MNI RBI Preview – April 2025.

Meeting Date: Wednesday, April 9, 2025

Link To Prior Statement: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59692

Contents

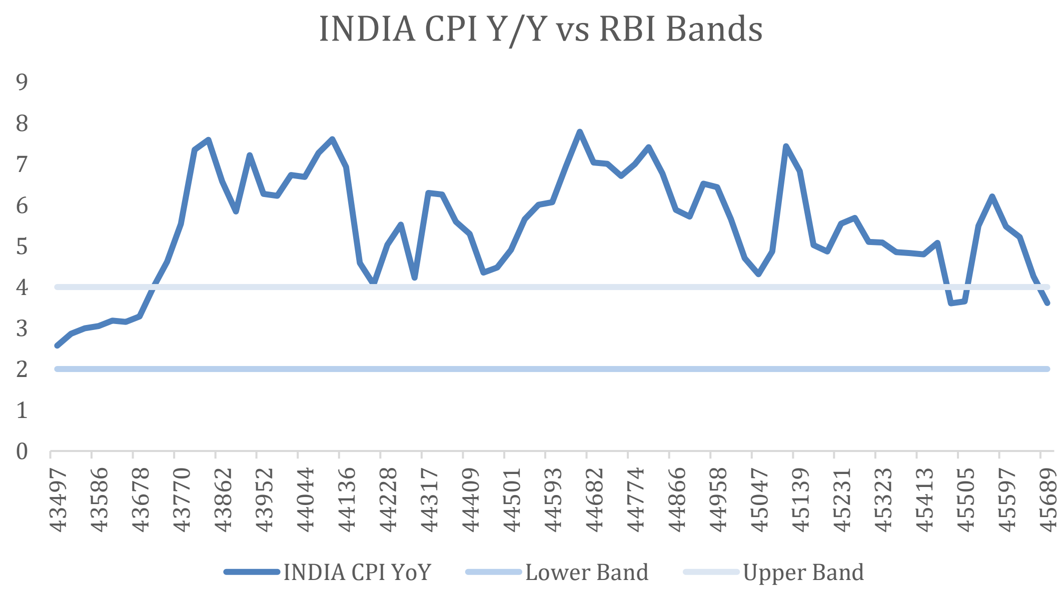
MNI POV (Point Of View): RBI to Cut as CPI Softens

The February meeting was Governor Sanjay Malhotra's first monetary policy review, and delivered a cut. He was clear in his thoughts on the growth – inflation dynamics in the economy.

Inflation

Since the surge in food prices in October 2024, inflation has been at the forefront of the economy. In recent prints, there has been a marked decline in inflation, providing the opportunity for monetary policy action. Since the last MPC meeting, February CPI surprised to the downside. Against a backdrop of +4.31% in January, the market survey's suggested that the February result would be +3.98%. At +3.61%, it was the slowest pace of expansion in seven months as the impact of the October food price spike dissipates. The Consumer Food Price Index rose +3.75%, from +5.97% in January with the month-on-month figure negative.

.



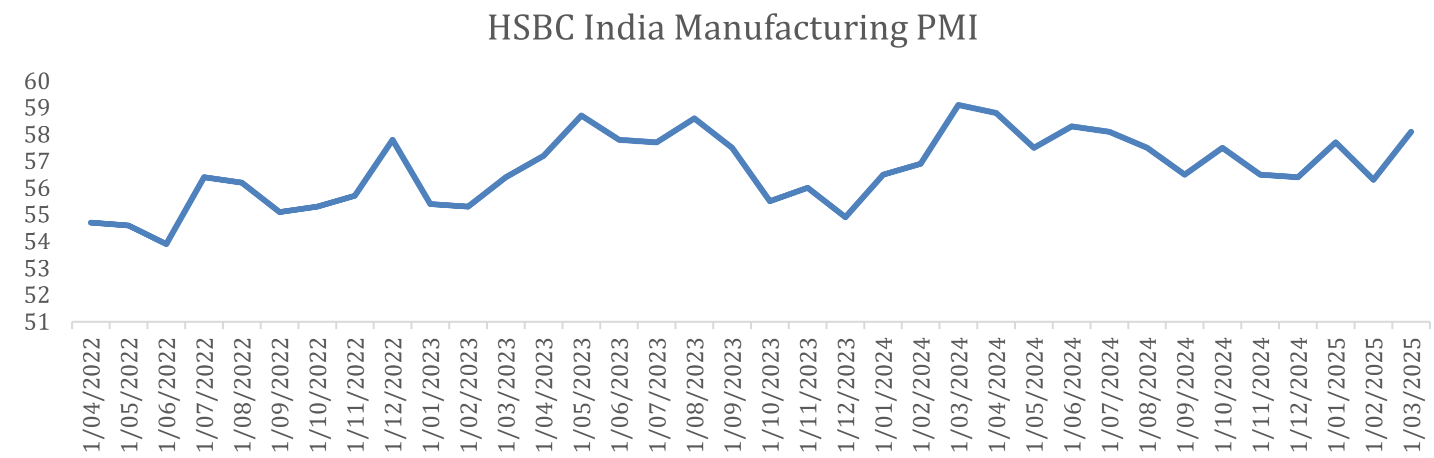
Business Address - MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

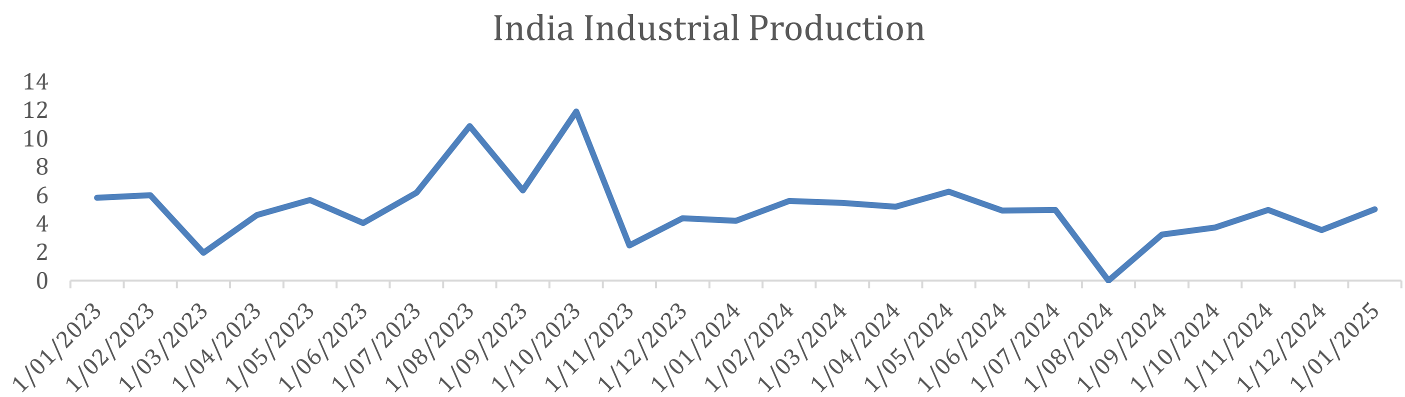
Growth
Indicators continue to show positive signs albeit with some data points softening marginally.

Credit Growth: India's bank credit growth for February expanded by +11.0%, down from +11.4% in January whilst personal loan growth rose +11.7%, from +11.8% and loans to industry rising +7.1% from +8.0%.

Consumer / Business Confidence: The consumer confidence bi-monthly survey was released following the last RBI meeting. The survey collects current perceptions compared to last year and one year ahead expectations of households on general economic situation, employment scenario, overall price situation, own income and spending across 19 major cities. Some key observations from the output was that confidence was marginally declining for the current period, whilst remaining optimistic looking forward. The survey showed that whilst there remained less concern about the inflationary pressures felt last year, consumers were still careful about spending.

Investment Outlook: PMIs in India have improved for March, with PMI Manufacturing rising to +58.1 from +57.6 prior and PMI Services to +58.5, from +57.7 prior. Industrial Production remains robust with the most recent release (January) showing a rise to 5.0% from 3.5% in December.





Infrastructure Spend: declined in February with India's Eight Core industries overall growth rate at +2.85%, lower than the 5-year average of 5.20% and could potentially be one of the areas this year where policies could be announced.

External Demand: one of the great challenges is the FDI outflow from equity markets and the pressure that comes with it. Our data shows that year to date, India equities has had foreign outflows of US$14bn. Last week for a period of 5 days there was strong inflows as US trade officials were on the ground in India negotiating. This is a developing story and one to watch. Since index inclusion for the India bond market to the JPMorgan index, there has been fairly constant inflows. Foreign holdings of Indian government bonds have risen to more than 3 trillion rupees ($35 billion) for the first time quite possibly as investors take a view on potential rate cuts from the RBI.

The fourth quarter GDP release had some interesting developments. The market revised down their expectations for 4Q to +6.2%, with the end result in line and with the third quarter revised up marginally to +5.6%. The Reserve Bank of India (RBI) at the last MPC meeting raised the country's real GDP growth forecast to real GDP growth for 2025-26 to 6.7 per cent, as it expects a robust rabi crop output and an expected recovery in industrial activity to support economic growth going ahead.

Yet despite this, the outlook for growth remains clouded given the outsized tariffs announced by the US last week.

The RBI has entered a new phase with the new Governor Malhotra. Since the last MPC meeting where rates were cut for the first time in five years, he has continued to emphasize the need for inflation control, whilst supporting economic growth and being clear that the current growth inflation dynamics provide room to support growth. He has done this through the injection of liquidity by $60bn into the interbank system and is evolving the way this is managed. Malhotra appears to be a very measured person in his approach as evidenced by leading economists calling for a cut of 50bps at the last meeting which was resisted.

The bond market has been repricing rate expectations in recent weeks on the back of the liquidity injections and RBI buying programs. On a three-month time horizon, the bond market has priced in 35bps of cuts. Our swaps models show that interest rate forwards have just a 40% probability of a cut priced in for tomorrow and just prior to the last RBI cut, the swaps market was pricing in a 45% probability.

Of the economists surveyed on Bloomberg, all are predicting a cut of 25bps tomorrow with the exception of one who is predicting a 50bps cut.

We forecast a cut of 25bps, consistent with the measured approach from the new governor and no change to the Cash Reserve Ratio though be explicit in their commitment to support liquidity, possibly opening the door for a cut in the RRR next time but likely with caution as to expectations for future cuts.

Business Address - MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

RBI February 07, 2025, Monetary Policy Statement

Monetary Policy Decisions

The Monetary Policy Committee (MPC) held its 53rd meeting from February 5 to 7, 2025 under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank of India. The MPC members Dr. Nagesh Kumar, Shri Saugata Bhattacharya, Prof. Ram Singh, Dr. Rajiv Ranjan, and Shri M. Rajeshwar Rao attended the meeting. After assessing the current and evolving macroeconomic situation, the MPC unanimously 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; consequently, 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;
- continue with the neutral monetary policy stance and remain unambiguously focussed 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.

Growth and Inflation Outlook

2. 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.

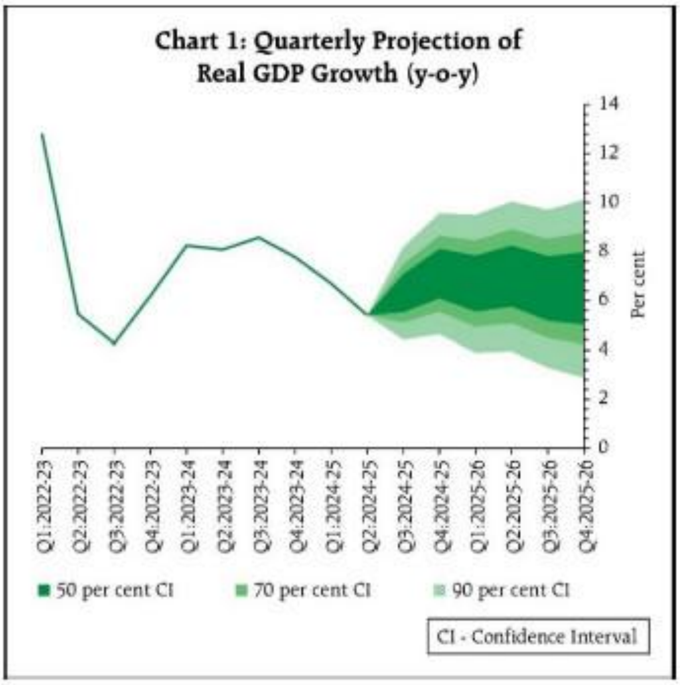
3. On the domestic front, as per the First Advance Estimates (FAE), real gross domestic product (GDP) is estimated to grow at 6.4 per cent (y-o-y) in 2024-25 supported by a recovery in private consumption. On the supply side, growth is supported by the services sector and a recovery in agriculture sector, while tepid industrial growth is a drag.

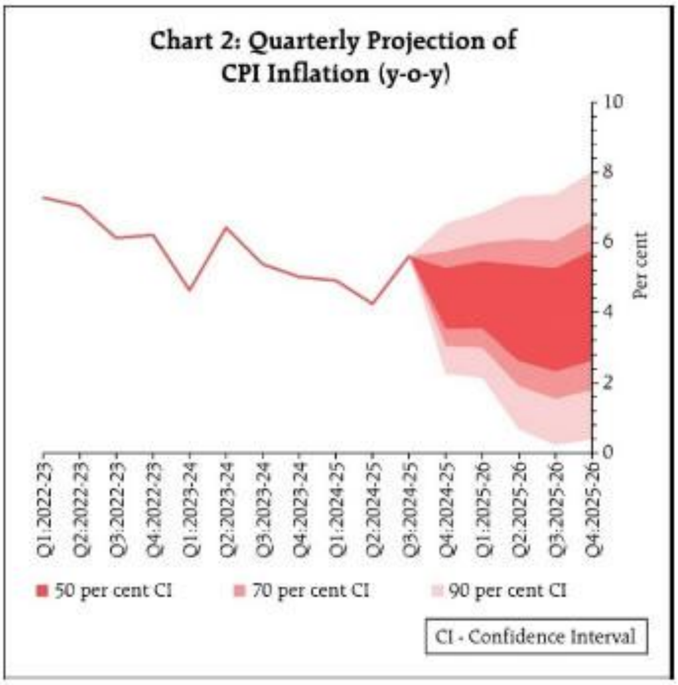
4. Looking ahead, healthy rabi prospects and an expected recovery in industrial activity should support economic growth in 2025-26. Among the key drivers on the demand side, household consumption is expected to remain robust aided by the tax relief in the Union Budget 2025-26. Fixed investment is expected to recover, supported by higher capacity utilisation levels, healthy balance sheets of financial institutions and corporates, and Government's continued emphasis on capital expenditure. This is corroborated by positive business sentiments highlighted in the Reserve Bank's enterprise surveys and PMIs. 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 (Chart 1). The risks are evenly balanced.

5. Headline inflation softened sequentially in November-December 2024 from its recent peak of 6.2 per cent in October. The moderation in food inflation, as vegetable price inflation came off from its October high, drove the decline in headline inflation. Core inflation remained subdued across goods and services components and the fuel group continued to be in deflation.

6. Going ahead, food inflation pressures, absent any supply side shock, should see a significant softening due to good kharif production, winter-easing in vegetable prices and favourable rabi crop prospects. Core inflation is expected to rise but remain moderate. 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 2024-25 is projected at 4.8 per cent with Q4 at 4.4 per cent. Assuming a normal monsoon next year, CPI inflation for 2025-26 is projected at 4.2 per cent with Q1 at 4.5 per cent; Q2 at 4.0 per cent; Q3 at 3.8 per cent; and Q4 at 4.2 per cent (Chart 2). The risks are evenly balanced.

Business Address - MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB





Rationale for Monetary Policy Decisions

7. 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 focussed 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.

8. 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. This will provide MPC the flexibility to respond to the evolving macroeconomic environment.

9. The minutes of the MPC's meeting will be published on February 21, 2025.

10. The next meeting of the MPC is scheduled during April 7 to 9, 2025.

Sell-Side Analyst Views

ANZ (cut) : "We expect the monetary policy committee to deliver a 25bp rate cut on 9 April 2025, with the risks of a bigger 50bp rate cut due to the following reasons:(1) domestic inflation unexpectedly fell below the 4% target on the back of the food price decline in February and could print in the 3–3.5% range for March; (2) the 26% US tariff rate announced for Indian goods is a clear downside growth risk, warranting policy support. The RBI will possibly change its policy stance to accommodation, given growth risks, low inflation and the recent spate of steps to inject durable liquidity in the banking system. We think the decline in food prices is credible, stemming from declining agricultural input cost inflation, easing food trade margins and improved harvest. However, weather conditions will have to be monitored, especially as temperatures are picking up with the onset of summer, increasing the risks of heatwaves. Core inflation has risen slightly faster than expected in the last two months and is marginally above 4%. It may continue to gradually rise, keeping the RBI vigilant. We do not see it breaching 4.5%in the foreseeable future. The recent rupee appreciation has also preserved the monetary policy space for easing, from an imported inflation perspective."

Barclays (cut) : "We expect the RBI to cut by another 25bp on 9 April, while retaining the stance as neutral. We see an outside chance that the MPC decides to ease by 35bp, acknowledging the sizable undershoot vs estimated CPI inflation. We see downside risks to RBI's growth and inflation forecasts."

BNY (cut) : " RBI expected to cut 25bp to 6%. We see reasons for them to remain on hold. This expectation is driven by stable, non-inflationary growth and subdued price pressure, allowing for further rate reductions, while acknowledging the potential impact of reciprocal tariffs. On Thursday, the Trump administration announced a 26% reciprocal tariff on Indian exports to the U.S., effective April 9. On that note, the RBI's FY26 GDP growth forecast of 6.7% is considered slightly optimistic, and the central bank should revise its growth estimates downward. On the inflation front, it is likely that the RBI will undershoot its Q4 FY25 target of 4.4%, given declining oil prices, a stabilizing INR, and weak aggregate demand. Robust food production is expected to mitigate potential inflationary pressures going forward. OIS markets are pricing a 45bp rate cut, bringing the repo rate to 5.80% in the next 12 months, which remains above the estimated neutral rate."

DBS (cut): "The RBI monetary policy committee will announce its rate decision on Wednesday. Dr Poonam Gupta, current head of NCAER has been named as the new RBI Deputy Governor and will join the upcoming rate review. Domestic data has aligned to make way for the Monetary Policy Committee (MPC) to lower rates further, characterised by easing inflation and growth whilst depreciation pressure on the rupee has eased significantly. We look for a 25bp rate cut with a change in stance to accommodative. January-February inflation combined with our early estimate for March, point to a 40-50bp undershoot in the actual vs RBI's quarterly forecast. Growth, meanwhile, is seen around 6.4- 6.5% in FY25 and FY26, down from the 8% run rate in the previous two years. The rupee was the regional outperformer, rallying 2.3% in March, as seasonality and dollar weakness coincided. Bond yields slipped further after the RBI surprised by announcing another INR800bn OMO for April, signaling a strong preference for surplus liquidity to aid transmission. While confident on domestic developments, the MPC is likely to be guarded on the uncertain global backdrop as trade distortions pose stagflationary risks to the US and raise the risk of slower global trade."

GS (cut) " We expect a 25bp repo rate cut from the RBI Monetary Policy Committee (MPC) at the April 9 meeting, taking the repo rate to 6.00%. This will be the first MPC meeting for Dr. Poonam Gupta, who was appointed Deputy Governor earlier this week. A moderation in domestic activity in Q1 based on the high frequency data, benign inflation (our tracking estimate for March CPI inflation is 3.7%), and a sharp pullback in Brent crude oil and the DXY Index post President Trump's tariff announcements have created a favorable environment for the RBI to ease. The RBI's actions over the last three months indicate their intent to keep an easy banking system liquidity environment. Durable liquidity is back in a surplus of ~INR 1tn (0.5% of net demand and time liabilities, or NDTL) in March after remaining in a deficit over the previous two months, following continued liquidity injections, including INR 800bn OMO purchase announced last week. With the inter-bank overnight rates now trading below the repo rate, the monetary policy stance (currently "neutral") in this policy meeting is less relevant from the viewpoint of forward guidance on liquidity, in our view. We downgraded our CY25 India real GDP growth forecast by 30bp to 6.1% yoy yesterday, following President Trump's tariff announcements, and our US team's recent growth downgrade. Given this, and our expectation of a sub-4% headline inflation by Q4 CY25, we added an additional 50bp of repo rate cuts by the RBI in CY25, totaling 100bp of repo rate cuts in this cycle."

HSBC (cut) : "RBI easing: The stage is set. We expect the RBI to deliver a 25bp repo rate cut in April, taking the repo rate to 6.0%. We also expect it to discuss/implement steps that help sustain liquidity at surplus levels. We believe the RBI may lower its growth and inflation forecasts. Following the April rate cut, we expect two more rate cuts of 25bp each in the June and August meetings, taking the repo rate to 5.5%, which is our estimate of neutral."

MUFG (cut) : "The RBI could cut rates by 25bps or possibly more at the upcoming policy meeting. Headline inflation has slowed to below the central bank's 4%, while growth risks have risen stemming from US tariff hikes. The appointment of Gupta as the bank's deputy governor could also add a dovish tilt to the monetary policy committee.

SOCGEN (cut) : "After having been on hold for nearly two years, RBI eventually decided to change the policy rate at its February meeting. The 25bp rate cut that was announced was the first rate cut by the bank in nearly five years. And now, with growth slowing and inflation easing, we believe that the central bank is ready to announce its second successive rate cut (of 25bp) at the April meeting. India's 4Q24 real GDP, which was based on a significant upward revision in prior-year data, printed at 6.2% yoy, bang in line with Bloomberg consensus, which interestingly, was based on unrevised data. Among the various components, consumption is showing signs of improvement, driven by rural demand and a strong premiumisation story. However, investment remains a drag, and looks set to weaken going forward, given clear signs of a slowdown in public expenditure. Meanwhile, the potentially tepid improvement in domestic and external demand, further hampered by heightened global uncertainty, points to anaemic private capex. What the overall GDP data does signal is that, following the recovery from the pandemic lows, the economy has hit a structural barrier and is clearly slowing down. Given the sharply higher upward revision of prior-year data, the slowdown appears to have been sharper than we had anticipated. Hence, we are revising our real GDP growth estimates down moderately for both FY25 and FY26 from 6.3% yoy to 6.2%, with the potential for even lower growth in FY26.Headline CPI for February 2025 rose by 3.61% year-over-year, marking the slowest pace in seven months, largely due to the disproportionate impact of vegetable prices on the overall index. Although vegetable prices, which account for a mere 6.04% of the CPI basket, have historically driven India's inflation, a bountiful winter harvest has led to a sharp decline in prices, reversing this trend. While the high base effect played a more minor role, its impact remains significant. Of course, a policy rate cut would by no means be a panacea for an economy constrained by its structural limitations on growth – the key at this point is rather to prevent further weakness. The new RBI Governor has clearly hinted at the need to lend support, especially when the disinflationary trajectory is clear. That is not to say that there are no challenges – India's economy faces tight financial conditions, a potentially heightened risk-off scenario following the imposition of a higher-than-expected tariff and further weakening in the currency with its potential inflationary impact. Hence, the approach needs to be cautious and data dependent. While we do believe that the easing cycle will be shallow, delaying the rate cut when the opportunity presents itself could prove to be costly."

UOB (cut) "According to Bloomberg survey (as of 4 Apr), of the 22 economists polled, the majority (20 including UOB economist Jester Koh) expect the policy rate to be cut by 25-bps to 6.0%. There is one economist expecting policy rate unchanged at 6.25% while one lone economist expects a bigger cut of 50-bps to 5.75%. Even with this second rate cut in Apr MPC meeting, Jester expects the RBI to be in a relatively shallow easing cycle this round (total of 75bps cut), taking the terminal rate to 5.75% by end-Jun 25, incorporating an assessment in RBI's Jul 2024 bulletin that the (real) natural rate has increased."