

# The Triveni Sangam

Budget, Monetary Policy and RBI  
Liquidity Measures...

February, 2025



The highlight of February undoubtedly was the Mahakumbh Mela - which the government estimated would add ~INR 2 lakh crores to the Indian economy. What made this congregation extra special was the alignment of the celestial bodies observed after 144-years with visitors taking a dip in the holy river, often referred to as Triveni Sangam – where three rivers meet. While Uttar Pradesh is expected to witness the largest economic gains from the Mela (fair) there could be positive spillovers to the neighboring States of Uttarakhand, Maharashtra and Madhya Pradesh.



Drawing parallels to the economy and markets, February witnessed the onset of a Triveni Sangam, with the coming together of the governments' tax cuts policy, monetary easing by way of 0.25% cut in the Repo Rate and the Reserve Banks' active steps to infuse system liquidity as well as regulatory easing to support economic growth momentum.

Government announced a reduction in personal income taxes in its annual budget which is expected to release INR 1 lakh crore into the system. The tax cuts will increase personal disposable income which in turn is expected to add positively to individual aggregate demand.

Complementing the fiscal step was the RBI-MPC's decision to lower the Repo Rate by 25 bps to 6.25% which would immediately ease the interest payments for borrowers and eases the overall cost of capital. The easing comes in the backdrop of easing inflationary pressures which together is expected to augment economic activity in the ensuing quarters.

In order to see unobstructed monetary policy transmission, the RBI also stepped-up on infusing durable and variable liquidity to the banking system by way of OMO Purchases and Repo auctions while navigating currency volatility. The RBI also softened its stance on certain Regulatory changes such as that on liquidity coverage norms, provisions related to project financing, the recent relaxation on loans to non-bank finance companies, to name a few, are expected to keep the economic engines running smoothly.

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## **RBI liquidity measures were at the forefront**

**Cash usage & FX related strain, the main deficit drivers** - During February, owing to increased activity, currency usage increased by ~ INR 50k crs over end-January levels. This was the highest monthly outgo observed since the month of Diwali in October 2024. This was partly reflected in the banking system liquidity deficit which the RBI had to step-in to assuage as it also remained stretched due to the FII outflows and RBI's FX intervention possibly to the tune of INR 30-50k crs in February. Build-up in government cash balances moderated driven by improved spending, no advance tax collections and also due to cancellation of a scheduled short-term borrowing of ~INR 26k crs which indirectly did not add to the liquidity strain.

Additionally, even as the RBI stepped-in to arrest the currency slide, India's FX Reserves saw an accretion to USD 640 billion as of 21-Feb. The dollar index softened through February but remained firm around 106.5-107.0 levels; USDINR weakened by 0.4% in February while in sync with the EM peers, the depreciation bias persisted. The back and forth on trade tariffs by the US on its trading partners continued, there were no immediate tariffs on India when the Prime Minister of India and the US President met mid-February 2025. The developments on this front will be watched and tracked.

**RBI steps-in to diffuse liquidity deficit:** To address the liquidity strain, the RBI deployed various instruments to inject liquidity to the tune of INR 3.8 lakh crs, of which, INR 80k crs was infused in the form of durable liquidity through OMO purchases during February and a total OMO purchase of INR 1.39 lakh crs in CY25. The steps helped ease tight liquidity conditions at the margin as FX intervention and currency usage remained a drag; the average banking system liquidity narrowed modestly to INR 1.7 lakh crs vs INR 2.1 lakh crs average seen in January 2025. From a peak of INR 3.3 lakh crs on 23-Jan, to INR 1.5 lakh crs end-February leading to softness in the overnight rates segment. The USD 10 bn FX swap conducted on 28-Feb is expected to further keep currency in check and infuse Rupee liquidity into the banking system to the tune of ~INR 87k crs.

### **Amid the global uncertainties, key economic data releases back home were comforting.**

- ◆ Globally, tariff talks dominated, however, risk-off sentiment weakened as a result of a mixed set of data started to flow from the USA. While the Q4 GDP annualized came in as expected at 2.3%. The headline Personal Consumption Expenditures (PCE) component came in line with expectations at 2.5%, with the core at 2.6%. The CPI inflation print for January was a shade higher at 3.0% YoY with core CPI accelerating 0.5% MoM and 3.3% YoY.
- ◆ The concerns around growth resurfaced following the softer data on retail sales and consumer confidence along with a higher jobless claims data is hinting at some economic weakness resulting in softer US Treasury yields along with repricing of rate cut expectations with markets are now looking at a cumulative of three rate cuts in CY25.
- ◆ Government Budget provided near-equal stimulus to both consumption (personal income tax cuts amounting to INR 1 lakh crs) and Capital Expenditure (budget outlays increased by INR 1 lakh crs), while lowering the fiscal deficit (to 4.4% of GDP for FY26 from 4.8% in FY25)
- ◆ Inflation outlook is improving with CPI inflation moderating to 4.3% YoY softer than street expectations of 4.5% YoY in Jan'25 compared with 5.2% YoY in Dec'24. This was mainly due to a correction in food inflation at 6.0% YoY (8.4% in Dec'24) with Core inflation a tad higher at 3.7% YoY (3.6% in December 2024).
- ◆ A one-time blip in growth in Q2FY25? - The growth numbers released end-February reaffirmed that economic momentum is on path to recovery GDP growth for the December-ending quarter viz. Q3FY25 was at 6.2% YoY after having moderated in Q2FY25 to 5.6% YoY. The fiscal and monetary policy steps will keep activity in motion
- ◆ Finer details on growth data showed that the agriculture output was robust aided by favourable monsoon, but the industry sector especially the manufacturing sector continues to remain sluggish.
- ◆ The Services' sector continued to be the largest contributor growing at 7.3% YoY
- ◆ Meanwhile, the festivities will add favorably to the economic activity. Strong agriculture output and a favourable winter crop sowing coupled with the Mahakumbh month is expected to keep the momentum buoyant in Q4FY25. However, the implied growth rate of ~7.6% for Q4FY25 - basis NSO Advance Estimates for FY25 at 6.5% YoY - appears a bit optimistic given that for 9MFY25 the average growth is at 6.1%.
- ◆ On the external sector front, the trade deficit widened modestly to USD 23 bn in January from USD 21.9 bn in December 2024. Exports were weak at USD 36.4 bn (-2.4% YoY), driven by lower oil exports (-59% YoY). However, non-oil exports were strong (14% YoY). Imports have risen by 10.3% YoY at USD 59.4 bn in January, driven by higher gold imports (41% YoY) and non-oil non-gold imports (18.8% YoY). Oil imports fell by 13.5% YoY. The trade deficit was higher by ~USD 1 bn in January 2025 vs December 2024; but due to FII outflows and dollar strength, USDINR remained under pressure in January. The RBI's swap window as well as intervention helped curtail Rupee's slide in February 2025.

With respect to bonds, during the month, G-Sec yield curve steepened with short end yields falling, while yields at the absolute long end of the yield curve hardened with expectations of increased SDL supply. Simultaneously, corporate bond issuances picked up resulting in spreads of corporate bonds vis-à-vis G-Sec widening.

## Our Take:

The jitters from global uncertainties were largely reflected in FII outflows and weaker currency levels across EMs with India not spared either. After a rapid slide seen in January, the currency levels fared better in February owing to RBI's policy steps esp. the FX buy/sell USD swap windows. The real economy, as of now, has evinced resilience to global developments. Basis the growth-inflation numbers, the MPC's last policy action as well as the MPC minutes, we believe the RBI-MPC would deliver another 25 bps cut at its April policy while continuing to stay nimble and flexible on its liquidity strategy. For us to see a third rate cut, inflation trajectory, monsoon outlook and global developments will possibly be key inputs going into the June policy meet. With markets pricing in three rate cuts by the US Fed could further create the wiggle room for the MPC to act on policy rates as interest rate differentials might remain steady and not be a major cause of concern or hindrance to policy easing back home. Given this backdrop, we continue to maintain a positive duration bias across the funds. We recommend investors to stay invested and add duration to their portfolios wherever possible subject to their risk return frameworks.

### Abbreviations:

OMO: Open Market Operations	MPC: Monetary Policy Committee
GDP: Gross Domestic Product	RBI: Reserve Bank of India
CPI: Consumer Price Index	FII: Foreign Institutional Investors
G-Sec: Government Securities	EM: Emerging Markets

**Note:** Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

**Source:** Bloomberg & HSBC MF Research estimates as on February 28, 2025 or as latest available

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