

BAR FOR THE NEXT CUT REMAINS HIGH

Quick View – The MPC voted unanimously to maintain repo rate at 5.5% and retained the policy stance as neutral.

Dolat View – The MPC held rates steady, signaling caution amidst global headwinds and signs of domestic fragility. Commentary from the governor suggests that the bar for rate cuts remains high in lieu of inflation print expected to move higher from Q4FY26 onwards.

Global growth momentum is likely to moderate in H2, with risks from tariff wars, softening demand, and renewed US inflation. Domestically, high frequency indicators point to mixed signals in underlying demand. Liquidity remains comfortable, but credit pick up seems to be deferred and expectation in 2HFY26, would see a pickup in credit buoyed by the sentiment around festive season. The current pause reflects a calibrated, data-driven approach. With easing already frontloaded in the last policy, it seems MPC is preserving room for future rate action (if any).

Way Forward - With a neutral stance, policy remains data-dependent. Until growth risks worsen, a pause is warranted. Else a 25-bps cut in the next policy meeting in Oct'25. As there are many moving parts, being decisive on either side becomes difficult at this point of time.

Repo Rate	5.50%
SDF Rate	5.25%
Bank Rate	5.75%
CRR	4.00%
SLR	18.00%
USDINR	87.8

Monetary policy comes at a time when domestic growth indicators and Q1 corporate commentary hardly reflects signs of economic recovery albeit corporate India remains optimistic about a recovery in the 2H of this fiscal. Additionally, tensions around US-India relationship on trade side (at least for now) along with benign inflation prints on domestic side increases the possibility of another rate cut by MPC. In this backdrop, the MPC decided to maintain the repo rate at 5.5% i.e. no change in repo rate and maintained its policy stance as neutral.

ASSESSMENT OF GLOBAL AND DOMESTIC ECONOMIC CONDITION

Governor Malhotra highlighted that while volatility in financial markets and geopolitical tensions have eased from recent highs, uncertainty persists amidst ongoing trade negotiations and tariff announcements. Global growth, though revised upward by the IMF, remains muted, with the pace of disinflation slowing and inflation inching up in some advanced economies. On the domestic growth front, rural demand remains supportive of private consumption while robust government capex is aiding fixed investment. A normal southwest monsoon is boosting kharif sowing and agriculture activity, while services and construction sectors remain strong. However, industrial growth has been uneven, weighed down by weak performance in electricity and mining. Going forward, lower inflation, rising capacity utilization, continued policy support, and conducive financial conditions are expected to sustain domestic growth, though risks from global uncertainties and geopolitical tensions persist.

NO CHANGE IN GROWTH BUT INFLATION EST. LOWERED FOR FY26

Headline CPI for FY26 is projected lower at 3.1 pc (vs. 3.7 pc) while there was no change in growth est. There were quarterly revisions announced on the inflation side - Q2 at 2.1 pc (vs. 3.4 pc), Q3 at 3.1 pc (vs. 3.9 pc), Q4 remains unchanged at 4.4% and Q1 FY27 at 4.9 pc. The Real GDP growth for Q1 FY27 is projected at 6.7pc.

SYSTEM LIQUIDITY TO REMAIN IN SURPLUS

System liquidity averages around Rs 2.9 lac cr surplus in Jun-Jul'25 period vs. Rs 1.5 lac cr. surplus seen in Apr-May'25 period. The government cash balance average also increased from Rs 1 lac cr. in Apr-May'25 period to Rs 2.7 lac cr. in Jun-Jul'25 period. System liquidity surplus currently is around ~1 pc of NDTL and with 100 bps CRR cut (in phases from Sept'25 onwards) another Rs. 2.4-2.5 lac crs. would get infused.

Core liquidity has moved from Rs 2.57 lac crs. in April-May'25 period to Rs 5.63 lac cr. in June-Jul'25 period (i.e. 1.1 pc of NDTL to 2.4 pc of NDTL). Some part of the surplus in system liquidity would see an offset due to the maturity of net short forward book of RBI (around ~\$65bn as of May 2025 with ~\$45bn set to mature in less than 12 months). Overall, RBI remains nimble and flexible in liquidity management to support economic activity.

DOLAT VIEW – RBI PAUSES AMIDST GLOBAL UNCERTAINTY AND DOMESTIC FRAGILITY; BAR REMAINS HIGH FOR THE NEXT CUT

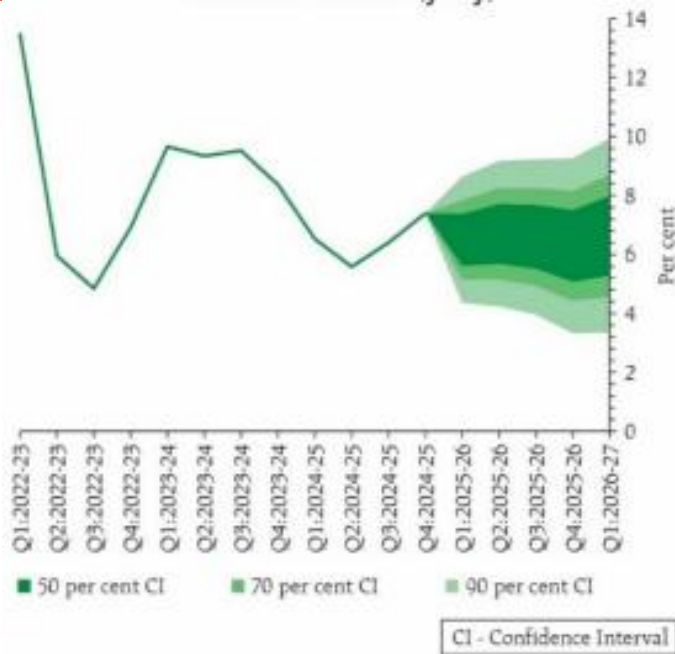
MPC opted for a status quo as it carefully evaluates a complex interplay of global and domestic factors. We believe this cautious approach underscores the central bank's desire to preserve monetary space, even as growth remains a concern and inflation continues to trend lower. As MPC has already front-loaded easing in anticipation of lower inflation print in the last policy and the transmission of these cuts is still underway, the members of the committee remain inclined to wait and assess the full impact of rate cuts on credit growth and gain more clarity on the progress of monsoon, Q1 GDP and ongoing trade negotiations with US. In the meantime, RBI may prioritize financial stability and utilize the FX reserves (which remain strong around \$698bn) to curb currency volatility in lieu of capital outflows arising due to economic or trade reasons.

CPI inflation for June'25 softened for the eighth consecutive month to 2.1% - the lowest print since Jan'19 and averaged around 2.7% for Q1FY26. The quarterly average read is well below the 4% target and is down from 3.7% seen in Q4FY25 and 5.6% seen in Q3FY25 and 4.9% in Q1FY25. While this continued disinflation provides short-term comfort, the exceptionally low base this year could create statistical pressure on YoY prints as we move into Q4FY26 and rest of the quarters of FY27. Monetary policy being forward looking, thereby limits the MPC's action on aggressive policy easing from here on. Furthermore, in the coming months, MPC's decision will need to factor in changes to the headline CPI with the new methodology expected to come up in FY27.

We believe the next rate cut decision will hinge on the pace of economic recovery especially as we head into the festive season. Risks to FY26 growth projection may tilt MPC decision toward another cut of 25 bps as weaker growth may also curb the upside risk to forward looking core inflation.

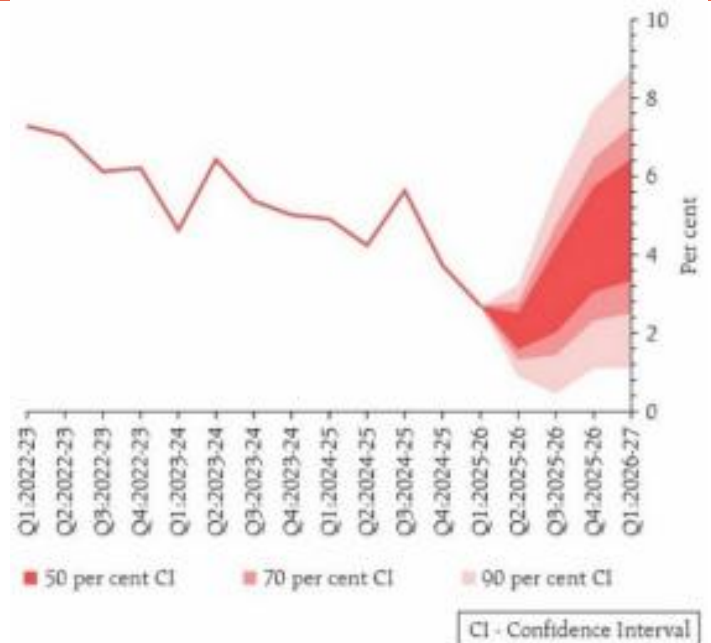
In case of any cut by MPC, the timing of the same may be in Oct'25 meeting or else the room is limited. Between now and the next policy meeting, MPC will get more clarity on various factors like the external front (i.e. trade negotiations and FED policy), festive demand and progress of the monsoon and distribution of rainfall and rate transmission, which would help the members to decide on the future course of action on policy front. Furthermore, the members may also consider and evaluate any government action (likely to be announced before Bihar elections) like GST rate rationalization, export schemes, or any other fiscal measure in response to stimulate domestic demand.

Exhibit 1: Quarterly Projection of Real GDP Growth (YoY)



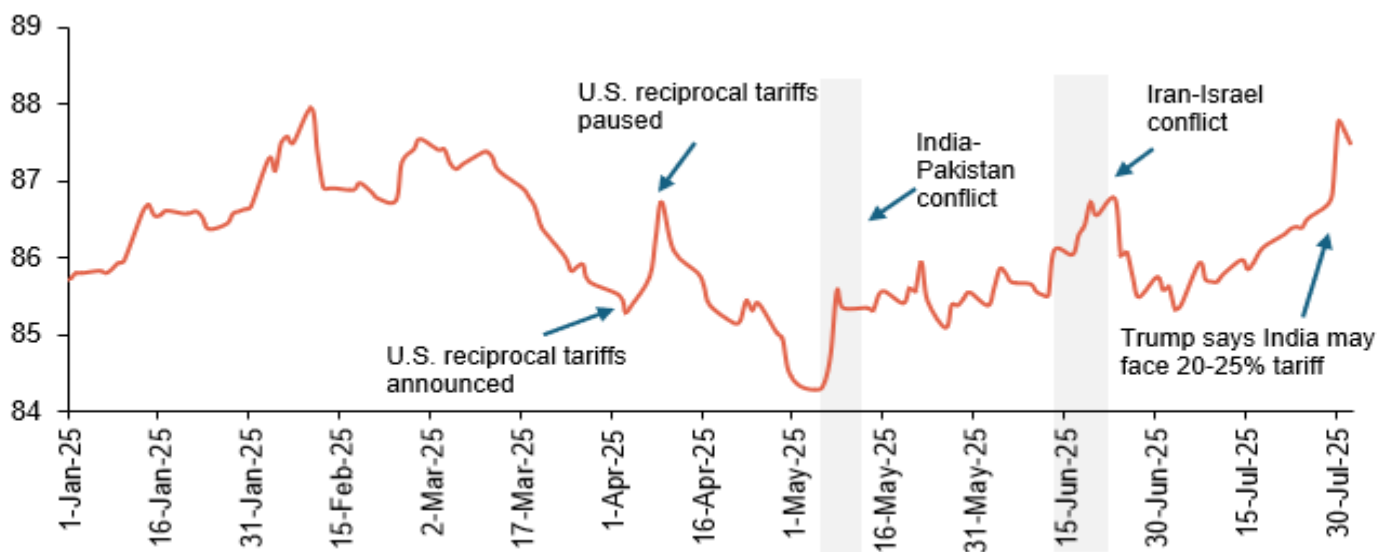
Source: RBI

Exhibit 2: Quarterly Projection of CPI Inflation (YoY)

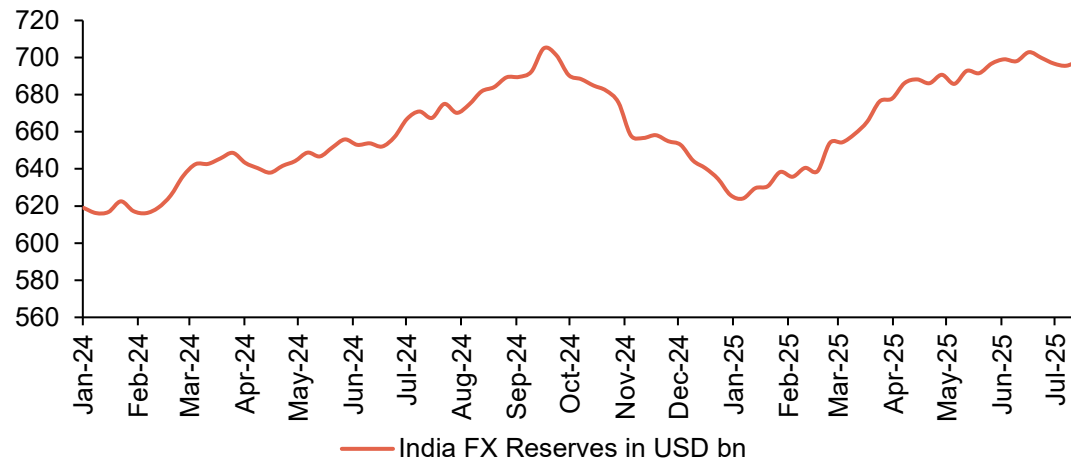


Source: RBI

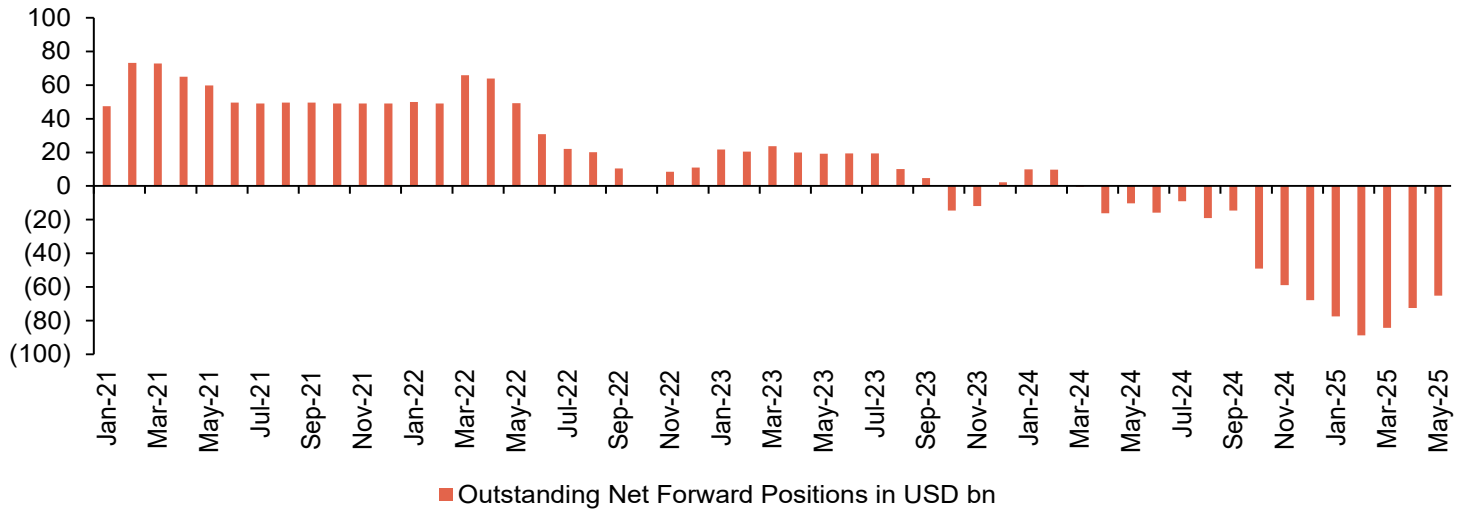
Exhibit 3: USDINR trend



Source: Reuters, Dolat Capital

Exhibit 4: FX Reserves around \$698bn


Source: RBI, Dolat Capital

Exhibit 5: RBI's net forward short position ~\$65bn as of May'25


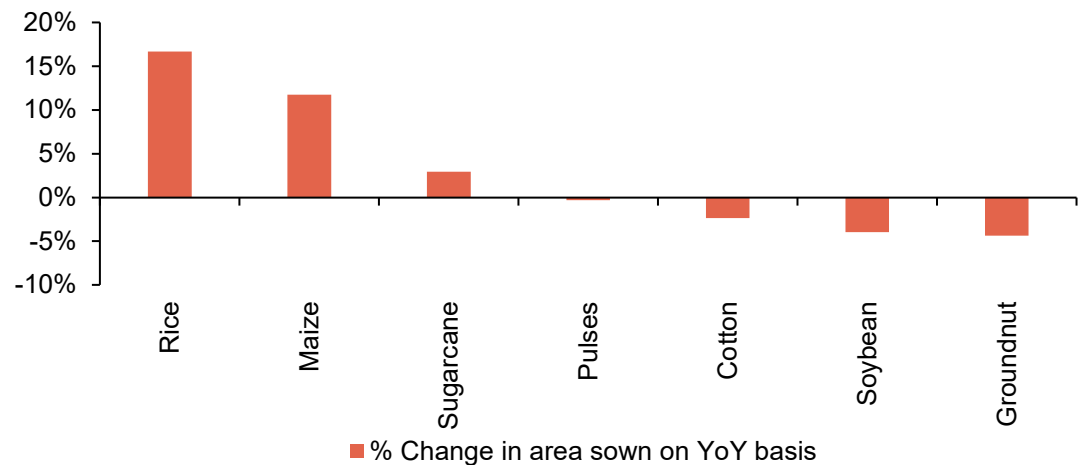
Source: RBI, Dolat Capital

Exhibit 6: Categorywise no. Of subdivisions & % area (subdivisional) of the country

CATEGORY	PERIOD:	01.06.2025 TO	03.08.2025
	NO. OF		SUBDIVISIONAL
	SUBDIVISIONS		% AREA OF COUNTRY
LARGE EXCESS	2		10%
EXCESS	7		21%
NORMAL	21		56%
DEFICIENT	6		13%
LARGE DEFICIENT	0		0%
NO RAIN	0		0%

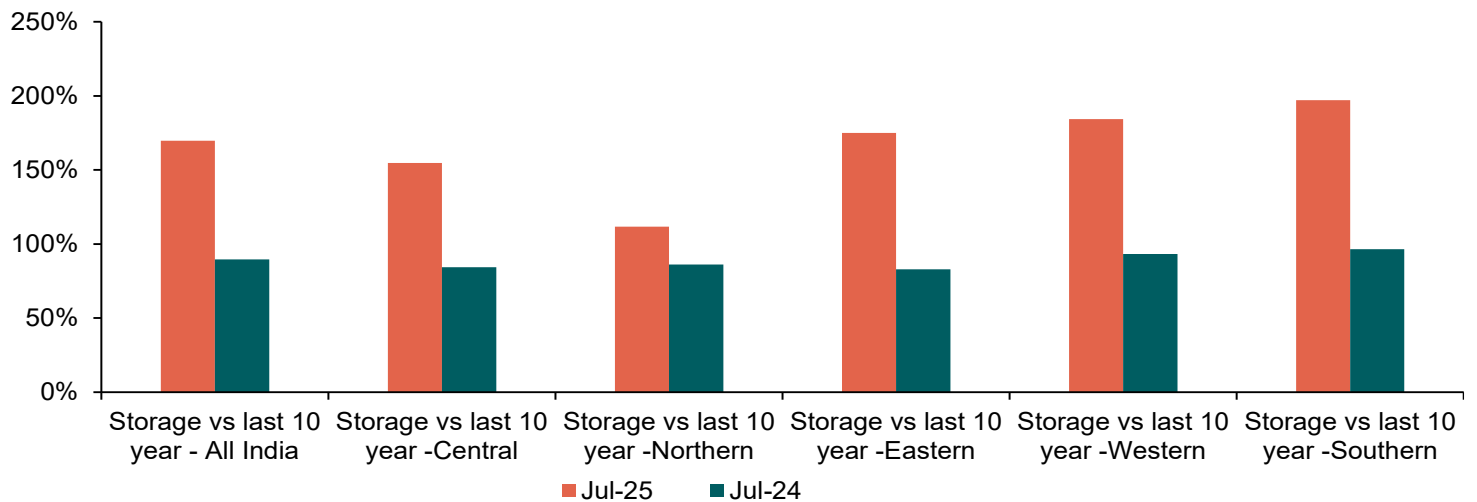
Source: IMD | Data shown is from 1st June to 3rd August 2025

Exhibit 7: Sowing is up by ~5 pc on YoY basis



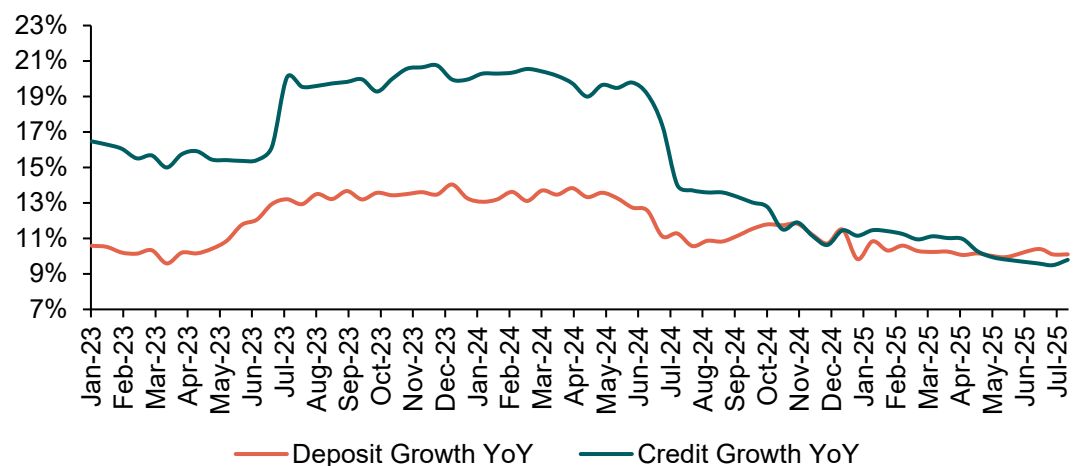
Source: PIB India, Dolat Capital

Exhibit 8: Reservoir levels remain healthy



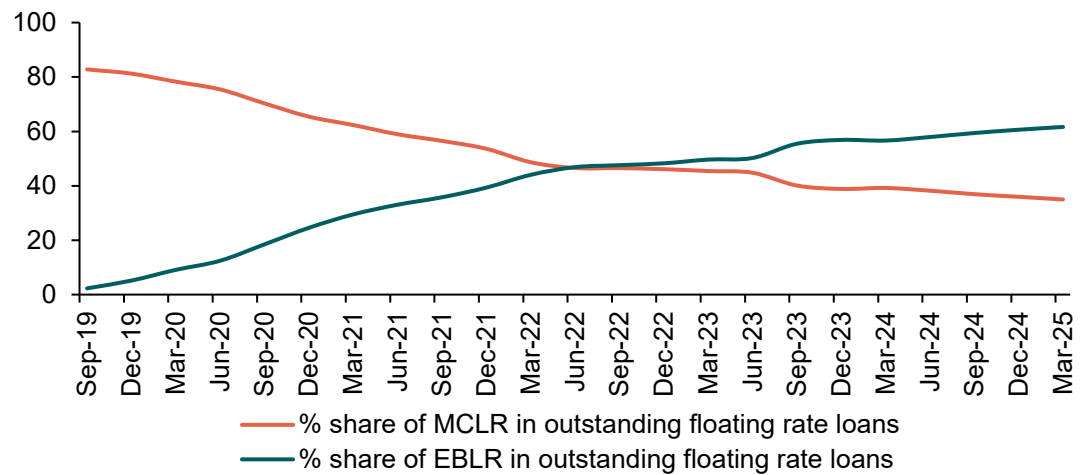
Source: IndiaDataHub, Dolat Capital

Exhibit 9: Credit growth seems to be deferred for now



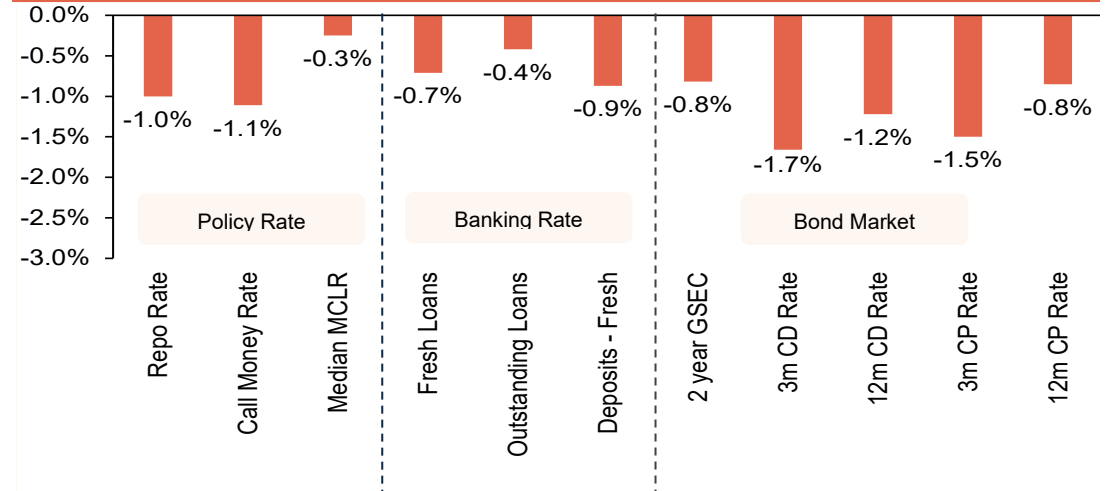
Source: Bloomberg, Dolat Capital

Exhibit 10: % share of outstanding floating loans of SCBs across benchmarks



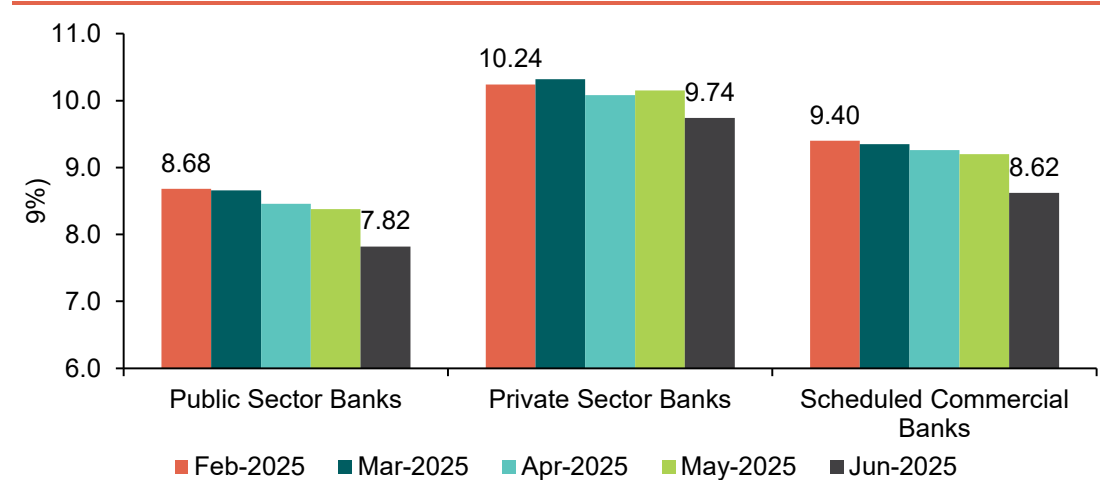
Source: RBI, Dolat Capital

Exhibit 11: Rate transmission across bond and money market visible



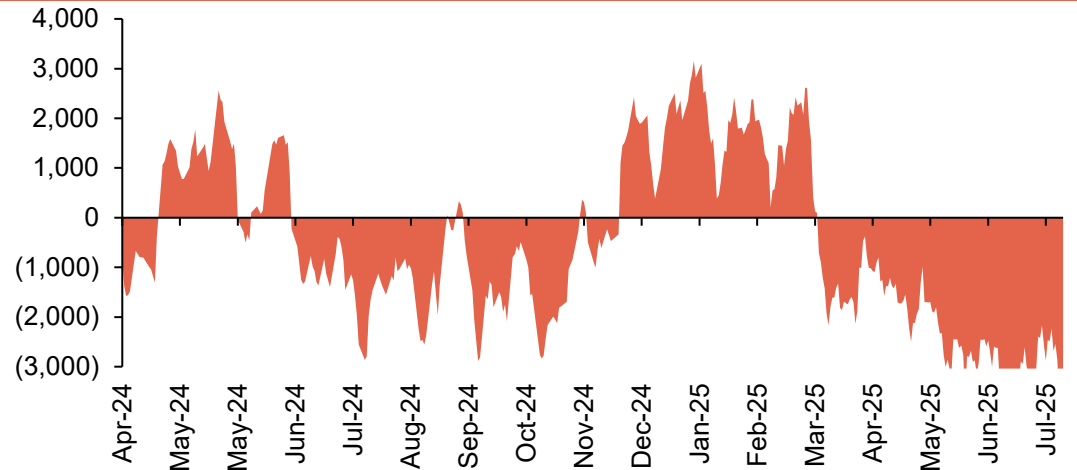
Source: RBI, Dolat Capital

Exhibit 12: Rate transmission has been faster for PSUs



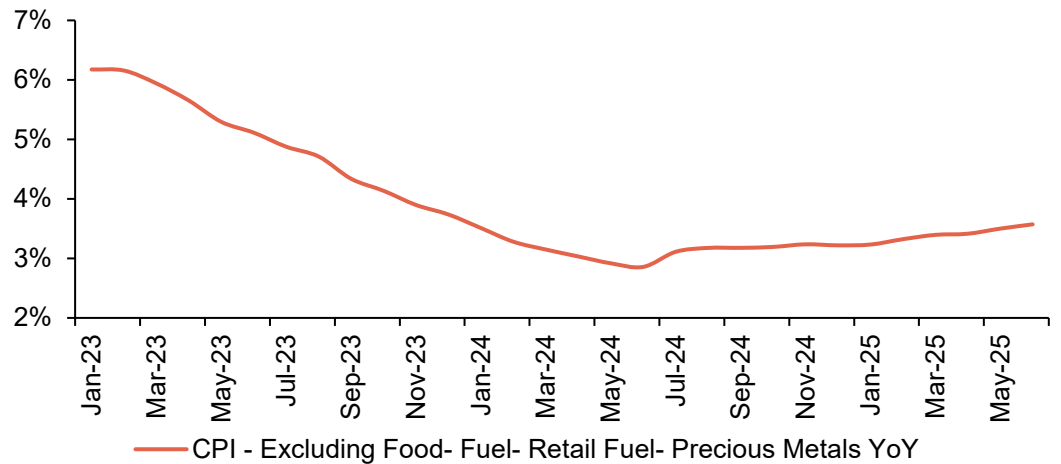
Source: RBI, Dolat Capital | Chart shows weighted average lending rate on fresh loans sanctioned

Exhibit 13: Outstanding liquidity infused by RBI (in INR bn)



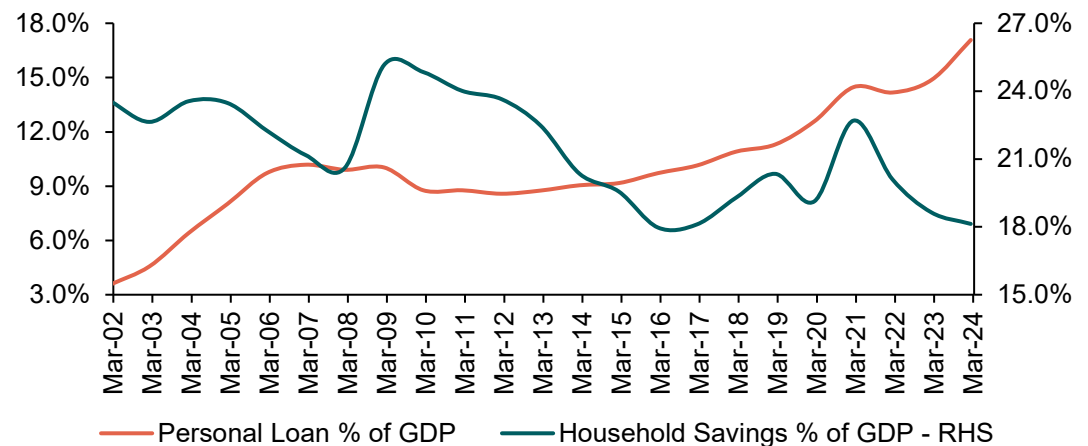
Source: IndiaDataHub, Dolat Capital | Data as on 3rd Aug 2025 | -ve amount in the chart implies liquidity surplus whereas +ve amount implies liquidity deficit

Exhibit 14: Core-Core CPI print remains benign and is currently around 3.6 pc



Source: IndiaDataHub, Dolat Capital

Exhibit 15: Household Leverage Rising and Savings Declining*



Source: Bloomberg, Dolat Capital | * Important to evaluate whether the tax stimulus provided in Budget 2025, goes into repairing the household balance sheet i.e. increase in household saving or gets spent across consumption categories and repaying loans.

Dolat Rating Matrix

Total Return Expectation (12 Months)

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

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