

RBI's Bold Measure - Economic Booster or Caution Ahead?

The RBI's Monetary Policy Committee (MPC) has taken bold measures, apparently to expedite growth.

A. The RBI did front loading of interest rate cut by 50 BPS while everyone thought it would be just 25. Inflation gave the RBI a big green light as:

- CPI fell to 3.2%, a 69-month low.
- RBI now expects FY26 inflation at 3.7% (below their 4% target).

B. Cash Reserve Ratio reduced by 100 bps to 3% from 4% in four tranches of 25 bps each. This will give an additional liquidity of 2.50 Lakh crore in the system.

C. RBI changed stance from "Accommodative" to Neutral" while being specific about limited room for future policy actions.

Other key data points in the policy are:

- Inflation revised down to 3.7% from earlier 4%
- FY26 GDP at 6.5%, Q1 is 6.1%, Q2 is 6.7%, Q3 is 6.6% & Q4 is 6.3%
- Gross FDI increased 14% in FY25
- Forex reserves stood at \$691.5 bn

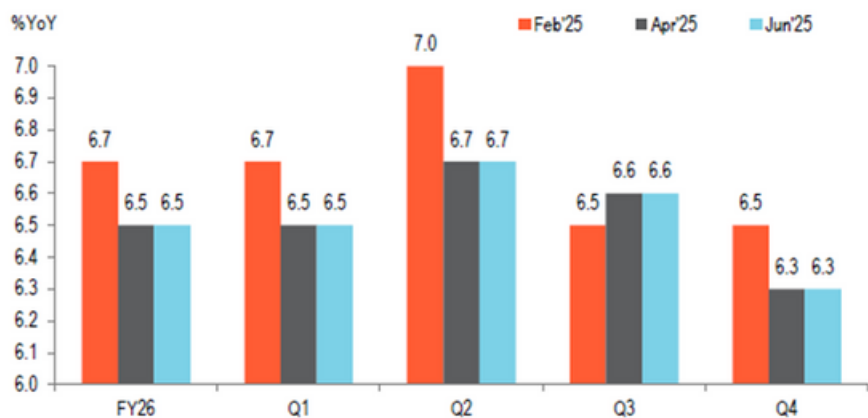
The apparent outlook on basis of the policy decision is that the RBI has:

- Given boost to consumption and growth by lower interest rates.
- This lower interest will flow to borrowers with easy liquidity in the system.
- Lower interest and higher liquidity will boost industry, real estate and consumption resulting in higher stock market valuation.

While the surface narrative is growth-friendly, several data points and policy choices indicate precautionary action by the RBI:

- A 50 bps cut is rare outside crisis periods. It suggests urgency to counter emerging or anticipated risks.
- Pre-scheduled CRR cuts without concurrent macroeconomic triggers deviate from RBI's data-driven tradition. It implies preparation for a potential liquidity squeeze or financial disruption.
- RBI projects reduction in GDP growth equivalent to April'25 policy which was lower than February'25 policy. Irrespective of the aggressive measures of rate cut and liquidity infusion, the Q2 GDP growth projection is of 6.7 %, which declines to 6.6 % in Q3, and 6.3 % in Q4.

Figure 1: RBI expects 6.5% growth in FY26



- The policy projects CPI inflation for 2025-26 at 3.7 %. Q1 at 2.9 per cent; Q2 at 3.4 per cent; Q3 at 3.9 per cent; and Q4 at 4.4 per cent. **The concern is that with the inflation goes beyond the target range of 4% in Q4 to 4.4%.**
- This policy framework reflects the RBI's strategy to build buffers amid a globally volatile backdrop—including trade disruptions, geopolitical conflicts, high global interest rates, and currency volatility.

The RBI's bold move is not just about growth—it's a strategic buffer against global uncertainties. Investors should read between the lines and adapt portfolios with a focus on stability, risk management, and long-term value.

Recommendations

- Align portfolios with your risk-return profile :- Avoid chasing short-term gains during policy-induced rallies.
- Stay committed for long durations :- Market volatility should not trigger panic exits, especially when investing in India's long-term growth story.
- Prioritize capital safety:- In uncertain times, prudence may deliver better outcomes than aggressive return-seeking.

Happy Investing!

From – SPA RESEARCH DESK spa.research@spagroupindia.com

Disclaimer: - The information contained in this report is obtained from reliable sources. In no circumstances should it be considered as an offer to sell-buy or, a solicitation of any offer to, buy or sell the securities or commodities mentioned in this report. No representation is made that the transactions undertaken based on the information contained in the report will be profitable, or that they will not result in losses. SPA and/or its representatives will not be liable for the recipients' investment decision based on this report.