

Central bank's move also likely to insulate market amid equity and bond outflows

RBI to Retain Liquidity Focus for Rate Transmission

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Mtunbal: India's central bank is expected to boost the availability of funds for effective—and rapid—transmission of policy rate action, as Mint Road seeks to steer Asia's third-biggest economy through the rubble of tariffs-ravaged global markets with minimal damage to growth and domestic consumption demand.

"We expect the Reserve Bank of India to actively manage liquidity conditions via short-term liquidity measures to ensure that the overnight rates keep trading at or below the repo

rate and ensure effective transmission of rate easing in the cycle," Goldman Sachs said in a report.

The Monetary Policy Committee (MPC) is scheduled to announce its rate decision on Wednesday, having slashed the policy rates for the first time in nearly five years by a quarter percentage point two months ago. An ET poll showed participants expect another quarter-percentage point reduction in rates this week, taking the repo rate to 6%.

Last week, The US slapped 26% tariffs on India, a move that is likely to potentially alter growth and inflation dynamics. The levies, arguably the

most elaborate since the 1930 Smoot-Hawley Tariff Act, have caused more than \$2 trillion in market-cap losses across the globe, causing some east Asian equity indices to lose the most in nearly three decades.



Banking sector liquidity has improved with a surplus of around t1 lakh crore compared with a deficit seen in the past three months, mainly on the back of a raft of central bank funds-infusion measures, including forex swaps and open market operations to buy government bonds.

Consequently the weighted average

call rate (WACR), which indicates banks' overnight cost of borrowing, closed at 6.16% on Monday nine basis points below the current repo rate of 6.25%, due to surplus liquidity conditions in the banking system.

Between December 2024 and April 7, 2025, the RI31 has infused durable liquidity, which is permanent and long-term in nature, of Z6.4 lakh crore. Another z60,000 crore is expected through the remainder of April.

To be sure, economists believe a further policy rate reduction will signal the need for boosting transmission efficiency and adequate liquidity in the system should help the poli-

cy experts achieve that objective.

"It may look like that while the overall growth story looks good, there are some pockets that pertain to industries sort of oriented toward the US, which can face some setbacks," said Madan Sabnavis, chief economist at Bank of Baroda. "Therefore, there is a reason to lower the repo rate, which will send a strong signal that the central bank would also like the transmission to take place"

The next significant infusion will come from the central bank's dividend transfer in May, expected to be t2.6 lakh crore, said Gaura Sen Gupta, chief economist, IDFC First Bank.