

Low inflation fuels hopes of 3 rate cuts in June-Oct

ANJALI KUMARI

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With the consumer inflation rate staying below the Reserve Bank of India's (RBI's) 4 per cent target for two consecutive months, economists foresee three back-to-back reductions in the policy repo rate, starting with a 25 basis point cut in June.

The RBI's Monetary Policy Committee (MPC) has cut the policy repo rate by a cumulative 50 basis points since February, equally divided over two credit policies.

The next review of the MPC is during June 4-6.

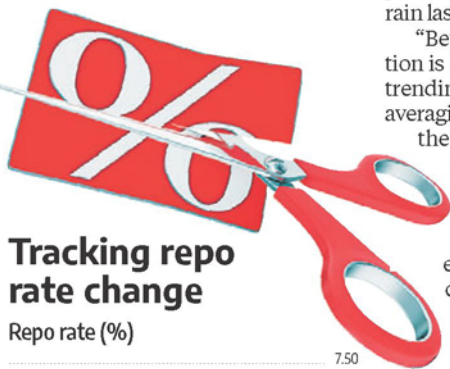
"The growth-inflation outlook remains favourable for a further easing of policy rates with downside risks to growth and inflation," said Gaura Sen Gupta, chief economist, IDFC FIRST Bank.

"On domestic factors alone, there is space to cut policy rates by 75 basis points in the rest of FY26 to bring policy rates to neutral territory. Given that it takes six to nine months for transmission to take place, the RBI is likely to continue with back-to-back rate cuts (25 basis points each in June, August and October)," said Sen Gupta.

The retail inflation rate eased to a six-year low of 3.16 per cent year-on-year (Y-o-Y) in April, as against 3.32 per cent Y-o-Y in March.

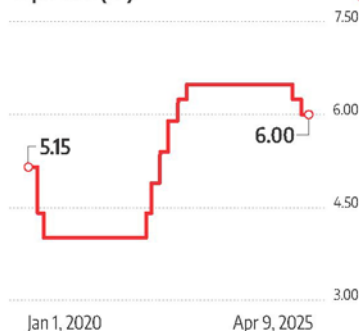
The food inflation rate also fell to its lowest level since October 2021.

Month-on-month (non-seasonally adjusted), food prices have declined for the sixth consecutive month, defying



Tracking repo rate change

Repo rate (%)



Compiled by BS Research Bureau
Source: Bloomberg / RBI

the typical seasonal trend of rising prices during the summer.

Experts said, encouragingly, the decline was not limited to highly volatile items like vegetables but extended to relatively sticky categories such as pulses and cereals.

This broad-based moderation in prices reflects strong food output, sup-

ported by well-distributed monsoon rain last year.

"Beyond May, we believe disinflation is likely to persist, with inflation trending below 3 per cent in Q2 2025, averaging 3.4 per cent in H2 2025, with the FY26 average at 3.9 per cent (RBI: 4.0 per cent). In conjunction with our bearish outlook for GDP growth of 5.8 per cent in FY26 (RBI: 6.5 per cent), we expect 100bp of additional rate cuts in 2025, with a terminal repo rate of 5.00 per cent," said Nomura in a report.

During the April review of the monetary policy, the central bank changed the stance to "accommodative" while highlighting that boosting growth was a priority.

It has projected the average inflation rate for the first three quarters of FY26 at below 4 per cent. The headline inflation rate is seen at 4 per cent for FY26. HDFC Bank, which expects two more rate cuts with a terminal rate at 5.5 per cent, has said the possibility of a rate cut beyond that will hinge on whether global growth headwinds increase and pull overall India GDP growth below 6 per cent, which is not its base case.

The RBI has projected real GDP growth for 2025-26 at 6.5 per cent.

Economists at Barclays in a note said the retail inflation rate for the first quarter was likely to average 3-3.1 per cent, much below the RBI forecast of 3.6 per cent while expecting a rate cut of 25 basis points in June and not August, which was the case earlier.