Note on RBI's Monetary Policy April 2025:

Second Straight Rate Cut by RBI

Policy Tools	MPC Policy (9th Apr)	MPC Policy (7th Feb)	Change
Repo	6.00%	6.25%	25 Bps ↓
MSF	6.25%	6.50%	25 Bps ↓
SDF	5.75%	6.00%	25 Bps ↓
Bank Rate	6.25%	6.50%	25 Bps ↓

Highlights

- **MPC Voting and Stance:** RBI's MPC unanimously decided to reduce the policy repo rate by 25 basis points (bps) from 6.25% to 6.00%. It was also decided to change the stance from neutral to accommodative. The change in stance underscores the RBI's commitment to stay ahead of potential downside risks, particularly those stemming from weakening global confidence.

- **Market Action:** Following the RBI's policy announcement, India's 10-year bond yield eased slightly to 6.50% from 6.51%, while the rupee weakened marginally to Rs. 86.61 against Rs. 86.58. Benchmark equity indices declined by approximately 0.3%. Market reaction was largely measured, with investors factoring in the dovish tone and the possibility of further rate cuts.

- **Global Risks Acknowledged:** Key external risks include U.S. tariff escalations, a weaker dollar, and volatile crude prices, which pose challenges to India's exports and inflation dynamics.

- **Domestic Resilience:** While global trade and policy uncertainties may weigh on growth prospects, their impact on domestic inflation—though warranting close monitoring—is not anticipated to be a significant concern..

- **Easing food inflation:** Food inflation outlook improves significantly, supported by record wheat and higher pulse production in rabi season, along with robust kharif arrivals, paving the way for sustained moderation in food prices.

- **Growth Support in Focus**: The RBI's rate cut and shift in policy stance aim to stimulate consumption, boost investment, and uplift consumer sentiment. The RBI is expected to maintain a dovish bias in the near term, balancing external uncertainties with the need to foster domestic economic recovery.

Our view in a nutshell

- **Rate Cut & Growth Focus:** RBI kicked off FY26 with a **25 bp** rate cut and a shift to an **'accommodative'** stance, signaling a deeper easing cycle ahead**. The move reflects an outright support to growth, especially with global uncertainties and softening domestic demand.**
- **Inflation Under Control, Room to Ease:** Inflation is projected to average **4% in FY26**, helped by expectations of a normal monsoon, **stable food prices**, and softening crude. Imported inflation risks are limited due to India's CPI structure. This benign outlook gives the RBI space to **prioritize growth** without immediate inflation concerns.
- **Liquidity & FX Stable, External Risks Exist:** Liquidity is likely to stay in **surplus**, supporting policy transmission, though no new tools were announced. External risks from global trade tensions persist, but RBI appears comfortable with INR depreciation for now, backed by strong reserves. The overall policy tone suggests **more rate cuts** unless global shocks emerge. Adequate forex reserves (~11 months of import cover) provide confidence, although the forward book deficit ($78 bn) remains a watchpoint.
- We expect another **50 bps of rate cuts** during the year.

Investors with a horizon of over a year seeking to benefit from the rate cut, potential yield declines and liquidity infusion may consider long-term gilt funds. Those with a similar timeframe but preferring lower duration risk can explore high-quality Banking & PSU Funds to capture credit spreads. For a shorter 3 to 12-month investment horizon, Money Market Funds offer a suitable avenue.

RBI's Quarterly CPI inflation forecast		
Q1FY26	**3.6%** from 4.5%	Lowered
Q2FY26	**3.9%** from 4.0%	Lowered
Q3FY26	**3.8%**	No change
Q4FY26	**4.4%** from 4.2%	Raised
RBI FY26 CPI estimates cut to **4.0%** from 4.2%		

RBI Real GDP growth estimates		
Q1FY26	**6.5%** from 6.7%	Lowered
Q2FY26	**6.7%** from 7.0%	Lowered
Q3FY26	**6.6%** from 6.5%	Raised
Q4FY26	**6.3%** from 6.5%	Lowered
RBI FY26 GDP growth estimates cut to **6.5%** from 6.7%		

Source: RBI-Monetary Policy Statement 9th April 2025
MPC – Monetary Policy Committee, MSF – Marginal Standing Facility, SDF – Standing Deposit Facility, CRR – Cash Reserve Ratio, OMO – Open Market Operations, VRR – Voluntary Retention Route, WACR – Weighted Average Call Money Rate, CPI – Consumer Price Inflation

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