

## SHIFT TO ACCOMMODATIVE STANCE IN TIMES OF UNCERTAINTY

**Quick View** – MPC unanimously decided for a 25-bps rate cut – repo rate adjusted to 6 pc and stance changed to accommodative from neutral.

**Dolat View** – The policy announcements were largely on expected lines. As the dynamics of inflation have improved with food prices cooling off, the MPC could focus on reviving domestic growth as tariff uncertainty deters private investment and impacts growth in exports. We think the coordinated form of stimulus through fiscal (i.e. tax cuts in Budget 2025) and monetary measures (regulatory easing, liquidity measures and rate cuts) along with moderation in headline inflation would help to revive the consumption cycle which may eventually kick start a broad-based private capex cycle (with some time lags). Attaining macro stability at a time of uncertainty may provide the much-needed certainty to investors which could drive capital flows to India and help in currency stabilization.

### Is this the only one or are there odds for more?

As Governor stated, the stance of policy signals the intended direction of policy rates going forward. In the absence of any shocks, MPC is considering either status quo or rate cuts. We expect cumulative 100 bps of rate cuts (out of which 50 bps is already done) in the ongoing easing cycle. If economic situation demands and in absence of any food price shocks due to weather related changes, we could expect furthermore easing from MPC. Risks to aggressive easing are currency devaluation, interest rate differentials between India and US and higher food prices.

In a time when the world order is changing fast and uncertainty prevails, all eyes were on MPC's decision on rates and liquidity stance and comments from RBI Governor on the evolving macroeconomic landscape. The recent tariff hikes by US and the retaliation from other major economies could directly impact global trade (WTO estimates overall contraction of 1 pc in global merchandize trade volume this year) and also have a second and third order impact in terms of slowdown in global growth, inflationary pressures, and a hit to business and consumer sentiment. India's economy also faces the risk of growth slowdown (led by slowdown in exports, private investments), capital outflows (arising from risk off scenario) and currency devaluation. In this backdrop, MPC unanimously decided to cut rates for the second time in a row by 25 bps i.e. the repo rate adjusted to 6 pc from 6.25 pc and majority of the members decided to change the policy stance to accommodative from neutral.

Governor Malhotra highlighted that the global economic outlook is fast changing, and the recent trade tariff related measures have exacerbated uncertainties clouding the growth outlook across regions. On domestic growth outlook, Governor stated that agricultural prospects appear bright, industrial activity continues to recover, and services sector is expected to be resilient. Albeit uncertainties around tariffs on global trade could pose downward risks. On the inflation side, Governor acknowledged the seasonal and broad based correction in vegetable prices which has led to significant moderation in food prices to a 21 month low print. Moreover, uncertainties on Rabi crops have abated considerably and second advance estimates point to a record production of wheat and higher production of pulses over last year. Further, correction in crude oil prices augurs well for inflation outlook.

Repo Rate	6.00%
SDF Rate	5.75%
Bank Rate	6.25%
CRR	4.00%
SLR	18.00%
USDINR	85.91

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## IN LIEU OF UNCERTAINTY, GROWTH AND INFLATION ESTIMATES MODERATED

Headline CPI and GDP for FY26 are projected lower at 4.0 pc (vs. 4.2 pc) and 6.5 pc (vs. 6.7 pc) respectively. There were quarterly revisions announced on the inflation side - Q1FY26 estimate at 3.6 pc (vs. 4.5 pc), Q2 at 3.9 pc (vs. 4.0 pc), Q3 unchanged at 3.8 pc and Q4 at 4.4 pc (vs. 4.2 pc). Additionally, there were quarterly revisions announced on the growth side - Q1FY26 estimate at 6.5 pc (vs. 6.7 pc), Q2 at 6.7 pc (vs. 7.0 pc), Q3 at 6.6 pc (vs. 6.5 pc) and Q4 at 6.3 pc (vs. 6.5 pc). As per the Monetary policy Report for Apr'25, headline inflation for FY27 is estimated at an average of 4.3 pc and real GDP for FY27 is estimated at 6.7 pc with an assumption of normal monsoon and no exogenous shocks.

## LIQUIDITY TO REMAIN IN SURPLUS

Average system liquidity has stayed in a deficit of Rs 1.7 lac cr. from 16th Dec'24 to 28th Mar'25 and turned into surplus of Rs 1.2 lac cr. by end of Mar'25. RBI has injected Rs 6.9 lac cr. of durable liquidity via OMOs, FX swaps and long term VRRs in Q4FY25. Despite surplus liquidity, the RBI announced another Rs 80k cr. worth of OMOs at the start of the current month. The past rate cutting cycle suggests that banking liquidity remained in surplus of more than Rs 2 lac cr., which gives us a sense that RBI may prefer liquidity surplus of this magnitude to improve rate transmission. Moreover, additional surplus liquidity could offset some impact which may arise from the maturity of net short forward book of RBI (around ~\$77bn as of Jan 2025 with ~\$31bn set to mature within 3-12 months).

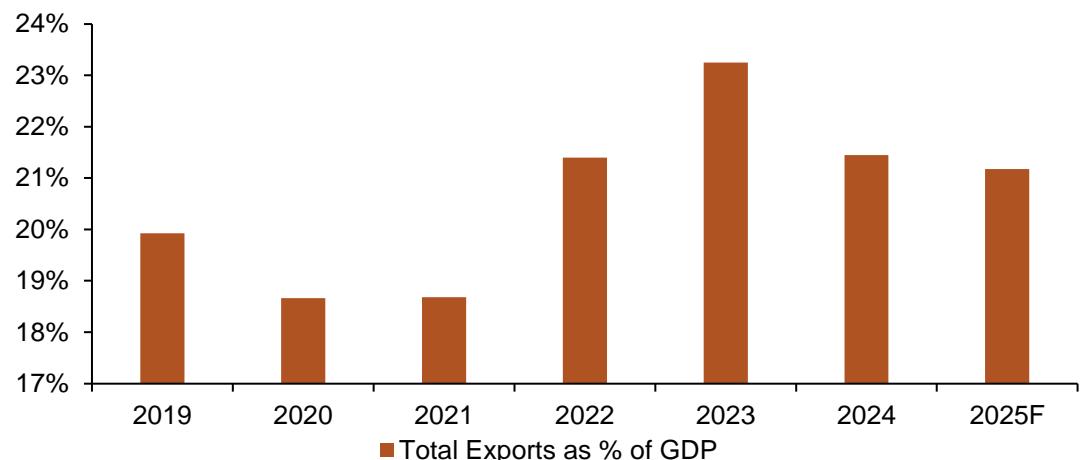
## DOLAT VIEW-RATE CUTTING CYCLE TO CONTINUE

MPC's decision was in line with our expectation. As the dynamics of inflation have improved with food prices cooling off, the MPC could focus on reviving domestic growth as tariff uncertainty deters private investment and impacts growth in exports. Furthermore, in lieu of high China tariffs imposed by US, there is a threat of dumping of excess capacities by China to the ROW as their access to Western markets gets limited, thereby leading to deflationary pressures on commodity prices - a positive construct from core inflation perspective.

We reiterate that the coordinated form of stimulus through fiscal (i.e. tax cuts in Budget 2025) and monetary measures along with moderation in headline inflation would help to revive the consumption cycle which may eventually kick start a broad-based private capex cycle (with some time lags). Attaining macro stability at a time of uncertainty may provide the much-needed certainty to investors which could drive capital flows to India and help in currency stabilization.

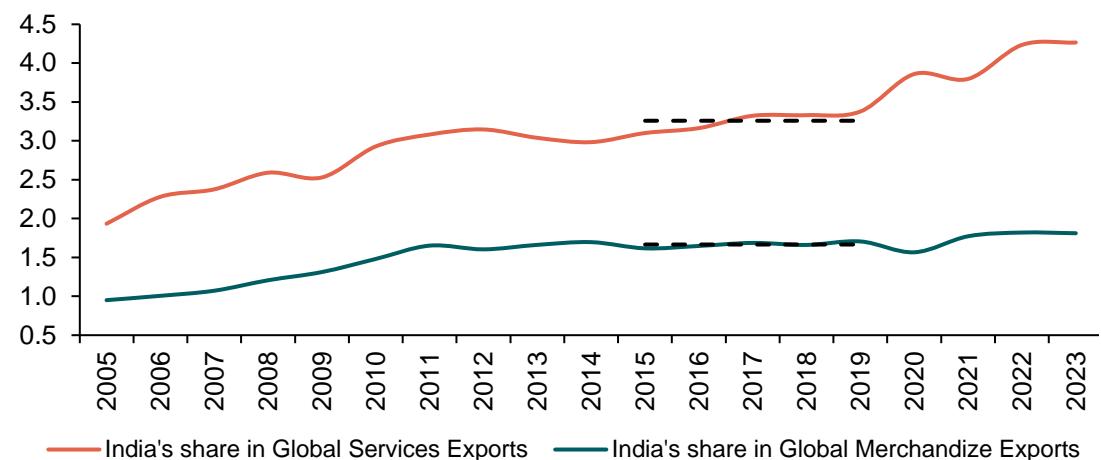
Going forward, if Trump's tariff policies lead to recessionary fears in the US economy, there would be a clamor for front loading of rate cuts by global central banks. To avoid volatility in external financial conditions and as the tariff situation remains fluid and outcomes uncertain, we expect the MPC to avoid any kneejerk reaction (i.e. aggressive rate cuts) and announce another rate cut of 25 bps in the next policy meeting. As RBI's estimates headline inflation at 4 pc in FY26 and neutral rate range between 140 bps and 190 bps, we expect cumulative 100 bps of rate cuts (out of which 50 bps is already done) in the ongoing easing cycle. If the economic situation demands and in absence of any food price shocks due to weather-related changes, we could expect more policy easing from the MPC. Risks to aggressive easing are currency devaluation, interest rate differentials between India and US and higher food prices.

**Exhibit 1: Share of exports as % of GDP has seen a steady rise during the post pandemic era**



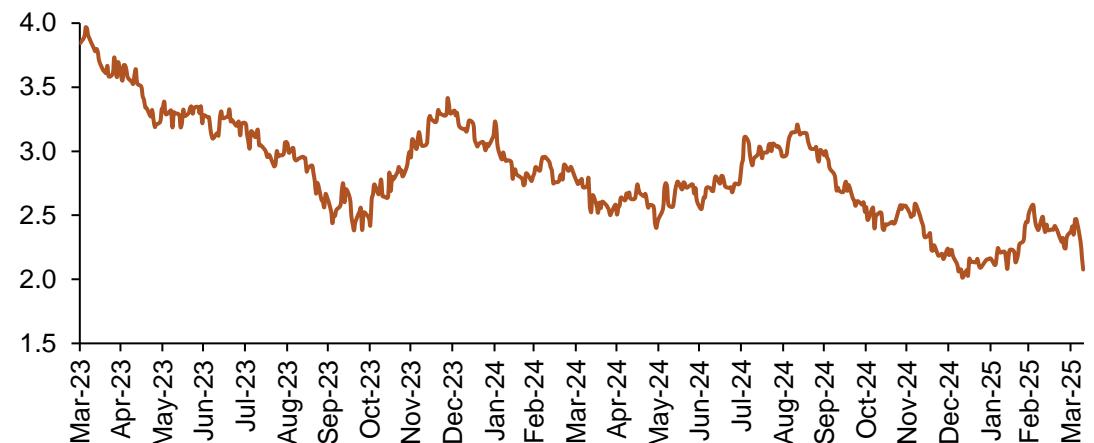
Source: IndiaDataHub, Dolat Capital

**Exhibit 2: India's share of exports is higher vs. pre pandemic avg**



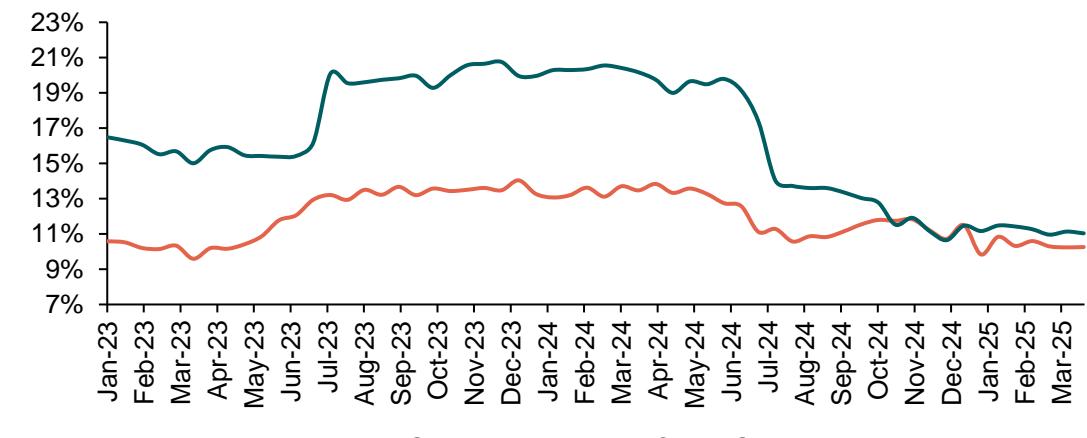
Source: UNCTADSTAT, Dolat Capital | Y axis refers to share in % terms

**Exhibit 3: Spread between US and India 10-year Bond yields**

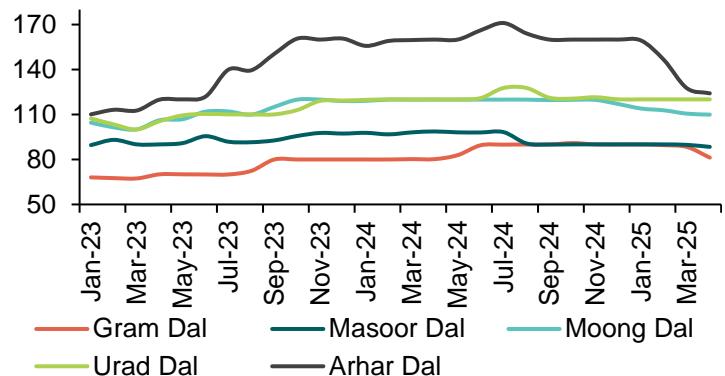
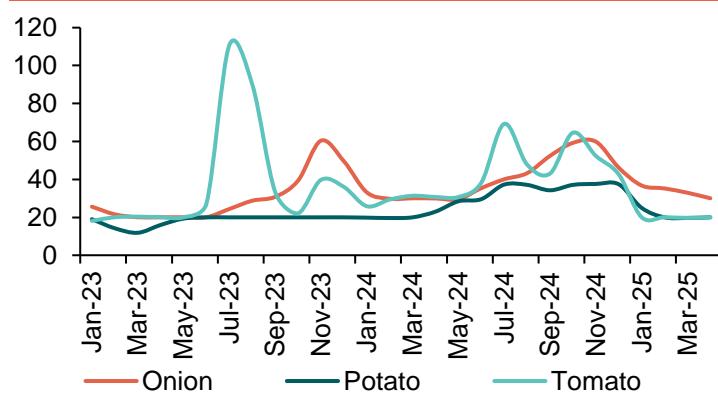


Source: Bloomberg, Dolat Capital

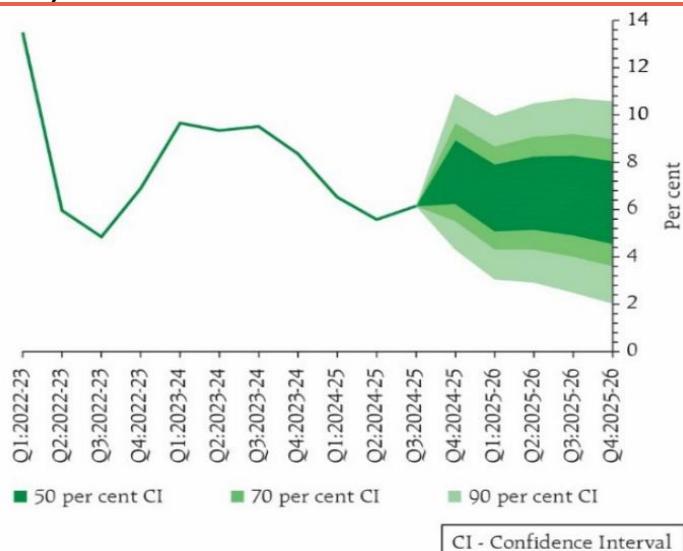
**Exhibit 4: Moderation in Credit and Deposit Growth**



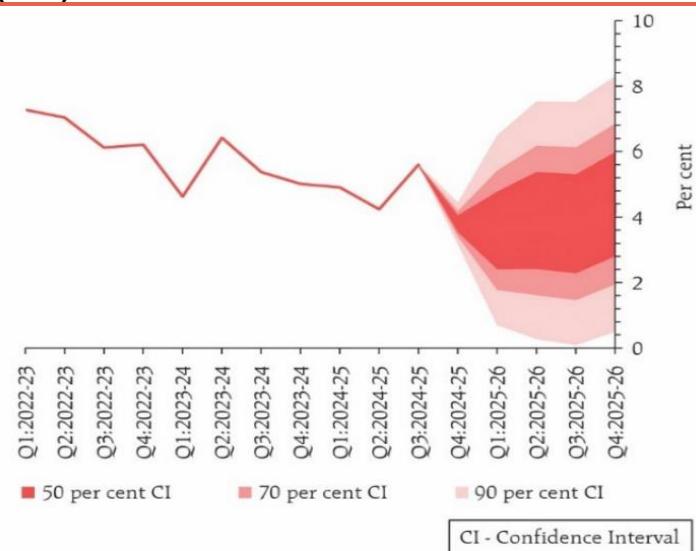
**Exhibit 5: Key food items witnessing price moderation**

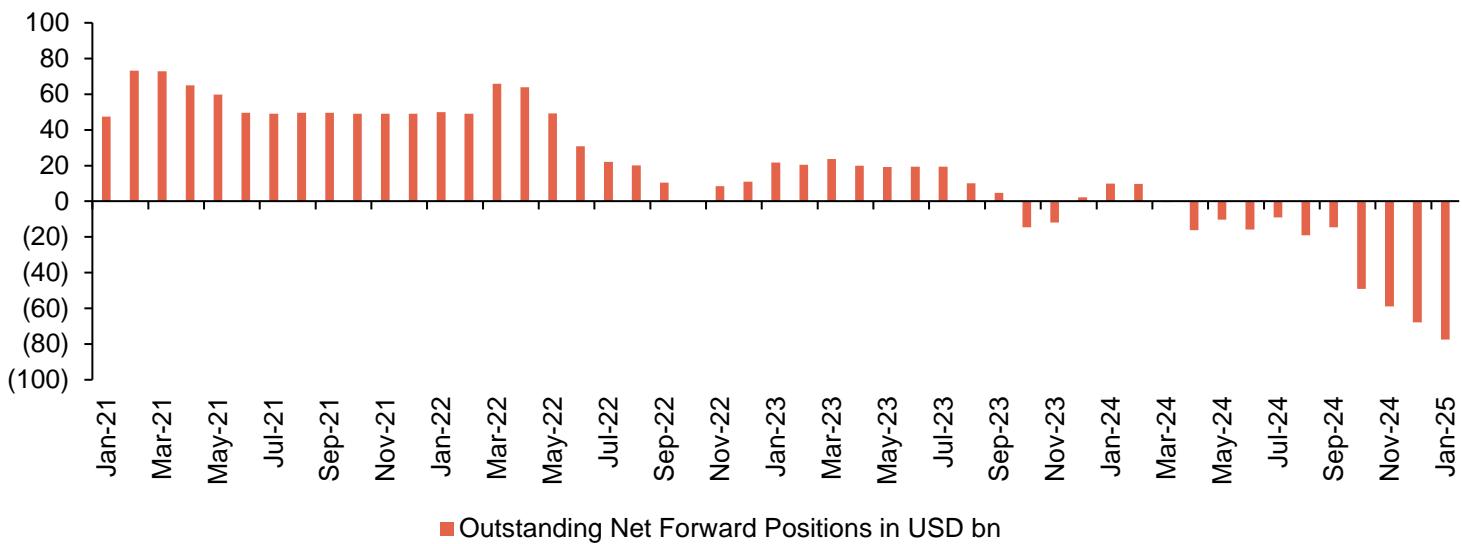


**Exhibit 6: Quarterly Projection of Real GDP Growth (YoY)**

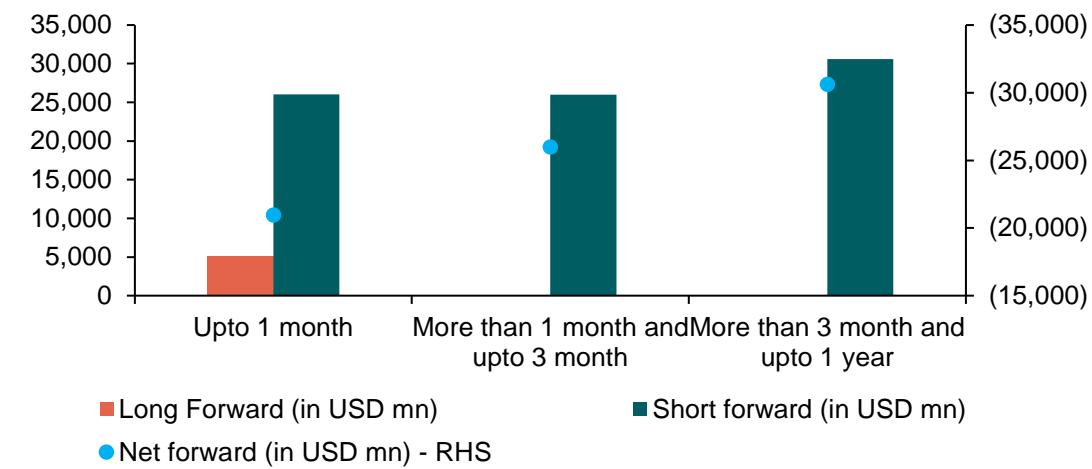


**Exhibit 7: Quarterly Projection of CPI Inflation (YoY)**



**Exhibit 8: RBI's net forward position around \$77bn in Jan'25**


Source: RBI, Dolat Capital

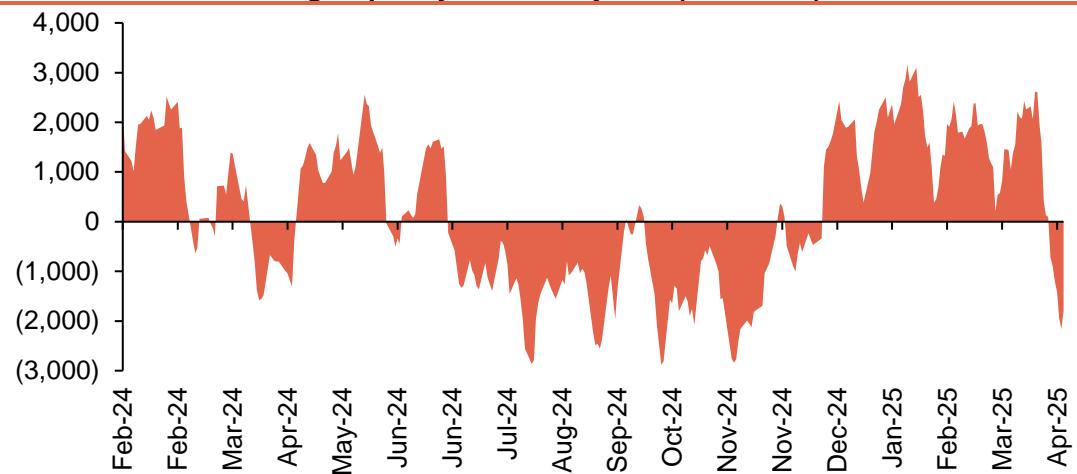
**Exhibit 9: Maturity Breakdown for Forward Contract**


Source: RBI, Dolat Capital | Data as on Jan 2025

**Exhibit 10: Overall liquidity measures by RBI**

Category	Description	Auction Date	Amount (in INR lac cr.)
OMO		Jan'25	0.6
		Feb'25	0.8
		Mar'25	1.5
USDINR Swap	6 months	31st Jan 2025	0.4
	3-year tenure	28th Feb 2025	0.9
	3-year tenure	24th Mar 2025	0.9
Long term VRR auction	56-day tenure	7th Feb 2025	0.5
	49-day tenure	14th Feb 2025	0.8
	45-day tenure	21st Feb 2025	0.6
<b>Total</b>			<b>6.9</b>

Source: RBI, Dolat Capital

**Exhibit 11: Outstanding Liquidity infused by RBI (in INR bn)**

Source: IndiaDataHub, Dolat Capital | Data as on 4th April 2025 | -ve amount in the chart implies liquidity surplus whereas +ve amount implies liquidity deficit

### Dolat Rating Matrix

Total Return Expectation (12 Months)

<b>Buy</b>	> 20%
<b>Accumulate</b>	10 to 20%
<b>Reduce</b>	0 to 10%
<b>Sell</b>	< 0%

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