

# **RBI's Monetary Policy Review**

**February 07, 2025**

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**On Feb 07, 2025, RBI's Monetary Policy Committee (MPC) took following policy decisions:**

Key Policy Parameter	Status before today's meeting	Decision at today's MPC meeting
Repo Rate	6.50%	6.25%, cut by 25bps
Standing Deposit Facility (SDF)	6.25%	6.00%, cut by 25bps
Bank Rate / Marginal Standing Facility (MSF) Rate	6.75%	6.50%, cut by 25bps
Monetary Policy Stance	Neutral	Neutral, unchanged

RBI's MPC unanimously voted to reduce the repo rate by 25bps to 6.25%. The MPC also kept monetary policy stance unchanged at 'neutral' unanimously. The cash reserve ratio (CRR) was maintained at 4%.

**Executive summary of RBI's press releases/ press conference:**

## Global Economy:

- Global economy is growing below historical averages, though high-frequency indicators suggest resilience and continued trade expansion.
- Progress on global disinflation has stalled, driven by persistent services price inflation.
- Receding expectations of US rate cuts have strengthened the USD and pushed bond yields higher, triggering capital outflows from Emerging Market Economies (EMEs).
- Diverging monetary policies, geopolitical tensions, and trade uncertainties have heightened financial market volatility, complicating policy decisions for EMEs.

## Domestic Growth:

- Economic activity is expected to improve in the coming year.
- Early corporate results for Q3 indicate a mild recovery in the manufacturing sector.
- Agricultural activity remains upbeat on the back of healthy reservoir levels and bright rabi prospects.
- Government capex is expected to remain modest.
- Rural demand continued to be on an uptrend, while urban consumption remained subdued.
- **FY26 real GDP growth was projected at 6.7% with Q1 at 6.7%; Q2 at 7.0%; Q3 at 6.5%; and Q4 at 6.5%.**

## Domestic Inflation:

- Headline inflation eased in Nov and Dec 2024, from its recent peak of 6.2% in October.
- Going forward, food inflation is expected to soften due to strong kharif output, lower winter vegetable prices, and a favorable rabi crop.
- Emphasis back on flexible inflation targeting (FIT) framework; RBI targets to maintain headline CPI inflation at 4% (+/-2%).
- **CPI inflation for FY25 was reiterated at 4.8%, while FY26 CPI was projected at 4.2% (1Q: 4.5%; 2Q: 4.0%; 3Q: 3.8%; 4Q: 4.2%).**

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## Liquidity Conditions:

- After staying in surplus (Jul-Nov'24), system liquidity turned into a deficit in Dec'24-Jan'25 due to advance tax outflows, FX operations, capital outflows, and rising currency circulation.
- No specific liquidity measures were announced, besides a commitment to provide sufficient liquidity support ahead.

## Fixed Income Outlook:

- The decision to keep the stance unchanged at "neutral" signals RBI's cautious approach on the extent of future rate cuts.
- We expect the RBI to frontload its rate cuts by delivering another rate cut in April of 25bps and we currently hold on to the view of a total of 50bps more of rate cuts in 2025.
- The INR's movement is expected to align more closely with its peers, with the USD/INR expected to trade in the range of 87-88 during the month and breach 88 levels in Mar-25.
- We expect the FY26 GDP growth to be at 6.6% and the 10-year yield at 6.4-6.5% by Q1 FY26 as the RBI cuts the policy rate further and conducts further OMOs.

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