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Implications of April 2025 MPC

The Monetary Policy Committee (MPC) announced a cut in the repo rate by 25 bps from 6.25% to 6%. Majority of market participants had expected a rate cut after the series of liquidity injection measures to the extent of Rs 6.4 lakh crore announced over the past couple of months. The change in policy stance from neutral to accommodative signifies a bias towards further rate cuts absent any shocks. It also means that there will not be any rate hikes in FY26. The policy has an overall dovish tone.

The MPC also forecast CPI inflation to decline from its earlier forecast of 4.2% to 4% for FY26, a full 70 bps lower print than FY25. Recent forecasts of likely normal monsoon this year also bodes well on the inflation front as food inflation in all probability will continue to be benign.

Growth projections for FY26 have been only slightly revised downwards from 6.7% to 6.5%. This is significant because the implication is that RBI is not unduly worried about the impact of ongoing global trade wars on India though it has acknowledged some upside risk to GDP growth.

The Governor has also reiterated his support to orderly liquidity management. Banking system liquidity is currently in a surplus of 1.4 Lakh Crore. ***Considering that liquidity surplus of 1% of NDTL is the ballpark figure that is optimal, we may expect RBI to take measures to ensure liquidity in the banking system remains in a surplus of around Rs 2.2 to Rs 2.3 lakh crore.***

The Governor has made it very clear that RBI is committed to achieving non-inflationary growth. ***The rate cut unveiled today along with likely cuts in future will augment credit growth to productive sectors of the economy including MSME, housing and retail which is extremely vital to increase credit-GDP ratio from the current 50-55% and take it closer to 100% or beyond over a period of time.***

Table 1: MPC Growth forecasts:

	FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	FY26
February 2025	**6.6**	6.7	7.0	6.5	6.5	**6.7**
April 2025	**6.6**	6,5	6,7	6.6	6.3	**6.5**

A real GDP growth of 6.5% will still enable achievement of nominal GDP growth rate of close to 10% which is what the Economic Survey and Union Budget had forecast. ***Metrics such as tax revenue, bank deposits and overall bank credit, track nominal GDP growth and any significant deviations from the originally envisaged estimates are not expected. Absent any unforeseen shocks, the adverse impact of Trump tariffs on India are likely to be muted especially because a bilateral Indo-US deal is also underway.***

Table 2: CPI inflation forecasts

	FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	FY26
February 2025	**4.7**	4.5	4.0	3.8	4.2	**4.2**
April 2025	**4.7**	3.6	3.9	3.8	4.4	**4.0**

Going by the revised 4% CPI inflation forecasts and a normal monsoon outlook, we are definitely set to enter a benign interest rate regime. There is room for another 50-bps cut in the repo rate given that a real interest rate of 1.5% is best suited for India which by implication means that the repo rate can go down to 5.5%. Moreover, surplus liquidity will make the transmission of monetary signals easier in the current circumstances. 3-month and 6-month certificate of deposit spreads yields have already softened since March 2025.

Other regulatory measures/announcements

- Securitisation of stressed assets framework which intends stressed asset securitisation through a market-based mechanism in addition to the ARC framework.
- New framework for co-lending arrangements between banks and NBFCs to expand the sectoral coverage beyond priority sectors.
- Comprehensive guidelines on gold loans to be issued taking into account the risk-taking capability of lenders.
- Comprehensive review of guidelines on non-fund-based credit facilities including a review of extant guidelines ion partial credit enhancement.
- NPCI in consultation with banks to revise UPI transaction limit appropriately for the peer to merchant transactions.

Overall Implications

- The current 25 bps repo rate cut along with likely future cuts will make repo linked loans less costly for borrowers boosting overall credit growth. Surplus liquidity (currently Rs 1.4 lakh Cr) will help banks lower the cost of funds as evidenced by falling CD rates. So, this policy creates a win-win environment for both lenders and borrowers - lenders will be able to reduce their cost of funds while borrowers can also look forward to a benign interest rate regime. Treasury profits will also improve.
- About 40% of loans in the banking system are linked to repo linked which could see an immediate reduction in rates. On gross bank credit of Rs 180 lakh crore this comes to Rs 72 lakh crore and the reduction in interest income due to a 25bps rate cut will be Rs 18,000 crore. This is in addition to the loss in interest income of Rs 17,000 Cr due to the 25bps cut done in February 2025. The difference this time is that banks may be in a position to cut deposit rates due to surplus liquidity conditions. However, the competition to raise resources will still remain. It is also pertinent to note that rates on small savings schemes still exhibit downward rigidity.
- OMO purchases are expected to continue going forward, if liquidity surplus is expected to be Rs 2.2 lakh Cr throughout. Expected RBI dividend of Rs 2.5 Lakh Cr will help towards this objective. RBI is also likely to roll over maturing forward short positions to achieve surplus liquidity conditions. Weighted average call rates are now expected to comfortably lie between SDF and repo rate or between 5.75% to 6%.
- The revised guidelines proposed for non-fund-based exposures including partial credit

enhancements could be positive for corporate bond markets and complement budgetary efforts to boost public capex as private capex still lacks visibility. Meanwhile enhancing the scope of co-lending will help a broad swathe of sectors and contribute to overall credit growth while simultaneously ensuring a risk sharing approach between banks and NBFCs. This is a win-win for banks and NBFCs not just from a risk point of view bit also because both entities will be able to leverage their reach on a pan-India basis.

- Regarding gold loans, it is possible that RBI bring in stricter guidelines to stem practices like pledging of spurious gold and to deal with issues regarding auction surplus. However, these measures are not expected to impact gold loan portfolios in a big way as the guidelines would be applicable uniformly across lenders. Moreover, rising gold prices will help this portfolio as same amount of loans can be availed with lower quantum of gold.

Conclusion

The first Bi monthly policy for FY26 has set the tone for an orderly transmission of monetary policy aided by a comfortable liquidity environment. The outlook of the central banks that liquidity surplus of 1% of NDTL is optimal; clearly signals a surplus of Rs 2.2 to Rs 2.3 lakh Cr on a durable basis. We are likely to see another 50-bps cut from the optimal real interest rate point of view which should catalyse credit growth and economic growth. GDP growth rate of 6.5% with an inflation rate of 4% is a good level to start with. The central bank has taken all possible measures to provide the required support to Indian economy in the current scenario of global economic turmoil.

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