RBI Policy – FEB 2025 – Key Takeaways

RBI Monetary Policy

Repo Rate Now at 6.25% v/s 6.50%	**Cut by 25bps**
Standing Deposit Facility Now at 6% v/s 6.25%	**Cut by 25bps**
MSF Bank Rate Now at 6.5% v/s 6.75%	**Cut by 25bps**
Policy Stance Neutral	**Unchanged**

RBI on Growth, Inflation

FY25 GDP Growth	**Projected at 6.4% from 6.6%**
FY25 Inflation Outlook	**Projected at 4.8% from 4.8%**

- **First Rate cut in 5yrs –** In debut MPC meet, new RBI governor Sanjay Malhotra, cut repo rate by 25 bps to 6.25% on February 7, with an aim to stimulate the economic growth. Keeping the monetary policy stance unchanged at **'NEUTRAL'**, the policy unambiguously focused on a durable alignment of inflation with the target, while supporting growth. These actions are consistent with the goal of attaining the medium-term CPI inflation target of 4% within a +/- 2% range.

- **Growth Outlook –** Despite some signs of resilience and trade expansion, the global economy's growth remains below average. Slower disinflation, geopolitical tensions, policy uncertainty, and a strong dollar create a challenging environment, straining emerging market currencies and increasing financial market volatility. India's GDP is projected to grow **6.4% in FY25**, driven by recovering private consumption, services, and agriculture, however, weak industrial growth is holding back further progress. For **FY26, India's economic growth is projected at 6.7%**, supported by strong rabi prospects, an industrial recovery, robust household consumption (aided by tax relief), increased fixed investment, and resilient service exports. However, geopolitical tensions, trade policy protectionism, commodity price volatility, and financial market uncertainties pose downside risks. Quarterly growth is projected at: **Q1: 6.7%; Q2: 7.0%; Q3: 6.5%; Q4: 6.5%**.

- **Inflation –** Inflation moderated in November-December 2024 due to a decline in food prices, particularly vegetables. Core inflation remained low, and fuel prices continued to deflate. Expectations are for further softening of food inflation due to good agricultural output. CPI inflation is projected at 4.8% for the current year (**Q4: 4.4%**) and **4.2% for FY26** (assuming normal monsoon) with quarterly estimates of **Q1: 4.5%; Q2: 4.0%; Q3: 3.8%; and Q4: 4.2%**. However, global financial market uncertainty and adverse weather could push inflation higher.

- **Liquidity and Financial Market –** After a surplus from July-November 2024, system liquidity moved into deficit in December 2024 and January 2025 due to advance tax payments, capital outflows, forex operations, and increased currency in circulation. Some banks are passively parking funds with the RBI instead of actively lending in the call money market; they are urged to participate more actively to improve market vibrancy and signal extraction. The RBI remains committed to ensuring sufficient system liquidity and will proactively take measures to maintain orderly liquidity conditions. SCBs continue to exhibit healthy financial parameters, with a stable Credit Deposit Ratio of 80.8% as of January 2025. Liquidity buffers are sufficient, and despite a moderating NIM, RoA and RoE remain robust. NBFCs also show healthy system-level parameters.

Other Key Measures –

- **Digital Security –** Rapid digitalization increases cyber threats and digital fraud. To combat this, the RBI, which already uses Additional Factor Authentication (AFA) for domestic digital payments, proposes extending AFA to international online payments. To prevent fraud, the RBI will implement the exclusive '. bank.in' internet domain for Indian banks starting in April, followed by '. fin.in' for the broader financial sector. Banks and NBFCs must continuously enhance preventive and detective cyber controls and develop robust incident response and recovery mechanisms through regular testing.

- **Introduction of forward contracts in Government Securities –** To help manage interest rate risk, the RBI will add forward contracts in Government securities to its suite of interest rate derivative products. This will benefit long-term investors like insurance funds and improve the pricing efficiency of related derivatives.

- **Access of SEBI-registered non-bank brokers to NDS-OM –** RBI will broaden retail investor access to government securities by allowing SEBI-registered non-bank brokers to use the NDS-OM platform.

- **Review of trading and settlement timings across various market segments –** Due to recent financial market and infrastructure changes, the RBI will form a working group with stakeholder representation to review trading and settlement timings; the group will submit its report by April 30th.

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