# BANKING MONTHLY

JUNE 2025

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## Prevailing Rates

### I. Policy Rates

| | |
|---|---|
| Repo Rate | 5.50% |
| Reverse Repo Rate | 3.35% |
| Standing Deposit Facility Rate | 5.25% |
| Marginal Standing Facility Rate | 5.75% |
| Bank Rate | 5.75% |

### II. Lending/Deposit Rates

| | |
|---|---|
| Base Rate | 9.10% -10.30% |
| MCLR Rate (Overnight) | 8.15% -8.25% |
| Savings Deposit Rate | 2.50% -2.75% |
| Term Deposit Rate > | 5.85% -6.70% |

### III. Reserve Ratio

| | |
|---|---|
| CRR | 4.00% |
| SLR | 18.00% |

## Global Banking:

### World Bank predicts worst decade for global growth since 60s

The global economy will see the slowest decade for global growth since the 1960s as the effect of Donald Trump's tariffs are felt, as per the World Bank predictions. Nearly two thirds of countries in the world had their growth forecasts cut from the bank's last set of predictions six months ago. The Bank predicts global growth of only 2.3% in 2025, which is 0.4% lower than the forecast in January, and for 2027, it predicts growth of 2.6%. Japan, Europe and the US were among those downgraded in the bank's twice yearly report. The Bank said there would be further cuts in growth if the US increased tariffs, and warned of rising inflation.

**Our comments:**

The World Bank downgraded its growth forecast for the US in both 2025 and 2026, because of escalating trade tensions rattling investor confidence as well as private consumption. However, it did not downgrade the US's main rival, China, which the bank said had enough financial stability to weather the significant headwinds from global political uncertainty.

### Trump's auto tariffs strike at the heart of Japan's economy

US President Donald Trump's tariffs threaten to batter Japan's vital auto industry and derail the country's long-standing efforts to engineer a sustainable economic recovery. With the 25% US tariff now in place on cars and auto parts, Japan's major automakers including Toyota Motor Corp., Honda Motor Co., Mazda Motor Corp. and Subaru Corp. are bracing for a collective hit of more than USD19bn this fiscal year alone. And it's not just the household names feeling the pain.

**Our comments:**

The trade shock hits just as Japan is starting to see signs of a virtuous cycle a loop of rising wages, stronger spending and higher prices that policymakers hope will lift the economy out of its decades-long stagnation. Now, with auto companies reconsidering wage hikes and pulling back on growth plans, the momentum that Japan has worked hard to build is at risk of stalling. Around 64% of polled economists see the tariffs sparking a recession in the world's fourth-largest economy.

### Bank of Japan to slow cuts to government bond purchases from April next year as growth risks loom

Japan's Central Bank said it would slow the cuts to government bond purchases from April next year, while it also held the benchmark rate at 0.5% amid rising growth risks. Bank of Japan, whose rate decision was in line with expectations from economists polled by Reuters, reiterated it would continue reducing its monthly purchases of Japanese government bonds by about YEN400bn (USD2.76bn) per quarter to about YEN3tn until March 2026. It will then slow the cuts to YEN200bn per quarter from April 2026 to March 2027, aiming to reach a monthly purchase amount of about YEN2tn. The Central Bank will conduct another interim assessment at its June 2026 monetary policy meeting.

**Our comments:**

The BOJ explained that the move was aimed at improving the functioning of the JGB markets in a manner that supports stability in the markets. Its purchase rate is expected to be about YEN4.1tn yen of JGBs a month during the quarter ending June 2025.

## Indian Economy:

### Monetary Policy: June 2025

RBI's Monetary Policy Committee (MPC) met from 4th-6th June'25 to review the benchmark interest rates and announced its bi-monthly policy. The surprise has been the 50bps cut in the repo rate (as major expectations were of a 25bps cut) and change of stance to **Neutral**, based on the steady decline in inflation and a comprehensive assessment of the current macroeconomic conditions. Further, it has also cut the CRR by 100bps to 3% from the earlier 4%.

***RBI has cut the repo rate by 50bps and it now stands at 5.50% and changed the stance to Neutral; reverse repo rate remains unchanged at 3.35%. The CRR has also been cut by 100bps to 3% (from the earlier 4.0%***)

**Highlights of Monetary Policy:**

- **Repo Rate:** 5.50% (6.00% in April 2025)
- **Reverse Repo Rate:** 3.35% (3.35% in April 2025)
- **CRR:** has been reduced to 3% from earlier 4%
- **Standing Deposit Facility:** stands adjusted at 5.25%
- **Bank Rate:** 5.75% (6.25% in April 2025)
- **MSF:** 5.75% (6.25% in April 2025)
- **GDP Projection:** Real GDP growth for FY26 is projected at 6.5%. Q1FY26 at 6.5%, Q2FY26 at 6.70%, Q3FY26 at 6.6% and Q4FY26 at 6.3%
- **CPI Inflation:** CPI forecast for FY26 is projected at 3.7%. Q1FY26 at 2.9%, Q2FY26 at 3.4%, Q3FY26 at 3.9% and Q4FY26 at 4.4%

### Our View:

The MPC came with a pack of surprises starting with a 50bps rate cut (majorly 25bps was factored in) and then to add to it was the CRR cut of 100bps (3% from earlier 4%). This is all in favor of the single word; called Growth, indeed an extremely pro-growth policy must say. With 100bps cut in quick succession since Feb'25; the monetary policy was left with limited space to support growth. And hence the stance has also been changed to Neutral from the earlier Accommodative; indicating that rate cuts ahead can't be taken for granted, they will be more data dependent going forward. This has been a move to front-load liquidity in order to get to a new growth trajectory as the CRR alone is estimated to release Rs2.5lk-cr into the financial system (lead to further cuts in the deposit rates). All across for the economists, the terminal rate in the cycle was 5.5% and hence if improvement in growth continues there could be no further rate cuts during the year. The concrete statement that price stability is necessary but not a sufficient condition for growth clearly indicates that the Governor is open to action; and at least, for the next two to three policies on the repo rate front, if significant downside to estimates of growth is seen then one could expect some change, otherwise a pause in the near term needs to be factored. The overall GDP growth projection for FY26 remains unchanged at 6.5%, but inflation target is cut to 3.7%. Overall, the MPC would assess the incoming data and the evolving outlook to chart out the future course of monetary policy in order to strike the right growth-inflation balance.

| FINAL VERDICT | | | |
|---|---|---|---|
| **MPC Meetings** | **REPO** | **REVERSE** | **CURRENT STANCE** |
| *June 2025* | *5.50%* | *3.35%* | **Stance changed to Neutral** |
| **April 2025** | **6.00%** | **3.35%** | |

## Indian Economy:

### India's economy resilient, but global risks rising, says Finance Ministry

India's economy remains on firm footing, but persistent global headwinds, ranging from trade frictions and policy uncertainty to ongoing geopolitical tensions, could weigh on future growth, according to the Finance Ministry. These external challenges could potentially impact India's growth trajectory and warrant close and continuous monitoring. Overall, the outlook for the Indian economy remains positive, demonstrating resilience amid a turbulent global environment, supported by robust domestic demand, easing inflationary pressures, a resilient external sector, and a steady employment situation. Despite the external volatility, the Ministry said that robust domestic demand, particularly a rebound in rural consumption, steady investment activity, and a positive shift in net exports, underpinned the economy's resilience.

**Our comments:**

Looking ahead, the government maintains its growth outlook for 2025-26 at 6.3% to 6.8%, supported by rising private consumption, especially in rural areas, and continued expansion in services exports. Independent forecasts by various agencies also fall within a similar range, projecting India's growth between 6.3% and 6.7% for the fiscal year. While domestic indicators have remained largely positive, the Finance Ministry noted that financial markets experienced volatility due to external developments.

### World Bank retains India FY26 GDP growth forecast at 6.3%

The Indian economy is seen growing by 6.3% in 2025-26, with the World Bank retaining its GDP growth forecast for the current fiscal having cut it by 40bps in April 2025 even as it warned that the pace of investments is likely to slow down due to global uncertainty. However, even at the projected 6.3%, India will remain the fastest growing large economy. India is projected to maintain the fastest growth rate among the world's largest economies, at 6.3% in FY2025/26; although the forecast has been downgraded by 0.4% relative to January projections, with exports dampened by weaker activity in key trading partners and rising global trade barriers. Investment growth is expected to slow, primarily reflecting a surge in global policy uncertainty.

**Our comments:**

The Bank, has cut its growth forecast for India by 20bps for FY27 to 6.5%. The GDP is seen growing 6.7% in FY28, with economic activity partly supported by robust services activity that contributes to a pickup in exports. The World Bank made wide-ranging reductions to growth forecasts for nearly 70% of economies due to heightened trade tensions and policy uncertainty that is seen driving down global growth in 2025 to 2.3% the slowest pace since 2008 outside of outright global recessions. It had in January 2025 forecast global growth for 2025 at 2.7%. Growth in 2026 is expected to pick up only slightly to 2.4% as against 2.7% predicted in January 2025 and somewhat further to 2.6% in 2027.

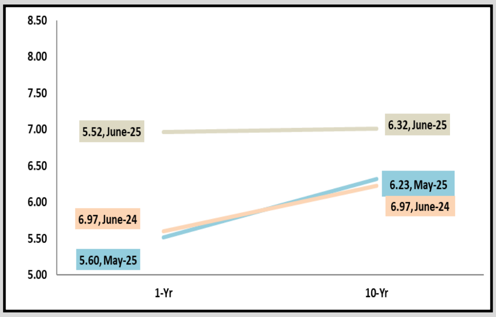
### S&P Global Ratings raises India's GDP growth forecast to 6.5% for FY26

S&P Global Ratings has raised its forecast for India's GDP growth to 6.5% for FY26 from the previous 6.3%. The forecast assumes a normal monsoon, lower crude oil prices, income-tax concessions and monetary easing.

**Our comments**

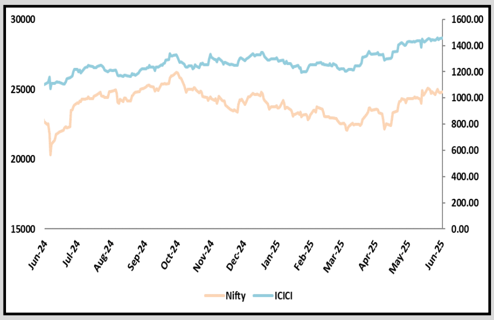
S&P in its report stated that many regional economies had a good start to 2025 on robust domestic demand. Several received a temporary boost from a front-loading of exports to the US ahead of the anticipated tariffs. In India, growth picked up after a soft patch. It added that domestic demand resilience is particularly relevant in limiting the economic slowdown in economies less exposed to goods exports, such as India, as well as the Philippines.

**Exhibit 1: 1 Year Yield v/s 10 Year Yield**




*Source: Investing.com, Progressive Research*

**Exhibit 2: ICICI v/s Nifty**




*Source: Ace Equity, Progressive Research*

## Coverage News:

### ICICI Bank sells 18.8% stake in NIIT-IFBI

ICICI Bank has sold its entire shareholding of 18.8% in equity shares of NIIT Institute of Finance Banking and Insurance Training (NIIT-IFBI), an associate of the bank, to NIIT for Rs61.1mn. Consequently, NIIT-IFBI has ceased to be an associate of the bank.

### ICICI Bank raises Rs10bn via tier-II bonds amid strong demand

In a move to strengthen its capital base, ICICI Bank, tapped the domestic debt capital market to raise Rs10bn via tier-II bonds, as per news reports. The issuance comes at a time when market yields are rising, particularly for long-term papers, indicating a strategic capital-raising effort in a volatile rate scenario.

**Our comments**

The company has raised Rs10bn through tier-II bonds at a coupon rate of 7.45%. The fundraising was conducted through the domestic debt capital market in end of June. The issuance comprised a base issue size of Rs5bn with a green shoe option of Rs5bn. The tier-II bonds have a maturity of 15 years and include a call option after 10 years.

## Non Coverage News:

### SBI pays Rs8,076.84cr dividend to the govt. for FY25

SBI paid a dividend of Rs80.77bn to the government for FY25. SBI declared a dividend of Rs15.90 per share, higher than Rs13.70 per equity share distributed for the previous year. SBI had paid a dividend of Rs69.59bn to the government last year.

**Our comments:**

The Bank reported a record net profit of Rs70,901cr in 2024-25, compared to Rs61,077cr in the previous year. This marks a 16% increase in the annual profits.

### Union Bank approves plan to raise Rs60bn via equity, debt instruments

The Board of Union Bank of India has approved the plan to raise capital worth upto Rs60bn through a mix of equity and debt instruments. The lender will raise equity capital not exceeding Rs30bn as part of an overall Rs60bn fund raise limit, which will include either one or a combination of several equity instruments like FPO, rights issue, QIP and more, subject to shareholders' approval.

**Our comments:**

The rest of the Rs30bn will be raised through debt instruments, with up to Rs20bn aimed through Basel III compliant Additional Tier 1 (AT 1) bonds and up to Rs10bn through tier 2 bonds.

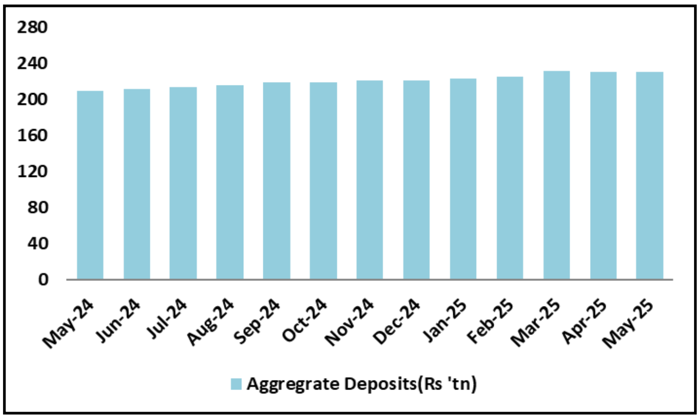
### Yes Bank Board approves raising Rs160bn via mix of equity, debt

Yes Bank Board has approved raising of Rs160bn through a mix of equity and debt to fund business growth. The board approved raising of funds by way of issuance of eligible equity securities through various permissible means, provided that the aggregate amount to be raised by issuance of such securities would not exceed Rs75bn and would not result in an aggregate dilution of more than 10% (including dilution on account of issuance of equity securities in terms of this item and conversion of any convertible debt securities approved by the board).

**Our comments:**

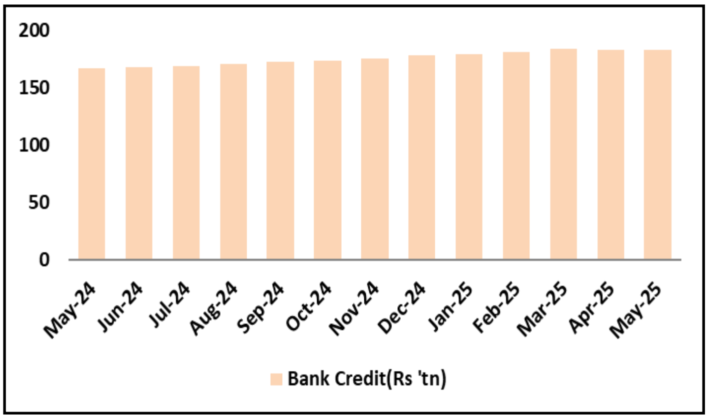
The Board also gave its nod to raising funds by way of issuance of eligible debt securities in Indian or foreign currency, provided that the aggregate amount to be raised by issuance of such securities would not exceed Rs85bn and would not result in an aggregate dilution of more than 10%.

**Exhibit 03: Trend of Aggregate Deposits of SCBs**



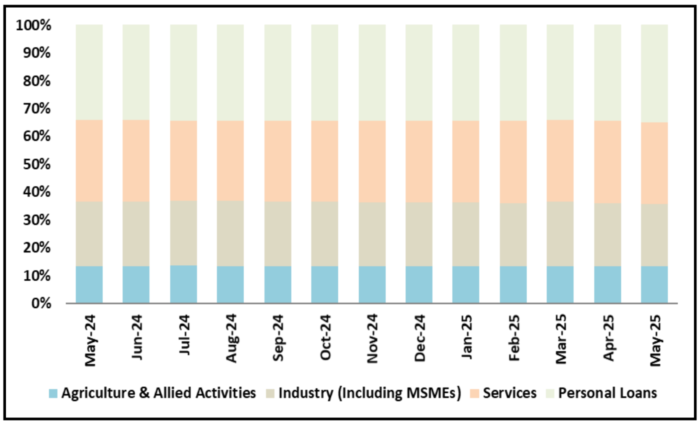

*Source: Investing.com, Progressive Research*

**Exhibit 04: Trend of Bank Credit of SCBs**



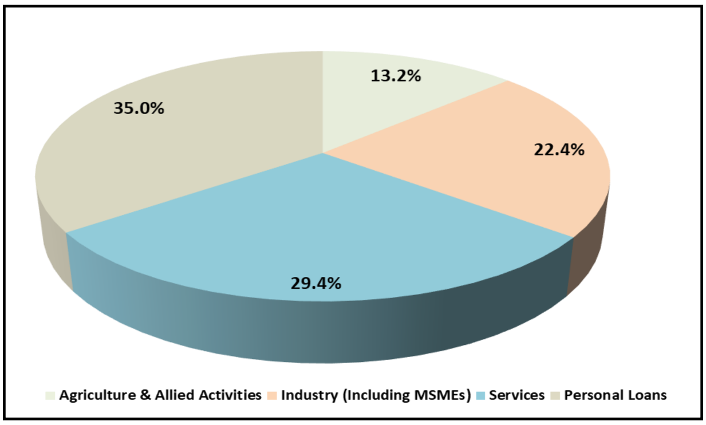

*Source: RBI, Progressive Research*

**Exhibit 05: Deployment of Gross Bank Credit by major sectors**



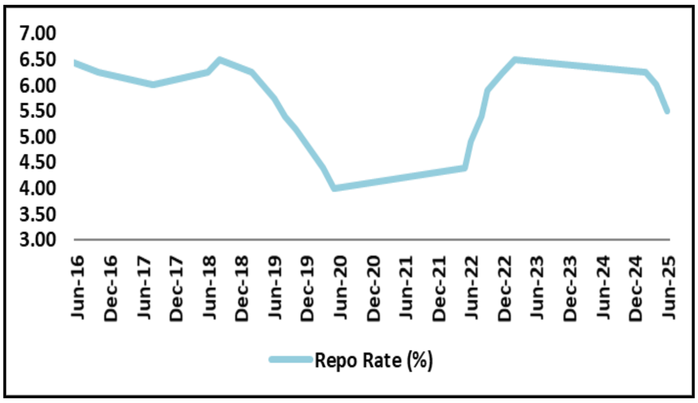

*Source: RBI, Progressive Research*

**Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in May**



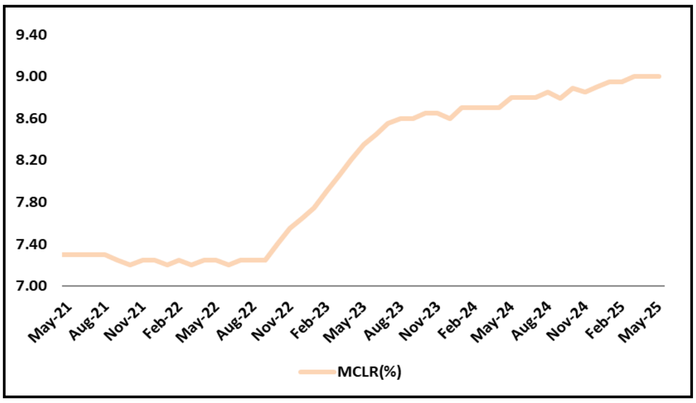

*Source: RBI, Progressive Research*

**Exhibit 07: Repo Rate Trend**



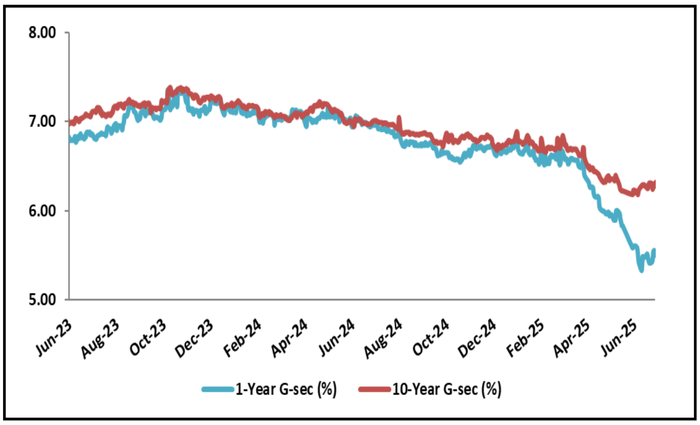

*Source: NSE, Progressive Research*

**Exhibit 08: MCLR trend in the last 3 years**



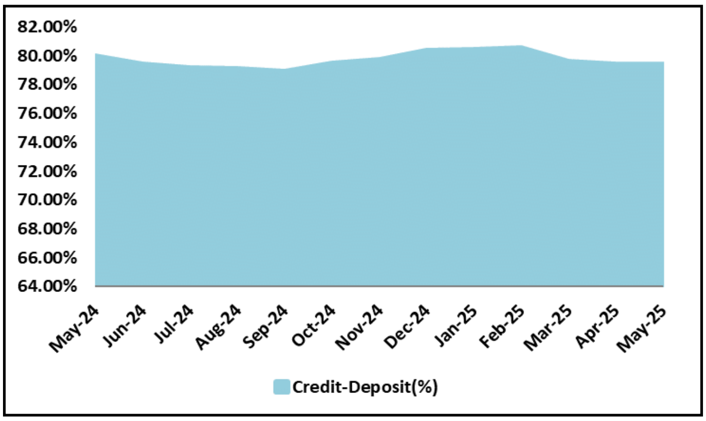

*Source: Ace Equity, Progressive Research*

**Exhibit 09: RBI trying to keep the gap between short and long term bond in check**



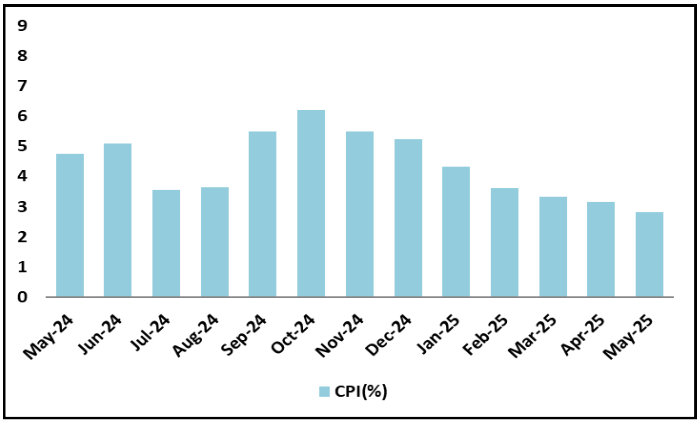

*Source: Investing.com, Progressive Research*

**Exhibit 10: Credit-Deposit ratio of the SCBs in May-25**



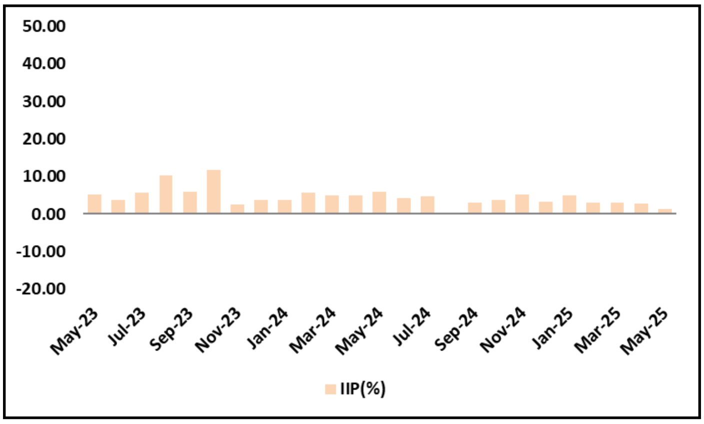

*Source: RBI, Progressive Research*

**Exhibit 11: Retail Inflation Range Bound**



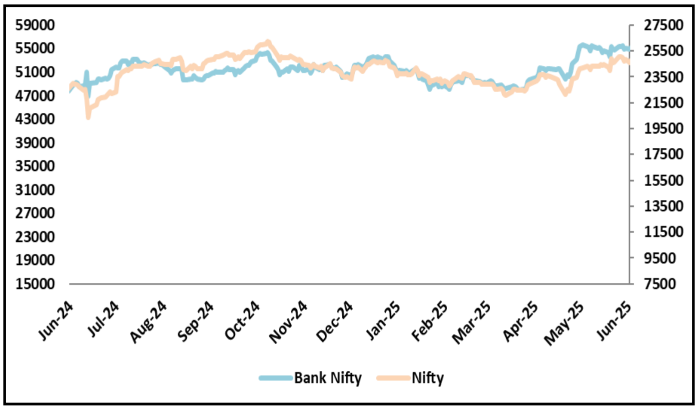

*Source: RBI, Progressive Research*

**Exhibit 12: Change in Y-o-Y IIP data**



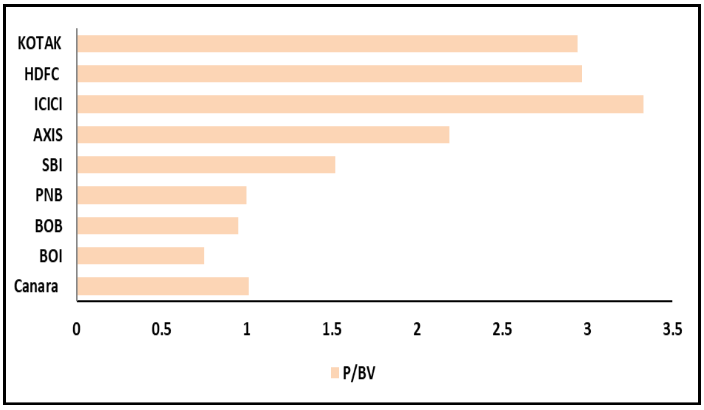

*Source: RBI, Progressive Research*

**Exhibit 13: Bank Index v/s Nifty Index**




*Source: NSE, Progressive Research*

**Exhibit 14: Major Banks' Valuation as on 30th June, 2025**




*Source: Ace Equity, Progressive Research*

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