

Arc

Equity

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'Growth First', echoes Mint St

RBI wraps up 2025 with 25-bps repo rate cut, liquidity boosters

Quick Snapshot

Yet again, the Reserve Bank of India (RBI) reiterated its growth-first stance at its final monetary policy review for 2025, delivering a 25-bps repo rate cut, and announcing measures to boost liquidity. For Indian equities, however, the impact is deeper, especially as the RBI's moves come in a sweet spot comprising subdued inflation and robust growth that bode well for household demand, credit growth and corporate earnings.

Policy actions

- The Reserve Bank of India's (RBI's) monetary policy committee (MPC) unanimously decided to **cut the benchmark repo rate by 25 bps** to 5.25% while maintaining a neutral stance.
- Accordingly, the **SDF rate and MSF rate were also reduced by 25 bps each** to 5.0% and 5.5% respectively.
- The RBI has also decided to conduct **OMO of Rs. 1 lakh crore** to ensure enough liquidity.
- The central bank will also conduct **a three-year dollar-rupee swap worth \$ 5 billion**, which will further boost system liquidity.

Rate cut Rationale

- Benign inflation has been the primary driver of the rate cut. Average **headline inflation for Q2FY26 was below target** at 1.7% and, going ahead, the RBI expects core and headline inflation to remain below the 4% mark in H1FY27. Moreover, merchandise exports being stressed amid trade tariff pressures, could also have made the case for a rate cut.
- The RBI has **lowered its CPI inflation estimate** for FY26 to 2.0% from 2.6% earlier.
- **Food supply prospects remain bright** on the back of higher kharif output, healthy rabi sowing, adequate reservoir levels and conducive soil moisture. Barring some metals, international **commodity prices are likely to moderate going forward**. Overall, inflation is likely to be softer than what October forecasts, mainly on account of a fall in food prices.

Growth Commentary

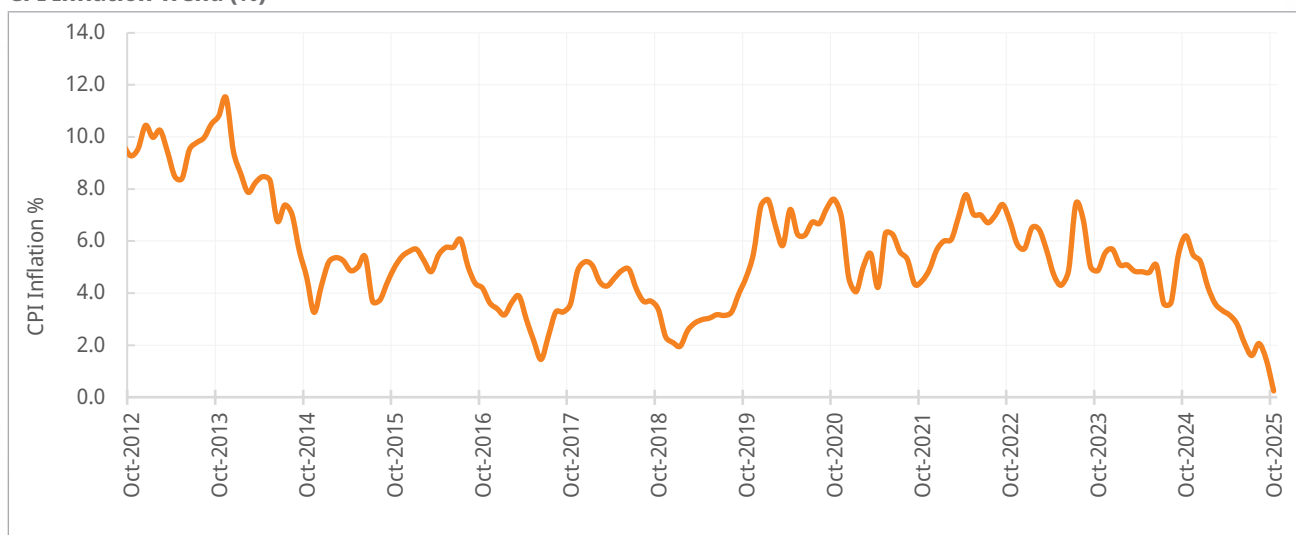
- The RBI's **Real GDP forecast for FY26 has been raised** to 7.3% from 6.8% projected earlier. Q3FY26 growth is projected at 7.0% versus 6.4% earlier and Q4FY26 growth is revised up to 6.5% versus 6.2% earlier.
- Economic activity during the first half of the financial year benefited from **income tax and goods and services tax (GST) rationalization**, softer crude oil prices, facilitative monetary and financial conditions supported by benign inflation.

- Looking ahead, healthy **agricultural prospects, continued impact of GST rationalisation, benign inflation, healthy balance sheets** and congenial monetary/financial conditions should continue **to support economic activity**.
- The RBI expects the **current account deficit (CAD)** to be manageable at ~1% levels.

Sectoral impact

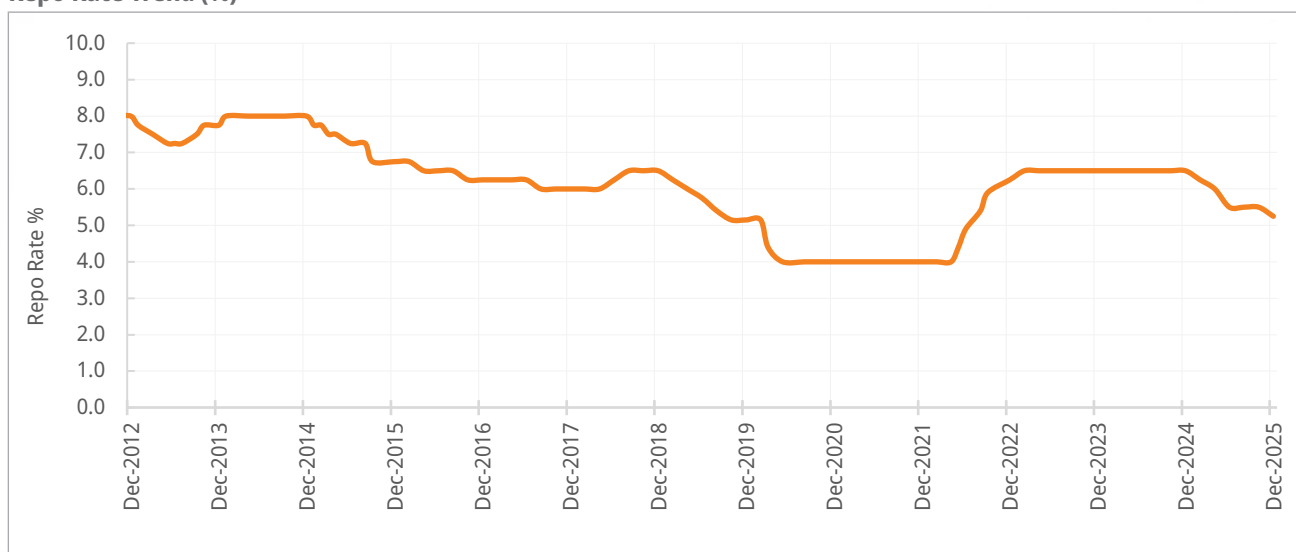
We believe that the rate cut will be positive for sectors such as NBFCs, SFBs and MFIs as a healthy chunk of their books are fixed rate in nature, while the cost of floating rate liabilities should come down, Real estate and automobile sector should also see positive impact. Banks on overall basis could see some dip in NIMs as repo-linked loans to get repriced downwards, hence it's a short term negative, however lower interest rates will drive credit growth, which is a long-term positive.

CPI Inflation Trend (%)



Source: RBI, Mirae Asset Sharekhan Research

Repo Rate Trend (%)



Source: RBI, Mirae Asset Sharekhan Research

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Registered Office: 1st Floor, Tower No. 3, Equinox Business Park, LBS Marg, Off BKC, Kurla (West), Mumbai 400 070, Maharashtra, India. Tel: 022-67502000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai - 400708. Tel: 022 61169000 / 61150000.

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited - (AMFI-registered Mutual Fund Distributor), Research Analyst Regn No.: INH000006183. CIN: U99999MH1995PLC087498.

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-4657 3809; email id: complianceofficer@sharekhan.com

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