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Monetary policy easing driven by benign inflation outlook

After assessing the current and evolving macroeconomic situation, the MPC had voted to reduce the policy repo rate by 50 bps to 5.50 per cent. “The near-term and medium-term outlook now gives us the confidence of not only a durable alignment of headline inflation with the target of 4 per cent, as exuded in the last meeting but also the belief that during the year, it is likely to undershoot the target at the margin,” the RBI bulletin said. Consequently, the inflation outlook for the financial year 2025-26 has been revised downwards from an earlier forecast of 4.0 per cent to 3.7 per cent. This change in growth-inflation dynamics, the RBI bulletin stated, necessitates continued policy easing and frontloading rate cuts to support growth, as growth remains below aspirations amidst a challenging global environment. Sanjay Malhotra, Governor, RBI, said, “From here onwards, the MPC will be carefully assessing the incoming data and the evolving outlook to chart out the future course of monetary policy in order to strike the right growth inflation balance.”

India’s economic resilience amidst global headwinds

Despite a global economy in flux, marked by trade policy uncertainties and geopolitical tensions, RBI said, the Indian economy portrays a picture of strength, stability, and opportunity. The provisional estimates released by the National Statistical Office (NSO) placed India’s real GDP growth in 2024-25 at 6.5 per cent. The RBi bulletin maintained that the domestic economic activity has exhibited resilience, characterized by a strong agricultural sector, comfortable food crop supply, and healthy reservoir levels. Industrial activity too is improving, though unevenly, while the services sector continues to grow steadily—evident from a strong services PMI of 58.8 in May 2025. On the demand side, it added, private consumption remains healthy, with rising discretionary spending. Rural demand is steady, and urban demand is picking up. Investment activity is reviving, as seen in high-frequency indicators. Healthy corporate and bank balance sheets, government capex, and improved business sentiment are expected to further drive investments, the RBI said. Sanjay Malhotra said, “In this global milieu, the Indian economy presents a picture of strength, stability, and opportunity.”

Significant strides in financial inclusion

Financial inclusion is seen as a key enabler for achieving sustainable development worldwide by improving the quality of lives of poor and marginalized sections of the society, aligning with at least seven of the United Nations Sustainable Development Goals. The RBI bulletin maintained that several policy measures towards furthering financial inclusion have been undertaken by the government. These include Pradhan Mantri Jan Dhan Yojana (PMJDY) and the JAM (Jan Dhan-Aadhar-Mobile) trinity, which have expanded access to banking services to over 95 per cent of households. The widespread adoption of UPI further exemplifies the power of innovation in driving financial inclusion. It further highlighted the efforts to achieve 100 per cent digital enablement in districts, with 514 districts already reaching this milestone by March 31, 2025. "The provision of universal access to bank accounts has not only increased the potential reach of other financial services but has also enabled frictionless delivery of welfare programs to the targeted segment through adoption of Direct Benefit Transfer (DBT)," the RBI bulletin stated.

Insights into financial conditions and monetary transmission channels

The RBI bulletin also talked about a newly developed high-frequency Financial Conditions Index (FCI) for India, which integrates data on money, bond, foreign exchange and stock markets, using a PCA approach. It indicated that the financial conditions have remained congenial in the current financial year, supported by a buoyant equity market and ample liquidity in the money market. The central bank said that the financial conditions remained conducive to facilitate an efficient transmission of rate cuts to the credit market.

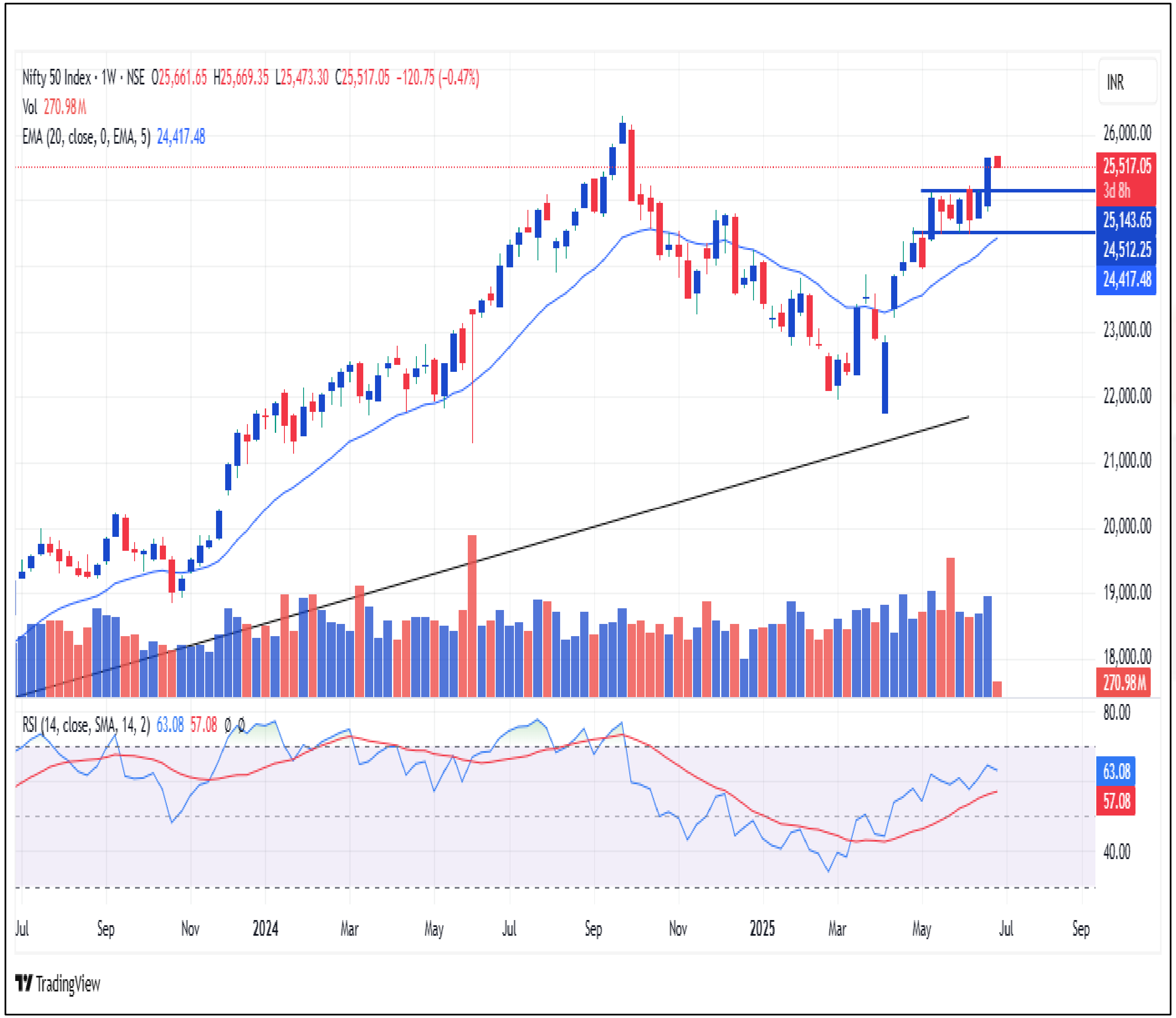
Current account surplus

India recorded a current account surplus of $13.5 billion, or 1.3% of GDP, in the fourth quarter of FY25 (January–March), according to preliminary data released by the Reserve Bank of India (RBI) on Friday. This comes as a reversal from a deficit of $11.3 billion or 1.1% of GDP in the October-December quarter of 2024-25, mainly due to a higher trade gap, and a sharp rise from a surplus of $4.6 billion (0.5% of GDP) in the same quarter last year. For the full year FY25, India recorded a current account deficit of $23.3 billion (0.6% of GDP), an improvement from $26.0 billion (0.7% of GDP) in FY24. The improvement was led by higher net receipts under services and secondary income, the RBI said. While merchandise exports moderated, the surplus in Q4 was driven by strong services exports and a lower net outgo on the primary income account, RBI data shows.

ECONOMIC OVERVIEW

In summary, India's macroeconomic landscape at the close of FY25 reflects a combination of resilience, reform, and recalibration. The RBI's decision to cut the repo rate by 50 basis points to 5.50% signals a decisive shift toward monetary easing, backed by a benign inflation outlook and subdued global demand. With inflation now expected to undershoot the 4% target and revised down to 3.7% for FY26, monetary policy is being recalibrated to bolster growth without compromising price stability. Despite global uncertainties, India's economy has demonstrated strength—evident in solid GDP growth of 6.5%, a rebound in private investment, healthy consumption patterns, and expanding services activity. The continued focus on financial inclusion through digital initiatives like UPI and the JAM trinity has further deepened economic participation. Additionally, the current account balance shifted to a surplus in Q4, supported by strong services exports and improved income flows, enhancing external sector stability. With favorable financial conditions and proactive policy support, India remains well-positioned to sustain momentum and navigate future challenges effectively.

NIFTY TECHNICAL VIEW (WEEKLLY CHART) – 25,517.05



- In June, the Nifty remained under bullish control, marking its fourth consecutive monthly gain as the index edged closer to all-time high levels.

- On the weekly chart, the index achieved a range breakout and closed firmly above it, reinforcing the bullish trend. It continues to hold above the 20-day exponential moving average (20 DEMA), a sign that the broader market structure remains positive. The 25,130 level will act as a key horizontal support.

- **Looking ahead, a sustained move above 25,680 will be crucial for the index to extend its upward trajectory. On the downside, 25,130 remains an important support level to watch.**

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