

RBI's actions vs other central banks' in this rate-cutting cycle

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After remaining on the sidelines through 2024, the RBI has pivoted sharply in 2025, cutting policy rates by 25 basis points (bps) in February and April, and 50 bps in June.

DATA FOCUS

Unlike many economies that began rate cuts in 2024, India kept its policy rate at 6.5 per cent throughout last year, and brought the rate down to 5.50 per cent on June 6. This made it one of the more active movers in recent quarters, catching up with other Emerging Market Economies (EMEs) and Advanced Economies (AEs).

AEs' LARGER CUTS

AEs implemented deeper cumulative cuts, reflecting a front-loading approach to monetary easing. The euro area led the pack with cuts in every quarter of 2024 and 2025.

The European central banks cut rates continuously to revive a weak economy and to bring inflation back to its 2 per cent target.

Canada and New Zealand also eased aggressively, while Denmark followed closely.

EMS SHIFT FOCUS

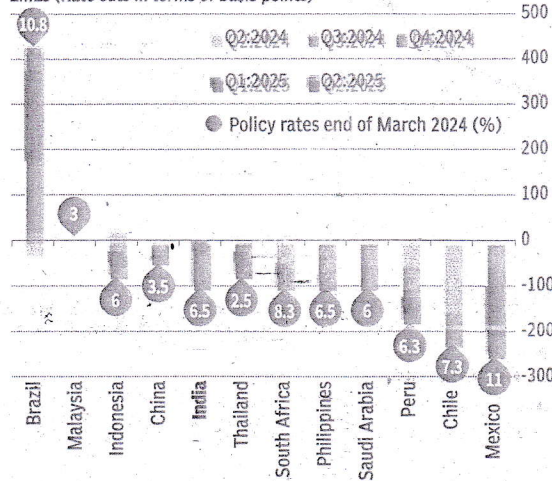
In contrast to the AEs, most EMEs were slower to begin easing and delivered smaller cumulative cuts through 2024.

Even the more proactive EMEs, such as Mexico and Chile, began easing in the second half of 2024, with a large portion of their rate cuts concentrated in Q4 2024 and early 2025.

Countries which had higher policy rates towards the beginning of the rate-cut cycle such as Mexico and Chile seem to have made larger cuts.

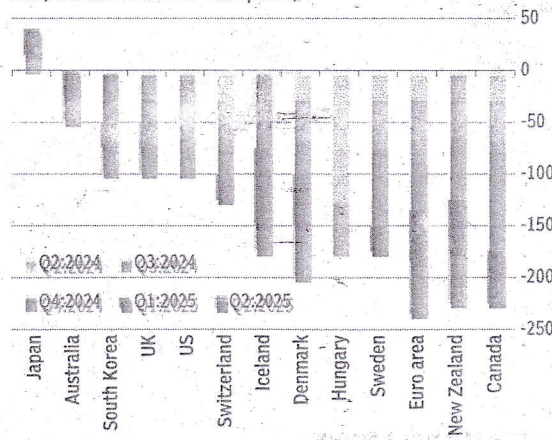
Many emerging economies have cut interest rates more than India

EMEs (Rate cuts in terms of basis points)



Advanced economies go slow on rate cuts in 2025

AEs (Rate cuts in terms of basis points)



Source: Bloomberg

South Africa was the exception.

Anindiya Banerjee, Senior Vice-President, Kotak Securities, observed that when there is substantial inflation and currency volatility, as seen in Latin American economies, central banks need to maintain higher policy rates as a compensation for risk premium.

"From 2020, while many central banks in North America and Europe pursued highly accommodative measures and faced chal-

lenges in controlling inflation, India adopted a more mature monetary policy stance," he added.

Brazil stood apart with a sharp tightening cycle, hiking its policy rate by +400 basis points over five quarters, including a steep +200 bps hike in Q1 2025. This aggressive tightening was driven by high inflation, rising food and service costs, and the need to curb price pressures amid global uncertainty and strong domestic demand.