Event Update - RBI Policy

April 9th 2025

Shriram Wealth Limited
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RBI Monetary Policy

Repo Rate Now at 6.00% v/s 6.25%	Cut by 25bps
Standing Deposit Facility Now at 5.75% v/s 6%	Cut by 25bps
MSF Bank Rate Now at 6.25% v/s 6.5%	Cut by 25bps
Policy Stance Accommodative	changed

RBI on Growth, Inflation

FY26 GDP Growth	Projected at 6.5% from 6.7%
FY26 Inflation Outlook	Projected at 4% from 4.2%

Key takeaways

- **Another interest rate cut, second consecutive post taking over the realm -** In his second Monetary Policy Committee (MPC) meeting, RBI Governor Sanjay Malhotra reduced the repo rate by 25 basis points to 6.00% on April 9, 2025, aiming to stimulate economic growth. Alongside the rate cut, the monetary policy stance was shifted to 'Accommodative,' signaling a clear focus on sustainably aligning inflation with the target while supporting growth. These measures align with the objective of achieving the medium-term Consumer Price Index (CPI) inflation target of 4%, within a tolerance band of ±2%.

- **Growth Outlook -** The global economic outlook remains uncertain, with recent trade tariff measures intensifying risks to growth and inflation. Financial markets have responded with declines in the dollar index, equity sell-offs and easing bond yields and crude prices. Domestically, the NSO estimates real GDP growth at 6.5% for FY25, following 9.2% in FY24. Growth is expected to be supported by rural demand, a revival in urban consumption, higher government capex, and healthy corporate and banking balance sheets. While merchandise exports face external headwinds, services exports are expected to stay resilient. On the supply side, agriculture prospects appear bright, industrial recovery continues, and services remain strong. However, the downward revision of Real GDP growth to 6.5% for FY26 at 6.5% remains the key highlight of the meeting.

- **Inflation -** CPI headline inflation eased sharply by 1.6% points from 5.2% in Dec 2024 to 3.6% in Feb 2025, driven by a strong seasonal correction in vegetable prices. Food inflation fell to a 21-month low of 3.8%, while fuel prices remained in deflation. Core inflation rose slightly to 4.1% in Feb 2025, largely due to higher gold prices. The outlook for food inflation is favorable, supported by record wheat output, higher pulses production, and robust kharif arrivals. Declining inflation expectations and lower crude oil prices further support a positive inflation outlook, though global uncertainties and weather related risks remain. Assuming a normal monsoon, CPI inflation for FY26 is projected at 4.0%.

- **External Sector -** India's services exports remained strong in Jan-Feb 2025, led by software, business, and transport services. Net services and remittance inflows are expected to stay in surplus, helping offset the trade deficit and keeping the CAD for FY25 and FY26 within sustainable levels. While gross FDI remained robust, net FDI moderated due to higher repatriation. Net FPI inflows stood at USD 1.7 billion during FY25, driven by debt investments. External commercial borrowings and non-resident deposits saw improved inflows. Forex reserves stood at USD 676.3 billion as of April 4, 2025, covering about 11 months of imports. Overall, the external sector remains resilient.

- **Liquidity and Financial Market** - System liquidity was in deficit in Jan 2025, with net Liquidity Adjustment Facility injections peaking at ₹3.1 lakh crore on 23rd Jan 2025. However, liquidity improved significantly following infusion measures totaling ₹6.9 lakh crore and increased government spending, turning into a surplus of ₹1.5 lakh crore by 7th Apr 2025. Consequently, the weighted average call rate (WACR) softened and aligned closely with the repo rate. Spreads on 3-month CP and CD rates over the 91-day T-bill have also narrowed, indicating improved liquidity. The RBI remains committed to ensuring adequate liquidity and will continue to monitor and respond to market conditions as needed.

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