

Note on RBI's Monetary Policy June 2025:

RBI CUTS RATES BY 50 BPS MPC frontloads easing to boost growth

Policy Tools	MPC Policy (6th Jun)	MPC Policy (9th Apr)	Change
Repo	5.50%	6.00%	50 Bps ↓
MSF	5.75%	6.25%	50 Bps ↓
SDF	5.25%	5.75%	50 Bps ↓
Bank Rate	5.75%	6.25%	50 Bps ↓

- Policy Action:** The RBI's MPC delivered a strong pro-growth signal by cutting the repo rate by 50 basis points (vs. 25 bps expected) and reducing the CRR by 100 basis points. This aims to lower borrowing costs and infuse durable liquidity into the system.
- Liquidity Infusion:** The phased CRR cut is expected to significantly improve durable liquidity which stands at Rs. 3 lakh crore, with the CRR reduction and recent RBI dividend of Rs 2.7 Lakh Crore. The core liquidity surplus is now projected to be around INR 8 trillion. This will encourage banks to transmit lower rates swiftly and support rising credit demand.
- CRR Reduction:** The RBI has decided to reduce the Cash Reserve Ratio (CRR) by 1% (100 basis points) to 3% of banks' deposits (NDTL). This will be done gradually in four equal steps of 0.25% each, starting on September 6, October 4, November 1, and November 29, 2025. By December 2025, this move will add about ₹2.5 lakh crore of fresh liquidity into the banking system.
- Policy Stance:** The shift from an 'accommodative' to a 'neutral' stance reflects a calibrated, data-dependent approach by the MPC. After having moved to an accommodative stance in the February meeting, the Committee has now reverted to neutral stance following a front-loaded rate cut. This signals policy flexibility while continuing to support near-term growth. However, it also suggests limited scope for further easing unless inflation moderates meaningfully.
- Inflation & Real Rates:** The pre-policy real interest rate of 2% was relatively elevated, especially against the backdrop of global uncertainties. In this context, a more accommodative policy stance was appropriate to reinforce domestic growth momentum. With the FY26 inflation forecast revised down to 3.7% from 4%, the real interest rate has eased to 1.8%, though it remains on the higher side.
- Outlook:** We expect the RBI to pause in the August and October meetings. Future decisions will depend on data and consider global risks, tariff issues, and how domestic inflation and growth evolve—especially based on the timing and spread of the monsoon.
- Market Impact:**
 - Overnight and money market rates are expected to fall to the SDF rate of 5.25%.
 - Short to medium duration bonds are expected to stay strong; Banking and PSU Funds, **Liquid Funds, and Money Market Funds could benefit.**
 - Long duration bonds reacted negatively due to the stance change, leading to profit booking after pre-policy long buildup. Despite the correction, the G-sec to repo spread is now attractive. With no major negative surprises expected, this presents a suitable carry trade opportunity. GILT funds are likely to perform well over the long term.

RBI's Quarterly CPI inflation forecast

Q1FY26	2.9% from 3.6%	Lowered
Q2FY26	3.4% from 3.9%	Lowered
Q3FY26	3.9% from 3.8%	Raised
Q4FY26	4.4% from 4.4%	No change
RBI FY26 CPI estimates cut to 3.7% from 4.0%		

RBI Real GDP growth estimates

Q1FY26	6.5% from 6.5%	No Change
Q2FY26	6.7% from 6.7%	No Change
Q3FY26	6.6% from 6.6%	No Change
Q4FY26	6.3% from 6.3%	No Change
RBI FY26 GDP growth estimates remains at 6.5%		

Source: RBI-Monetary Policy Statement 6th June 2025

MPC – Monetary Policy Committee, MSF – Marginal Standing Facility, SDF – Standing Deposit Facility, CRR – Cash Reserve Ratio, OMO – Open Market Operations, VRR – Voluntary Retention Route, WACR – Weighted Average Call Money Rate, CPI – Consumer Price Inflation

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