SPECIAL UPDATE
Monetary Policy

April 09, 2025

Monetary Measures

- Monetary Policy Committee (MPC) voted unanimously to reduce the policy repo rate by 25 basis points to 6.00 per cent with immediate effect;
- Consequently, the Standing Deposit Facility (SDF) rate under the Liquidity Adjustment Facility (LAF) shall stand adjusted to 5.75 per cent and the Marginal Standing Facility (MSF) rate and the Bank Rate to 6.25 per cent;
- The MPC also decided to change the stance from neutral to accommodative.

Analysis & Outlook

- **Inflation:** Headline inflation moderated during January-February 2025 following a sharp correction in food inflation. The outlook for food inflation has turned decisively positive. The uncertainties regarding rabi crops have abated considerably and the second advance estimates point to a record wheat production and higher production of key pulses over that last year.Along with robust kharif arrivals, this is expected to set the stage for a durable softening of food inflation. Sharp decline in inflation expectations in our latest survey for three months and one year ahead would also help anchor inflation expectations, going ahead. Furthermore, the fall in crude oil prices augurs well for the inflation outlook. Concerns on lingering global market uncertainties and recurrence of adverse weather-related supply disruptions, however, pose upside risks to the inflation trajectory. Taking all these factors into consideration, and assuming a normal monsoon, Consumer Price Index inflation for the financial year 2025-26 is projected at 4.0 per cent, with Q1 at 3.6 per cent; Q2 at 3.9 per cent; Q3 at 3.8 per cent; and Q4 at 4.4 per cent. The risks are evenly balanced.
- **Growth:** Real Gross Domestic Product is estimated to grow at 6.5 per cent in 2024-25 on top of a 9.2 per cent growth rate observed in the previous year. In 2025-26, prospects of agriculture sector remain bright on the back of healthy reservoir levels and robust crop production.Manufacturing activity is showing signs of revival with business expectations remaining robust, while services sector activity continues to be resilient. On the demand side, bright prospects of the agriculture sector bode well for rural demand which continues to be healthy, while urban consumption is gradually picking up with an uptick in discretionary spending. Investment activity has gained traction and it is expected to improve further on the back of sustained higher capacity utilisation, gGovernment's continued thrust on infrastructure spending, healthy balance sheets of banks and corporates, along with the easing of financial conditions. Merchandise exports will be weighed down by global uncertainties, while services exports are expected to remain resilient. Headwinds from global trade disruptions continue to pose downward risks. Taking all these factors into consideration, real GDP growth for 2025-26 is now projected at 6.5 per cent, with Q1 at 6.5 per cent; Q2 at 6.7 per cent; Q3 at 6.6 per cent; and Q4 at 6.3 per cent
- **Liquidity**: The Reserve Bank of India is committed to provide sufficient system liquidity. It will continue to monitor the evolving liquidity and financial market conditions and proactively take appropriate measures to ensure adequate liquidity.
- Yields at the shorter end (1 year) fell by 2bps at the time of writing. Corporate bond Yields in the medium to longer end of the curve were down 2-5 bps from yesterday's close at the time of writing.
- Gsec yield across the curve were higher by 2-3 bps from yesterday's close at the time of writing.

Position of Funds

Duration funds:

- The absolute yield levels are attractive from a medium to long-term investment horizon. Therefore, it represents a good opportunity for investors to invest in fixed income duration funds with a medium to long-term horizon.
- However geopolitical risks and volatile food prices remain key risks. Markets may remain volatile in the near term.

Money market funds: The yields at the shorter end of the curve will move in tandem with the liquidity in the system. The short-end rates are expected to be anchored around the repo rate.