Monetary Policy-June 2025

MPC Cuts Repo Rate by 50bps; Stance changed to Neutral

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%

Some Highlights:

- CPI headline inflation continued its declining trajectory in March and April, with headline CPI inflation moderating to a nearly six-year low of 3.2% (on a y-o-y basis) in Apr'25. This was led mainly by food inflation which recorded the sixth consecutive monthly decline. Core inflation remained largely steady and contained during March-April, despite increase in gold prices exerting upward pressure
- Agriculture sector remains strong; with a very good harvest in both the kharif as well as rabi cropping seasons, the supply of major food crops is comfortable. Industrial activity is gaining gradually, even though the pace of recovery is uneven. The services sector is expected to maintain momentum. PMI services stood strong at 58.8 in May'25 indicating robust expansion in activity
- On the demand side, private consumption, the mainstay of aggregate demand, remains healthy, with a gradual rise in discretionary spending. Rural demand remains steady, while urban demand is improving. Investment activity is reviving as reflected by high-frequency indicators
- The healthy balance sheets of banks and corporates, government's continued thrust on capex, elevated capacity utilisation, improving business optimism and easing of financial conditions should help further revive investment activity
- With the moderation in trade deficit in Q4FY25, alongside strong services exports and remittance receipts, the CAD for 2024-25 is expected to remain low. As imports grew faster than exports, trade deficit however widened during the month. The CAD for 2025-26 is expected to remain well within the sustainable level
- On the financing side in 2024-25, the FPIs to India dropped sharply to USD1.7bn, as the investors booked profits in equities while net FDI too moderated. As on 30th May, 2025, India's foreign exchange reserves stood at USD691.5bn. These are sufficient to fund more than 11 months of goods imports and about 96% of external debt outstanding
- A total amount of Rs9.5lk-cr of durable liquidity was injected into the banking system since January. As a result, after remaining in deficit since mid-December, liquidity conditions transitioned to surplus at the end of March
- To further provide durable liquidity, it has been decided to reduce the cash reserve ratio (CRR) by 100bps to 3.0% of net demand and time liabilities (NDTL) in a staggered manner during the course of the year. This reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning 6th September, 4th October, 1st November and 29th November, 2025. The cut in CRR would release primary liquidity of about Rs2.5lk-cr to the banking system by December 2025
- Spillovers emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth

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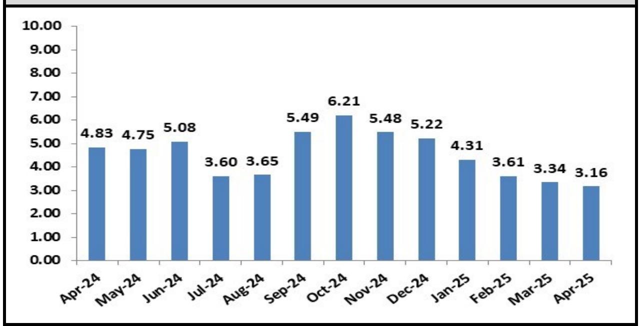
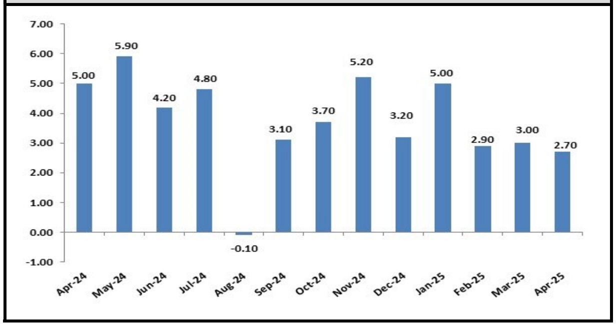
Inflation Rate-CPI (%)



Source: tradingeconomics.com

Index of Industrial Production-IIP (Change y-o-y %)



Source: tradingeconomics.com

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%**	

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