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Dovish RBI ramping up accommodative bias

9 April 2025

Key takeaways: Amid the backdrop of softer growth and lower inflation, the RBI's MPC cut the policy repo rate by 25bp to 6.0%, in line with our expectations. The policy stance was changed to accommodative, and the Governor struck a dovish tone, confirming ramp-up in accommodative bias in the upcoming meetings. We see the first leg of impact of global tariff tantrum to be in the form of growth risks both in India as well as the world and potentially softer inflation as demand, we expect the MPC to cut the policy repo rate by another 75bp in FY26E to overall 100bp vs 50-75bp earlier.

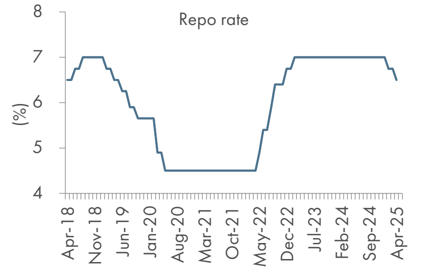
Growth outlook clouded by global uncertainty: The RBI pared down FY26 growth projection by 20bp from 6.7% to 6.5% vs our estimates of 6.5% with a 30-40bp impact due to tariff-related ambiguity, citing global uncertainty. The RBI is of the view that increasing trade frictions will impede global growth as implications of tariff hikes remain uncertain. On the domestic front, according to the RBI, growth impulses remain supported by the resilient services sector, bright prospects from rural demand amid a normal Monsoon & softer inflation, and the Central government capex aiding in investment activity. In our view, the biggest positive for India is the change in the domestic policy backdrop where two key agents of the economy – the RBI and the government -have turned growth supportive (for more, please refer to our note, *India: economic policy backdrop is turning*, released on 20 March 2025). Although the RBI sounded positive on domestic manufacturing activity, we believe global supply chain dislocation and trade hurdles can pose challenges for the manufacturing sector in FY26.

Ebbing inflation risks: The RBI revised down inflation projection to 4.0% (vs our estimates of 4.5%) for FY26 vs 4.2% in the February 2025 meet. According to the Central Bank, the outlook for durable softening in food inflation has increased, underpinned by robust *Kharif* arrivals, record wheat production estimates, and higher key pulses production. Adding comfort on the food inflation part, global crude oil prices have softened ~19% CYTD to trade in the range of USD 60-61/bbl. For inflation, while higher tariffs can increase the spill-over impact on supply chains leading to higher inflation, it does not qualify as an immediate risk. Global commodity price correction has increased our bias toward lower inflation. We see a 20-25bp downside bias to our FY26E projection of 4.5%. In terms of risks, we remain watchful of the weather conditions, especially with higher-than-average temperatures adding to food price pressures.

See cumulative 100bp cut in FY26E vs 50-75bp previously: The tone of the Monetary Policy as well as the Governor's statement was dovish, indicating preparedness for an aggressive rate cut cycle complemented by comfortable systemic banking liquidity. We see that a window of opportunity has emerged for the RBI (and other Asian EMs too) to increase its accommodative bias in the backdrop of tariff uncertainty and support growth. This window comprises a softer US dollar (DXY Index) and short end of the UST yield curve, moderation in Brent crude oil prices, and benign industrial input prices, led by weak global growth. On the tariff front, we believe the period of peak concerns & uncertainty has passed, and negotiations will guide the outlook. Hence, embarking on a front-loaded aggressive rate cycle is likely to give the RBI (and other EM central banks) necessary policy space to tweak the path as FY26 progresses.

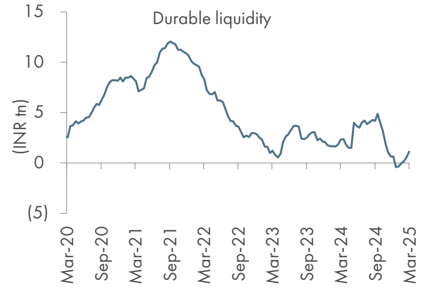
Considering the softer growth outlook and comfort on inflation front, we revise our FY26E repo rate projection to 5.25% (100bp cut overall) vs 5.50%-5.75% earlier. In June 2025 meet, we expect another 25bp rate cut and expect banking system liquidity to turn durably positive by end-April and mid-May.

We expect the RBI to cut rates by 100bp in FY26E



Note: FY26E = 5.25%; Source: CEIC, Elara Securities Estimate.

Liquidity in the system turns surplus



Source: CEIC, Elara Securities Research

RBI downgrades FY26 growth projections...

Period (%)	MPC Dec-24	MPC Feb-24	MPC Apr-25
Q1FY26	6.9	6.7	6.5
Q2FY26	7.3	7	6.7
Q3FY26		6.5	6.6
Q4FY26		6.5	6.3
FY26		**6.7**	**6.5**

Source: RBI, Elara Securities Research

...and eases inflation outlook

Period (%)	MPC Feb-25	MPC Apr-25
Q1FY26	4.5	3.6
Q2FY26	4	3.9
Q3FY26	3.8	**3.8**
Q4FY26	4.2	4.4
FY26	4.2	**4.0**

Source: RBI, Elara Securities Research

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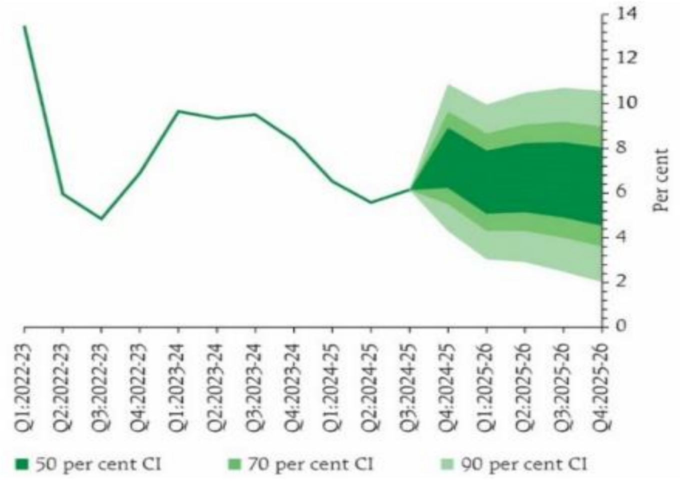
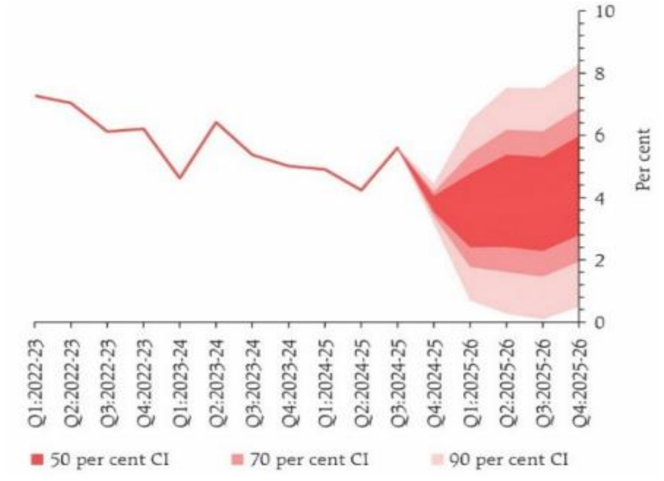
Exhibit 1: Quarterly GDP projection; FY26E at 6.5% YoY



Source: RBI

Exhibit 2: FY26E CPI projected at 4.0% YoY



Source: RBI

Exhibit 3: Additional measures related to developmental and regulatory policies

Securitisation of Stressed Assets Framework	A prudentially structured securitisation transaction can be an enabler for resolution of stressed assets as it is expected to improve risk distribution and provide an exit route from such exposures for lenders. With this objective, 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.
Framework on Co-lending arrangements (CLA)	The extant guidelines on co-lending are applicable only to arrangements between banks and NBFCs for priority sector loans. Considering the evolution of such lending practices, and the potential of such lending arrangements in catering to the credit needs of a wider segment in a sustainable manner, it has been decided to expand the scope for co-lending and issue a generic regulatory framework for all forms of co-lending arrangements among REs.
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
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. The revised guidelines include a review of instructions on issuance of partial credit enhancement by REs, with a view to, inter alia, broadening funding sources for infrastructure financing
Enhancing transaction limits in UPI	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. Appropriate safeguards will be put in place to mitigate risks associated with higher limits. Banks shall continue to have the discretion to decide their own internal limits within the limits announced by NPCI.

Source: RBI, Elara Securities Research

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