Repo rate may be eased by 75-100 bps with inflation staying benign

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Mumbai, 4 April

WHAT THEY EXPECT

RBI's policy repo rate cut expectations in the current cycle (in bps)

Goldman Sachs	100
Nomura	75
UBS	75

BANKS PARK RECORD ₹4.13 TRN WITH RBI IN STANDING DEPOSIT FACILITY P7

To mitigate the impact of reciprocal tariffs imposed by the US, which is likely to slow down economic growth, the Reserve Bank of India (RBI) may consider cutting the policy repo rate by 75-100 basis points (bps) as inflation is expected to stay benign, according to brokerages.

The RBI's six-member Monetary Policy Committee (MPC) had reduced the repo rate by 25 bps in February, marking the first such cut in five years. It is widely expected that the MPC, which is meeting next week for the first time in the current financial year (FY26), will likely cut the repo rate by an additional 25 bps.

According to economists at Goldman Sachs, there could be a 30-bp drag on India's growth from the "reciprocal" tariffs. There could be a further 20-bp growth drag from services export slowdown, after the recent US gross domestic product (GDP) growth downgrade and lower first quarter (Q1) growth, they said.

"Given cumulative 50-bp drag on growth, and with our inflation forecast of sub-4 per cent by Q4CY25, we are now forecasting an additional 50 bps of monetary policy easing in CY25 — 25 bps each in Q2 and Q3, totalling 100 bps of repo rate cuts in this cycle", economists at Goldman Sachs said in a note, adding that they expected easier liquidity conditions to provide a 10-bp boost to growth in CY25. They are also expecting a further 10-bp growth boost from lower oil prices.

The US has proposed a 26 per cent reciprocal tariff on India, which will take effect from April 9. While it is much higher than market expectations, the same being lower than tariffs on its Asian peers could offer some advantage to India.

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50 bps cut likely this cycle: UBS

Since the US has imposed reciprocal tariffs on many economies that are more than India's, this will increase the chances of dumping into India by those countries, resulting in lower inflation, according to a report from State Bank of India (SBI).

According to UBS too, there is scope for a further 50 bps cut in the repo rate in this cycle, following the 25 bps easing in February. "Besides ensuring currency flexibility, we expect continued monetary policy support in terms of rate cuts (scope of more policy easing than our base case), liquidity support, and regulatory easing," UBS said in a report.

The rate cut in February followed a 250 bps increase between May 2022 and February 2023. The domestic rate-setting panel had changed the stance to "neutral" in October last year from "withdrawal of accommodation". A report from Emkay Global said the risks to growth of 6.5 per cent in FY26 are materially downwards. "This will emanate from a much higher risk of a US/global recession if these global tariffs are maintained. The disinflationary impulse for Indian industry could emanate from lower global commodity prices/supply glut of goods," it said. "Notwithstanding the lower relative tariff and exports hit, India is unlikely to be non-synced with EM Asia in a cyclical downturn. EM central banks/RBI will have to confront various push and pull factors via the financial market route, even with the growing easing bias," the Emkay report said.