Repo rate cut by 25 bps

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RBI has cut the repo rate by 25 bps to 6.25% while maintaining a neutral stance, signaling a shift towards supporting growth over inflation control. We expect RBI to cut repo rate by 100 bps over FY26 period. Bond market transmission is expected to be swift, with yields likely to decline by 100 bps, benefiting banks through higher treasury gains. In the credit market, transmission is anticipated over the next 3-6 months, potentially leading to margin contraction for banks. On the macroeconomic front, RBI projects GDP growth at 6.7% for FY26, up from 6.4% in FY25, while inflation is expected to moderate to 4.2% in FY26 from 4.8% in FY25.

Key Factors Behind the Rate Cut

- **Inflation Dynamics:** Headline inflation remains above the RBI's 4% target (5.22% in FY25), but core inflation has softened below 4%. The central bank projects CPI inflation to moderate to 4.2% in FY26, assuming normal monsoons and stable food prices.
- **Growth Concerns:** GDP growth forecasts were revised downward for FY25 (6.4% vs. earlier 6.6%), prompting the RBI to prioritize economic stimulus through cheaper credit.
- **Fiscal Consolidation:** Government measures to reduce the fiscal deficit (targeting 4.4% of GDP by FY26) provided room for monetary easing.

Key Important Updates

1. Monetary Policy Committee (MPC) Decisions

- The **repo rate has been reduced by 25 bps** from **6.50% to 6.25%.**
- The **MPC retains a neutral stance** to balance inflation control and economic growth.
- **Standing Deposit Facility (SDF) rate** is now **6%**, and **Marginal Standing Facility (MSF) & Bank Rate** are at **6.5%.**

2. Inflation & Growth Outlook

- **Inflation** has declined and is projected to **moderate further to 4.2% in FY2026 vs. 4.8% estimated in FY25**, assuming a **normal monsoon**.
- Real GDP growth is estimated to grow by 6.4%, a softer expansion after robust 8.2% seen in FY23.
- **Real GDP growth** for **FY 2025-26 is projected at 6.7%**, with quarterly estimates:
  - **Q1: 6.7%**
  - **Q2: 7.0%**
  - **Q3: 6.5%**
  - **Q4: 6.5%**
- **Rural demand improving**; urban demand mixed.

3. Global & External Sector Developments

- Global economy facing **slow growth, inflationary pressures, and financial market volatility**.
- **Emerging Market Economies (EMEs)** are experiencing capital outflows and currency depreciation.
- India's **Current Account Deficit (CAD)** remains **within sustainable levels at 1.2% of GDP**.
- **Foreign exchange reserves** stood at **$630.6 billion as of January 31, 2025**, providing an import cover of over 10 months.

4. Regulatory & Financial Stability Measures

- **Regulatory reforms** to strengthen **liquidity coverage ratio (LCR), expected credit loss (ECL), and prudential norms for project financing**.
- The **banking system remains healthy** with a **Credit-Deposit Ratio of 80.8%** and strong **financial parameters for NBFCs**.

5. Digital Security & Financial Reforms

- **Introduction of 'bank.in' domain** for Indian banks (registration starts in April 2025), followed by **'fin.in' for the financial sector** in the wake of cyber threats & digital risks
- **Expansion of Additional Factor Authentication (AFA)** for **online international digital payments**.
- **Banks & NBFCs to enhance cyber resilience** through robust **incident response and recovery mechanisms**.

6. Market & Financial System Enhancements

- **Forward contracts in Government Securities (G-Secs)** to help **long-term investors manage risks**.
- **SEBI-registered non-bank brokers** to gain **access to NDS-OM** for secondary market trading in G-Secs.
- **Review of trading and settlement timings** across various market segments; report due by **April 30, 2025**.

7. Commitment to Monetary & Economic Stability

- The Reserve Bank will **continue to focus on price stability, economic growth, and financial stability**.
- Future policy actions will be **data-driven and calibrated to evolving economic conditions**.

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