

# Options before RBI vis-a-vis Fed

**POLICY MOVE.** In the current context, focus on sectoral policies rather than a rate cut would be more effective



SMITA ROY TRIVEDI  
ABHIMAN DAS

**D**oes Reserve Bank of India 'follow the Fed'? On September 16-17, the Federal Open Market Committee (FOMC) announced the much anticipated 25 basis point interest rate cut, keeping room open for further cuts in this year. Even though the Fed Chair Powell has categorised this more as a 'risk management cut', the Fed decision has led to anticipation of a rate cut for India. As RBI Monetary Policy Committee (MPC) meets on September 29, the Indian market is speculating a dovish stance for the present policy, and a rate cut further in December 2025. Two questions are important in this context: Do we 'follow the Fed'? Or need to do it? Should RBI deliver any more rate cuts this time or further this year?

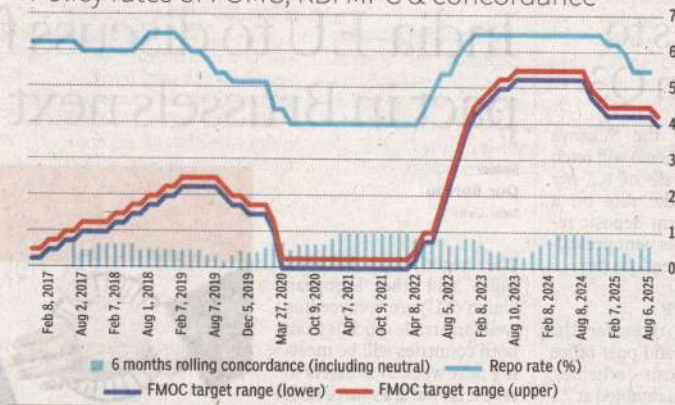
First, does RBI indeed follow the FOMC decisions? While RBI maintained that the central bank plays the 'game according to local weather and pitch conditions' (former RBI Governor, Das, April 7, 2024), it is indeed difficult to imagine that the Fed's actions do not impact the MPC decisions. The game does need to change according to the global headwinds and the peers playing: in a world of interconnected global conditions, not considering the Fed and peer group central banks' stance would not be appropriate. In today's interconnected world, a decoupled policy move is hardly a possibility.

## COMPARATIVE PICTURE

We present here a comparative picture of RBI's actions following FOMC interest rate actions. For each RBI MPC meeting, the immediate prior FOMC meeting and RBI's decisions are taken. The Chart plots the RBI repo rate for the meeting and the prior meeting FOMC target range lower and upper bounds. We can see the strong co-movement, as has been a characteristic of monetary policy decisions globally. To understand the linkage better, we calculate a concordance index, in line with the measures of pro-cyclicality (Harding & Pagan, 2002). This index measures how closely monetary policy



Policy rates of FOMC, RBI MPC & concordance



actions by the RBI (repo rate changes) and the US Federal Reserve (Fed Funds rate changes) are aligned in terms of direction of interest rate changes.

We use the rolling concordance, which smooths this measure over a six-month window to show how consistent the policy alignment has been recently, instead of looking only at one point in time. The Chart plots the 6-month rolling concordance index. A value of 1 implies the central banks are

aligned (concordant), while 0 means they differ. The plot of concordance index depicts a close synchronicity between the Fed and RBI interest rate decision cycles. We can also see that post Covid pandemic, there has been a greater synchronicity.

Dividing the periods, by hawkish and dovish policy decisions, we see an interesting facet. Hawkish decisions have a higher synchronicity compared to dovish ones.

In fact, in the post-Covid period, 50 per cent of rate hike decisions of FOMC were followed by the RBI, compared to 33 per cent of down-cycle rate cuts. It is an established fact that post Covid monetary expansion was globally synchronised.

Also, the response to higher inflation during 2021-22 was again well-synchronised. The frequency of following rate hikes stands much higher

than that of following rate cuts. This is not surprising: if a rate hike by FOMC is not followed by the RBI, a squeeze of interest rate differential will lead to capital outflows, and depreciating pressure on the currency, which the central bank has been careful to avoid. It looks like the FOMC decisions of rate cut puts lesser pressure on the MPC than a rate hike would have.

However, should the RBI lower rates this time? RBI Bulletin, September 2025, highlights both the subdued inflation and growth momentum, iterating Indian economy's marked resilience 'negating the decline in net exports', driven by domestic 'consumption expenditure' and 'strong fixed investment activity'. However, in the absence of any clear indication of a pass-through of rate cuts to higher credit demand, or growth, a focus on sectoral policies rather than a rate cut would be more effective.

The FOMC has clearly mentioned that the rate cut this time is a 'risk management cut' keeping in view the unfavourable labour market conditions. In this scenario, sector specific credit boosts would be more appropriate. Sector-specific cuts have been used by central banks world over, including the RBI: from ECB's Targeted Longer-Term Refinancing Operations (TLTROs), Bank of England's Funding for Lending Scheme to Reserve Bank of India's TLTROs for specific sectors, and sectoral liquidity facilities channelled via NABARD, SIDBI, and NHB to MSMEs, housing, and agriculture (RBI's Report on Currency and Finance, 2020-21, p. 131).

For alleviating the impact of the tariffs on exporters, and therefore domestic employment and consumption from these sectors, extension of credit cycles with refinance option to banks could be considered. India's export credit framework, though under priority sector lending, would benefit from a structured central bank-linked refinance line associated to priority export sectors (textiles, electronics, renewable equipment), with FX-denominated refinance to ease raw material imports. The decision to cut rates now or later, must be driven by evaluating whether the impact reaches the end-users of credit and boosts employment, investment and consumption.