

Executive Summary

Rate Cut: Mr. Sanjay Malhotra, in his first move as RBI Governor, has initiated a 25 basis point rate cut after numerous rate hikes since May 2022. This marks a significant policy shift towards supporting growth.

Economic Context: The rate cut is seen in the context of a faltering growth scenario and a Union Budget that focused more on tax rebates than capital expenditure.

Inflation Control: Inflation, which has traditionally been an obstacle to rate cuts, is showing signs of easing, especially in food and core inflation areas.

Global Influence: The RBI's decision aligns with global central banks, which are also easing rates in response to cooling inflation and sluggish growth.

Monetary Policy Signals: The rate cut is as much about signaling confidence to businesses and consumers as it is about the actual economic impact. It indicates a proactive stance by the RBI to balance price stability with economic efficiency. Critics might argue that a 25-basis point rate cut won't do much to lower consumer EMIs or significantly change borrowing costs. That's true to an extent. However, *monetary policy isn't just about numbers—it's about psychology. A rate cut signals confidence.* It tells businesses to invest, encourages consumers to spend, and reassures markets that the central bank is on their side. Even a small reduction in rates can nudge economic participants into action. The real question, though, is whether banks will take the hint from the RBI and pass those benefits on to borrowers.

Future Outlook: The decision sets the tone for potential further rate cuts and shifts in monetary policy to address India's economic challenges.

Concluding Remarks: While maintaining its neutral stance, the MPC believed that the less restrictive policy was more appropriate at this given juncture given the current growth-inflation dynamics. The future decisions of MPC, in each of its future meetings would be solely based on a fresh assessment of the macroeconomic outlook. In order to promote favorable macroeconomic conditions that support price stability, steady economic growth, and financial stability, the RBI is dedicated to implementing monetary policy that are timely, well-calculated, and clearly communicated

RBI Cuts Its Key Repo Rates by 25bps to 6.25%

Making the First cut since May 2020, with Neutral Monetary Stance

At its meeting held from February 05 to February 07, 2025, the Monetary Policy Committee (MPC) decided to cut the Policy Repo Rate within the Liquidity Adjustment Facility (LAF) by 25 basis points to 6.25% with immediate effect. The CRR was brought down to 4% in the December 2024 policy meet by 50bps.

The Standing Deposit Facility (SDF) Rate stand adjusted to 6.0% with immediate effect, and the Marginal Standing Facility (MSF) Rate and the Bank Rate to 6.50%.

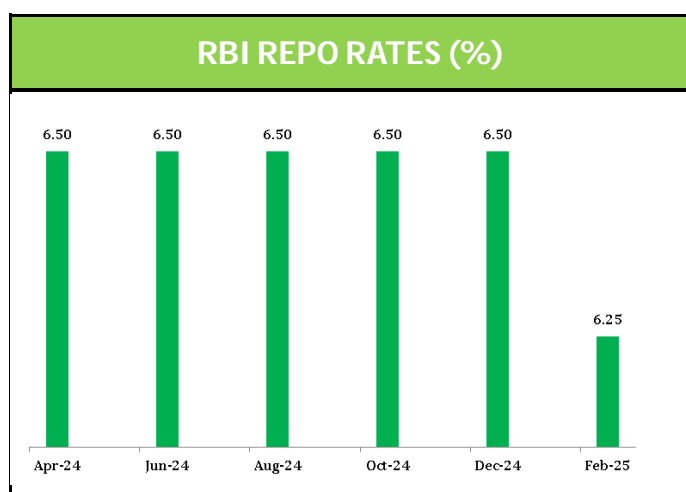
The MPC decided to continue with its "Neutral" stance, in order to remain focused on aligning inflation with the target while supporting growth.



These decisions were unanimously taken by the committee, keeping in mind the objective of achieving the medium-term target for Consumer Price Index (CPI) inflation of 4% within a band of +/- 2% while supporting growth.

2024-25 Growth Projections is at 6.4% in line with NSO, RBI's earlier projection for FY25 GDP was 6.6% in December 2024. The projected GDP for FY25-26 is at 6.7%, with Q1FY26 at 6.7%, Q2FY26 at 7.0% ,Q3FY26 & Q4 at 6.5 respectively. On the CPI Inflation Front, the RBI has projected it at 4.8% for FY25, with Q1FY26 at 4.5%, Q2FY26 at 4.0% ,Q3 at 3.8%, Q4 at 4.2% and for FY25-26 at 4.2% respectively.

RBI's GDP GROWTH OUTLOOK		
Period	Projection	Earlier
FY25	6.4%	6.6%
Q1FY26	6.7%	6.9%
Q2FY26	7.0%	7.3%
Q3FY26	6.5%	-
Q4FY26	6.5%	-
FY25-26	6.7%	-

RBI's CPI INFLATION OUTLOOK		
Period	Projection	Earlier
FY25	4.8%	4.8%
Q1FY26	4.5%	4.6%
Q2FY26	4.0%	4.3%
Q3FY26	3.8%	4.3%
Q4FY26	4.2%	-
FY25-26	4.2%	-



MARKET'S REACTION*		
 Nifty50	24,677.80 ▼30.60	▼0.12%
 Nifty Bank	53,509.50 ▼94.05	▼0.18%
*DATA as on 04:00 PM – 7 th February, 2025		

Key Highlights:

❖ **The Global Economy growing below the historical average:**

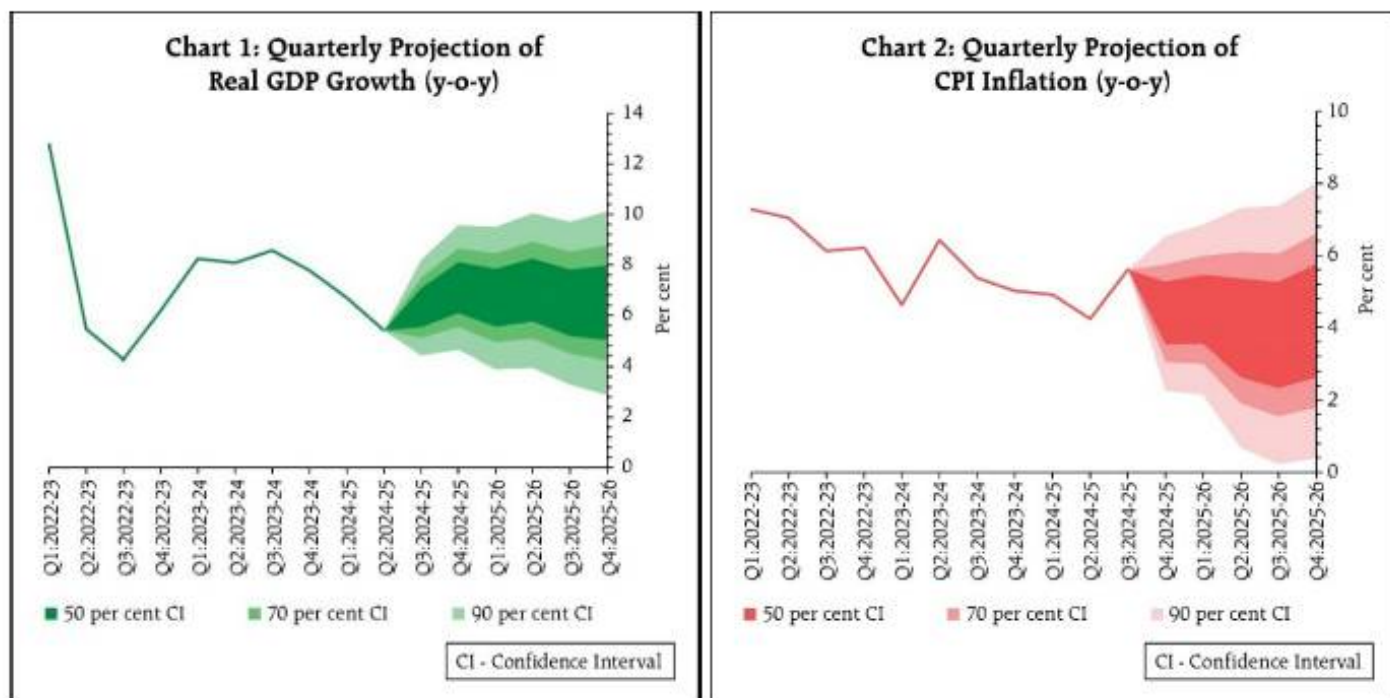
- The global economy is expanding below its historical average despite high frequency indicators indicating resilience in the face of ongoing global trade expansion.
- The world economic landscape remains challenging with slower pace of disinflation, geopolitical tensions and policy uncertainties.
- Financial markets have remained volatile amidst a rising US dollar, trade protectionism, resulting in large capital outflows from emerging markets, and increased volatility in equity markets.

❖ **Domestic Growth Momentum:**

- FY25 GDP grew at 6.4% as per the first advance estimates released by the government. which was below RBI's initial estimation of 7.2%. This growth is at the slowest pace in four years.
- RBI projects the real GDP growth for FY25-26 at 6.7% with first and second quarter of the fiscal 2026 at 6.9% and 7.3% respectively.
- Going forward, household consumption is expected to remain robust aided by the tax relief proposed in Union Budget 2025-2026.
- Robust Kharif food grain production and good rabi crop coupled with an expected pick up in industrial activity and sustained growth in services, augurs well for private consumption.
- Fixed investments is expected to recover, supported by higher capacity utilization levels, healthy balance sheets of corporates and financial institutions and Governments continued emphasis on large capital expenditure spending on infrastructure.

❖ **Inflationary Pressures:**

- The retail inflation continued to moderate to 5.2% in December 2024 from 5.5% in November led by lower vegetable prices. Core inflation remained subdued across goods and services components and the fuel group continued to be in deflation.
- Going forward, food inflation pressures, minus any supply side shock, should see a significant softening due to good Kharif production, easing in vegetable prices and favorable Rabi crop prospects.
- Continued uncertainty in global financial markets coupled with volatility in energy prices and adverse weather events presents upside risks to the inflation trajectory.
- Taking all these factors into consideration, CPI inflation for FY24-25 is projected at 4.8% while Q4FY25 at 4.4%.
- Assuming a normal monsoon next year, CPI Inflation for FY25-26 is projected at 4.2% with Q1 at 4.5%, Q2 at 4.0%; Q3 at 3.8% and Q4 at 4.2% with risks evenly balanced.



❖ Rationale behind RBI's decision

- The MPC noted that the inflation has declined, supported by a favorable outlook on food and continuing transmission of past monetary policy actions. It is expected to further moderate in FY25-26, gradually aligning with the target.
- The MPC also pointed out that growth is still well below last year's level, even though it is predicted to rebound from the Q2 2024–25 low and is much below the last year.
- The growth and Inflation dynamics opens up policy space for the MPC to support growth, while remaining focused on aligning inflation with the target.
- Accordingly the MPC, unanimously voted to reduce the policy repo rate by 25 basis points to 6.25%
- However there are risks to the growth and inflation prospects from unfavorable weather occurrences, excessive volatility in global financial markets and ongoing uncertainty about global trade policy. The MPC is therefore cautious in light of this and decided to maintain its Neutral Position by a unanimous vote. This would provide MPC the adaptability it needs to react to the changing macroeconomic condition.

❖ External Sector

- India's current account deficit (CAD) moderated marginally to US\$ 11.2 bn or 1.2% of GDP in Q2FY25 from US\$ 11.3 bn or 1.3% of GDP in Q2FY24.
- India continues to be the world's top recipient of remittances in 2024, with an expected inflow of US\$ 129.1 billion, according to the World Bank. It is anticipated that the CAD would stay well within the sustainable range this year. India had US\$630.6 billion in foreign exchange reserves as of January 31st, this year, which covered more than ten months' worth of imports. Key indicators continue to be strong, indicating that India's external economy is solid overall.
- The RBI's exchange rate policy has remained consistent over the years that supported its objective of orderliness and stability without compromising market efficiency. The exchange rate of Indian rupee is determined by market forces.

❖ **Liquidity and Financial Market Conditions:**

- The system liquidity shifted from surplus (July-Nov 2024) to deficit (Dec 2024-Jan 2025) due to advance tax payments, capital outflows, forex operations and increased currency circulations.
- RBI urged banks to actively trade in the uncollateralized call money market to enhance efficiency.
- RBI remains committed to ensuring sufficient liquidity through variable repo rates, Open Market Operations and forex intervention.
- Banks have been advised to segregate the accounts of beneficiaries of various Central/ State Government schemes through direct benefit transfer (DBT) and facilitate uninterrupted credit and utilisation of DBT amounts, without inconveniencing such vulnerable segments of customers. Progress made by individual banks in this regard will be monitored by the Reserve Bank.

❖ **Financial Stability**

- Schedule Commercial Banks (SCBs) remain financially strong with healthy credit-deposit ratios of 80.8% at the end of January 2025, sufficient liquidity buffers and improved asset quality.
- Services exports sustained buoyancy and posted double-digit growth in Q2FY25 as well as in October 2024.
- Non-Banking financial companies (NBFCs) are also stable, with improved profitability and capital adequacy ratios.
- RBI will continue to monitor and enhance regulatory frameworks to ensure financial stability.

❖ **Digital Security**

- The rise of cyber threats and digital frauds has necessitated stronger security measures.
- RBI plans to extend Additional Factor of Authentication (AFA) to international digital payments for offshore merchants
- The launch of exclusive internet domains 'bank.in' and 'fin.in' aims to prevent fraud and enhance digital security.

❖ **Introduction of Forward Contracts in Government Securities**

- RBI will introduce forward contracts in government securities to help long term investors like insurance funds to manage their interest rate risk across interest rate cycle.
- This move will enable more efficient pricing of derivatives linked to government securities.

❖ **Access of SEBI-Registered Non-Bank Brokers to NDS-OM**

- To improve retail investor access to government securities, RBI will allow SEBI –registered non-bank brokers to participate in NDS-OM (Negotiated Dealing System Order Matching platform) for the secondary market transactions.

❖ **Review of Trading and Settlement Timings Across Markets**

- Given recent developments in the financial markets and infrastructure, RBI will set up a working group to assess and recommend changes to trading and settlement timings.
- This group will consult stake holders and submit a report by April 30, 2025

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