

## RBI cuts repo rate by 25 bps to 6.25% for the first time in nearly 5 years

RBI's Stance

Neutral

### Key Highlights:

- Repo rate reduced by 25 bps to 6.25%.
- RBI maintains the monetary stance to 'Neutral'.
- MSF & SDF stood at 6.5% and 6.0%, respectively.
- FY25 CPI Inflation forecast at 4.8%.
- As per RBI, food inflation pressures likely to see significant "softening"; Core inflation expected to rise but remain moderate.
- FY25 Real GDP growth rate revised to 6.7% from 6.6%.
- RBI stated that business expectations remain upbeat, and services continue to remain good.
- RBI says global economic backdrop remains challenging.

Policy Rates / Reserve Ratio	06 Dec '24	07 Feb '25	Status
Cash Reserve Ratio (CRR)	4.00%	4.00%	↔
Statutory Liquidity Ratio (SLR)	18.00%	18.00%	↔
Standing Deposit Facility Rate (SDF)	6.25%	6.00%	↓
Repo Rate	6.50%	6.25%	↓
Marginal Standing Facility Rate (MSF)	6.75%	6.50%	↓
Bank rate	6.50%	6.50%	↔
Fixed Reverse Repo Rate	3.35%	3.35%	↔

The MPC unanimously voted to reduce the policy repo rate by 25 bps to 6.25% and continued to maintain a neutral stance. The RBI is committed to provide sufficient system liquidity. It will continue to monitor the evolving liquidity and financial markets conditions and proactively take appropriate measures to ensure orderly liquidity conditions. MPC will continue to maintain its neutral stance and remain focused on a durable alignment of inflation with the target, while supporting growth.

### Growth Outlook:

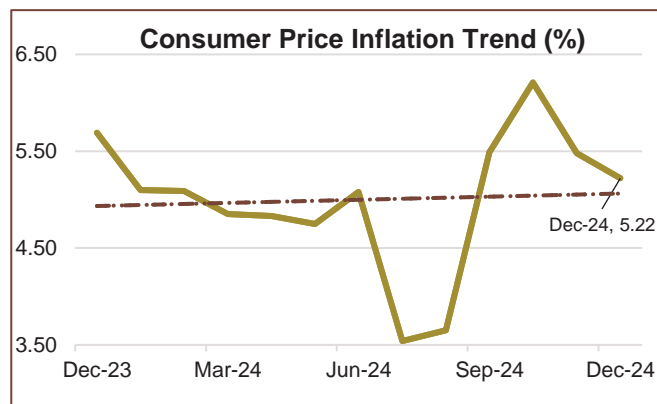
- The global economic activity is growing below the historical average even though high frequency indicators suggest resilience amidst continued expansion in world trade. World economic landscape remains challenging with slower pace of disinflation, lingering geopolitical tensions and policy uncertainties.
- On the domestic front, real GDP is expected to grow, supported by recovery in private consumption.
- On the supply side, growth is supported by the services sector and by a recovery in the agriculture sector, while tepid industrial growth is a drag.
- Fixed investment is expected to recover, supported by higher capacity utilisation levels, healthy balance sheets of financial institutions and the government's continued emphasis on capital expenditure. Few headwinds such as geo- political tensions, volatility in international commodity prices and financial market uncertainties provide a downside risk to the outlook.
- Considering all these factors, Real GDP growth for FY26 is projected at 6.7%, with Q1 at 6.7%, Q2 at 7.0%, Q3 and Q4 at 6.5% each.

	Date	FY25	Q4FY25	FY26	Q1FY26	Q2FY26	Q3FY26	Q4FY26
Growth Projections	07-Feb-25	6.7%	7.2%	6.7%	6.7%	7.0%	6.5%	6.5%
	06-Dec-24	6.6%	7.2%	--	6.9%	7.3%	--	--

Source: RBI Governor's Statement 7 February 2025. News articles

**Inflation Outlook:**

- **Headline inflation softened in November- December from the recent peak of 6.2% 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 good and services components.
- The RBI expects food inflation pressures likely to see significant "softening"; Core inflation expected to rise but remain moderate.
- **Continued uncertainty in global financial markets coupled with volatility in energy prices and adverse weather events presents upside risk to inflation trajectory.**
- Assuming a normal monsoon, **CPI inflation for FY26 is projected at 4.2%.**



	Date	FY25	Q4FY25	FY26	Q1FY26	Q2FY26	Q3FY26	Q4FY26
<b>CPI Inflation Projections</b>	07-Feb-25	4.8%	4.4%	4.2%	4.5%	4.0%	3.8%	4.2%
	06-Dec-24	4.8%	4.5%	--	4.6%	4.0%	--	--

Source: RBI Governor's Statement 7 February 2025. News articles

**Summary:**

After hiking rates by 250 basis points since May 2022 and holding steady in nearly a dozen subsequent policy meetings, the MPC finally reduced interest rate by 25bps rate cut to support growth. The stance has been maintained as 'neutral' indicating a cautious stance

**The MPC noted that inflation has declined. A favourable outlook on food and continued transmission of past monetary actions, it is expected to further moderate in FY26. Early corporate results for Q3 indicates mild recovery in the manufacturing sector.** The reduction in the policy rate is expected to reduce borrowing costs, which in turn would improve credit availability. **The central bank's liquidity infusion measure aims to ensure stable financial conditions.** MPC will continue to strengthen and rationalise the framework of lowering inflation and supporting growth.

The real test will be in the quarters ahead on whether this rate cut marks the beginning of a calibrated easing cycle and whether it meaningfully revives consumer demand and business sentiment.

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