# RBI Monetary Policy Insights: Growth Prospects and Policy Shifts

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The Reserve Bank of India has lowered the repo rate by 25bps to 6.25%, marking the first cut in nearly five years. This move comes at a critical juncture, providing much-needed support for private sector investment while aligning with the government's growth agenda outlined in the Union Budget 2025-26. Food inflation is expected to soften significantly, aided by good kharif production, easing vegetable prices, and favorable rabi crop prospects. Private sector investment is likely to accelerate with improved borrowing conditions and expectations of further rate cuts. This sentiment boost could catalyze infrastructure projects and broader economic growth. Despite the rupee touching an all-time low of 87.59 against the US dollar, the central bank reiterated its consistent exchange rate policy, refraining from targeting any specific level.

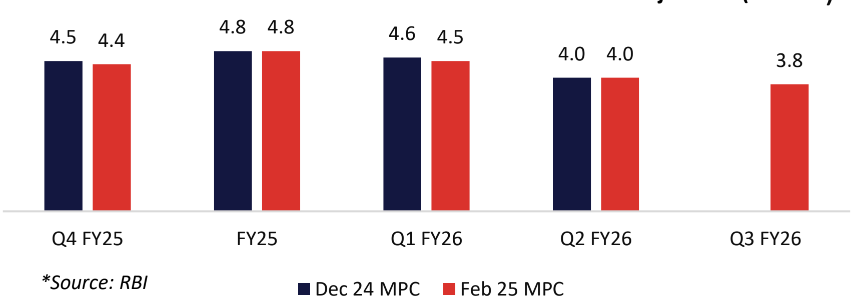
## KEY POLICY ANNOUNCEMENTS:

- Policy repo rate reduced by 25bps to 6.25%; First rate cut after a gap of 5 years; last reduction was in May 2020.
- Reverse repo at 3.35%, MSF at 6.50%, Standing Deposit Facility (SDF) at 6.00% and CRR at 4.00%
- Neutral policy stance
- GDP growth for FY26 projected at 6.7%.
- Inflation to come down to 4.2% in FY26 from 4.8% in FY25.

## INFLATION TREND –FOOD PRICES EASING

Headline inflation moderated in November-December 2024 after peaking at 6.2% in October. This decline was largely due to a significant drop in food inflation, particularly as vegetable prices eased from their October highs. Core inflation stayed subdued across both goods and services, while fuel prices remained in deflation, further supporting the overall softening in inflation, while the costs of eggs, milk and dairy products, and pulses saw a decline compared to the previous month. The inflation is expected to moderate in FY26, offering further relief to Indian households. Achieving these targets will require continued vigilance, especially given the possibility of cost-push inflation due to currency depreciation and global commodity price volatility.

**RBI CPI Inflation Projections (% Y-o-Y)**




**Source: RBI*

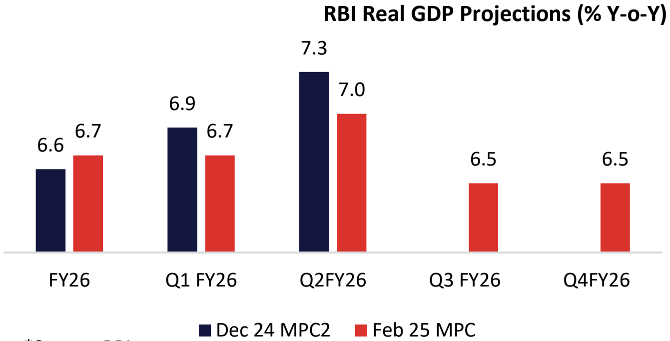
| REPO RATE TREND | |
|---|---|
| Feb,25 | 6.25% |
| Dec,24 | 6.50% |
| Oct,24 | 6.50% |
| Aug,24 | 6.50% |
| Jun,24 | 6.50% |
| Apr,24 | 6.50% |
| Feb,24 | 6.50% |
| Dec,23 | 6.50% |
| Oct,23 | 6.50% |
| Aug,23 | 6.50% |
| Jun,23 | 6.50% |

The annual inflation rate in India eased to 5.22% in December of 2024 from 5.38% in the previous month, and remaining within the RBI's target of within 2 percentage points away from 4%. The slight deceleration in consumer prices was owed to a slower inflation for food (8.39% vs 9.04% in November), which takes up nearly half of the Indian consumer basket. In turn, prices eased slightly for housing (2.71% vs 2.87%), but deflation slowed for fuel and light (-1.39% vs -1.83%). On a monthly basis, Indian retail prices were 0.52% lower, the sharpest monthly decline in over one year.

## REAL GDP GROWTH SLUMPS

India's economy is projected to grow by 6.4% in the 2024/25 fiscal year ending in March 2025, marking the slowest pace since the COVID-hit 2020/21 fiscal year and down from 8.2% growth in the previous year, according to preliminary estimates from the Ministry of Statistics. The figure also falls short of the government's earlier forecast of 6.5%. The slowdown is primarily attributed to weaker growth in gross fixed capital formation (6.4% vs 9%) and inventories (4.5% vs 5.9%), despite accelerated private (7.3% vs 4%) and government (4.1% vs 2.5%) spending. Additionally, exports grew at a faster rate (5.9% vs 2.6%), while imports contracted (-1.3% vs 10.9%). On the production side, manufacturing growth is expected to slow significantly (5.3% vs 9.9%), while growth in two other major GDP contributors - trade and hotels (5.8% vs 6.4%) and financial services and real estate (7.3% vs 8.4%) also moderated, offsetting a stronger performance in agriculture (3.8% vs 1.4%)

**RBI Real GDP Projections (% Y-o-Y)**

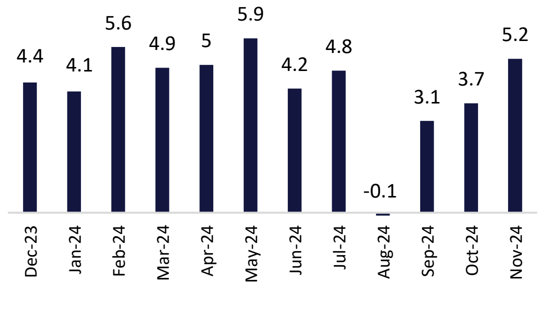



**Source: RBI*

## MACRO-ECONOMIC INDICATORS OVERVIEW

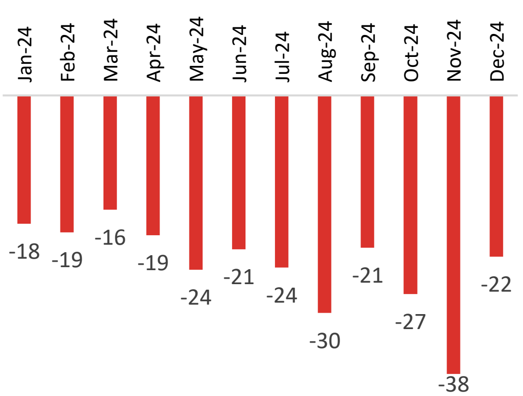
Industrial production in India rose 5.2% year-on-year in November 2024, accelerating from a 3.5% rise in the previous month. This marked the highest reading since May, as output increased at a faster pace in all of the sub-indices, namely; mining (1.9% vs 0.9% in October), manufacturing (5.8% vs 4.4%), and electricity (4.4% vs 2%). On a monthly basis, industrial production fell 1.2%, reversing from a 2.4% gain in October 2024. Considering April to November period, industrial output rose 4.1%. M3 money supply in India slowed down at 9.3% from a year, from the 10.7% increase in the fortnight two weeks prior. The merchandise trade deficit in India was $21.94 billion in December of 2024, widening from the $19.8 billion in the corresponding period of the previous year. Imports grew by $1.7 billion to $59.95 billion in the period, aligned with the elevated level of rupee selling reported by exchanges as the currency extends record lows. In turn, exports eased by $0.4 billion to $38 billion.

**Industrial Production Growth Rate (%)**




**Source: MOSPI*

**Balance of Trade**




**Source: Ministry of Commerce & Industry*

## POLICY INDICATIVE POINTS

The recent budget has already provided fiscal support for consumption through increased disposable income and higher capital expenditure. The rate cut complements this, reducing borrowing costs for businesses and consumers alike. Lower real interest rates are expected to stimulate consumption more than savings, prompting households to shift towards financial assets beyond traditional bank deposits. On the liquidity front, the system slipped into deficit in December 2024 and January 2025. However, RBI assured to provide sufficient liquidity as needed. India's foreign exchange reserves remain robust at over $630 billion as of January 31, 2025, providing an import cover of more than 10 months and ensuring external stability. Global growth remains below the historical average and continues to face headwinds such as slower disinflation, geopolitical tensions, policy uncertainties, and the strong U.S. dollar, which is putting pressure on emerging market currencies and increasing financial market volatility. Household consumption is expected to stay robust, aided by tax relief in the Union Budget 2025-26, while fixed investment is set to recover on the back of high-capacity utilization, stronger corporate balance sheets, and increased government capital expenditure. Growth will also be supported by services exports. However, downside risks remain from geopolitical tensions, protectionist trade policies, commodity price volatility, and global financial market uncertainties. The current growth-inflation dynamics provide the MPC with space to support growth while maintaining inflation alignment. Despite easing inflation, global financial market volatility, uncertainties around global trade policies, and adverse weather conditions continue to pose risks to both growth and inflation. In response, the MPC opted to maintain a neutral monetary policy stance, allowing the flexibility to adjust as needed in a dynamic macroeconomic environment. This approach ensures the MPC can balance its dual mandate of supporting growth while keeping inflation in check.

## REGULATORY AND CYBERSECURITY PUSH

Key announcements include:

•Exclusive Domain for Banks and Non-Banks: To curb cyber frauds, banks will adopt the exclusive domain name 'bank.in', while non-banking financial institutions will use 'fin.in'. This initiative aims to improve online security and create a safer digital ecosystem for financial transactions. Registration for these domains will begin in April 2025.

•Working Group on Trading and Settlement Timings: The RBI will set up a working group to review trading and settlement timings across regulated markets. This move is expected to enhance operational efficiency and align with global best practices.

•Focus on Liquidity Management: The RBI reaffirmed its commitment to ensuring adequate liquidity in the financial system. Despite the system liquidity turning into a deficit in December 2024 and January 2025, the central bank assured timely interventions to maintain financial stability and meet credit demand.

•Consumer Protection and Mis-Selling Oversight: The RBI emphasized that violations related to mis-selling of financial products by banks will be dealt with strictly, highlighting its focus on safeguarding consumer interests.