

Economy

Monetary Policy

April 09, 2025

RBI Policy: A deeper rate-cut cycle

The RBI reduced the repo rate by 25 bps to 6% and shifted its stance to accommodative, in line with our expectations. The RBI's focus remains on addressing growth concerns while inflation remains comfortable. Given our estimates of the growth-inflation mix and the RBI's tolerance for two-way INR moves, we pencil in another 75-100 bps of repo rate cuts to 5-5.25% by end-FY2026E.

RBI continues with rate-cut cycle; stance shifted to accommodative

The RBI continued the rate-cut cycle with another 25-bps cut after the February policy to reduce the repo rate to 6%. The marginal standing facility (MSF) and standard deposit facility (SDF) rates have been revised to 6.25% and 5.75%, respectively. All members unanimously voted in favor of a rate cut, while the stance was shifted from neutral to accommodative.

RBI's FY2026 GDP growth estimate revised down by 20 bps to 6.5%

GDP growth in FY2026 is likely to be driven by rural demand, revival in urban consumption, recovery of fixed capital formation supported by increased government capital expenditure, higher capacity utilization, and healthy balance sheets of corporates and banks, while merchandise exports are expected to take a hit, given the ongoing global trade war. On the supply side, favorable agricultural prospects, a resilient services sector and recovering industrial activity augur well for growth, while headwinds from global trade disruptions continue to pose downward risks. Based on these factors, the RBI revised FY2026 real GDP growth estimate to 6.5% (earlier: 6.7%, Kotak: 6.0%) (see Exhibit 1).

Headline CPI revised down to 4.0% for FY2026E

The RBI expects food inflation to remain benign, given the broad-based seasonal correction in vegetable prices and robust crop production. Declining crude oil prices also contribute to a favorable inflation trajectory. The upside risk to inflation shall be limited to adverse weather event-led supply shocks and lingering global market uncertainties. The RBI lowered the FY2026 headline CPI inflation estimate by 20 bps to 4.0% (earlier: 4.2%, Kotak: 4.1%) (see Exhibit 1).

Expect another 75-100 bps of rate cuts by end-FY2026E

The shift in stance to accommodative signals a willingness for further rate cuts. Given a comfortable inflation outlook and adverse risks to growth, we believe that the central bank will continue to focus on addressing growth concerns. While global uncertainties will remain, it is unlikely that India's external balance will be too adverse. The RBI has adequate ammunition to safeguard against external risks. Given our growth-inflation mix and the RBI's tolerance for two-way INR moves, we pencil in another 75-100 bps of repo rate cuts to 5-5.25% by end-FY2026E. The RBI is likely to keep banking system liquidity in surplus, at least in the next few months, to ensure smooth policy transmission.

Summary of key macro metrics for India

	2023	2024	2025E	2026E
Real economy				
Real GDP growth (%)	7.6	9.2	6.5	6.0
Nominal GDP growth (%)	14.0	12.0	9.9	9.5
CPI Inflation (avg., %)	6.7	5.4	4.7	4.1
Public finance				
Center's GFD/GDP (%)	6.4	5.6	4.8	4.4
Monetary policy				
Repo Rate (% eop)	6.50	6.50	6.25	5.00
SDF Rate (% eop)	6.25	6.25	6.00	4.75
CRR (% eop)	4.5	4.5	4.0	4.0
External sector				
Current Account Balance (% of GDP)	(2.0)	(0.7)	(0.6)	(1.0)
Brent crude oil price (avg., USD/bbl)	95.4	82.9	78.9	70.0
USD/INR (avg.)	80.3	82.8	84.6	86.3

Source: CEIC, Bloomberg, RBI, Kotak Economics Research estimates

Quick Numbers

The RBI MPC unanimously cut repo rate by 25 bps to 6%; stance shifts to accommodative

The RBI revised FY2026 real GDP growth estimate to 6.5%; CPI inflation revised to 4.0%

We expect another 75-100 bps of rate cuts by end-FY2026E

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RBI revised down real GDP growth at 6.5% in FY2026; CPI inflation estimate revised down to 4% in FY2026

Exhibit 1: RBI's estimates for real GDP growth and CPI inflation across various policies, March fiscal year-ends (%)

	GDP growth estimate in RBI policy (%)						CPI inflation estimate in RBI policy (%)					
	Aug-24	Oct-24	Dec-24	Feb-25	Apr-25	Kotak	Aug-24	Oct-24	Dec-24	Feb-25	Apr-25	Kotak
1QFY26	7.2	7.3	6.9	6.7	6.5	6.2	4.4	4.3	4.6	4.5	3.6	3.8
2QFY26			7.3	7.0	6.7	5.8			4.0	4.0	3.9	4.0
3QFY26				6.5	6.6	5.8				3.8	3.8	4.2
4QFY26				6.5	6.3	6.0				4.2	4.4	4.5
FY2026				6.7	6.5	6.0				4.2	4.0	4.1

Source: RBI, Kotak Economics Research estimates

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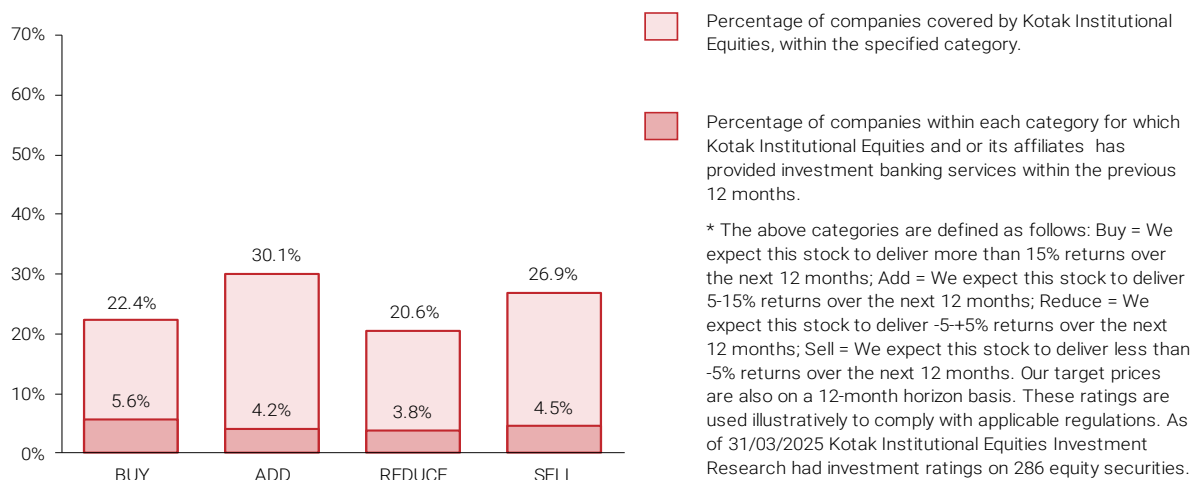
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