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February 21, 2025

**Minutes of the Monetary Policy Committee Meeting, February 5 to 7, 2025**
**[Under Section 45ZL of the Reserve Bank of India Act, 1934]**

The fifty third meeting of the Monetary Policy Committee (MPC), constituted under Section 45ZB of the Reserve Bank of India Act, 1934, was held during February 5 to 7, 2025.

2. The meeting was chaired by Shri Sanjay Malhotra, Governor and was attended by all the members – Dr. Nagesh Kumar, Director and Chief Executive, Institute for Studies in Industrial Development, New Delhi; Shri Saugata Bhattacharya, Economist, Mumbai; Professor Ram Singh, Director, Delhi School of Economics, Delhi; Dr. Rajiv Ranjan, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934), and Shri M Rajeshwar Rao, Deputy Governor in charge of monetary policy.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

(a) the resolution adopted at the meeting of the Monetary Policy Committee;
(b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and
(c) the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail the staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

## Resolution

5. The Monetary Policy Committee (MPC) held its 53rd meeting from February 5 to 7, 2025 under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank

of India. The MPC members Dr. Nagesh Kumar, Shri Saugata Bhattacharya, Prof. Ram Singh, Dr. Rajiv Ranjan, and Shri M. Rajeshwar Rao attended the meeting. After assessing the current and evolving macroeconomic situation, the MPC unanimously decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.25 per cent with immediate effect; consequently, the standing deposit facility (SDF) rate shall stand adjusted to 6.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.50 per cent;

- continue with the neutral monetary policy stance and remain unambiguously focussed on a durable alignment of inflation with the target, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

**Growth and Inflation Outlook**

6. The global economy is growing below the historical average even though high frequency indicators suggest resilience amidst continued expansion in world trade. The world economic landscape remains challenging with slower pace of disinflation, lingering geopolitical tensions and policy uncertainties. The strong dollar, *inter alia*, continues to strain emerging market currencies and enhance volatility in financial markets.

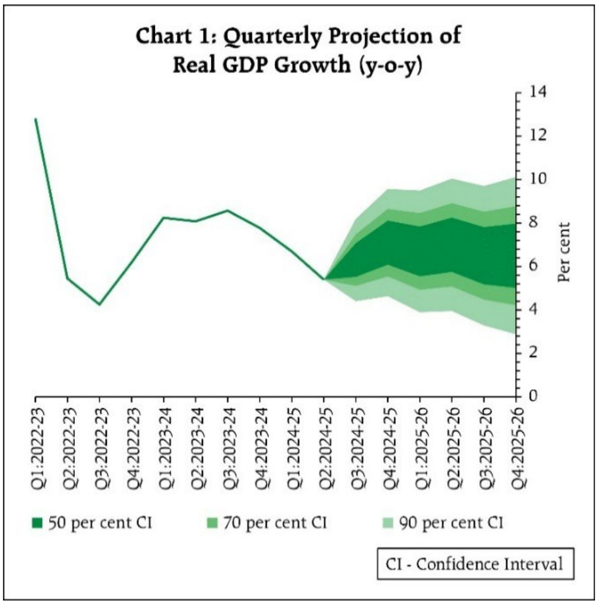
7. On the domestic front, as per the First Advance Estimates (FAE), real gross domestic product (GDP) is estimated to grow at 6.4 per cent (y-o-y) in 2024-25 supported by a recovery in private consumption. On the supply side, growth is supported by the services sector and a recovery in agriculture sector, while tepid industrial growth is a drag.

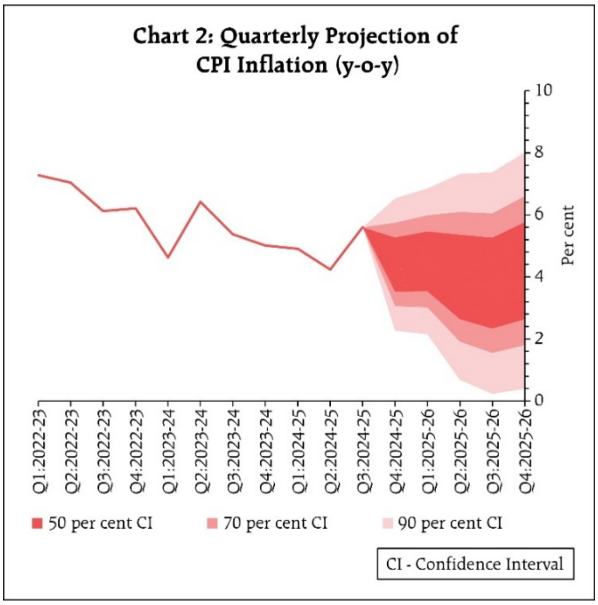
8. Looking ahead, healthy *rabi* prospects and an expected recovery in industrial activity should support economic growth in 2025-26. Among the key drivers on the demand side, household consumption is expected to remain robust aided by the tax relief in the Union Budget 2025-26. Fixed investment is expected to recover, supported by higher capacity utilisation levels, healthy balance sheets of financial institutions and corporates, and Government's continued emphasis on capital expenditure. This is corroborated by positive business sentiments highlighted in the Reserve Bank's enterprise surveys and PMIs. Resilient services exports will continue to support growth. However, headwinds from geo-political tensions, protectionist trade policies, volatility in international commodity prices and financial market uncertainties, continue to pose downside risks to the outlook. Taking all these factors into consideration, real GDP growth for 2025-26 is projected at 6.7 per cent with Q1 at 6.7 per cent; Q2 at 7.0 per cent; and Q3 and Q4 at 6.5 per cent each (Chart 1). The risks are evenly balanced.

9. Headline inflation softened sequentially in November-December 2024 from its recent peak of 6.2 per cent in October. The moderation in food inflation, as vegetable price inflation came off from its October high, drove the decline in headline inflation.

Core inflation remained subdued across goods and services components and the fuel group continued to be in deflation.

10. Going ahead, food inflation pressures, absent any supply side shock, should see a significant softening due to good *kharif* production, winter-easing in vegetable prices and favourable *rabi* crop prospects. Core inflation is expected to rise but remain moderate. Continued uncertainty in global financial markets coupled with volatility in energy prices and adverse weather events presents upside risks to the inflation trajectory. Taking all these factors into consideration, CPI inflation for 2024-25 is projected at 4.8 per cent with Q4 at 4.4 per cent. Assuming a normal monsoon next year, CPI inflation for 2025-26 is projected at 4.2 per cent with Q1 at 4.5 per cent; Q2 at 4.0 per cent; Q3 at 3.8 per cent; and Q4 at 4.2 per cent (Chart 2). The risks are evenly balanced.




## Rationale for Monetary Policy Decisions

11. The MPC noted that inflation has declined. Supported by a favourable outlook on food and continuing transmission of past monetary policy actions, it is expected to further moderate in 2025-26, gradually aligning with the target. The MPC also noted that though growth is expected to recover from the low of Q2:2024-25, it is much below that of last year. These growth-inflation dynamics open up policy space for the MPC to support growth, while remaining focussed on aligning inflation with the target. Accordingly, the MPC unanimously voted to reduce the policy repo rate by 25 basis points to 6.25 per cent.

12. At the same time, excessive volatility in global financial markets and continued uncertainties about global trade policies coupled with adverse weather events pose risks to the growth and inflation outlook. This calls for the MPC to remain watchful. Accordingly, the MPC unanimously voted to continue with a neutral stance. This will provide MPC the flexibility to respond to the evolving macroeconomic environment.

13. The minutes of the MPC's meeting will be published on February 21, 2025.

14. The next meeting of the MPC is scheduled during April 7 to 9, 2025.

**Voting on the Resolution to reduce the policy repo rate to 6.25 per cent**

| Member | Vote |
|---|---|
| Shri Sanjay Malhotra | Yes |
| Dr. Nagesh Kumar | Yes |
| Shri Saugata Bhattacharya | Yes |
| Prof. Ram Singh | Yes |
| Dr. Rajiv Ranjan | Yes |
| Shri M. Rajeshwar Rao | Yes |

**Statement by Dr. Nagesh Kumar**

15. I have been concerned with the economy's slowdown since the October 2024 Meeting of the MPC and have been making a case for a rate cut to support growth. Over the past few months, one has observed with concern the deepening of the growth slowdown, which has led to the downgrading of the growth outlook for 2024-25 by RBI from 7.2% in October 2024 policy to 6.6% in December 2024 to 6.4% now, as per the NSO's first advanced estimate, i.e. 80 basis points downgrading in a matter of four months!

16. In particular, the slowdown reflects the weakness of the manufacturing sector, as the services sector continues to grow robustly, and agriculture growth performance has improved in the current year. The slowdown of the manufacturing sector is a matter of concern, given its role in the creation of decent jobs for our youthful population.

17. Several pointers corroborate the weakness of the manufacturing sector, including the performance of listed companies, which shows that the sales growth of manufacturing companies continued to remain weak despite improved profit margins, with the core sectors like iron & steel, cement, and petroleum products continued to report negative growth or are shrinking. The business assessment index for manufacturing enterprises in Q3:2024-25 remained close to their levels in the previous quarter.

18. The slowdown of the manufacturing sector is resulting from moderate urban consumption affecting demand for durable goods, and slow growth of private investment, as also corroborated by the Economic Survey presented on 31 January 2025 by the Government of India. The external environment has also turned less benign with the subdued performance of the global economy and international trade and investments. The average annual growth rate of world trade has come down from around 16-20% during 2003-2008/09 which supported the emergence of China as a global manufacturing hub, to just 3-4%.[1] This year it is expected to be around 3.4%, as per the projections of the UN, IMF and the World Bank. Then there is a trend of rising protectionism with major industrialized countries such as the US pursuing industrial policy very aggressively with more than a trillion dollars to be given to the

[1] ISID (2025) *India Industrial Development Report 2024-25*, New Delhi: Academic Foundation for Institute for Studies in Industrial Development (ISID).

industry in the form of tax breaks, incentives and subsidies under the Inflation Reduction Act, the Chips Act and the Infrastructure and Jobs Act. With Mr Trump as the President, this trend of protectionism is only expected to be accentuated further. It is also too early to expect that India will be spared while tariffs will be slapped on Mexico, Canada and China! There are widespread fears of the world economy going into a deep and prolonged slump with such protectionist trade policies.

19. There is also concern about a threat of dumping of excess capacities in China with their deep pockets and their access to the Western markets coming under a cloud. Some of our manufacturing sectors have begun to feel the pinch including steel (possibly explaining the negative growth) while labour-intensive consumer sectors, such as garments and leather goods have been facing an onslaught. As the latest Economic Survey shows, FDI inflows have been subdued, with foreign investors both FDI and FPIs repatriating, leaving little investments in net terms.

20. Therefore, the case for supporting growth cannot be overemphasised. In the Union Budget 2025-26 presented on 1 February 2025, the fiscal policy has done its bit by sustaining the public investment (capex) and through income tax concessions to the middle-income groups to enhance disposable incomes to augment consumption. It is now monetary policy's turn to support economic growth through a rate cut. A rate cut could help to spur demand for investment in housing and durable consumption goods and could support private investment by lowering the cost of capital.

21. Fortunately, the inflation outlook has moderated since the last MPC which provides the elbow room for a rate cut. The inflation for January 2025 is expected to be sub 5% *vis-a-vis* 6.2% in October 2024. The CPI headline has come down to 5.2% in December from 5.5% in November. But CPI excluding food and fuel continues to stay at 3.7%. The bulk of the inflation, therefore, is on account of food prices, especially vegetable prices, which result from seasonal demand-supply mismatches that correct themselves. As I have argued in the previous meetings, monetary policy has limitations in addressing the demand-supply mismatches in vegetables. Fortunately, the food prices have started to ease. Furthermore, the Union Budget has accelerated the path to fiscal consolidation by limiting the fiscal deficit to just 4.4% of GDP for 2025-26.

22. Globally commodity prices are softening due to several factors. The crude oil prices are likely to head downwards due to the Chinese slowdown, the recently announced ceasefire in the Middle East with the prospects of the Ukraine conflict also brightening with the Trump 2.0 Presidency which is also likely to enhance the US output of oil and growing dependence on renewables.

23. Considering the seriousness of the growth slowdown and the elbow room provided by moderating the inflationary outlook, I strongly feel that the MPC should begin the process of normalisation of the monetary policy with a rate cut. We could be more ambitious and target a 50 basis point cut. It would send a signal to the markets and private investors within and outside the country that India is serious and would do whatever it takes to revive economic growth momentum.

24. However, given the global uncertainties, for the present policy I vote for a 25 basis point cut in the repo rate while keeping the neutral stance.

**Statement by Shri Saugata Bhattacharya**

25. Directionally, two important macroeconomic indicators, viz. growth and inflation, have moved favourably since the meeting of Monetary Policy Committee (MPC) in December 2024.

26. First, domestic economic activity has improved post the GDP growth low of Q2 FY25. The NSO Advance Estimates of GDP FY25 imply H2 GDP growth at 6.7%. The RBI's FY26 GDP forecast is 6.7% yoy; the Economic Survey projects 6.3 – 6.8%. Second, inflationary pressures appear to be gradually receding. The high 6.2% yoy CPI October '24 inflation print, which was the proximate factor influencing my vote at the Dec '24 MPC meeting, has since moderated to 5.2% in Dec '24.

27. Despite the improvement in these two indicators there are two pertinent questions.

28. First, the issue of growth. Preliminary Q3 FY25 financial results of listed manufacturing companies show growth in net sales barely holding up, while operating and net profits growth remain under pressure. Although many high frequency indicators remain resilient, they are weaker than in previous years. While January '25 PMIs show continuing economic resilience, the responses in central bank and private surveys present a mixed picture, again particularly for manufacturing. In other words, there are sufficient signals suggesting the need to support both consumption and investment led growth.

29. It is important to keep in mind the possible spillovers of frictions in global trade and protectionist policies. A global growth slowdown led by disruptions in trade linkages and uncertainty about responses of global central banks might further complicate domestic policy choices. The most significant near-term risk of accelerating policy easing at this juncture is renewed volatility in external financial conditions.

30. Second, on inflation, there is a certain degree of optimism. The FAO Food Price Index had trended down in December '24, with, notably, edible oils prices off their highs. Major metals prices have also fallen or remain stable. The IEA assesses[2] that non-OPEC+ oil output "additions should cover both potential supply disruptions and expected demand growth". While unpredictable, the balance of probability is that high oil prices will not be a significant risk to the medium-term inflation forecast. The January '25 print is widely expected by analysts to be sub-5% yoy. RBI forecasts CPI inflation for FY26 at 4.2%, with a (slightly wobbly) glide path down to 4.2% in Q4 FY26 (and average 4.0% in H2 FY26). The median forecast for CPI "core" (that excludes 'Food & Beverages', 'Fuel & Light' and 'Pan, Tobacco & Intoxicants') inflation in the Survey of Professional Forecasters (SPF), while gradually creeping up to 4.1% in Q3 FY26, is, for the most part, lower than the headline CPI target for most quarters. This is likely to be important reinforcement for a durable alignment of headline inflation with the target in the medium term.

[2] IEA, Oil Market Report, January 2025

31. However, the 3- and 12-month ahead RBI Household Inflation Expectations (in the January '25 survey round) have inched up. The IIM Ahmedabad Business Inflation Survey December '24 round shows that a majority of respondents expect one-year ahead input costs to rise sharply. Manufacturing and Services January '25 PMI surveys also show both input and output prices rising, albeit in varying magnitudes, yet mostly above their long-term averages.

32. All things considered, I am now cautiously optimistic about the downward trajectory of inflation. I believe that, at this point, the required policy response on the inflation – growth trade-off – even factoring in significant margins of error from emerging risks – seems skewed in favour of the latter.

33. Given the forecast inflation trajectory, the policy repo rate might soon, if not even as of now, become excessively restrictive, thereby increasing the risk of cumulatively damaging growth impulses. This assessment is based on the last study[3] of the "real natural rate of interest" that I am aware of.

34. One sector which is vital for stimulating economic activity is MSMEs. Bank credit to the "Micro and Small Enterprises" segment of MSMEs had slowed to 12.1% yoy as of December '24 vs 20.3% in the corresponding month a year back; in the manufacturing segment, from 14.8% to 9.8%. For me, this – a slowing momentum in credit flows to a priority segment – is a matter of concern. As I had noted in my minutes of the December '24 MPC meeting, the ratio of interest expenses to EBIDTA for smaller listed companies remains high; for most small enterprises, this is likely to be significantly higher. One instrument for inducing increased demand for credit from this sector is lowering the borrowing cost. Transmission of a policy repo rate cut to borrowing costs for MSMEs, given EBLR pricing, is likely to be relatively quick. In addition, RBI's liquidity infusion measures are likely to gradually ease MCLR-based borrowing costs, thereby reducing Weighted Average Lending Rates (WALR).

35. A possible repercussion of policy easing might be an increase in currency volatility and a depreciation of the USDINR pair. This might not be a major cause for concern. A recent study[4] estimates that if INR depreciates by 5%, CPI "inflation could be higher by around 35 bps" while GDP growth "could edge up by 25 bps through short-term stimulation of exports". This should probably be treated as indicative, given the significant changes which have happened in the world since this study.

36. Accordingly, based on my assessment of the downward inflation trajectory, I vote to cut the repo rate by 25 bps to 6.25 per cent. This, I believe, is the appropriate policy response at this point of the economic cycle. I also vote to continue with the neutral monetary policy stance. This stance will provide the flexibility to appropriately respond to any emerging shocks and the resultant uncertainty in the economic environment.

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[3] Behera, H. K., "Updating Estimates of the Natural Rate of Interest for India with Post-Pandemic Evidence", RBI Monthly Bulletin, July 2024.

[4] RBI Monetary Policy Report, October 2024, Section 1.4: Balance of Risks

**Statement by Prof Ram Singh**

37. Since the December meeting of the MPC, we have received additional data related to the economy's inflation trajectory and growth prospects. Besides, there have been significant developments on the foreign exchange rates front. These macro data and related indicators underscore the case for a comprehensive review of the existing monetary policy (MP).

*Inflation*

38. Following a predicted downward trajectory, the headline inflation in December 2024 was 5.2%, with CPI inflation excluding food and fuel at 3.7%. Prices of most farm produce and non-food commodities have moderated, except gold. Looking ahead, food inflation is likely to soften in Q4:2024-25, and energy prices are also expected to be stable in the near future. Overall, CPI inflation for 2024-25, projected at 4.8 per cent, is within the tolerance band though above the 4.0 per cent target.

39. The core goods and services inflation rates in December 2024 have remained moderate at 3.6% and 3.5%, respectively. The CPI core, excluding petrol, diesel, gold and silver, is down at 3.3%. For FY 2025-26, the CPI inflation is expected to be 4.2%.

40. The CPI headline inflation figures will appear even more benign if the shares of food and beverages in the CPI inflation are reduced to their levels observed in the Household Consumption and Expenditure Surveys (HCES) data of the recent vintages. As such, the headline Indian inflation rate is actually lower than the global average.

*GDP Growth*

41. The RBI has significantly lowered the GDP growth forecast for FY25 from 7.2 to 6.4 per cent. In Q3:2024-25, the manufacturing sector sales growth remains subdued, and net profit margins have further moderated. For the IT sector, staff costs have only slightly increased even as headcount has reduced for top IT companies. The CU has not improved, and the interest coverage rate of non-IT service sector companies remains low, though above unity. Looking ahead, RBI's enterprise survey indicates a moderate improvement in demand parameters regarding turnover and employees. The CU at 74.2 per cent in Q2:2024-25 is above the long-run average.

42. It is in this context that the Economic Survey 2024-25 has projected the GDP growth to be 6.4% in FY25 and between 6.3% and 6.8% in FY26. As per the first Advanced Estimates, the real and nominal GDP are expected to grow at 6.4% and 9.7%, respectively, in FY25. In FY26, the nominal GDP is projected to grow by 10.1%. These figures underscore the downward trajectory on the inflation front.

43. Subdued private consumption due to a low growth rate of real wages is a factor behind the slowdown. However, excessively contractionary monetary policy has aggravated the problem. High interest rates and regulatory tightening have brought down the credit growth rate. The growth rate for bank credit has declined from 15.6% (y-o-y) in December 2023 to 12.4% in December 2024. This puts downward pressure on demand growth for several segments of the economy.

44. The moderated demand is often cited as the reason behind the slow recovery in private capex in this sector. While demand expectations are important for investment decisions, the high interest rates have raised the risk premium assigned to capital investments. This seems to be a leading factor behind the noticeable slowdown in the flow of funds to the commercial sector. Total costs of bank/FIs-funded projects have seen no appreciable increase. The aggregate bank credit growth rate remains low at 12.4% in December 2024. The rate for industry is even lower (7.4%) under very tight financial conditions overall.

45. The Union Budget 2025 has given a push to demand. However, demand push will not result in higher private capex unless interest rates are reduced immediately. The difference between the core inflation, excluding gold and silver (<4%), and the policy rate (at 6.5 %) has been more than 2.5% for the past year. This means the capex-relevant real interest rate is significantly greater than the growth-neutral real interest rate, R-star. Very high effective real interest rates for capital goods are a drag on private capex and a leading factor why the investment rates remain below what is needed for a high growth rate.

46. With reference to CPI inflation also, the policy rates are more than two percentage points higher than the CPI inflation forecast for the next five quarters – Q4: 2024-25 at 4.4 per cent, Q1: 2025-26 at 4.5 per cent, Q2: 2025-26 at 4.0 per cent, Q3 at 3.8 per cent and Q4 at 4.2 per cent; and FY: 2025-26 is at 4.2%. Undoubtedly, the present MP is contractionary.

47. The combination of a persistently low core inflation rate during the last two years and the slowdown in FY25 suggests that the actual growth is significantly below the potential growth rate.

48. Given the demand boost from Budget 2025, a rate cut powered by a commensurate increase in liquidity will decrease the risk premium demanded by investors, thereby boosting private investment to support growth. By reducing the cost of capital, the rate cut can increase the commercial viability of the public-private partnership schemes for warehouses, cold storage, and infrastructure logistics. By reducing the wastage of fruits and vegetables (the significant causes of inflation), such investments can help induce a virtuous cycle of faster growth and lower inflation.

49. Low core inflation strengthens the case for a rate cut, especially when food price inflation is expected to moderate further. To the extent that inflation risk arises from food prices, it is expected to have a limited impact on core inflation. During the last five quarters, the CPI core, excluding petrol, diesel, gold and silver, has remained mostly below the price inflation target of 4%.

50. In contrast, during the last ten years, including the eight years under the flexible inflation targeting framework of 2016, repo rates have had no significant effect on food prices or their volatility. This lends credence to the claims that food inflation is a primarily supply-side phenomenon.

51. Additionally, the persistent duality in the CPI – that is, a significant and persistent divergence between the food and core inflation levels in recent years – calls for the MPC to see through the fluctuations in food prices while setting policy rates.

Further, food prices should be viewed in the broader context of the income-boosting effect of growth and the reduced share of food in the consumption basket, as is evident from the two consecutive rounds of HCES in 2023 and 2024.

52. Admittedly, a rate cut carries risks, too. It will reduce the interest rate differentials between India and the advanced economies (AEs). This, in principle, can increase outflows, putting pressure on the exchange rate. This, in turn, can result in imported inflation. Going by the data, this seems to be a rather low-probability scenario. During the last five years, the benchmark rate differentials between India and AEs have decreased. For instance, vis-à-vis the US, the policy rate differentials have decreased from almost 4% in 2020 to about 1.5% in September 2024 till the US Fed started rate cuts – the real policy rate differentials have also changed significantly. The increased differentials did not adversely affect inflows of USD, very likely due to strong growth fundamentals.

53. In the short run, several factors, including global uncertainty, can change the direction and quantum of capital flows. Interestingly, the recent months have witnessed outflows even as interest differentials between India and most of the AEs increased in the aftermath of rate cuts by the US Fed and other central banks starting September 2024. In any case, as most major economies have already reduced their interest rates, even accounting for the impact of interest rate differences, there is room for us to reduce policy rates without adversely affecting the foreign exchange flows.

54. The risk of imported inflation also does not seem very high. On one hand, some adjustments in the INR-USD exchange rate cannot be ruled out. On the other hand, according to the World Bank's Commodity Markets Outlook, oil prices and other commodities are expected to decrease risk in CY 2025 and 2026. The effect of tariff hikes on India is difficult to predict. Overall, the risk of imported inflation appears to be low.

55. Considering the trade-offs discussed above, I vote to:

- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.25 per cent.
- Maintain the monetary policy stance as 'neutral'.

**Statement by Dr. Rajiv Ranjan**

56. In my statement of August 2024, when June inflation number of 5.1 per cent was available and we were expecting around 4 per cent inflation numbers in July and August 2024, I had said that positive developments on inflation and growth front could open the window for monetary policy to change its course. But at the same time, more clarity and definiteness were needed as we were anticipating some price shocks in September and October, which turned out to be much higher than projected, delaying the opening of the window. In December, when the October number was available at 6.2 per cent, above the tolerance band, it was not credible and optical to ease policy rates. Thus, we preferred to stay the course and remain cautious and watchful for these uncertainties to play out.

57. Under the circumstances, we sequenced our policy measures – shifting the monetary policy stance from 'withdrawal of accommodation' to 'neutral' in October 2024 thereby enhancing the flexibility to act and subsequently reducing the CRR in December 2024 to release durable liquidity.[5] In fact, we also made a very subtle change in October 2024 in the wording of our stance given in the MPC resolution from "*…a durable alignment of inflation **to** the target*" to "*…a durable alignment of inflation **with** the target*" – implying more flexibility in our approach. Perhaps, this went unnoticed.

58. Globally also, as compared to the highly synchronous tightening phase in a world grappling with elevated inflation, there is now a hesitant, guarded, divergent and discontinuous rate cut cycle under progress. Uncertainty has been high due to elevated trade fragmentation concerns, persistent geopolitical tensions and slowing disinflation. Definitely, our decisions are guided by domestic growth-inflation trade-offs, while remaining attentive to global developments.

59. In line with the sequencing path that we followed, a policy rate cut in February 2025 is the most rational and appropriate next step as we now have greater confidence on the disinflation path. In line with this prognosis, we also prepared the market by infusing sufficient liquidity for better transmission. The baseline projections suggest headline inflation to average at 4.2 per cent during 2025-26. Oil and other global commodity prices are expected to remain rangebound. On the other hand, growth slow down concerns are more evident today.

60. It needs to be emphasised that India's forte is its immense growth opportunities and strong macroeconomic fundamentals. There is a need to preserve the high growth momentum over the medium term, necessitating monetary policy to be sensitive to the evolving growth scenario and use various policy instruments including liquidity injection to reinvigorate growth. Capital flows to India are driven more by its distinctive growth story rather than interest rate differentials, a phenomenon observed for many EMEs.[6] Reviving growth and building on resilience is an imperative, especially at a country specific level. Interest rate defence of exchange rate could turn out to be counter-productive especially during periods of global tide towards outflows driven by factors that do not differentiate across nations such as the risk-taking propensity of global investors or uncertainty driving reserve currency strength.[7]

61. The Union Budget 2025-26 has also prepared the ground for a counter cyclical push to growth, which can then be complemented by monetary policy. The commitment to pursue fiscal consolidation in the next five years coupled with proposals for strengthening agriculture and achieving self-sufficiency in pulses and rationalisation of duty structures will be supportive of price stability and help in anchoring of inflation expectations over the medium term. Moreover, the adherence to fiscal consolidation and debt path without compromising on the quality of expenditure will help in improving country ratings, attracting flows, easing financial conditions, and improving overall sentiment and outlook. Well-coordinated fiscal and monetary policy

[5] This was followed by a number of measures in January 2025 to release sufficient system liquidity.
[6] Aizenman J, Park D, Qureshi I, Saadaoui J and Uddin G (2024), "The Performance of Emerging Markets During the Fed's Easing and Tightening Cycles: A Resilience Analysis Across Economies, Asian Development Bank, August (https://www.adb.org/publications/emerging-markets-fed-easing-tightening-cycles)
[7] Gelos G., Patelli P., & Shim I. (2024), "The US dollar and Capital Flows to EMEs, BIS Quarterly Review, September (https://www.bis.org/publ/qtrpdf/r_qt2409d.htm).

working in tandem could undoubtedly generate improved outcomes in terms of better growth-inflation balance.

62. To sum up, having duly sequenced our stance and liquidity measures during the last two policies and given the outlook on inflation, time has come to accord higher weight to growth in our policy setting. Coupled with Government measures to boost consumption in the Union Budget, monetary policy easing will support higher aggregate demand. Heightened global uncertainty, however, persists, necessitating the need to continue with neutral stance to retain flexibility to act appropriately as per the evolving situation. Accordingly, I vote for a reduction in the policy repo rate by 25 bps while maintaining the neutral stance.

**Statement by M. Rajeshwar Rao**

63. There has been a shift in the domestic growth inflation balance since the December 2024 policy – while the inflation registered sequential softening, growth outcomes were weaker. Heightening uncertainties, emanating from the global financial markets and trade policies too cloud the outlook for domestic growth and inflation.

64. Real GDP growth in 2024-25 at 6.4 per cent (y-o-y) was below expectations, with weak capital formation proving a drag, even while private consumption registered a rebound. Growth projections for the first half of 2025-26, given in the December 2024 resolution have been scaled down by 20 bps and 30 bps, respectively, for Q1 and Q2. On the whole, real GDP growth is projected to edge up to 6.7 per cent in 2025-26. Household consumption growth will be supported by robust agricultural outlook, stable consumer confidence and tax relief in the Union Budget. Rising capacity utilisation, healthy corporate and bank balance sheets, and improving business sentiments, set up conducive conditions to support pickup in private investment. At the same time, protracted uncertainty in the external environment – particularly volatile financial markets and rising protectionist trade policies – could dampen growth impulses.

65. The inflation outlook is turning out to be more benign. Food inflation at present is the predominant driver of headline inflation, contributing to around 70 per cent of the overall inflation in December (food group has a weight of 45.86 per cent in the CPI basket). A correction in food inflation is necessary for a durable softening of headline inflation. Reassuringly, recent data is signalling a favourable *rabi* season. This, along with the *kharif* market arrivals and the ongoing winter season correction in vegetables prices, should lead to a significant easing of food inflation pressures in the coming months. Core inflation (inflation in CPI excluding food and fuel) pressures are also expected to remain muted. The headline inflation is projected to average 4.2 per cent during 2025-26 down from 4.8 per cent in 2024-25. At the same time, considerable upsides to the baseline inflation projections remain, particularly from adverse weather events impacting *rabi* crop yields and risks of rising imported inflation on account of volatility in financial markets.

66. Monetary policy amidst the challenges posed by COVID-19, Ukraine war and the recurring domestic food price shocks, has been able to effectively maintain the growth-inflation balance, in line with its primary objective of price stability while keeping in mind the objective of growth. At the current juncture, with a further alignment of headline inflation towards the 4 per cent target, there is greater space to address

concerns regarding growth by way of reduction in the policy repo rate. This monetary policy measure in conjunction with the fiscal measures announced in the Budget should give a fillip to aggregate demand conditions. Furthermore, Government has reaffirmed its commitment to fiscal consolidation, which should help to anchor medium-term inflation expectations. The liquidity measures – CRR reduction in December 2024 as well as a slew of other measures taken in January 2025 to meet the durable liquidity requirements of the banking system, have created conditions conducive to help in transmission of the rate cut.

67. The current environment is replete with uncertainties which calls for watchfulness, coupled with alertness and nimbleness in response. Monetary policy at this juncture has to maintain the required flexibility to pro-actively address emerging risks to the growth-inflation balance. This necessitates a continuation of the neutral stance in the February policy.

68. Accordingly, I vote for a cut in the policy repo rate by 25 basis points to 6.25 per cent and to retain the neutral stance.

**Statement by Shri Sanjay Malhotra**

69. In a world order dominated by continuing geopolitical tensions and elevated trade and policy uncertainties, monetary policy, as the guardian of macroeconomic and financial stability, is traversing through a challenging time. It has to balance a multitude of pressure points and continuously evolving policy trade-offs. Stronger policy frameworks and robust macro fundamentals remain the key to resilience and fostering overall macroeconomic stability. Domestically too, there is a need to preserve the high growth momentum, while maintaining price stability, necessitating monetary policy to use various policy instruments to maintain the inflation-growth balance.

70. Headline inflation, after moving above the upper tolerance band in October, has moderated in November and December. Going forward, food inflation pressures are likely to see significant easing on robust *kharif* harvest arrivals, winter season correction of vegetables prices and a promising *rabi* crop outlook. The food inflation outlook is turning decisively positive. Moreover, the budget proposals on agriculture and the commitment to fiscal consolidation, among others, are positive for price stability and would help to anchor inflation expectations over the medium term. These would provide greater impetus to disinflation of headline CPI and its eventual alignment with the target rate in FY 2025-26. CPI inflation for Q4 is projected at 4.2 per cent and that for the financial year 2025-26 at 4.2 per cent.

71. The real GDP growth for the current year is estimated at 6.4 per cent, a softer expansion after a robust 8.2 per cent growth last year. Even though, the GDP growth is expected to recover in the second half of 2024-25 and 2025-26 from 6.0 per cent recorded in the first half of 2024-25, the growth rate projected by various forecasts for 2025-26 vary from 6.3 to 6.8 per cent. This will be supported by healthy *rabi* prospects and an expected recovery in industrial activity. From the demand side, consumption and investment are also expected to improve.

72. Given the macroeconomic outlook when inflation is expected to align with the target, and recognising that monetary policy is forward-looking, I view a lower policy rate to be more appropriate at the current juncture. Accordingly, I vote for a reduction

in the repo rate by 25 basis points. Monetary policy easing, coupled with good agricultural sector growth and various growth supportive measures in the Union Budget, would boost household consumption, investment in housing, capital expenditure, etc thereby strengthening the pick-up in aggregate demand.

73. At the same time, rising uncertainties on global financial markets and trade policy front, coupled with continuing risk of adverse weather events pose risks to the inflation and growth outlook. We need to be watchful of how these forces play out. Hence, I vote to continue with the neutral stance of monetary policy. This will provide the flexibility to respond to the evolving macroeconomic environment. By taking this logical course, monetary policy will be able to fulfil its mandate and play its part in the sustainable development of the Indian economy.

**(Puneet Pancholy)**
Chief General Manager

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