# MPC unanimously decides to cut repo rate by 25bp

**Further rate cuts dependent on domestic data and global situation**

- **The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) on 7th Feb'25 unanimously decided to reduce the benchmark repo rate by 25bp to 6.25% after a gap of nearly five years, broadly in line with market expectations. In its sixth and final bi-monthly monetary policy for FY25, the MPC also decided unanimously to continue with the neutral stance and remain unambiguously focused on a durable alignment of inflation with the target while supporting growth.**
- **The Governor emphasized that the RBI is committed to taking proactive measures as and when required to ensure orderly liquidity conditions in the market. However, no new measures to support liquidity were announced.**
- **The Governor also mentioned that a less restrictive monetary policy is more appropriate at the current juncture. *"…The MPC noted that inflation has declined, supported by a favorable outlook on food and continuing transmission of past monetary policy actions. It is expected to further moderate in FY26, gradually aligning with the target. The MPC also noted that though growth is expected to recover from the low of 2QFY25, it is much below that of last year. These growth-inflation dynamics open up policy space for the MPC to support growth while remaining focused on aligning inflation with the target…,"* the RBI stated.**
- **Real GDP is likely to grow by 6.4% in FY25, according to the First Advance Estimates, lower than 8.2% in FY24. The Governor mentioned that economic activity is expected to improve in the coming year on the back of healthy agricultural activity, recovery in the manufacturing sector, and resilient services sector growth.**
- **The Governor's statement did not mention the FY25 GDP growth forecast (it was 6.6% in the previous policy), though the RBI lowered its 1Q/2QFY26 growth projections. For FY26, the RBI projected real GDP growth at 6.7%, with 1Q/2Q/3Q/4Q at 6.7%/7%/6.5%/6.5% (vs. 6.9%/7.3% for 1Q/2Q in the last policy).**
- **The MPC noted that headline inflation came down in Nov'24 and Dec'24 after breaching its upper tolerance band in Oct'24, supported by sequential easing in food inflation. Inflation is expected to come down further in the coming months, supported by significant softening in food inflation pressures. Core inflation is expected to rise but remain moderate. Considering all these factors, the MPC retained its inflation forecast at 4.8% for FY25 and projected it to come down to 4.2% in FY26, with 1Q/2Q/3Q/4Q at 4.5%/4%/3.8%/4.2%.**
- **Overall, the monetary policy decisions were broadly in line with our and market expectations. A rate cut of 25bp was announced, but no measures to support liquidity were announced. However, the Governor assured that the RBI is committed to taking proactive measures to ensure orderly liquidity conditions. The Governor also emphasized that monetary policy is forward-looking and that a less restrictive monetary policy is more appropriate at the current juncture. We believe that slower growth and a benign inflation outlook will give the RBI room for another cut of 25bp in its Apr'25 policy.**

## I. MPC unanimously decides to cut repo rate by 25bp

- The rate-setting panel unanimously decided to reduce the benchmark repo rate by 25bp to 6.25%, the first rate cut in nearly five years (broadly in line with market expectations), in its sixth bi-monthly monetary policy meeting for FY25.
- The MPC also decided unanimously to continue with the neutral stance and remain unambiguously focused on a durable alignment of inflation with the target while supporting growth.
- The Governor emphasized that the RBI is committed to taking proactive measures as and when required to ensure orderly liquidity conditions in the market. However, no measures to support liquidity were announced.
- The Governor mentioned that a less restrictive monetary policy is more appropriate at the current juncture. "…*The MPC noted that inflation has declined, supported by a favorable outlook on food and continuing transmission of past monetary policy actions. It is expected to further moderate in FY26, gradually aligning with the target. The MPC also noted that though growth is*

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*expected to recover from the low of 2QFY25, it is much below that of last year. These growth-inflation dynamics open up policy space for the MPC to support growth, while remaining focused on aligning inflation with the target…," the RBI statement mentioned.*

**Exhibit 1: Repo rate reduced to 6.25% in Feb'25 policy, after a gap of nearly five years**

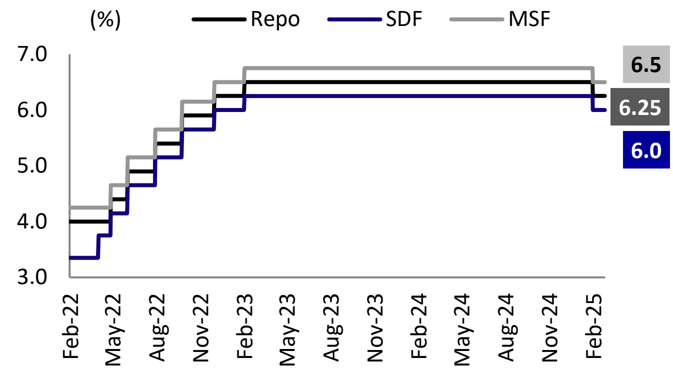
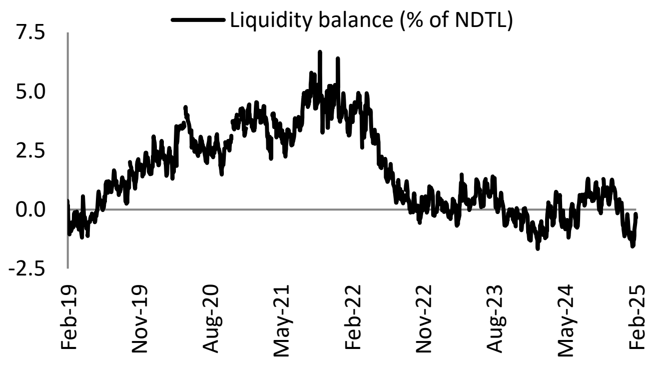



**Exhibit 2: Liquidity deficit has narrowed in the past week, after widening in Dec'24-Jan'25**




Updated as of 6th Feb'25 Source: RBI,MOFSL

## II. Economic activity expected to improve in FY26

- Real GDP is likely to grow by 6.4% in FY25, according to the First Advance Estimates, lower than 8.2% in FY24. The Governor mentioned that economic activity is expected to improve in the coming year on the back of healthy agricultural activity, recovery in the manufacturing sector and resilient services sector growth.
- The Governor's statement did not mention the FY25 GDP growth forecast (it was 6.6% in the previous policy), though the RBI lowered its 1Q/2QFY26 growth projections. For FY26, the RBI projected real GDP growth at 6.7% with 1Q/2Q/3Q/4Q at 6.7%/7%/6.5%/6.5% (vs. 6.9%/7.3% for 1Q/2Q in the last policy).
- The RBI statement mentioned, *"…Going forward, improving employment conditions, tax relief in the Union Budget, and moderating inflation, together with healthy agricultural activity bode well for household consumption. Government consumption expenditure is expected to remain modest. Higher capacity utilization levels, robust business expectations and government policy support augur well for growth in fixed investment. Continued buoyancy in services exports will support growth. Global headwinds, however, continue to impart uncertainty to the outlook and pose downward risks…."*

## III. Inflation projected to come down to 4.2% in FY26 from 4.8% in FY25

- The MPC noted that headline inflation came down in Nov'24 and Dec'24 after breaching its upper tolerance band in Oct'24, supported by sequential easing in food inflation. Inflation is expected to come down further in the coming months, supported by significant softening in food inflation pressures. Core inflation is expected to rise but remain moderate. Considering all these factors, the MPC retained its inflation forecast at 4.8% for FY25 and projected it to come down to 4.2% in FY26 with 1Q/2Q/3Q/4Q at 4.5%/4%/3.8%/4.2%.
- The statement mentioned, *"…Going ahead, food inflation pressures, absent any supply-side shocks, should see a significant softening due to good kharif*

*production, winter-easing in vegetable prices, and favorable rabi crop prospects. Core inflation is expected to rise but remain moderate. Rising uncertainty in global financial markets, coupled with continuing volatility in energy prices and adverse weather events, presents upside risks to the inflation trajectory….”*

## IV. Our view

Overall, the monetary policy decisions were broadly in line with our and market expectations. A rate cut of 25bp was announced, but no measures to support liquidity were announced. However, the Governor assured that the RBI is committed to taking proactive measures to ensure orderly liquidity conditions. The Governor also emphasized that monetary policy is forward-looking and that a less restrictive monetary policy is more appropriate at the current juncture. We believe that slower growth and a benign inflation outlook will give the RBI room for another cut of 25bp in its Apr’25 policy.

**Exhibit 3: FY26 real GDP growth projected at 6.7%...**

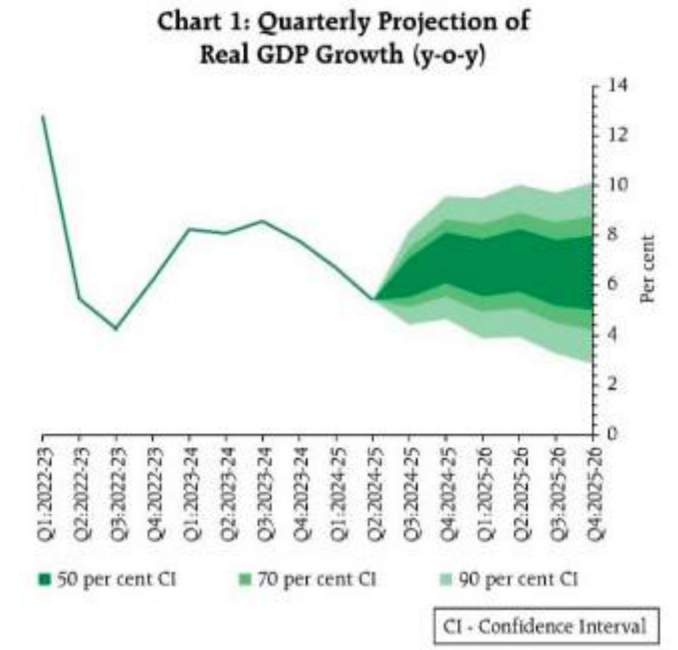
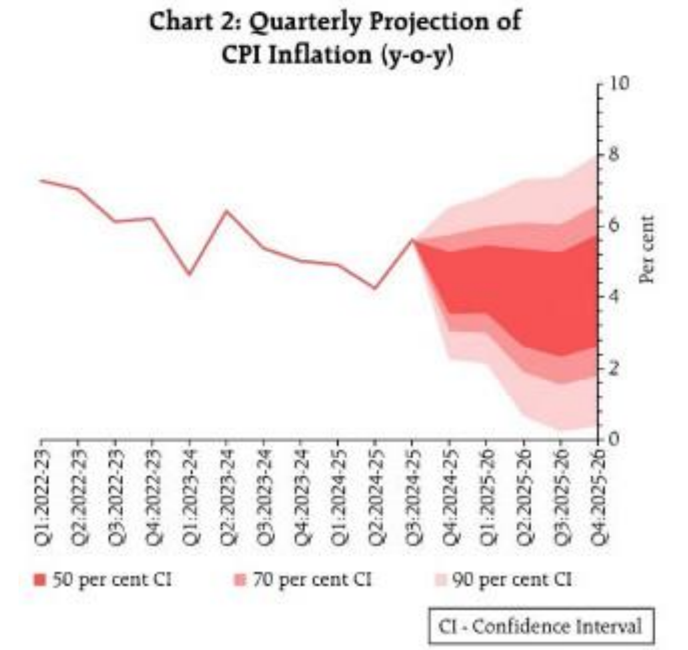



**Exhibit 4: …with FY26 inflation estimated at 4.2%**




Source: RBI, MOFSL

NOTES

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|---|---|
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| SELL | < - 10% |
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