



KAMARAJ IAS ACADEMY
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Little pro RBI cuts repo rate by 0.25 %, trims GDP growth forecast

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Context

- The Reserve Bank of India **slashed the repo rate by 25 basis points to 6%** on Wednesday, with its Monetary Policy Committee voting unanimously to reduce the policy rate in a bid **to support growth and bring down the interest burden on home, auto, and other loan borrowers**. However, **this will also reduce the interest earned on savings by depositors**.
- The move comes against the **backdrop of an escalating global trade war**, triggered by U.S. President Donald Trump's wide-ranging tariffs. The **MPC has also lowered its forecast for India's GDP growth this year, from 6.7% to 6.5%**.
- This is the second time in a row that the MPC has cut the repo rate by 25 basis points (bps) or 0.25%. The committee, headed by RBI Governor Sanjay Malhotra, also unanimously **shifted its policy stance from neutral to accommodative, indicating that it is more worried that economic growth could be a casualty of the trade war, than about inflation**.
- This is a policy stance "geared towards stimulating the economy through softer interest rates," Mr. Malhotra said, signalling the likelihood of further rate cuts.
- "Uncertainty in itself dampens growth by affecting investment and spending decisions of businesses and households," he said, in a monetary statement explaining the situation. "Second, the dent on global growth due to trade friction will impede domestic growth. Third, higher tariffs shall have a negative impact on our exports," he said.

What is Repo Rate?

Repo rate (Repurchase Agreement Rate) is the interest rate at which commercial banks borrow money from the central bank

Purpose & Functioning: It helps banks meet short-term liquidity needs by borrowing funds

Banks provide securities as collateral and agree to repurchase them later at a higher price (including interest)

Impact on Borrowing Costs:

Higher repo rate? Costlier loans for banks ? **Higher interest rates for consumers & businesses?** Slower borrowing & spending

Lower repo rate? Cheaper loans for banks ? **Lower interest rates for borrowers?** Increased borrowing & spending

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Role in Monetary Policy: It is used by the central bank **to control money supply, inflation, and economic growth**