Press Release

RBI's calibrated rate cut to offset global headwinds

June 4, 2025

As the Reserve Bank of India's Monetary Policy Committee begins its latest MPC deliberations, markets are gearing up for a third consecutive rate cut. Inflation in April slipped to 3.2%, the lowest since July 2019, signalling a rare and favourable policy window. More importantly, inflation has remained below 4% for three straight months, an indication of a sustained structural easing in price pressures rather than a fleeting dip. Unlike previous disinflation episodes primarily driven by volatile food prices, the current moderation is broad-based across multiple segments of the consumer basket. This widespread easing bolsters confidence that inflation expectations are well anchored, allowing the RBI to focus on growth support without risking price stability.

India continues to hold the mantle as the world's fastest-growing major economy, but beneath the headline GDP figures lie several nuanced challenges. While the 7.4% GDP growth recorded in the fourth quarter is strong, it contributed to a full-year expansion of just 6.5%, the slowest pace in four years, prompting some caution among policymakers. This slowdown is further compounded by an uncertain global economic environment marked by decelerating growth, persistent trade frictions, and weak demand in key export markets. In this context, the RBI's accommodative stance could provide some much-needed respite amid these external headwinds.

Growth patterns across sectors present a mixed picture: services continue to demonstrate resilience, manufacturing growth remains subdued, and rural consumption trails behind urban demand. The current easing monetary policy cycle will bring in some relief to strained sectors. However, risks persist. A deterioration in global trade dynamics, especially the looming expiration of U.S. tariff relief in July 2025, could disrupt India's external balances and limit the RBI's policy flexibility.

Moreover, while inflation forecasts currently appear favourable, the outlook remains vulnerable to shocks from monsoon variability, commodity price fluctuations, and supply-side disruptions. Against this backdrop, we anticipate a further repo rate cut of 25 basis points, bringing it down to 5.75%.

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