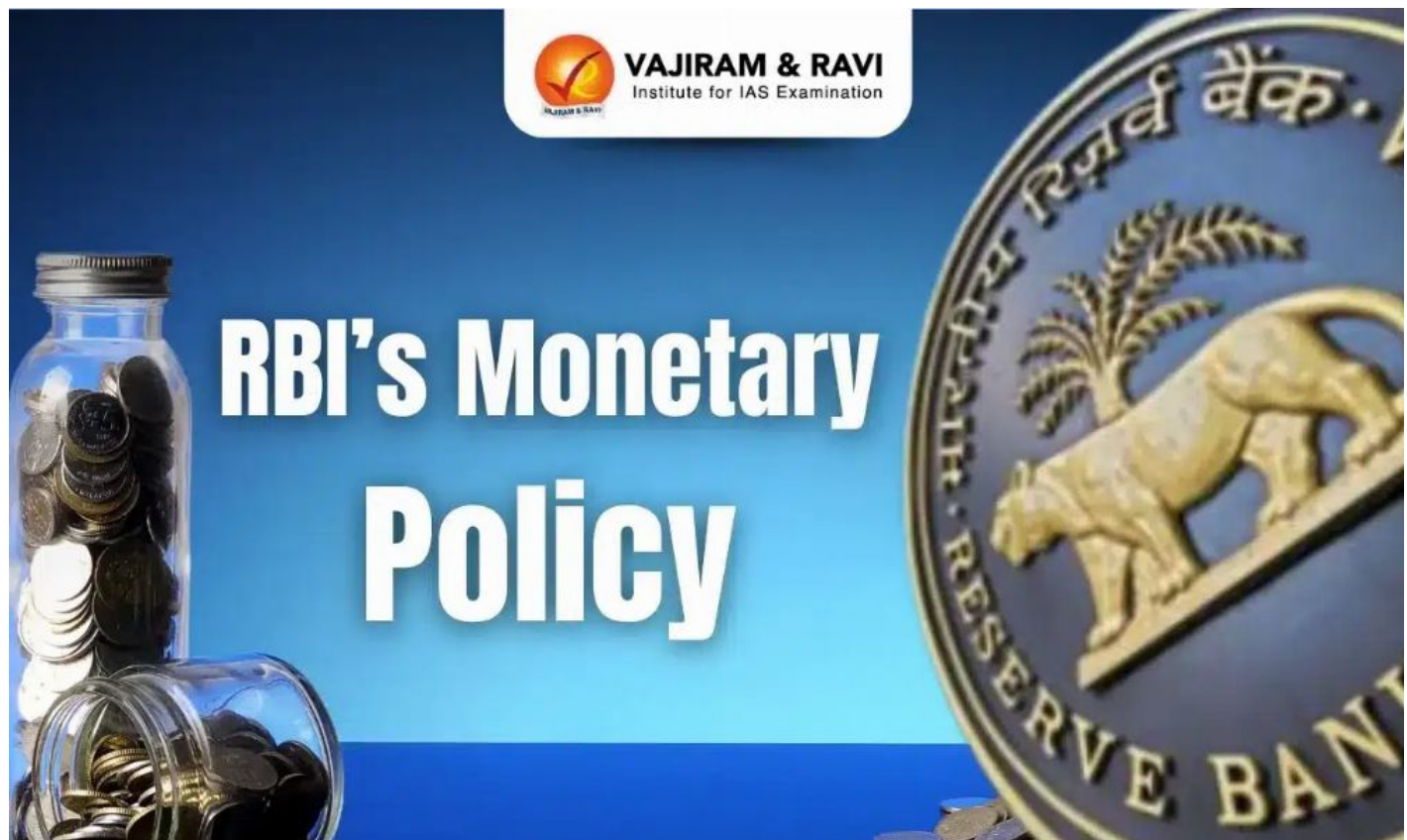


Repo Rate Cut by RBI - A Shift in Monetary Policy

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RBI's Monetary Policy Latest News

- The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has **lowered the repo rate by 25 basis points (bps) to 6.25%** – the first rate cut in 57 months.
- This move is aimed at **supporting economic growth amid easing inflation projections**.

RBI's Monetary Policy: Key Highlights of the RBI's MPC Decisions

- **Repo rate cut:** The repo rate is the **interest rate at which a central bank lends money to commercial banks**. The term “repo” stands for “**repurchase option**”. The RBI reduced the repo rate from **6.5% to 6.25%**.
- **Inflation outlook:** Inflation is expected to ease to 4.4% this quarter and further moderate to 4.2% in 2025-26.
- **Impact on loans:** The reduction in the repo rate could lead to **cheaper loans** for homes, cars, and other purposes.
- **First rate cut since 2020:** The last rate cut occurred in May 2020 when the repo rate was reduced to 4% during the COVID-19 crisis.

RBI's Monetary Policy: Digital Security Initiative

- **Exclusive internet domain for banks:** The RBI has announced the launch of the ‘**bank.in**’ domain for Indian banks **to enhance trust in digital transactions**.
- **Objective:** To reduce cybersecurity threats, prevent phishing, and streamline secure financial services.
- **Implementation:**
 - The Institute for Development and Research in Banking Technology (**IDRBT**) will act as the exclusive registrar.
 - Actual registrations will begin in April 2025.
 - Detailed guidelines for banks will be issued separately.
- **Future expansion:** Plans to introduce ‘**fin.in**’ for non-bank financial entities in the future.

RBI's Monetary Policy: Key Takeaways from the RBI's MPC Decisions

- **Monetary policy stance:**
 - **Neutral approach:** Despite the rate cut, the MPC has maintained a neutral monetary stance.
 - **Global uncertainties:** Risks from geopolitical tensions, trade protectionism, and financial market volatility remain key concerns.
 - **Inflation targeting:** The RBI remains committed to ensuring inflation aligns with its target while supporting economic growth.
- **Economic growth projections:**
 - **Real GDP growth forecast:**
 - 6.4% for the current financial year (2024-25). 6.7% for 2025-26.
 - Real gross domestic product (GDP) is an **inflation-adjusted measure** that reflects the value of all goods and services produced by an economy in a given year.
 - **Factors supporting growth:**
 - Improving employment conditions.
 - Income tax relief from the 2025-26 Union Budget.
 - Stable agricultural output with the assumption of a normal monsoon.
- **Rural vs. urban demand:**

- **Rural demand:** On an upward trend, showing resilience.
- **Urban consumption:** Subdued, with mixed signals from high-frequency indicators.
- **Currency and external sector:**
 - **Rupee volatility:**
 - The Indian rupee has depreciated by 3.2% against the US dollar since November 6, 2024, in line with global trends.
 - The RBI is focused on maintaining stability in the currency market without targeting a specific exchange rate.
 - **Foreign exchange reserves:**
 - Stand at **\$630.6 billion as of January 31, 2025**, covering over 10 months of imports.
 - The RBI has been using foreign exchange reserves to prevent excessive volatility while allowing a gradual depreciation.
 - **Current account deficit:** Expected to remain within sustainable levels, ensuring external sector resilience.
- **Liquidity management:**
 - **Liquidity crunch in December-January:** Attributed to advance tax payments, capital outflows, forex operations, and increased currency circulation.
 - **Rise in currency in circulation:** Increased by ₹1.80 lakh crore (5.3%) to ₹35.99 lakh crore as of January 2025.
 - **Banks urged to lend in Call Money Market:**
 - The call money market is a short-term financial market where banks and other institutions borrow and lend funds to each other. It's also known as the “**notice money**” market.
 - RBI Governor Sanjay Malhotra advised banks to actively participate in the uncollateralized call money market instead of parking funds with the RBI.
 - **Measures to address liquidity:** The RBI has assured proactive interventions to ensure orderly liquidity conditions.

RBI's Monetary Policy: Market Reactions of the RBI's MPC Decisions

- **Stock markets:** The Sensex fell by 198 points (0.25%) to 77,860.19, while the NSE Nifty declined by 43 points (0.18%) to 23,559.95.
- **Banking sector performance:** The BSE Bankex fell by 0.49%.
- **Bond markets:** The 10-year bond yield increased slightly to 6.70%.
- **Rupee movement:** The rupee **appreciated** by 15 paise to 87.43 against the US dollar.

RBI's Monetary Policy: Future Monetary Policy Projection

- **Less restrictive policy on the anvil?:** Malhotra hinted that the MPC might shift its stance from neutral if inflation-growth dynamics turn favorable.
- **Expected rate cuts:** There are expectations of two more rate cuts in 2025 if inflation moves as projected.
- **Aspirational growth target:** The RBI Governor expressed a desire for 7% GDP growth.

Conclusion

- The RBI's rate cut signals a shift in monetary policy to stimulate economic growth while maintaining inflation control.
- With a neutral stance, the central bank is balancing inflationary concerns and global uncertainties while ensuring stability in India's financial markets.
- The introduction of the 'bank.in' domain is a crucial step toward securing India's digital financial ecosystem.
- The market remains cautious, awaiting further policy signals from the RBI.

RBI's Monetary Policy FAQs

Q1. What is the significance of the recent RBI repo rate cut, and how does it impact the Indian economy?

Ans. The RBI cut the repo rate by 25 basis points to 6.25% for the first time in 57 months to stimulate economic growth by making borrowing cheaper.

Q2. How does the RBI manage liquidity in the economy?

Ans. The RBI manages liquidity through open market operations, repo rate adjustments, and forex interventions.

Q3. Discuss the role of foreign exchange reserves in maintaining financial stability.

Ans. Foreign exchange reserves act as a buffer against external shocks and help stabilize the rupee.

Q4. What is the purpose of introducing the 'bank.in' domain?

Ans. The 'bank.in' domain aims to enhance cybersecurity, reduce phishing attacks, and ensure safe digital transactions.

Q5. What are the RBI's growth and inflation projections for the Indian economy?

Ans. The RBI projects real GDP growth of 6.7% for 2025-26, assuming a normal monsoon and stable agricultural output.

Source: TH | IE | TH

Source: <https://vajiramandravi.com/current-affairs/repo-rate-cut-by-rbi/>

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