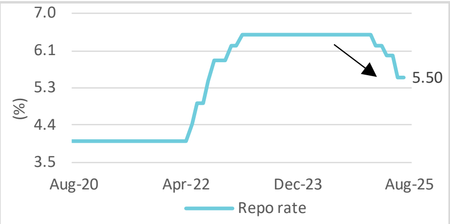
RBI POLICY PREVIEW

MACRO MUSINGS

REPO RATE



Data up to 3th June, 2025

Status quo likely

After front-loading a 50bp-rate cut and shifting to a 'neutral' stance at the last policy, we see MPC holding rates steady at 5.5%. In fact, the RBI governor hinted at limited room for further cuts. Yet, we think the case for more cuts is compelling. Economy is losing momentum (seen in credit growth, PV sales, RE sales, profits, exports, capex) while inflation remains benign. With the fiscal policy on a consolidation path, the RBI must do the heavy lifting to revive demand.

Accordingly, we expect more rate cuts down the line. In this regard, the RBI's forward guidance shall be important (a return to 'accommodative' stance?). Meanwhile, liquidity conditions remain quite comfortable and monetary transmission is progressing well.

Economy losing momentum…

Domestic economic growth has slowed notably over the past few quarters. Corporates are contending with subdued revenue and profit growth, which in turn is inhibiting capex. Households are witnessing weaker income growth and also slower loans, which is eating into their spending intentions and capability. Meanwhile, government spending is likely to remain in a slow lane and tax revenues too have slipped below 10% YoY. Last but not least, exports outlook is far from certain given global trade tensions. Not surprising therefore that a host of economic indicators such as credit growth, exports, profits, revenues, auto sales, real estate sales and so on have slipped into single-digit growth. In that sense, the Indian economy has reverted to the pre-pandemic growth dynamic.

…while inflation is benign

India's inflation dynamic remains quite benign. Headline CPI is running near 6Y low and even the core CPI (ex-commodities) has been hovering below 4% for a long time now. Corporate commentary also suggests a lack of pricing power in the economy. From the global standpoint too, we see trade wars to be ultimately deflationary as the US trade deficit begins to narrow and China and other surplus countries redirect their exports elsewhere.

Outlook: Status quo for now but more cuts down the line

At the last policy, the RBI frontloaded the rate cuts and shifted the stance to 'neutral', suggesting limited room for further cuts. Accordingly, we expect the MPC to hold rates steady at the upcoming policy review. Systemic liquidity is ample and may remain so, and monetary transmission is progressing well. That said, there is an outside chance of the RBI shifting its stance back to 'accommodative' from 'neutral' earlier given inflation is undershooting.

In any case, the evolving domestic growth-inflation dynamic and highly uncertain global growth outlook constitute a compelling case for further rate cuts by the RBI down the line. This is more so as the fiscal policy remains neutral-to-contractionary. Indeed, we foresee global central banks resuming easing led by the Fed later this year.

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