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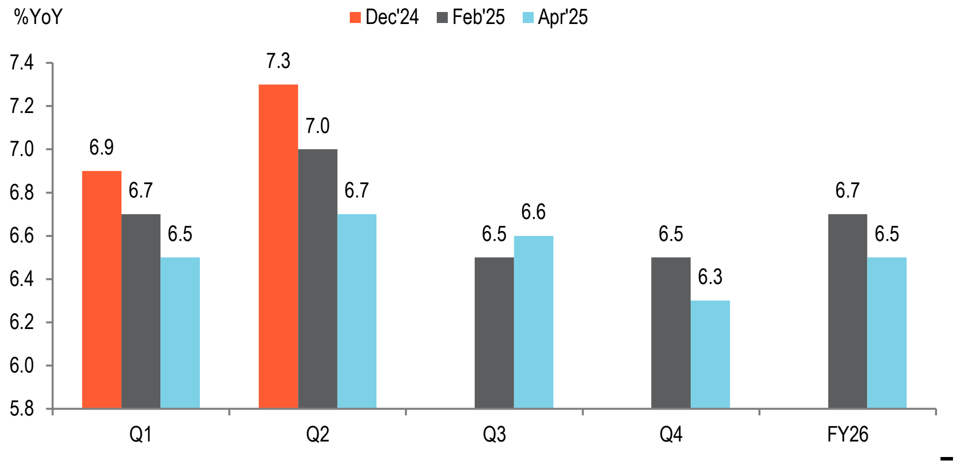
More cuts on the table

The MPC delivered a 25bps rate cut for the second time in a row, bringing the policy rate to 6%. The stance has also been changed to accommodative from neutral, giving MPC the mandate to either lower rates further or maintain status quo. Given the evolving turmoil in global economy, MPC has trimmed its growth projection downward to 6.5% from 6.7% earlier. Inflation is expected to come down further from 4.2% (previous projection) to 4% in FY26 with current inflation mark already below the target level. Both in Q1 and Q2 inflation is expected to be lower. MPC has been proactive in addressing growth challenges and this has been reflected by frontloading of 2-cuts back to back. MPC's dovish tone has kept room open for further cuts in order to curtail global economic uncertainty at play. We expect up to 75-100bps, (cumulative) reduction in rates (including 2 cuts already) in this calendar year.

2-in a row: The Monetary Policy Committee in line with our expectations has unanimously voted to reduce repo rate by 25bps to 6% from 6.25%. This is the second rate cut in this CY25. With this, both MSF and SDF have been revised to 6.25% and 5.75% respectively. MPC members have also revised their stance from accommodative to neutral in line with expectation. Governor stated clearly that the stance provides guidance only on policy rate and not on liquidity management. With this, MPC will be following only 2-options of either maintaining status quo or rate cut.

GDP growth: As per the NSO, India is expected to clock 6.5% growth in FY25 from 9.2% growth in FY24. RBI has revised its growth projection for FY26 downwards from 6.7% to 6.5% with risks evenly balanced. The downward revision for FY26 is on account of escalation in global volatility with headwinds from global trade disruptions. Quarterly projections have been revised lower for Q1 to 6.5% (6.7% earlier), Q4 at 6.3% (6.5% earlier) and higher for Q2 and Q3 at 6.6% and 6.3% respectively. The central bank noted that agriculture continues to remain bright prospect amidst higher crop production, as noted in the 2nd advance estimate and healthy reservoir level. Manufacturing sector has been showing early signs of revival supported by improvement in business expectations. A rebound in fixed capital formation given uptick in government expenditure along with higher capacity utilization and strengthening urban demand remains positive for growth. We expect the economy to clock 6.4-6.6% growth in FY26 amidst downside risk due to uncertainty and concerns of global economic slowdown.

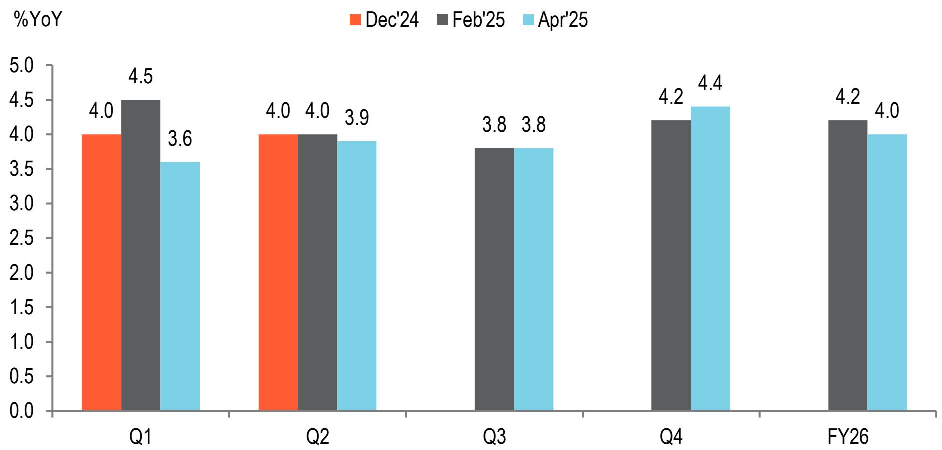
Figure 1: RBI expects 6.5% growth in FY26



Source: RBI, Bank of Baroda Research

Inflation projections revised downward: For FY26, RBI has lowered its inflation projection to 4% from 4.2% earlier with the assumption of normal monsoon. RBI also expects Q1 and Q2 inflation for FY26 at 3.6% (4.5% earlier) and 3.9% (4% earlier) respectively. While the Q3 inflation has been retained at 3.8% and inflation for Q4 has been revised higher at 4.4%. RBI Governor noted that the outlook for food inflation has turned positive. This has been on the back of robust kharif arrivals, record wheat production along with higher pulses production noted last year. Lower crude oil prices also bodes well for inflation outlook. However, there are concerns emanating due to uncertainties in global market, resurgence of weather –related disruptions which pose upside risk to inflation trajectory. We expect inflation to closely align with RBI forecasts with upside risk given the evolving challenges in the global economy.

Figure 2: Headline CPI forecasts for FY26 at 4%



Source: RBI, Bank of Baroda Research

After RBI's decision on policy rate, 10Y yields dropped lower and has been positive for bond market. However, equity indices have been trading lower and currency has also weakened.

RBI macroeconomic projections across various indicators have been revised based on the baseline assumptions noted in Monetary Policy report.

Table 1. Assumption for Projections-Monetary Policy Report

Indicator	Oct'24	Apr'25
Crude Oil	US$ 80/bbl during H2 2024-25	US$ 70/bbl for 2025-26
Exchange rate	Rs 83.5/US$ during H22024-25	Rs 86/US$ for 2025-26
Monsoon	Normal for 2025-26	Normal for 2025-26
Global growth	3.3% for 2025	3.1% for 2025. 3% for 2026
Fiscal Deficit (% of GDP)	Centre: 4.9% (within BE 2024-25)	Centre: 4.4% (within BE 2025-26)

Source: RBI, Bank of Baroda Research

Key regulatory developments:

- RBI has decided to harmonize and provide comprehensive guidelines for gold loans across different regulated entities, while considering in their risk taking capabilities.
- It has been proposed to review and change the Co-Lending guidelines currently applicable between banks and NBFCs only to all regulated entities and across all loan segments and not restricting only to priority sector.
- RBI will also introduce a new securitization framework for stressed assets though a market base mechanism, this will be in addition to the existing ARC route under SARFESI.
- On payment systems, it has been proposed that NPCI, in consultation with banks will announce new UPI limits for person to merchant transactions.

Outlook: Amidst the tariff turmoil and escalated concerns of global trade war, the global economy faces unprecedented volatility and careful monitoring of the situation is warranted as India will not be insulated from the adverse impact. A 25bps rate cut by RBI is the step in the right direction given the evolving dynamics of inflation and growth. For the purpose of monetary policy transmission, Governor noted that RBI will provide sufficient liquidity and will keep it in surplus. Future actions by MPC will be dependent on changing global economic landscape, as more clarity emerges on global tariffs and weather conditions. Cumulatively, for CY25 we expect a 75-100bps cut in this cycle (with 2 cuts already incorporated).

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