

Fig 1: Macro projections, Apr'25 vs Feb'25 MPC

RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Feb'25	Apr'25	Feb'25	Apr'25
Q1	6.7	6.5	4.5	3.6
Q2	7.0	6.7	4.0	3.9
Q3	6.5	6.6	3.8	3.8
Q4	6.5	6.3	4.2	4.4
FY26	6.7	6.5	4.2	4.0

Fig 2: UBI vs MPC Macro projections

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q1	6.5	6.6	3.6	4.3
Q2	6.7	6.7	3.9	4.3
Q3	6.6	6.1	3.8	3.8
Q4	6.3	6.5	4.4	4.1
FY26	6.5	6.5*	4.0	4.1**

*significant downside risks seen;

**currently tracking with downward bias

Source: RBI, UBI Research

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Nidhi Arora
nidhiarora@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

➤ Policy decision on expected lines; mild surprise from stance shift

The RBI led Monetary Policy Committee (MPC) unanimously decided for 25 bps policy repo rate cut to 6.0% as expected and mildly surprised with change in stance from neutral to accommodative (we expected that in a volatile world, the MPC may wish to retain flexibility with a neutral stance). This was the second consecutive cut post rate cut in Feb'25 MPC. **The policy focus remains on supporting growth while continuing to remain vigilant on inflation and guarding caution on rising global uncertainty.**

While elaborating on the stance, the Governor specifically mentioned that going forward, absent any shocks, the MPC is considering only two options - status quo or a rate cut and that the stance provides policy rate guidance, without any direct guidance on liquidity management. That said, in the post policy press conference, the Governor assured that **the RBI remains committed to keep liquidity sufficiently in surplus with an aim to keep surplus at close to 1% of NDTL.** While the word “transmission” has been used by the Governor only once in the statement today, the intent of providing surplus liquidity has been to facilitate the transmission of rate cut(s) into deposit and lending rates (mainly MCLR while EBLR with c.60% weight in floating rate rupee loans have already seen reduction).

Both FY26 growth and inflation forecasts have been revised downward by 20bps to 6.5% and 4.0% respectively thereby opening space for further policy easing. **Going forward, we maintain our call of another 50bps repo rate cut to a terminal rate of 5.5%, with a close watch on global risks before re-assessing our call.**

➤ Balance of risks in an uncertain world need close watch

With the sharp spike in global uncertainty and rising recession worries, we see the MPC’s growth forecast of 6.5% for FY26 as optimistic with significant scope for downward revision. While various channels of impact working together: Global growth(-ve), flows (-ve), sentiment (-ve), oil(+ve), services exports (+ve), the balance of risks for growth are on the downside, in our view (refer table 1). The uncertain environment will dampen growth by affecting investment and spending decisions of businesses and households. Our key concern remains that broad-based private capex recovery may be delayed further. The dent on global growth due to trade frictions is likely to impede domestic growth and higher tariffs shall have a negative impact on net exports.

➤ Inflation trending towards the 4% target unless food inflation shocks yet again

The MPC noted that there is a decisive improvement in the inflation outlook with a greater confidence of a durable alignment of headline inflation with the 4.0% target over a 12-month horizon. With respect to impact of trade tariffs on inflation, the Governor pointed out that risks to inflation are two sided. On the upside, uncertainties may lead to possible currency pressures and imported inflation. On the downside, slowdown in global growth could entail further softening in commodity and crude oil prices, putting downward pressure on inflation. On balance, the impact of global trade and policy uncertainties on domestic inflation is not expected to be of high concern.

We are broadly aligned with the MPC’s forecast of inflation at ~4% in FY26 (even as the MPC forecast of inflation consistently staying below 4% for next 3 quarters appears slightly optimistic). We will closely watch out for any weather-related risks to food inflation, a key sticking issue in recent years even as core inflation pressures stay subdued.

➤ Assured support on liquidity key; now transmission is on close watch

The RBI must be complimented for implementation of various steps to inject durable liquidity to the tune of ~Rs 8 lakh crore since which has led liquidity to shift to surplus, driving a steep drop in market funding rates (CD rates). In today’s policy, the Governor asserted that the RBI remains committed to keep liquidity sufficiently in surplus with an aim to keep surplus at close to 1% of NDTL. The liquidity assurance will support in facilitating transmission into bank deposit and lending rates. However, [our research](#) shows that transmission may face some challenges given the unequal distribution of liquidity (and deposits) in the banking system. Going forward, we will watch out for any further measures like revisions in liquidity management framework.

➤ We maintain our call of another 50bps rate cut; close watch on global volatility

We expect further 50bps rate cut to 5.5% terminal rate. The downward revision in FY26 growth and inflation projections by 20bps each opens up space for more policy easing. We maintain our call for another 50bps rate cut to terminal rate of 5.5%.

Do we see scope for more rate cuts? [RBI research](#) estimates natural real rate of interest at 1.4-1.9% and with FY26 CPI inflation projected at 4%, we see scope for another 50bps rate cut. While actual real rate expected to be below this range during periods of accommodative policy stance, global developments need close watch before re-assessing our call. US tariff hikes are likely to pull up global inflation pressures and constrain space for monetary policy easing, which may have some indirect implications for RBI policy even if we stay focused on domestic macros.

RBI's Policy Statements - Comparison

Policy Decision	December 2024	February 2025	February 2025
Repo rate	6.50%	6.25%	6.0%
Stance	Neutral	Neutral	Accommodative
Growth Projection	FY25 real GDP projection revised sharply downward to 6.6%, with Q3 and Q4 growth seen at 6.8% and 7.2% respectively. Q1FY26 growth also revised lower to 6.9% from 7.3% and Q2FY26 seen at 7.3%. Risks are evenly balanced as per the MPC.	FY26 real GDP projection at 6.7%, with Q1 at 6.7% (6.9% earlier), Q2 at 7.0% (7.3% earlier), Q3 at 6.5% and Q4 growth seen at 6.5% respectively. Risks are evenly balanced as per the MPC.	FY26 real GDP projection is revised lower at 6.5% (6.7% projected earlier), with Q1 at 6.5% (6.7%), Q2 at 6.7% (7.0%), Q3 at 6.6% (6.5%) and Q4 growth seen at 6.3% (6.5%) respectively. Risks are evenly balanced.
Inflation Projection	CPI inflation for FY25 projection revised upwards to 4.8% with Q3 forecast at 5.7%, and 4.5% in Q4. Q1FY26 CPI growth is projected at 4.6% and Q2FY26 projected at 4.0%. Risks are evenly balanced.	CPI inflation for FY25 projection retained at 4.8% with Q4 at 4.4% (4.5% earlier). FY26 CPI projected at 4.2% with Q1 at 4.5% (4.6% earlier), Q2 at 4.0% (same as earlier), Q3 at 3.8% and Q4 at 4.2%. Risks are evenly balanced.	FY26 projection revised downward from 4.2% earlier to 4.0% with Q1 at 3.6% (4.5% earlier), Q2 at 3.9% (4.0%), Q3 at 3.8% (3.8%) and Q4 at 4.4% (4.2%). Risks are evenly balanced.
Liquidity	(i) CRR of all banks to be cut by 50 bps in two equal tranches of 25 bps each to 4.0% of NDTL with effect from the fortnight beginning 14.12.2024 and 28.12.2024, respectively. (ii) It has been decided to increase the interest rate ceilings on FCNR(B) deposits.	The RBI remains committed to provide sufficient system liquidity. It will continue to monitor the evolving liquidity and financial market conditions and proactively take appropriate measures to ensure orderly liquidity conditions. The RBI also observed that some banks are reluctant to onlend in the uncollateralised call money market. They are passively parking funds with the RBI and hence urged the banks to actively trade among themselves in the uncollateralised call money market to make it deeper and vibrant for better signal extraction from the weighted average call money rate (WACR).	The RBI remains committed to keep liquidity sufficiently in surplus with an aim to keep surplus at close to 1% of NDTL. Transmission usually happens with a lag.
Policy guidance	MPC was balanced in its guidance, and it emphasised that <i>“strong foundations for high growth can be secured only with durable price stability”</i> . The RBI Governor asserted that <i>“at this critical juncture, prudence and practicality demand that we remain careful and sensitive to the dynamically evolving situation with all its complexities and ramifications”</i> .	The MPC gave a balanced guidance as focus on inflation remains to ensure a sustained growth trajectory. However, there was emphasis on risks to growth as global economic backdrop remains challenging and hence need to maintain flexibility with a neutral policy stance. This will provide MPC the flexibility to respond to the evolving macroeconomic environment.	The RBI Governor asserted <i>“the domestic growth-inflation trajectory demands monetary policy to be growth supportive, while being watchful on the inflation front...aiming for a non-inflationary growth”</i> .
Other Regulatory Measures Proposed			
➤ To enable securitization of stressed assets through market-based mechanism in addition to the existing ARC route under the SARFAESI Act, 2002.			
➤ To extend the extant guidelines on co-lending, presently applicable only to arrangements between banks and NBFCs, to all regulated entities and to all loans - priority sector or otherwise.			
➤ To issue comprehensive regulations on prudential norms and conduct related aspects for gold loans.			
➤ To issue comprehensive guidelines to harmonize the regulations governing non-fund-based facilities across regulated entities and to revise Instructions related to partial credit enhancement.			
➤ To enable NPCI to decide, in consultation with the banks and other stakeholders, the transaction limits in UPI for person to merchant transactions; and make Regulatory Sandbox ‘theme-neutral’ and ‘on-tap’.			

Table 1: Sensitivity analysis of various global and domestic macro risks

Risk Factors	Baseline Assumption	Scenario	Impact on Growth	Impact on Inflation
Global Growth Uncertainties	3.1% in 2025	+/- 100 bps global growth change	+/-30 bps	+/-15 bps
	3.0% in 2026			
International Crude Oil Prices	US \$70 per barrel during 2025-26	+/- 10% change in crude oil prices	+/-15 bps	+/-30 bps
Exchange Rate	Rs. 86/US\$ during 2025-26	+/- 5% change in INR depreciates by 5% over the	+/-25 bps	+/-35 bps
Food Inflation		Hardening / softening in food prices		+/-50 bps

Source: RBI, UBI research

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.