RBI Monetary Policy Insights:
Sets Stage for Further Easing, room for recovery

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The Reserve Bank of India's decision to cut the repo rate by 25 basis points to 6.0%, while shifting its monetary policy stance from 'neutral' to 'accommodative', is both timely and prudent. This dual move reinforces the RBI's pro-growth approach while maintaining a watchful eye on inflation dynamics. With real interest rates still elevated post the February rate cut, further easing was necessary to lower the cost of capital and revive investment demand. The alignment of accommodative monetary policy with the government's growth-focused fiscal policy can provide a strong counterbalance to global economic uncertainty, supporting domestic economic revival. Notably, both inflation and growth forecasts have been revised downward by 20 basis points. This adjustment is supported by a sharp decline in food prices, particularly vegetables and softening global commodity and crude oil prices, influenced by weakening global demand.

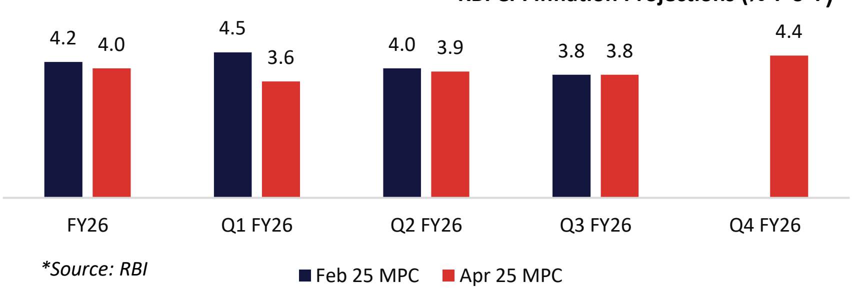
KEY POLICY ANNOUNCEMENTS:

- Policy repo rate further reduced by 25bps to 6.00%;
- MSF at 6.25% and Standing Deposit Facility (SDF) at 5.75%
- Neutral policy stance changed to 'Accommodative stance'
- GDP growth for FY26 projection reduced to 6.5% from 6.7%.
- Inflation forecast reduced to 4% in FY26 from 4.2% .

INFLATION TREND –FOOD PRICES EASING

The headline inflation is well within the comfort zone of RBI i.e., 4% as food inflation and vegetable prices eased supported with subdued core inflation across both goods and services. Crude oil prices were still in deflation which improved overall inflation. The softening trend of inflation was supported as pulses saw a decline compared to the previous month. Indian households are expected to get further relief in FY26 as inflation is predicted to ease. However, the outlook remains sensitive to external risks including recent U.S. tariff actions that could disrupt global supply chains — as well as domestic cost pressures from currency depreciation and volatile commodity prices. Continued monitoring will be essential to maintain price stability.

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



*Source: RBI

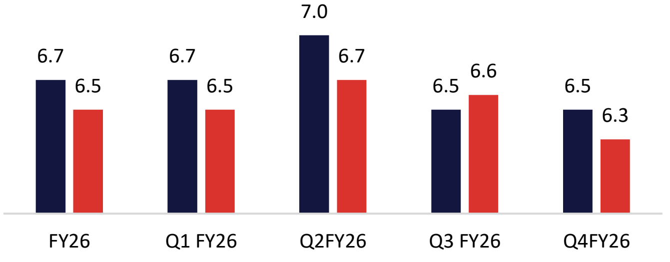
REPO RATE TREND	
Apr,25	6.00%
Feb,25	6.25%
Dec,24	6.50%
Oct,24	6.50%
Aug,24	6.50%
Jun,24	6.50%
Apr,24	6.50%
Feb,24	6.50%
Dec,23	6.50%
Oct,23	6.50%
Aug,23	6.50%

In February 2025, India's annual inflation rate sharply dropped to 3.62% from a previously revised 4.26%, which was lower than the expected 4% decline. Consumer prices had the slowest rise in a year during the last July and are now expected to be lower than 4% set by the RBI. This also marks the first dropped rate in six months. The decline in food prices, including eggs, spices, vegetables, and pulses, helped decrease inflation for food by nearly half to 3.75%. Deflation was also recorded for fuel and light (-1.33%) with housing remaining soft and steady at (2.91%).

REAL GDP GROWTH SLUMPS

The Indian GDP expanded 6.2% from the previous year in the December quarter of 2024, picking up from the upwardly revised 5.6% expansion in the earlier period but slightly below market expectations of a 6.3% growth rate. The rate consolidated the softening in India's GDP growth, which was by far the fastest growing economy in the G20 up until last year, following a prolonged period of high energy and food prices, in addition to restrictive monetary policy and tight liquidity conditions by the RBI. Growth increased for private consumption expenditure (6.9% vs 5.9% in September quarter) and public expenditures (8.3% vs 3.8%) but slowed for gross fixed capital formation (5.7% vs 5.8%). In the meantime, net external demand contributed positively to the GDP as exports soared by 10.4% and imports softened by 1.1%

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

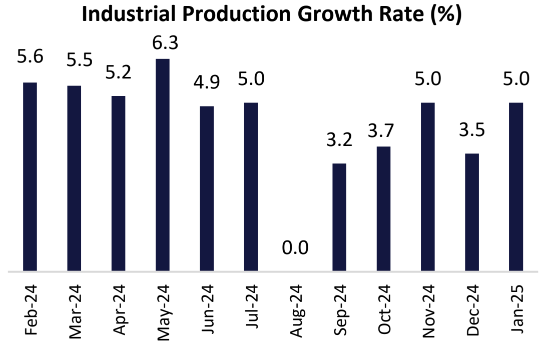


**Source: RBI*

MACRO-ECONOMIC INDICATORS OVERVIEW

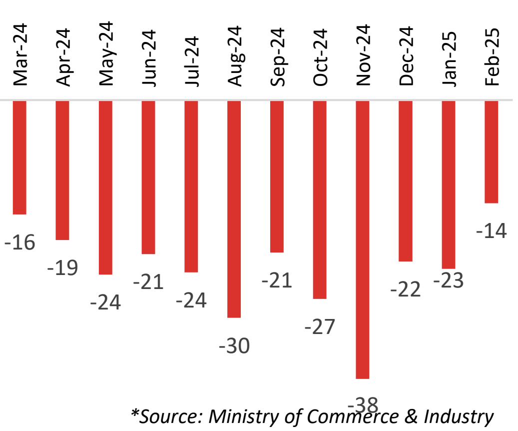
India's industrial production grew by 5.0% year-on-year in January 2025, following a revised 3.5% expansion in December and exceeding market expectations of 3.5%, driven by stronger output in several sectors, including coke and refined petroleum products (8.5% vs 3.9% in December), other non-metallic mineral products (10.2% vs 3.3%) and textiles (3.3% vs 1.4%). Additionally, production rebounded in food products (0.6% vs -5.0%) and motor vehicles, trailers and semi-trailers (1.8% vs -1.9%). India recorded a trade deficit of $14.05 billion in February of 2025, narrowing from the $18.7 billion deficit of the corresponding period of the previous year to mark the lowest gap since August 2021 amid a sharp decline in imports. In the meantime, exports dropped by a slightly softer 10.9% annually to $36.91 billion, dented by the softening industrial output domestically and the relative strength of the rupee compared to currencies from key trading partners due to the RBI's forex interventions.

Industrial Production Growth Rate (%)



**Source: MOSPI*

Balance of Trade



**Source: Ministry of Commerce & Industry*

POLICY INDICATIVE POINTS

RBI noted that the Indian economy continues to make progress towards the twin goals of price stability and sustained growth. It emphasized that while services exports remain resilient, merchandise exports are likely to remain under pressure due to global uncertainties. Nonetheless, the current account deficit will be partly cushioned by steady net services and remittance receipts.

Manufacturing activity is showing early signs of revival, even as the dent to global growth from trade frictions may spill over to domestic demand. The RBI reaffirmed its commitment to ensure adequate system liquidity to support the growth momentum.

While the sharp fall in food prices has improved the inflation outlook, the RBI remains vigilant to potential risks arising from global uncertainty. The MPC noted that headline inflation is currently below target, and projections indicate greater confidence in sustained alignment with the 4% inflation target over the next 12 months.

A normal monsoon forecast also reduces risks to food inflation, bolstering confidence in maintaining inflation within the 4% target band. This evolving inflation trajectory has created room for the RBI to continue its rate-easing cycle, potentially further rate cuts could follow in the upcoming monetary policy meetings in June and August. Gross FDI inflows remained strong during April 2024 to January 2025, however, net FDI moderated due to higher repatriations and outward investments. Net FPI inflows stood at USD 1.7 billion, driven by debt, while equity saw outflows. External commercial borrowings and non-resident deposits recorded higher inflows year-on-year. Services exports remained robust, led by software and business services. Net services and remittance receipts are expected to stay in surplus, helping offset the trade deficit. The CAD for 2024-25 and 2025-26 is projected to remain within sustainable limits. Global trade risks may weigh on merchandise exports, but services exports are expected to stay resilient.

REGULATORY BOOST

RBI has announced six key measures aimed at enhancing banking regulations, deepening financial markets, and fostering innovation in fintech and payment systems. First, the National Payments Corporation of India (NPCI), in consultation with banks and other stakeholders, will now be empowered to determine transaction limits for UPI-based person-to-merchant (P2M) payments. Second, the Regulatory Sandbox framework will be made theme-neutral and available on an 'on-tap' basis, enabling continuous innovation in financial services. Detailed directions for both measures will be issued separately. Third to issue comprehensive guidelines on non-fund-based credit facilities to bring consistency across regulated entities. Fourth to revise the existing norms on Partial Credit Enhancement (PCE) by regulated entities, aimed at widening funding avenues, especially for infrastructure projects. The RBI also intends to bring uniformity in the regulatory treatment of gold loans, which are widely used for both consumption and income-generating purposes. To unlock the broader potential of co-lending arrangements, RBI proposed to expand the framework beyond banks and NBFCs and allow such arrangements for all types of loans—not just those classified under priority sector lending. This move is expected to significantly boost credit availability across sectors. Proposal to enable market-based securitisation of stressed loans, supplementing the existing route through ARCs under the SARFAESI Act, 2002.