

Navigating the Growth-Inflation Trade-off: An Analysis of RBI's April 2025 Monetary Shifts and its Sectoral Transmission Channels

The recent policy measure of RBI to cut the policy repo rate by 25 basis points to 6 percent is intended to boost growth (estimated GDP of 6.5%) while lowering inflation (4% CPI). This article analyses the impact of this policy measure on the inflationary trends in various sectors of the economy.



Akki Maruthi

Assistant Professor
Department of Commerce SKNG,
Government First Grade College,
Gangavathi, Koppal, Dist. Karnataka
akkimaruthi@gmail.com

INTRODUCTION

In a turbulent global economic environment, the RBI's careful balancing act between promoting growth and controlling inflation is exemplified by its April 2025 monetary policy change, which saw a 25 basis point reduction in the repo rate to 6%. At the first Monetary Policy Meeting (MPC) for FY2025–2026, this decision was made in response to three significant developments:

- **Global Headwinds:** Low OECD growth predictions (3.1% for FY2025), fluctuating crude oil prices (~15% fall Q1 2025), and resurgent trade tensions (US tariff pronouncements) limited policy autonomy.
- **Domestic Macroeconomics:** Due to record wheat yield, food inflation decreased to 3.8% in February 2025, allowing the CPI to target 4.0% for FY2025–26.

In FY2025–2026, GDP growth stalled at 6.5%, falling short of India's potential despite a strong recovery in manufacturing and services (7.5% GVA growth).

- **Sectoral Fragilities:** The effectiveness of the policy is examined in this research from two perspectives: inflation anchoring vs growth stimulation, and macro-outcomes.
- **Micro Impacts:** Distinctive impacts on housing finance, NBFCs and banks. The research is based on institutional data, market reactions, and the RBI's Monetary Policy Report (April 2025). Policymakers in emerging economies can benefit from the study's practical insights into sectoral repercussions and transmission pathways.

THEORETICAL BACKGROUND

Interest is charged on the principal amount when you borrow money from the bank. They call this the cost of credit. In the same way, banks must pay interest to the Central Bank when they borrow money from it during a cash constraint. The repo rate is the name given to this interest rate. "Repurchasing Option" or "Repurchase Agreement" are the technical terms for "repo." Under this arrangement, banks provide the RBI with eligible securities, including Treasury Bills, in exchange for overnight loans. There will also be an agreement to buy them back at a set price. Consequently, the Central Bank receives the security, and the bank receives the money.

In the finance industry, basis points, or "bps," are a unit of measurement that is used to describe the percentage change in the value of financial instruments or the rate of change in an index or other benchmark. One basis point is equivalent to 0.0001 or 0.01% (1/100th of a percent) in decimal notation.

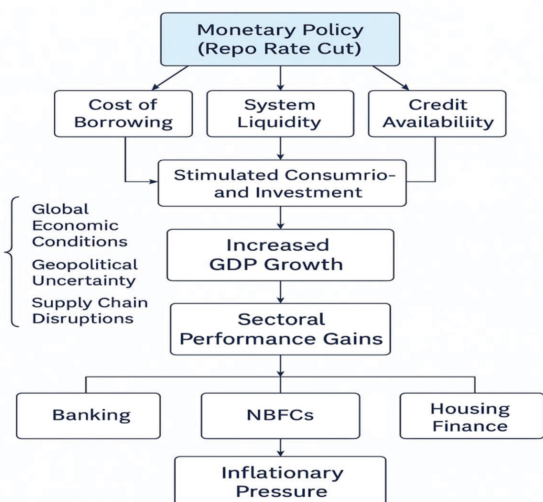
RBI REPO RATE HISTORY AFTER COVID-19

Effective Date	9 th April 2025	7 th February 2025	6 th December 2024	9 th October 2024	8 th August 2024	7 th June 2024	5 th April 2024	8 th February 2024
Repo Rates	6.00%	6.25%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
8 th December 2023	10 th August 2023	8 th June 2023	6 th April 2023	8 th February 2023	7 th December 2022	30-Sep-22	8-Jun-22	4-May-22
6.50%	6.50%	6.50%	6.50%	6.50%	6.25%	5.90%	4.90%	4.40%

Source: RBI Handbook, Sept 13, 2024/ Cleartax, 24th April 2025

Conceptual View

Impact of RBI's Monetary Policy (Repo Rate Cut) on Economic Growth and Inflation: A Sectoral Analysis



CRUCIAL POLICY DECISIONS

In a unanimous decision, the Monetary Policy Committee (MPC) decided to lower the policy repo rate by 25 basis points, immediately bringing it down to 6%. The rate at which commercial banks borrow from the Reserve Bank of India (RBI) is known as the repo rate. Consequently, the Liquidity Adjustment Facility (LAF) Standing Deposit Facility (SDF) rate has been revised to 5.75 percent. Banks can deposit excess funds with the RBI without any collateral, thanks to the SDF. Both the Bank Rate and the Marginal Standing Facility (MSF) rate have been increased to 6.25%. If interbank funds are completely depleted, scheduled commercial banks can access overnight liquidity through the RBI's Marginal Standing Facility (MSF). This emergency facility allows banks to borrow money at a rate higher than the repo rate. These rate changes align with the RBI's goal of promoting economic growth and achieving the Consumer Price Index (CPI) inflation target of 4% within a flexible band of 2%.

OBJECTIVE

To assess how RBI's repo rate cut balanced growth and inflation and its asymmetric effects on banks, NBFCs, and housing finance.

DATA AND METHOD

Data was collected from secondary sources such as official websites, the RBI, PIB, and newspapers. Desk research was employed.

GROWTH ASSESSMENT AND INFLATION OUTLOOK

Following a robust expansion of 9.2 percent in the previous year, the Reserve Bank of India has forecasted real GDP growth at 6.5 percent for FY2025–2026, retaining the same rate as expected for FY2024–2025. The quarterly forecasts are 6.5 percent in Q1, 6.7 percent

in Q2, 6.6 percent in Q3, and 6.3 percent in Q4, as shown in Table 1. As a result of increased global volatility, this represents a 20 basis point negative revision from the February estimate. Thanks to strong crop output and stable reservoir levels, agriculture is still doing well and should continue to meet demand in rural areas. As the business mood improves, manufacturing is beginning to recover, and the services sector is still proving resilient.

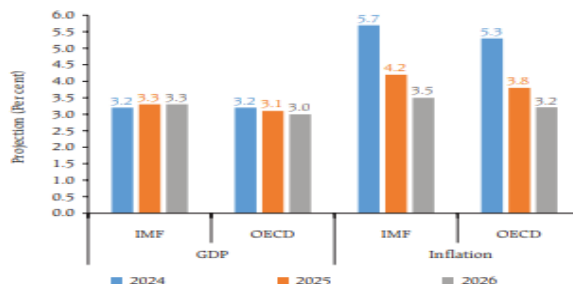
Table 1 India's GDP Growth Projections for FY2025-2026

Quarter	GDP Growth Projected (%)
Q1	6.5
Q2	6.7
Q3	6.6
Q4	6.3
Full Year	6.5

Source: PIB, 09 April 2025

Due to increased capacity utilization, ongoing government attention to infrastructure, and robust bank and corporate balance sheets, investment activity is picking up speed. Additionally, this recovery has been facilitated by improving financial conditions. Exports of goods may encounter challenges due to trade disruptions and global uncertainties, however, exports of services are probably going to be stable. The RBI's FY2026–2027 real GDP growth forecast of 6.7% indicates that the recovery will likely continue.

Figure 1: The IMF and OECD projections for growth and inflation



Note: OECD inflation projections are for G-20 countries. Sources: Economic Outlook Interim Report March 2025 Update. OECD: World Economic Outlook January 2025 update. IMF.

Source: RBI MPR APRIL 2025

In March 2025, the Organization for Economic Cooperation and Development (OECD) released its Economic Outlook Interim Report, which anticipated global growth to be 3.1% in 2025 and 3.0% in 2026. According to the International Monetary Fund's (IMF) January 2025 World Economic Outlook update, inflation is predicted to drop to 4.2% in 2025 and 3.5% in 2026, indicating that global disinflation is ongoing (Figure 1). The growth of global commerce (goods and services combined) is anticipated to slow from 3.4% in 2024 to 3.2% in 2025 before increasing to 3.3% in 2026.

In January and February of 2025, headline inflation decreased due to a steep drop in food costs. Food inflation is anticipated to decrease further now that the rabi crop issues have mostly been addressed, and the second advance estimates show record wheat and higher pulse production compared to the previous year. According to recent surveys, this positive trend is reinforced by strong Kharif arrivals and a steep decline in inflation predictions over the next three and twelve months. The disinflationary prognosis has been further reinforced by the drop in crude oil prices. In light of this, the Consumer Price Index (CPI) inflation rate for FY2025–2026 is predicted to be 4.0%, with quarterly predictions of 3.6% in Q1, 3.9% in Q2, 3.8% in Q3, and 4.4% in Q4.

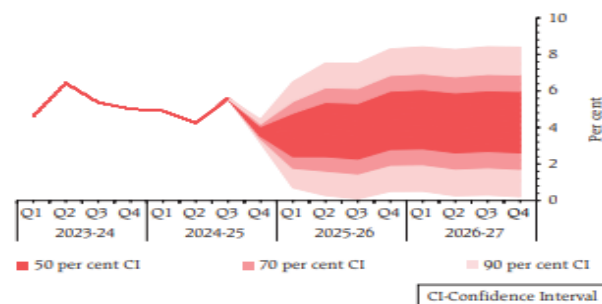
Table 2: Consumer Price Index inflation projection for FY2025-2026

Quarter	Projected CPI Inflation (%)
Q1	3.6
Q2	3.9
Q3	3.8
Q4	4.4
Full Year	4.0

Source: PIB, 09 APRIL 2025

With risks fairly distributed, CPI inflation is expected to average 4.0% in FY2025–2026, with 3.6% in Q1, 3.9% in Q2, 3.8% in Q3, and 4.4% in Q4 (Figure 2). For headline inflation in Q4 of FY2025–2026, the 50% and 70% confidence ranges are 2.8–6.0% and 1.9–6.9%, respectively. According to structural model predictions, inflation will average 4.3% in FY2026–207, with 4.5% in Q1, 4.3% in Q2, 4.4% in Q3, and 4.3% in Q4, assuming a normal monsoon and no additional exogenous or policy shocks. In Q4 of FY2026–2027, the headline inflation 50% and 70% confidence intervals are 2.6–6.0% and 1.7–6.9%, respectively.

Figure 2: Projection of CPI inflation year on year



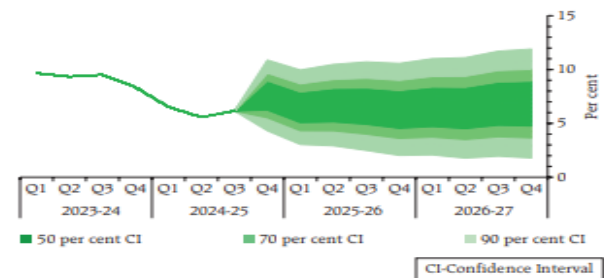
Source: RBI MPR APRIL, 2025

Table 3: Inflation Rate History After COVID-19

Effective Date	9 th April 2025	7 th February 2025	6 th December 2024	9 th October 2024	8 th August 2024	7 th June 2024	5 th April 2024	8 th February 2024
Inflation Rates	3.9	3.61	5.22	6.21	3.65	5.08	4.83	5.09
8 th December 2023	10 th August 2023	8 th June 2023	6 th April 2023	8 th February 2023	7 th December 2022	30-Sep-22	8-Jun-22	4-May-22
5.69	6.83	4.87	4.7	6.44	5.72	7.41	7.01	7.04

Source: RBI Handbook, Sept 13, 2024 & PIB, 15th April, 2025

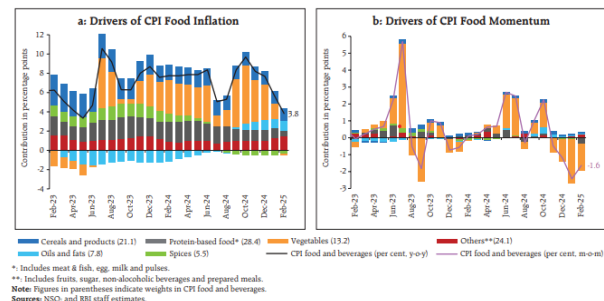
Figure 3: Projection of growth in Real GDP year on year



Source: RBI MPR APRIL 2025

In Q3 of FY2024–2025, real GDP growth was 6.2%, higher than Q2's 5.6% growth rate. With risks evenly distributed around this baseline path, real GDP growth is anticipated to be 6.5% in FY2025–2026, with 6.5% in Q1, 6.7% in Q2, 6.6% in Q3, and 6.3% in Q4. This is based on baseline assumptions, survey indicators, and model forecasts (Figure 3). Structural model predictions for FY2026–207 show real GDP growth of 6.7%, with Q1 at 6.5%, Q2 at 6.4%, Q3 at 6.8%, and Q4 at 6.8%, assuming a normal monsoon and no significant external or policy shocks.

Figure 4: Consumer Price Index on food inflation



Source: RBI MPR APRIL 2025

The Food and Beverage category, which accounts for 45.9% of the CPI basket, has shown significant volatility thus far in the second half of FY2024–25. Price pressures resumed in September and became even more pronounced in October. The spike in food inflation was caused by a shortage of vegetables brought on by unfavorable weather, pressures on oil and fat costs from higher import taxes on crude and refined edible oils, and rising global prices. Vegetable prices corrected significantly

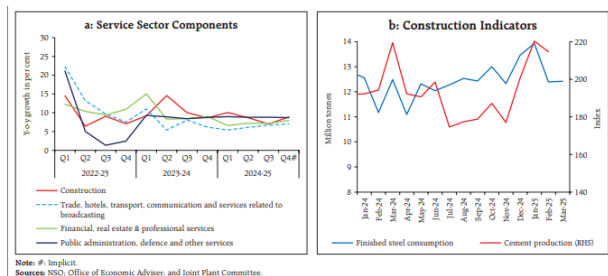
from November onward with fresh crop arrivals and seasonal winter relaxation, which, together with easing of price pressures in pulses, contributed to a substantial softening of food inflation to 3.8 percent by February 2025 (Figure 4a & b).

OVERVIEW OF THE EXTERNAL SECTOR

The Services sector continues to be the backbone of the Indian economy, accounting for over 75% of the rise in GVA in FY2024–2025. With the increasing proportion of high-skill and high-value services, there has been a noticeable shift in India's services sector. With a boost from commerce, lodging, transportation, communication, and broadcasting, financial, real estate, and professional services, public administration, defense, and other services, the services sector continued to grow in Q3 of FY2024–2025 (Figure 5a). According to the SAE International, the services industry expanded by a strong 7.5% in FY2024–2025, following a 9.2% growth rate in the previous year. Proximate measures of construction activity, cement production, and finished steel consumption all increased by double digits between January and February 2025 and improved from Q3. However, steel consumption decreased a bit in March 2025 (Figure 5b).

Due to increased capacity utilization, ongoing government attention to infrastructure, and robust bank and corporate balance sheets, investment activity is picking up speed.

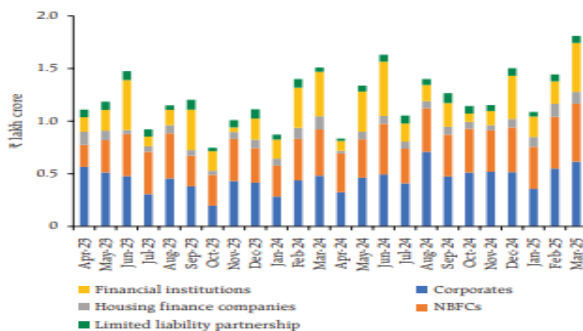
Figure 5: Robust Service Sector and Remittance



Source: RBI MPR APRIL 2025

- **Sustainable Current Account Deficit:** It is anticipated, thanks to robust external inflows, that the Current Account Deficit (CAD) for FY2024–2025 and FY2025–2026 will remain well within sustainable bounds.
- **Mixed Investment Flows:** Higher repatriations and outbound investments caused net FDI to decline, while gross FDI stayed robust due to stable macroeconomic fundamentals. Despite stock losses, debt inflows drove net FPI inflows to USD 1.7 billion in FY2024–2025.
- **Healthy Foreign Exchange Reserves:** As of April 4, 2025, India had USD 676.3 billion in foreign exchange reserves, which reflected the strength of the external economy and provided an import cover of almost 11 months.

Figure 6: Issuer Profile of Commercial Paper



Sources: RBI, CCIL, F-TRAC, and RBI staff estimates.

Source: RBI MPR APRIL 2025

The average percentage of non-banking financial companies (NBFCs) among new issues rose from 32% in the first half of FY2024–2025 to 33% in the second half of the same financial year. Corporates dominated the CP market, accounting for an average of 38% of all issuances in the second half of FY2024–2025 (Figure 6).

EFFECTS OF THE UNITED STATES' RECIPROCAL TARIFFS

Following US President Donald Trump's recent proposal of reciprocal tariffs, the six-member Monetary Policy Committee (MPC) decided on increased market uncertainty worldwide.

IMPACT ON INDIA'S STOCK MARKETS

Investors' concern about the economic effects of US-imposed tariffs on the nation and the world caused the Indian stock market to plummet. Additionally, due to geopolitical uncertainties, RBI lowered the growth outlook for the Indian economy in FY26 from 6.7% to 6.5%.

IMPACT OF REPO RATE CUT ON BORROWERS

1. How much will the two repo rate reductions save you in your home loan EMIs?

Borrowers can celebrate as their house loan EMI continues to decrease as a result of the repo rate cut.
2. How much will home loan customers save on their house loan EMIs due to the 50 basis points repo rate decrease?

A 0.5% (50 bps) drop to 8.5% for a 20-year home loan, assuming the initial interest rate was 9%, will result in significant EMI savings:

Table 4: Impact of Repo Rate Cut on Borrowers

Loan Amount	EMI at 9%	EMI at 8%	Monthly Savings	Total Saving (20 years)
30,00,000	₹ 26,247	₹ 25,071	₹ 1,176	₹2,82,000
50,00,000	₹ 43,745	₹ 41,785	₹1,960	₹4,70,000
70,00,000	₹ 61,243	₹ 58,499	₹ 2,744	₹6,58,000
1,00,00,000	₹ 87,490	₹ 83,570	₹ 3,920	₹9,40,000
1,50,00,000	₹ 1,31,235	₹ 1,25,355	₹ 5,880	₹14,11,000

Source: Economic Times 2025



For instance, a borrower who takes out a loan of Rs 50 lakh will save Rs 1,960 a month on EMIs. However, the rate cut will save a total of Rs 4.70 lakh over a home loan's 20-year term.

EFFECTS ON BANK STOCKS, AND GOLD LOANS OF NBFCs

Even though the Reserve Bank of India (RBI) changed its monetary policy stance from "neutral" to "accommodative" and lowered the repo rate by 25 basis points to 6%, banking equities, however, fell as much as 4%. Analysts raised concerns about short-term margin pressure and delayed benefit transfer, even though rate decreases are frequently seen as beneficial for the industry.

Banks and Non-Banking financial institutions offer loans secured by gold jewellery and accessories. RBI has assured to provide complete regulations on provisioning requirements and conduct issues for such loans to resolve disparate risk-bearing capabilities and harmonize regulations across businesses.

CONCLUSION

RBI's April 2025 repo rate cut to 6% supported modest growth (6.5% GDP) and effectively anchored inflation

expectations (3.8% February 2025 CPI, 4.0% FY2025-2026 estimate). Future policy recommendations may include complementary steps to address internal liquidity challenges, faster transmission of deposit rates, clarity of gold-loan regulations, and monsoon-contingent inflation monitoring.

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