HSBC Mutual Fund

RBI Monetary Policy Review

9 April 2025

MPC Announcement:
Decisively Dovish - Buckle up for lower rates

Amid all the tariff related uncertainties, the RBI-MPC has responded basis the domestic growth-inflation trajectory. The change in stance to "accommodative" from "neutral" with clarity on the future policy rate path will shape market expectations of softer rates in the ensuing quarters. The pace and magnitude will be determined by domestic factors with heightened risks from global spillovers. One of the highlights has been the comfort on inflation trajectory with a clear focus on boosting growth. The RBI Governor in his speech and at the presser emphasized on keeping liquidity conditions in surplus for swifter policy transmission to rates, which comforted markets and also steepened the curve. While the RBI policy did not announce specific liquidity measures to keep the system in surplus, the RBI Governor most certainly used 'communication as a tool' to convey the RBI's efforts to keep the operating and the overnight rates anchored to the Repo Rate. The markdown in growth and inflation forecasts, with higher downside risks to growth due to fast changing global economic outlook, reinforces our view, which we slated in a Mar'25 note, that the RBI MPC would be on the path to deliver deeper rate cuts in CY25.

The Monetary Policy Committee (MPC) came out with its first bi-monthly policy statement for FY26 on April 09, 2025. Some of the key takeaways are as follows:

- The MPC unanimously decided to lower the policy Repo Rate by 25bps to 6.00% and change the stance to 'accommodative'. Consequently, the SDF rate stands at 5.75% and the MSF rate at 6.25%
- The accommodative stance implies that the ensuing MPC outcomes would either be a status-quo or a cut when in its future course of action. This is a dovish shift in terms of policy guidance.
- Governor explicitly stated that the stance provides policy rate guidance, without any direct guidance on liquidity management.
- On Liquidity, the Governor emphasised that the MPC will 'proactively' take liquidity measures to keep liquidity adequate; At the presser he did indicate that a surplus to the tune of around 1% of NDTL was considered as a reasonable assessment. He also stated that the deliberations are ongoing with regard to the liquidity management framework.
- The outlook for food inflation has turned decisively positive on robust agriculture output. Additionally, a normal monsoon and softer commodity prices has resulted in lowering inflation outlook by 20bps to 4.0% in FY26.
- On Growth amid challenging global economic conditions, the benign inflation outlook and moderate growth demand that the MPC continues to support growth.

The growth and inflation forecasts have been revised as per the below mentioned table:

	Growth		Inflation	
Period	Feb 2025 forecast	Apr 2025 forecast	Feb 2025 forecast	Apr 2025 forecast
Q1 FY26	6.70%	6.50%	4.50%	3.60%
Q2 FY26	7.00%	6.70%	4.00%	3.90%
Q3 FY26	6.50%	6.60%	3.80%	3.80%
Q4 FY26	6.50%	6.30%	4.20%	4.40%
FY26	**6.70%**	**6.50%**	**4.20%**	**4.00%**

Source: RBI MPC Policy Resolutions

The RBI-MPC policy outcome is in-line with our and market expectations of a 25bps rate cut with a change in stance which to some was a positive surprise. The bond market reaction largely has been positive but a tad subdued initially as the RBI did not lay out any path to liquidity measures, but only emphasizing on the end goal of keeping surplus liquidity. However, towards the latter half of the day, yields started moving lower as markets digested the decisively dovish RBI commentary.

On Tariff impact - Impact of global trade and policy uncertainties is negative for net exports, while growth and inflation are more difficult to quantify. While global trade and policy uncertainties shall impede growth, its impact on domestic inflation is not expected to be of high concern but still requires vigilance. The quantification of the adverse impact, however, is difficult.

On the exchange rate and any kind of potential currency war due to trade tariffs, the Governor emphasised that the FX interventions are to smoothen out volatility and does not target any specific level or band. The comfortable current account deficit and reasonable comfort on capital account and FX Reserves marching to US$ 700 billion mark suggests India's external sector remains resilient.

Our Take:

Apart from the rate cut, the policy was clear and crisp in terms of where the RBI stands in its policy goals under the prevailing conditions, domestically and globally. While a period of exceptional uncertainties, the RBI-MPC focused on domestic priorities. The downward revisions in India's GDP growth in part due to tariffs & global developments, along with robust agriculture seen bringing down food inflation durably lower - has led to a decisive shift in RBI-MPC's policy path. As the Governor communicated, the change in stance is to provide an intended direction of policy rates going forward. One-year ahead inflation estimates of 4.40% by March 2026 (or 4.0% for FY26) is indicative of policy easing by atleast another 50-75bps in FY26 such that the real policy rates land somewhere in the lower end of 1.1-1.9% range; Implying that we could see the terminal rate settle at 5.25-5.50% assuming inflation glides lower to the 4.00% level in FY26. We continue to expect at least another 50bps cut in CY25 with 25bps expected at the June 2025 policy. The current easing cycle could see deeper rate cuts than previously envisaged, more so, if economic growth was to falter from the estimated levels of 6.50% in FY26.

To keep liquidity sufficiently in surplus so as to ensure swifter policy transmission, we continue to expect the RBI taking steps to inject durable liquidity and deploying Variable Rate Repos to manage intermittent liquidity tightness. The choice of policy instruments will depend on liquidity conditions. The aggressive steps to infuse durable liquidity with two more tranches of OMO Purchases of INR 20k crores each would keep liquidity well into surplus in April and early May. The RBI's dividend to the Government would further be liquidity positive and hence the RBI is likely to manage liquidity via VRRs, intermittently.

The Policy broadly was in line with our expectations and increases our conviction on the long duration bias that we have held across portfolios. We continue to expect yields to move decisively lower, along with steepening of the yield curve and encourage investors to have adequate duration in their portfolios to benefit from lower rates, subject to their risk return frameworks.

Abbreviations:

SDF: Standing Deposit Facility	VRR: Variable Rate Repo
MSF: Marginal Standing Facility	GDP: Gross Domestic Product
CRR: Cash Reserve Ratio	CPI: Consumer Price Index
OMO: Open Market Operations	G-Sec: Government Securities

Source - RBI, HSBC MF Research, Data as on 9 April 2025.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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