move reflects a proactive approach to navigating the complexities of the current global economic environment

- Success depends on banks passing rate cuts to borrowers, with liquidity infusion measures aiming to accelerate this

- Lower borrowing costs for developers could boost real estate growth and reduce unsold inventory. Economic stimulus could come from increased consumption from EMI savings, boosting sectors like banking, real estate, and auto. Actual savings depend on loan amount, tenure, and rate cuts.

- The RBI's accommodative stance indicates its readiness to take additional measures to stimulate the economy, aiming to boost growth amidst challenging global conditions. This stance aligns with government infrastructure spending plans to stimulate demand, while focusing on inflation targeting

- The rate cut aims to counter global headwinds, including US tariffs on Indian goods, and address domestic growth concerns as India's economy expanded at its slowest pace since the pandemic

- The rate cut is anticipated to result in lower EMIs for borrowers, as banks are expected to share the benefits of reduced lending rates

- The RBI's rate cut and accommodative stance signaled readiness to support economic growth amid global and domestic challenges

** Views are personal*

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