

Policy Highlights:

Reserve Bank of India (RBI) Governor Sanjay Malhotra on February 7, 2025 announced that the central bank has decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.25 per cent with immediate effect. The standing deposit facility (SDF) rate shall stand adjusted to 6.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.50 per cent. The MPC also decided to continue with the neutral monetary policy stance and remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Outlook:

The global economy is growing below the historical average even though high frequency indicators suggest resilience amidst continued expansion in world trade. The world economic landscape remains challenging with slower pace of disinflation, lingering geopolitical tensions and policy uncertainties. The strong dollar, inter alia, continues to strain emerging market currencies and enhance volatility in financial markets. On the domestic front, as per the First Advance Estimates (FAE), real gross domestic product is estimated to grow at 6.4 per cent YoY in 2024-25 supported by a recovery in private consumption. On the supply side, growth is supported by the services sector and a recovery in agriculture sector, while tepid industrial growth is a drag. Looking ahead, healthy rabi prospects and an expected recovery in industrial activity should support economic growth in 2025-26. Among the key drivers on the demand side, household consumption is expected to remain robust aided by the tax relief in the Union Budget 2025-26. Resilient services exports will continue to support growth. However, headwinds from geo-political tensions, protectionist trade policies, volatility in international commodity prices and financial market uncertainties, continue to pose downside risks to the outlook. Taking all these factors into consideration, real GDP growth for 2025-26 is projected at 6.7 per cent with Q1 at 6.7 per cent; Q2 at 7.0 per cent; and Q3 and Q4 at 6.5 per cent each. The risks are evenly balanced.

The MPC noted that inflation has declined. Supported by a favourable outlook on food and continuing transmission of past monetary policy actions, it is expected to further moderate in 2025-26, gradually aligning with the target. The MPC also noted that though growth is expected to recover from the low of Q2:2024-25, it is much below that of last year. These growth-inflation dynamics open 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 per cent. At the same time, excessive volatility in global financial markets and continued uncertainties about global trade policies coupled with adverse weather events pose risks to the growth and inflation outlook. This calls for the MPC to remain watchful. Accordingly, the MPC unanimously voted to continue with a neutral stance.

Policy Rates								
Y-O-Y Growth (%)	July-24	Aug-24	Sept-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Repo	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.25%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.50%	4.50%	4.50%	4.50%	4.50%	4.00%	4.00%	4.00%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	May-24	June-24	July-24	Aug-24	Sept-24	Oct-24	Nov-24	Dec-24
Inflation (WPI)	2.74%	3.43%	2.10%	1.25%	1.91%	2.75%	1.89%	2.37%
Inflation (CPI)	4.80%	5.08%	3.60%	3.65%	5.49%	6.21%	5.48%	5.22%
GDP Growth								
Y-O-Y Growth (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
GDP (% Growth)	4.26%	6.18%	8.24%	8.08%	8.57%	7.76%	6.65%	5.36%
GVA (% Growth)	4.83%	6.03%	8.26%	7.69%	6.79%	6.27%	6.84%	5.60%

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