CCIL Research

Macro-Economic Updates

April 09, 2025

Monetary Policy Statement, April 2025:
MPC reduces repo rate to 6.00%

Monetary and Liquidity Measures

- The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) unanimously decided to:
  - reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points to 6.00% with immediate effect;
  - consequently, the Standing Deposit Facility (SDF) rate stands adjusted to 5.75% and
  - the Marginal Standing Facility (MSF) rate to 6.25% and
  - the Bank Rate to 6.25%

- This decision aligns with the goal of maintaining consumer price index (CPI) inflation at 4 percent over the medium term, within a tolerance band of +/- 2 percent, while also supporting economic growth.

Regulatory Updates

1. Securitisation of Stressed Assets Framework: The RBI aims to improve stressed asset resolution by enhancing risk distribution and providing lenders an exit option. In January 2023, it released a discussion paper for feedback and has now issued a draft framework for public comments. The framework proposes a market-based securitisation mechanism, complementing the existing ARC route under the SARFAESI Act, 2002.

2. Framework on Co-lending arrangements (CLA): Currently, co-lending rules cover only bank-NBFC partnerships for priority sector lending. As lending practices evolve and the need for wider credit access grows, the RBI plans to expand the scope to include all co-lending arrangements among regulated entities (REs). Draft guidelines are now open for public comments. This broader framework aims to support sustainable credit delivery and provide clear regulations for emerging co-lending models.

3. Review of Guidelines for Lending against Gold Jewellery: Loans against gold jewellery are given by various regulated entities (REs) under different rules. To harmonize these regulations and address certain issues, the RBI plans to issue comprehensive guidelines covering prudential norms and conduct. The aim is to ensure uniformity and better risk management in gold-backed lending. Draft guidelines are now released for public feedback before finalization.

4. Review of Non-Fund Based Facilities: Non-fund based (NFB) facilities like guarantees and letters of credit support credit intermediation and trade. To ensure consistent regulation, the RBI plans to harmonize and consolidate NFB guidelines across regulated entities (REs). It also proposes changes to partial credit enhancement norms to boost infrastructure financing. Draft guidelines have been issued for public feedback before finalization.

5. Enhancing transaction limits in UPI: UPI transactions are currently capped at ₹1 lakh for Person to Person (P2P) and most Person to Merchant payments (P2M), with some exceptions up to ₹5 lakh. To meet evolving needs, NPCI may revise these limits after consulting stakeholders, with safeguards in place. P2P limits will stay at ₹1 lakh. Banks can set their own limits within NPCI's caps, ensuring UPI remains flexible, secure, and adaptable to new use cases.

6. 'On Tap' application facility under theme neutral Regulatory Sandbox: Since 2019, RBI's Regulatory Sandbox (RS) has facilitated fintech innovation through four thematic cohorts and one 'Theme Neutral' cohort launched in October 2023, closing in May 2025. Based on feedback, RBI now proposes to make the RS 'Theme Neutral' and 'On Tap' permanently. This change will allow continuous application and testing of innovative products within RBI's regulatory ambit without waiting for specific themes. The initiative aims to foster ongoing fintech innovation and agility in response to the rapidly changing financial and regulatory landscape.

Macro-economic Outlook

Global scenario: The global economic outlook is rapidly changing, with recent trade tariff measures adding uncertainties and posing challenges to global growth and inflation. Financial markets have reacted sharply, with a decline in the dollar index, equity sell-offs, and softening of bond yields and crude oil prices.

Indian economy: The NSO estimates real GDP growth at 6.5% for 2024-25, after 9.2% growth in 2023-24. Growth is supported by strong rural demand, urban consumption recovery, government capital expenditure, and healthy corporate and bank balance sheets. While merchandise exports face pressure, services exports remain resilient. Agriculture is promising, industrial activity is recovering, and services are strong. Real GDP growth for 2025-26 is projected at 6.5%, with risks evenly balanced.

Price levels: CPI headline inflation dropped by 1.6 percentage points from 5.2% in December 2024 to 3.6% in February 2025, mainly due to a seasonal vegetable price correction. Food inflation fell to a 21-month low of 3.8%, while fuel prices remained deflationary. Core inflation edged up to 4.1% in February, driven by rising gold prices. Record wheat and pulses output and robust kharif arrivals are expected to further ease food inflation. Falling crude oil prices and lower inflation expectations support a positive outlook. CPI inflation for 2025-26 is projected at 4.0%, with risks evenly balanced.

External sector: India's services exports remained strong during January-February 2025, led by software, business, and transportation services. Net services and remittance inflows are expected to maintain a large surplus, helping offset the trade deficit. Current account deficit (CAD) for 2024-25 and 2025-26 is projected to stay within sustainable levels. Higher external commercial borrowings and non-resident deposits were recorded. Forex reserves stood at $676.3 billion as of April 4, 2025.

Liquidity and Financial Market Conditions: System liquidity was in deficit in January 2025, with net injection under the LAF peaking at ₹3.1 lakh crore on January 23. Liquidity improved after measures injecting ₹6.9 lakh crore during February-March, turning surplus by March 29. Government spending further enhanced the surplus to ₹1.5 lakh crore by April 7, 2025. Consequently, the weighted average call rate (WACR) softened, staying near the repo rate since the last policy review. The Reserve Bank remains committed to ensuring adequate liquidity.

Outlook: The global economy faces exceptional uncertainties, making policymaking challenging. Despite this, monetary policy remains critical to anchoring stability. Domestically, the growth-inflation path requires policy to support growth while staying alert on inflation. The goal is to achieve non-inflationary growth through improved demand and supply responses and strong macroeconomic stability.

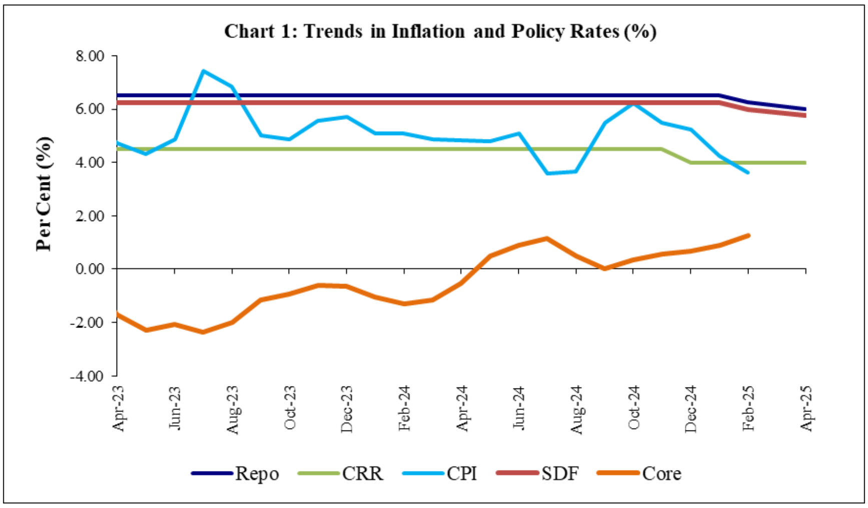

Table 1: Trends in Major Monetary Indicators (%)

Indicators	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Repo	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.00
Fixed rate Reverse Repo	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
SDF	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00	5.75
CPI	3.65	5.49	6.21	5.48	5.22	4.26	3.61	-	-
Core Inflation	0.50	0.13	0.34	0.51	0.65	0.91	1.27	-	-
CRR	4.50	4.50	4.50	4.50	4.00	4.00	4.00	4.00	4.00

SDF: Standing Deposit Facility
CPI: Consumer Price Inflation (%)
CRR: Cash Reserve Ratio
SLR: Statutory Liquidity Ratio
Source: Reserve Bank of India, Ministry of Statistics & Programme Implementation, CCIL Research

Research Department
The Clearing Corporation of India Limited,
CCIL Bhavan, S.K. Bole Road,
Dadar (W), Mumbai 400 028
research@ccilindia.co.in