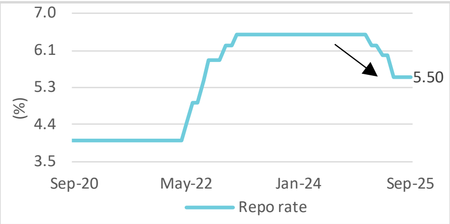
# RBI POLICY PREVIEW

nuvama institutional equities

## MACRO MUSINGS

REPO RATE




# Rate cut needed; will MPC deliver?

At the upcoming MPC meet, a rate cut shall be a close call. While weak demand, steep tariffs and benign inflation call for the RBI to complement the government's GST reform by a rate cut, the MPC may like to wait and see the effect of tax cuts on demand. Besides, anticipated rise in CPI and ongoing INR weakness could weigh on their minds. Last time, policymakers stated limited room for further rate cuts.

That said, we expect the RBI to resume rate cuts down the line. In our view, a quick revival in demand is unlikely. The effect of GST cuts on demand may be offset by a likely slowdown in government spending (amid lower tax collections) and steep tariffs. In any case, we think real rates are still restrictive and need to move lower.

### RBI expected to maintain policy rate…

The RBI is likely to maintain status quo at the upcoming MPC, though a rate cut shall be a close call. Inflation has remained within the RBI's target band, but is anticipated to increase towards the end of the year. Additionally, the RBI has signalled that it would prefer to assess the full transmission of earlier rate cuts before considering further easing. It has also reiterated that monetary policy alone has limited scope to accelerate growth, with fiscal measures now playing a more prominent role in supporting demand. With GST rate cuts perhaps prompting a consumption boost, the RBI is likely to wait and evaluate its impact. At the same time, the INR remains under pressure and global risks remain elevated. Amid capital outflows and a weakening INR, the RBI may prefer to hold rates steady, prioritising INR stability.

### …although rate easing much warranted

Demand conditions are likely to stay weak through FY26. Trump tariffs would work to slow down the global economy, which will hamper India's exports and employment. Domestically, government spending will likely slow down hereon as tax revenues decline, and HH income growth too is soft. Besides, credit growth has slowed. Surely, GST cuts may offer partial relief by supporting consumption, but broader demand will likely remain sluggish. In this backdrop, a co-ordinated fiscal and monetary push becomes essential, underscoring the case for timely RBI easing to revive consumption.

### Outlook: More cuts down the line

At its last policy, the RBI kept rates unchanged and maintained a neutral stance, noting limited room for further easing. We expect the MPC to hold rates steady at the upcoming review, remaining in a wait-and-watch mode as the effects of GST cuts begin to play out. While the tax cuts may support consumption, slower government spending amid lower tax collections and the drag from tariffs could offset this. With the Fed moving towards easing and India's real rates still elevated, we expect the RBI to eventually start monetary easing, though the timing will be crucial. Overall, we argue the RBI is likely to commence measured easing later this year.

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