

## RBI Policy - June 2025 - Key Takeaways

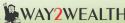
## **RBI Monetary Policy**

## RBI on Growth, Inflation

Repo Rate	Cut by 50bps
Now at 5.5% v/s 6.0%	Coi by Jobbs
Standing Deposit Facility	Cut by 50bps
Now at 5.25% v/s 5.75%	
MSF Bank Rate	Cut by 50bps
Now at 5.75% v/s 6.25%	
Policy Stance	changed
Neutral	

FY26 GDP Growth	Projected at 6.5% from 6.5%
FY26 Inflation Outlook	Projected at 3.7% from 4%

- Another interest rate drop, the third in five years In his third Monetary Policy Committee (MPC) meeting, new RBI Governor Sanjay Malhotra reduced the reporate by 50 basis points to 5.5% on June 6, 2025, aiming to stimulate economic growth. Alongside the rate cut, the monetary policy stance was shifted to 'Neutral,' signaling a clear focus on sustainably aligning inflation with the target while supporting growth. These measures align with the objective of achieving the medium-term Consumer Price Index (CPI) inflation target of 4%, within a tolerance band of  $\pm 2\%$ .
- Growth Outlook Global economic uncertainty has eased slightly since the MPC's April meeting, driven by a temporary tariff reprieve and optimism around trade talks. However, risks remain high, dampening sentiment and global growth outlook. As a result, multilateral agencies have downgraded global growth and trade forecasts. Market volatility has subsided recently, with equities recovering, and declines in the dollar index and crude prices, although gold remains elevated. As per NSO estimates released on May 30, 2025, India's real GDP grew by 7.4% in Q4FY25, up from 6.4% in Q3. Real gross value added (GVA) rose 6.8% in Q4. For FY25, GDP growth stood at 6.5%, while GVA growth was 6.4%.
- Inflation Headline CPI inflation continued to ease in March and April, reaching a nearly six-year low of 3.2% in April 2025, mainly due to a sustained decline in food inflation. Fuel prices saw a return to inflation, partly due to higher LPG prices, while core inflation remained stable despite rising gold prices. The inflation outlook remains favorable, supported by record wheat and higher pulse output from the Rabi season and prospects of an above-normal, early monsoon, boosting Kharif production. Inflation expectations are moderating, especially among rural households. Key commodity prices, including crude oil, are also expected to stay soft. However, weather and tariff-related risks persist. Assuming a normal monsoon, CPI inflation for FY26 is projected at 3.7%, with quarterly estimates ranging from 2.9% to 4.4% from Q1 to Q4.
- External Sector With a lower trade deficit in Q4FY25, supported by strong services exports and remittances, the current account deficit (CAD) for the year is expected to stay low. Despite global uncertainties, merchandise trade remained strong in April 2025, though the trade deficit widened as imports outpaced exports. However, the surplus in services and remittances is likely to offset this. CAD for 2025-26 is projected to remain within sustainable limits. On the financing side, FPI inflows dropped to \$1.7 billion as investors booked equity profits, and net FDI moderated due to higher repatriation and outward flows, though gross FDI rose 14%. ECBs and NRI deposits saw increased inflows. Forex reserves stood at \$691.5 billion, ensuring strong external sector resilience.
- Liquidity and Financial Market Since January, ₹9.5 lakh crs of durable liquidity was injected into the banking system, shifting liquidity from deficit to surplus by end-March. This is reflected in weak VRR auction demand and high average SDF balances of ₹2.0 lakh crs during April-May. Consequently, the weighted average call rate (WACR) remained near the lower end of the policy corridor, aiding short-term rate transmission, though credit market transmission remains lagged. To support liquidity further, the RBI will cut the CRR by 100 bps to 3% of NDTL in four phases starting September 2025, releasing ₹2.5 lakh crs by December. This will ease funding costs and boost credit transmission. Overall, banks and NBFCs remain stable, with strong capital, improved asset quality, and easing retail loan stress – though MFI stress persists. Scheduled Commercial Banks (SCBs) and NBFCs continue to exhibit strong financial health, supported by improved asset quality, adequate liquidity buffers, and stable profitability. As of December 2024, the credit-deposit ratio stood at 81.84%, similar to the previous year. While stress in unsecured personal loans and credit card portfolios has reduced, pressure in the microfinance segment persists. Institutions are adjusting business models, enhancing credit assessment, and boosting collections to manage emerging risks.





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