06 June 2025

# RBI Doubles Down on Supporting Growth, but Change in Stance to Neutral Signals Likely Pause Ahead

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- In its June policy meeting, the RBI delivered a surprise double-bonanza, front-loading policy easing through a larger-than-expected 50-bps repo rate cut and a 100-bps CRR cut.
- The RBI emphasised the need for front-loading of monetary easing to convey certainty to the markets and speed up the transmission of policy rates. The move was facilitated by broad-based disinflation and economic growth remaining below the aspirational level of 7%-8%.
- The 50-bps repo rate easing, which brought the policy rate to 5.5%, exceeded market expectations and our own forecast of a 25-bps cut. The decision was not unanimous, with one MPC member favouring a smaller 25-bps cut.
- Alongside the repo rate cut, the RBI also announced a 100-bps reduction in CRR to 3%, with implementation staggered over September–November. This move is expected to inject Rs 2.5 lakh crore of durable liquidity by December 2025, in addition to Rs 9.5 lakh crore already infused since January.
- With systemic liquidity already in surplus, the RBI's aggressive CRR cut may lower the WACR to below 5.5%, amplifying easing beyond the announced repo cut.
- The RBI revised down its FY26 inflation forecast by 30-bps to 3.7%, citing easing food prices, a normal monsoon forecast, and weak global commodity price trends.
- Despite global uncertainty, the RBI retained its FY26 real GDP growth forecast at 6.5%, citing a strong agricultural outlook, continued momentum in services, income tax cuts, and robust public capital expenditure. Private investment recovery, however, remains tentative.
- On future guidance, the RBI shifted the policy stance from 'Accommodative' to 'Neutral'. The Governor noted that with a cumulative 100-bps reduction in the policy rate since February 2025, "monetary policy is left with very limited space to support growth".
- Accordingly, we believe that while further monetary easing is possible, it is not imminent and would require a material downside surprise to growth. As such, we expect a pause in the next MPC meeting in August.

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## In a Surprise Move, the RBI Front-Loads Policy Easing with Double Bonanza of 50-bps Repo Rate Cut and 100-bps Reduction in CRR

***In a surprise move, the Monetary Policy Committee (MPC) front-loaded policy easing by cutting the repo rate by 50 basis points (bps) to 5.5%, exceeding both consensus expectations and our forecast of a 25-bps cut in today's meeting.*** Consequently, the ***Standing Deposit Facility (SDF) Rate stands adjusted to 5.25%, and the Marginal Standing Facility (MSF) Rate and Bank Rate to 5.75%***. However, the decision was not unanimous, with one MPC member, Shri Saugata Bhattacharya, advocating for a smaller 25-bps cut***.***

The space for a larger rate cut was enabled by broad-based moderation in inflation, while economic growth continues to remain below the aspiration levels of 7%-8%, as indicated by the governor. The Governor, in the post-policy press conference, emphasised the need for front-loaded monetary easing to convey certainty to markets and to facilitate faster policy transmission, which typically takes 6–9 months. The tone of the policy statement is assessed to be dovish, with the MPC opting for a larger rate cut to support growth, particularly amid the easing of price pressures. However, this is balanced by recalibrated future guidance, with a shift to a neutral policy stance, indicating no imminent rate actions in the near future and that further actions will be data-dependent.

## RBI Changes the Stance to Neutral; We Expect a Pause in August Meeting

***The RBI shifted its policy stance from "accommodative" to "neutral," signalling a shift towards preserving future policy space.*** The Governor noted that with a cumulative 100-bps reduction in the policy rate since February 2025, ***"monetary policy is left with very limited space to support growth."*** With the inflation projection for FY26 at 3.7% and the repo rate now at 5.5%, the real policy rate is estimated at around 1.8%, which is still relatively high. ***We believe that while further monetary easing is possible, it is not imminent and would require a material downside surprise to growth.*** As such, we expect a pause in the next MPC meeting in August***.***

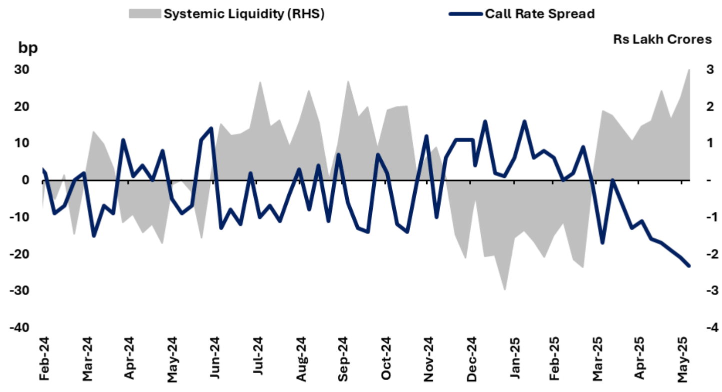
***Market Reaction***: With a larger-than-anticipated rate cut, the bond market initially cheered, with the 10-year G-sec yield hitting an intra-day low of 6.15% (vs. the previous close of 6.25%). The change in stance, likely reflecting a pause ahead, caused 10-year G-sec yields to increase, closing at 6.29% today. The USD/INR pair noted mild appreciation of 0.2% to close at ~85.63 today. Additionally, the equity markets also reacted, with the benchmark index closing 1% higher today.

## CRR Cut by 100-bps to Accelerate the Transmission of the Policy Rate Cuts

Alongside the larger repo rate cut, the RBI announced a 100-bps reduction in the Cash Reserve Ratio (CRR) to 3%, aimed at accelerating transmission. This is an aggressive move as the CRR has typically been around 4% or above, except during the COVID period. This CRR cut is expected to inject Rs 2.5 lakh crore of durable liquidity into the system by December 2025, reducing banks' funding costs and aiding the transmission of monetary policy easing to lending and deposit rates.

The CRR cut is intended to accelerate the transmission of policy rate reductions further. Implemented in a staggered manner—in four equal tranches of 25 bps each with effect from the fortnights beginning September 6, October 4, November 1 and November 29, 2025 —it will supplement Rs 9.5 lakh crore of liquidity already injected since January, through a combination of USD-INR buy-sell swap, term VRR auctions and open market operations (OMOs). So far, systemic liquidity has improved, with the average surplus rising to Rs 1.7 lakh crore (0.7% of Net Demand & Time Liabilities (NDTL)) in May, up from Rs 1.4 lakh crore in April, reversing a deficit seen in the four preceding months. As of early June (data till 5th June), the average surplus stands at Rs 2.9 lakh crore. This has led the overnight call rate to hover around the lower end of the LAF (Liquidity Adjustment Facility) corridor, ~ 5.77% in the current week. With today's action of repo rate and CRR, Weighted Average Call rate (WACR) is expected to trade in the range of 5.25-5.5%. The RBI has not committed to doing VRRR if WACR were to trade closer to the SDF rate (i.e. around 5.25%). If the WACR trade nears 5.25%, this would effectively mean stealth easing beyond 50-bps of the repo rate announced today.

## Spread between Overnight Call Rate and Repo Rate Widens as Overnight Call Rate Hovers Near the Lower End of LAF Corridor



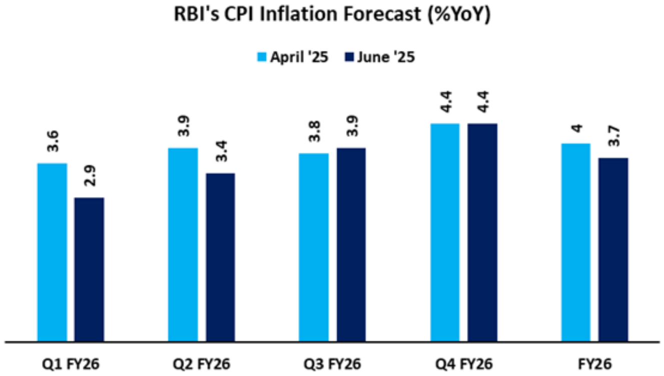

***Source: CMIE; Note: Recent call rate data is based on the average of June $2^{nd}$-June $5^{th}$.***

Looking ahead, surplus liquidity is expected to expand further, driven by the CRR cut, higher government expenditure supported by the Rs 2.7 lakh crore RBI dividend transfer (which pushed the government's cash balance above Rs 4 lakh crore as of May 23rd), and G-Sec buyback. This will likely offset the liquidity drain from the maturity of the RBI's net short position in the forward book and push out the need for a larger quantum of OMOs to the latter part of the year.

## RBI Inflation Forecast Revised Downwards; Notes War against Inflation Won

A key enabler for the front-loading of policy easing was the continued decline in headline CPI inflation, which fell to a near six-year low of 3.2% in April, owing to broad-based moderation in food prices, comfortably within the RBI's target band of 4% ±2%.  Core inflation also remained steady at 4.1%. Looking forward, the RBI maintained that the inflation outlook remains benign, supported by robust Rabi crop production, expectations of a normal monsoon, and likely easing in global commodity prices amidst weak global demand. In the post policy presser, the governor noted that the war against inflation is won, with inflation expected to align with the RBI's target of 4%. Indeed, the RBI revised its FY26 inflation forecast downward from 4.0% to 3.7%, in line with our estimate, while also highlighting risks from weather and tariff-related uncertainties. Quarterly inflation projections for Q1 and Q2 FY26 have been lowered to 2.9% and 3.4%, respectively (from 3.6% and 3.9%), while Q3 is slightly raised to 3.9% (+10-bps), and Q4 remains unchanged at 4.4%.

## Inflation Projection for FY26 Revised Downwards by 30-bps to 3.7%

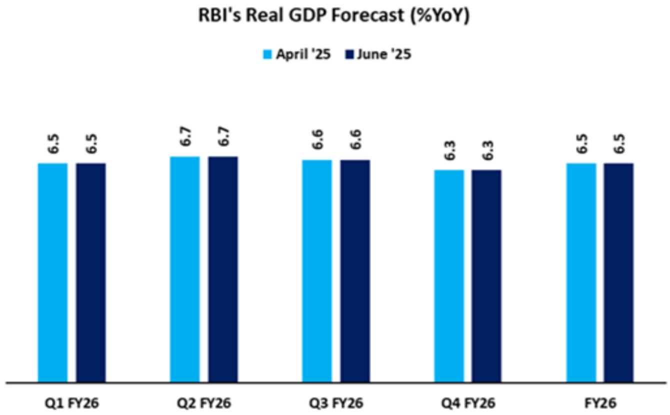



***Source: RBI; Note: April '25 and June '25 refer to projections given by the RBI in its April 2025 and June 2025 MPC updates, respectively.***

## Real GDP Projection for FY26 Retained at 6.5%

On the growth front, the RBI retained its FY26 GDP growth projection at 6.5%, slightly higher than our estimate of 6.2%. It expects agricultural prospects to improve further, supported by an above-normal monsoon, which would benefit the Kharif season and rural demand. At the same time, sustained momentum in the services sector is expected to support urban consumption. Recent income tax cuts are also expected to bolster urban demand recovery moderately. Additionally, robust government capital expenditure, healthy corporate and banking balance sheets, elevated capacity utilisation, improved business sentiment, and easier financial conditions are likely to support a recovery in investment activity.

## No Changes in Growth Projection for FY26




***Source: RBI; Note: April '25 and June '25 refer to projections given by the RBI in its April 2025 and June 2025 MPC updates, respectively***

That said, global uncertainties and the delayed recovery in broader consumption suggest that the outlook for private investment remains cautious. The external sector may gain from the recently concluded trade deal with the UK and progress on other trade agreements, though downside risks from ongoing global trade frictions persist.

Given the downward revision in inflation and the status quo on growth, coupled with a neutral stance, future rate actions will be largely data-dependent.

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