



JUNE 2025

India shifts gears – Policy tailwinds set stage for reacceleration

India's economic narrative is shifting—again. And this time, with more conviction.

GDP data for the fourth quarter of fiscal year 2025 (ending March 2025) came in ahead of expectations, reinforcing our core thesis: India is entering a new phase of cyclical acceleration. But this is not just a story of one quarter's growth. It's a sign of a broader inflection—across GDP, corporate earnings, credit, and liquidity—fueled by a decisive pivot in policymaking.



Anand Gupta, CFA
Portfolio Manager

Surprises pointing to strength

This year has yielded three major surprises for investors so far:

- GDP expectations beaten: real GDP growth at 7.4% year-on-year surprised on the upside in the March 2025 quarter, coming in above consensus expectations of 6.8% year-on-year. This was not just a statistical anomaly but a reflection of underlying resilience in consumption and capex.
- Corporate earnings momentum positive: more than half of MSCI India companies have so far reported earnings above expectations this season. Importantly, the earnings outperformance was broad-based—across financials, consumer discretionary and Industrials sectors.
- Policy easing beyond expectations: the Reserve Bank of India (RBI) delivered a 50bps cut to the repo rate

(vs. 25bps consensus) in its 6 June 2025 meeting, alongside a surprise 100bps reduction in the Cash Reserve Ratio (CRR), to be implemented gradually in four equal tranches of 25bps each starting from the fortnight beginning September 6, 2025. This signals that policymakers are now squarely focused on supporting growth.

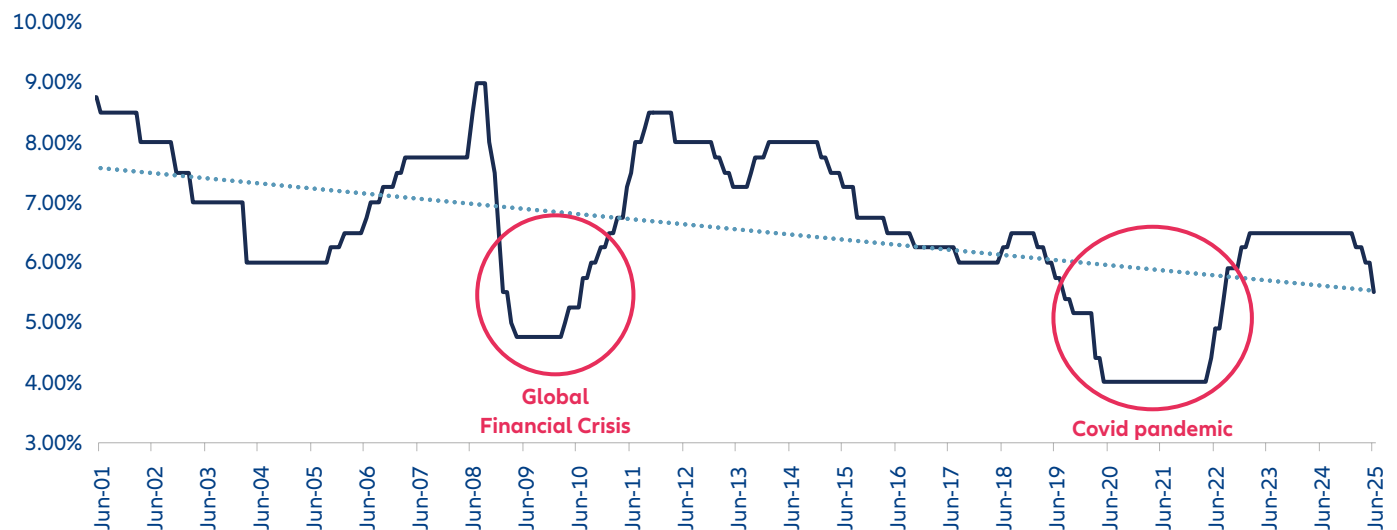
Policy pivot: From risk containment to growth support

Last year, in particular during the period from March to September, Indian policymakers focused on risk containment—tightening norms around unsecured credit and macroprudential controls to avoid overheating. In parallel, slippages in government spending due to the national elections in June 2024, coupled with harsher-than-usual summer weather, further contributed to a transient slowdown in economic activity.

Since February 2025, the stance has decisively shifted:

- **Fiscal support:** The Union Budget delivered a rare but welcome surprise by lowering income tax rates for the middle class while maintaining fiscal discipline—a move aimed at reviving consumption without compromising credibility.
- **Monetary easing:** With inflation now well below 5%, real interest rates in India have started to moderate—creating room for the RBI to recalibrate policy toward supporting credit growth and liquidity expansion.
- **Macro liquidity:** the combination of CRR cuts and moderation in government cash balances is improving systemic liquidity, which is already beginning to be reflected in lower interbank rates and a pick-up in loan disbursements.
- **Demand recovery is expected to accelerate,** with rates across multiple categories—such as mortgages—likely to approach multi-year lows (excluding short-term declines related to the Global Financial Crisis (GFC) and the Covid pandemic).

Exhibit 1: India Repo Rate at multi-year lows (excluding Covid- and GFC-related short term declines, circled)



Source: Allianz Global Investors

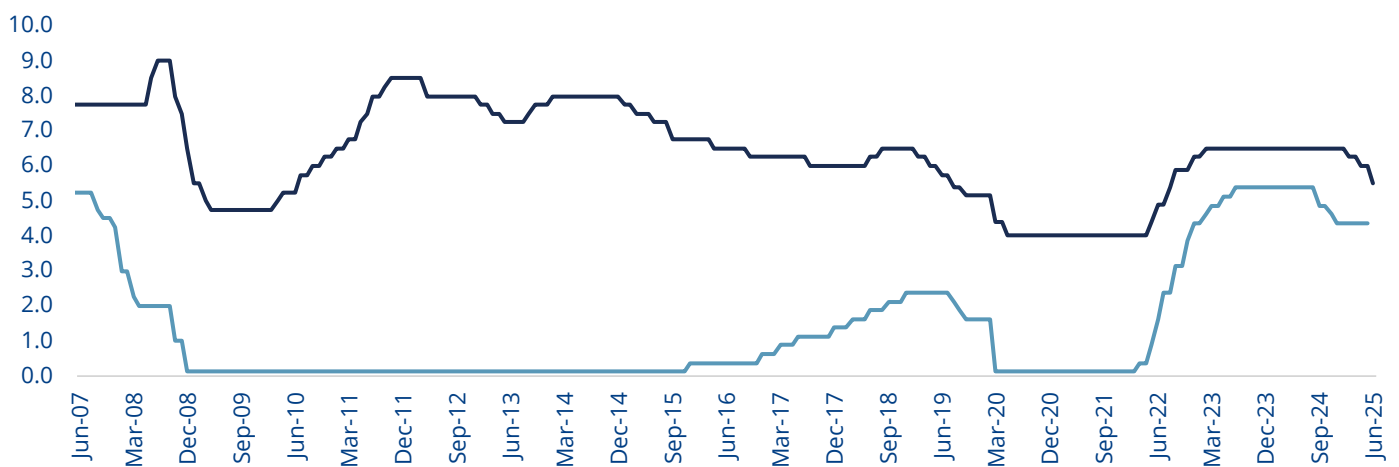
The investment implication: India’s reacceleration is underway

Our base case, outlined earlier this year, was that India would enter a “reflationary phase” by mid-2025. That thesis is now playing out. Importantly, valuations remain below their historical peaks despite the improving macro backdrop—offering a rare alignment of improving growth and undemanding valuations.

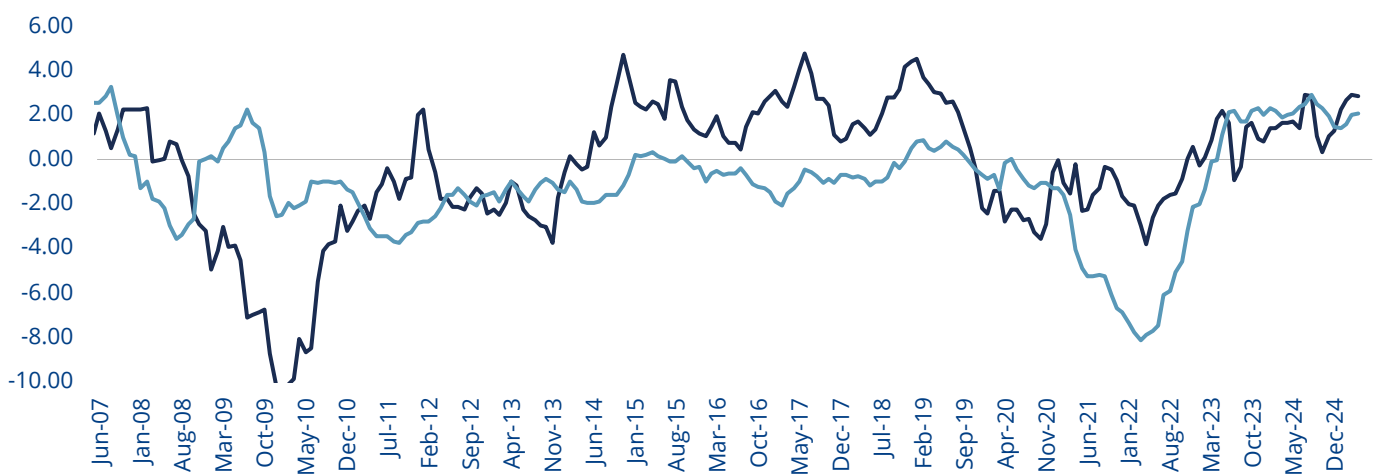
Moreover, India’s nominal and real interest rate differentials vis-à-vis the U.S. and Europe have compressed to multi-decade lows—reflecting a marked departure from historical norms. This shift underscores a growing recognition among global investors that India merits a structurally lower risk premium, supported by strengthened macroeconomic stability, credible policy frameworks, and resilient domestic fundamentals.

Exhibit 2: Nominal and real interest rates in India and the US: differentials compressed to multi-decade lows

Nominal Policy Rates



Real Policy Rates



— India — US

Source: Allianz Global Investors

Risks to monitor

Of course, no cycle is without its risks. A global hard landing or disorderly tightening in financial conditions abroad could still impact flows and sentiment. While India's economic sensitivity to global GDP is relatively low, financial markets are globally integrated.

Conclusion: Time to lean in

India is not just recovering—it is reaccelerating. With tailwinds from fiscal policy, supportive monetary moves, and improving earnings breadth, the foundations are in place for a multi-quarter expansion. For global allocators seeking both growth and improving macro stability, India

stands out. Furthermore, the relatively low correlation of Indian equities to other markets adds diversification in times of global uncertainty.

Our perspective on valuations has been outlined in previous notes available here:

<https://www.allianzgi.com/en/insights/outlook-and-commentary/india-a-justifiable-premium>

<https://www.allianzgi.com/en/insights/outlook-and-commentary/update-on-india-valuations>

We thus remain confident about India equity — for the right reasons.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).