Press Release

RBI's Steady Policy Approach

MPC to deliver a reliable message for Growth and Stability

April 1, 2025

The Reserve Bank of India (RBI) is widely expected to cut the repo rate by another 25 basis points (bps) in its April 9 meeting, reinforcing its shift toward a growth-supportive monetary policy. With inflation steadily moderating and economic growth struggling to gain momentum, the central bank faces little choice but to extend its easing cycle. However, beyond the anticipated rate cut, Governor Sanjay Malhotra's messaging will be crucial in shaping expectations for the remainder of the year, especially regarding how aggressive the RBI intends to be in its monetary stance.

Retail inflation eased to 3.6% in February, marking a seven-month low and bringing it within the medium-term inflation target set by the RBI of 4%. This downtrend has been largely driven by a sharp reduction in food inflation, with the food and beverages category declining from 9.7% in October 2024 to 3.8% in February 2025. The easing of price pressures, particularly in perishable food items like vegetables, has provided the RBI with the flexibility to focus on reviving economic growth. Core inflation, which strips out volatile food and fuel prices, has also remained moderate, mostly hovering below 4%, suggesting that there is a broader disinflationary trend. However, we see some upside risks, particularly from unpredictable monsoon patterns and global commodity price fluctuations.

With improving inflation dynamics, economic growth remains closely watched. While GDP growth rebounded to 6.2% in Q3 FY25 from 5.6% in Q2, this remains below India's long-term potential growth rate. One of the biggest constraints on growth has been a slowdown in capital expenditure. Private sector investment remains tepid despite various government initiatives aimed at boosting infrastructure spending and credit availability. Meanwhile, external factors such as reciprocal tariff threats, geopolitical tensions, and global economic uncertainty continue to weigh on exports and manufacturing activity.

Moreover, domestic demand, which has historically been a strong driver of India's growth, has shown signs of fatigue. Rural consumption, while rebounding, remains subdued. Urban demand is also not accelerating at the pace required to offset the weaknesses from earlier the year.

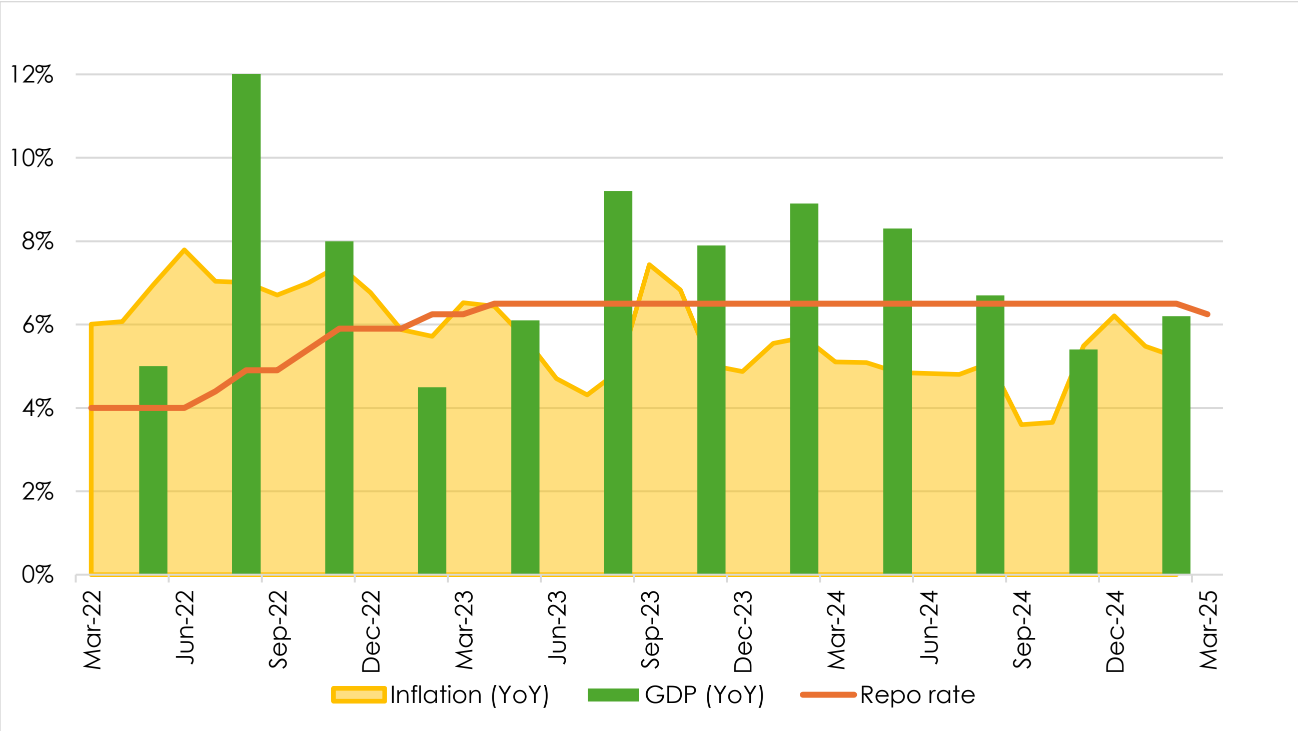
The RBI has been actively managing liquidity conditions. The banking system liquidity deficit, which widened earlier in the quarter due to the central bank's forex market interventions, has improved following liquidity injections. The RBI has infused ₹6.8 lakh crore through Open Market Operations (OMO), Variable Rate Repo (VRR) auctions, and forex swaps, bringing down the liquidity deficit from ₹2 lakh crore in January to ₹1.6 lakh crore in March.

Despite these interventions, liquidity remains tight, particularly for non-bank financial companies (NBFCs) and small businesses that rely on bank credit. Another rate cut could ease funding constraints, providing a much-needed boost to economic momentum.

Global economic conditions will also play a significant role in shaping the RBI's policy decisions. If the U.S. Federal Reserve proceeds with rate cuts, it could ease pressure on the Indian rupee, giving the RBI more room for additional rate reductions. However, risks remain—President Trump is expected to announce reciprocal tariffs on April 2, which could impact India's exports and financial markets.

Markets have already priced in a 25bps repo rate cut in April, which would mark the second consecutive reduction following February's cut to 6.25%. However, the key question now is how far the RBI is willing to go in its easing cycle. While another 25bps cut in FY26 remains a strong possibility, but for now, we continue to expect the April MPC cut to be the last of this cycle,

Chart 1: Growth, Inflation and Repo Rate



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