

RBI Monetary Policy Insights: Third Consecutive Rate Cut to Boost Growth

06 June 2025

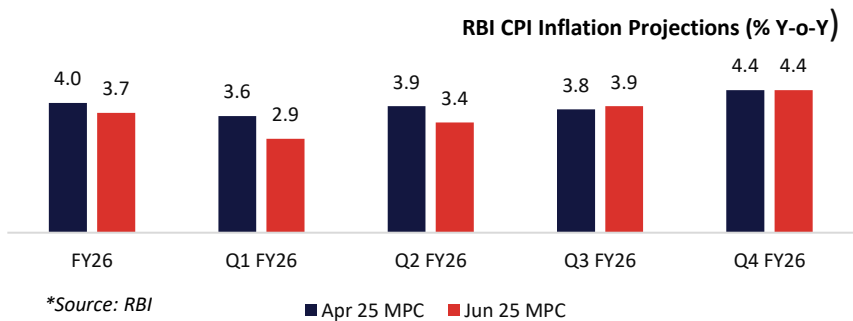
To provide certainty to the markets, the RBI frontloaded a 50 bps cut in the repo rate along with a 100 bps reduction in the CRR signaling that Monetary Policy Committee’s scope for further rate cuts is now limited. This move aimed to boost liquidity, which not only improves cash flow but also reassures banks. According to the RBI Governor, the transmission of the repo rate cut has been much quicker than in previous cycles. Money market rates have fallen by 50 bps, while credit market rates have dropped by around 40 bps. The recent monetary policy decisions are underpinned by a significant easing of inflation over the past six months. Inflation has dropped from levels above the tolerance band in October 2024 to a current rate of 3.2 percent.

KEY POLICY ANNOUNCEMENTS:

- Policy repo rate further reduced by 50bps to 5.50%;
- MSF at 5.75% and Standing Deposit Facility (SDF) at 5.25%
- Policy stance changed to ‘Neutral’ from Accommodative
- CRR reduced by 100 bps in four tranches, from 4% to 3%.
- Inflation forecast further reduced to 3.7% in FY26 from 4.0% .

INFLATION TREND –FOOD PRICES EASING

CPI headline inflation continued to decline in March and April, driven mainly by a sixth consecutive monthly drop in food inflation and is expected to remain soft, while core inflation should stay moderate, helped by easing international commodity prices amid the global economic slowdown. Accordingly, the inflation forecast for the year has been revised downward from 4.0% to 3.7%. Record wheat production and higher output of important pulses during the Rabi season should ensure sufficient food supplies. Looking ahead, an early and above-normal monsoon is encouraging for the Kharif crop prospects. This positive outlook is reflected in moderating inflation expectations, especially among rural households. Despite these positive signs, to stay vigilant about potential risks from weather uncertainties and evolving tariff issues that could affect global commodity prices.



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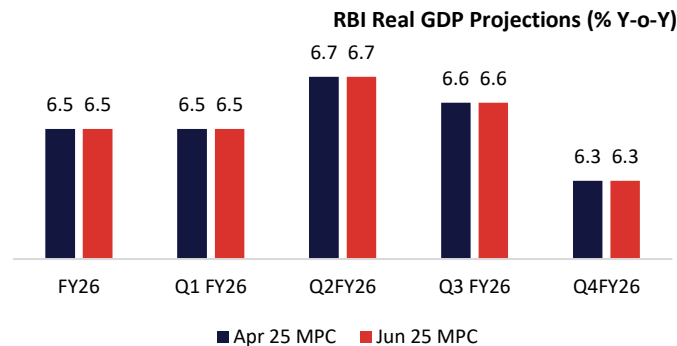
REPO RATE TREND

Jun,25	5.50%
Apr,25	6.00%
Feb,25	6.25%
Dec,24	6.50%
Oct,24	6.50%
Aug,24	6.50%
Jun,24	6.50%
Apr,24	6.50%
Feb,24	6.50%
Dec,23	6.50%
Oct,23	6.50%

The annual inflation rate in India fell to 3.16% in April of 2025, the lowest since July of 2019, from 3.34% in the previous month. Food prices, which accounts for nearly half of the consumer price basket, rose only 1.78%, the least since October 2021, and down from 2.69% in March. In turn, inflation was loosely unchanged for housing (3.00% vs 3.03%) and picked up sharply for fuel and light (2.92% vs 1.48%) as base effects for the latter offset lower energy costs in the wholesale market. From the previous month, consumer prices rose by 0.31%, rebounding from the 0.26% drop in the previous month to halt five consecutive declines in the CPI.

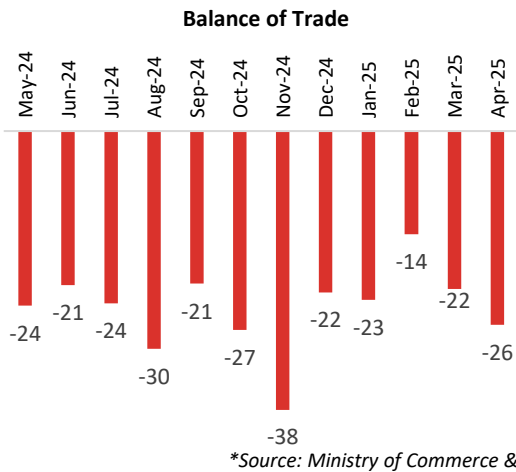
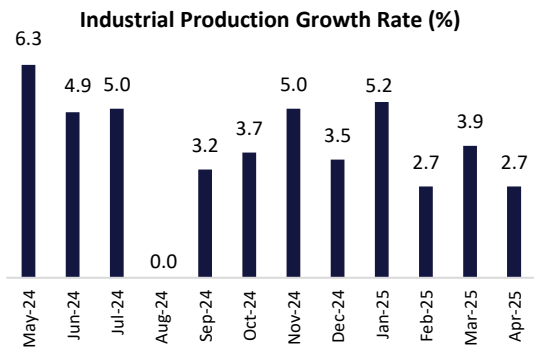
REAL GDP GROWTH SLUMPS

The Indian GDP expanded 7.4% from the previous year in the March quarter of 2025, accelerating from the upwardly revised 6.4% growth in the earlier period and sharply above market expectations of a 6.7% rise, marking the sharpest growth rate of the fiscal year. The recovery pointed to traction in Indian economic growth after a period of softening, as lower food and energy prices improved eased benchmark interest rates and spurred investment, while India's low dependence on exports made it robust to global tariff threats. Gross fixed capital formation surged by 9.4% in the period, the most in nearly two years, and private consumption expanded by 6%. In the meantime, the net foreign demand had a positive impact in the GDP growth, with exports rising by 3.9%, while imports slumped by 12.7%. Regarding the full fiscal year of 2025, the Indian GDP expanded by 6.5%, the least in four years.



MACRO-ECONOMIC INDICATORS OVERVIEW

India's industrial production expanded by 2.7% from the previous year in April of 2025, slowing from the upwardly revised 3.9% jump in the previous month. The slowdown was owed to softer growth for the manufacturing sector (3.4% vs 4.2% in March), as the sharp expansion for computer, electronics, and optical products (10.5%), electrical equipment (15.2%), machinery (175), and motor vehicles (15.4%) and fell for mining (-0.2% vs 1.2%). India recorded a trade deficit of \$26.42 billion in April of 2025, widening from \$19.1 billion from the corresponding period of the previous year to mark the sharpest gap since the record-high from November of 2024. Imports surged by 19.12% annually to \$64.91 billion, despite the decline in oil prices, as businesses likely front-loaded foreign purchases before the start of potential trade wars. Exports to the US, which is India's top export destination, soared by nearly 30% to \$8.42 billion despite being hit by 27% tariffs by Washington.



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POLICY INDICATIVE POINTS

RBI reiterated that while keeping prices stable is important, it's not enough on its own to ensure strong economic growth and they are focus on price stability. The RBI Governor highlighted that earlier issues in retail credit areas—like unsecured personal loans and credit card debt—have eased. However, some stress remains in the microfinance sector. Banks and NBFCs active here are already adjusting their business models, tightening lending standards, and stepping up collections to manage risks better going forward. Overall, India's banking system is healthy. Scheduled Commercial Banks show strong asset quality, good liquidity, and improved profitability. The credit-to-deposit ratio remains steady around 82%. Similarly, NBFCs are also in good shape with solid capital and better asset quality. To keep liquidity flowing smoothly, the RBI plans to reduce the Cash Reserve Ratio (CRR) by 1%, bringing it down to 3% over the next few months in four steps. This will release around Rs 2.5 lakh crore into the banking system by December, making it easier and cheaper for banks to lend. Since the start of this year, the RBI has pumped in Rs 9.5 lakh crore of durable liquidity, which helped shift the system from a liquidity shortage to a surplus by March. We see this in lower demand at liquidity auctions and higher balances in the RBI's deposit facility. On the external front, foreign inflows through commercial borrowings and deposits have been stronger than last year. India's forex reserves stand comfortably at \$691.5 billion—enough to cover more than 11 months of imports and most of the country's external debt. This shows that India's external sector remains resilient. Foreign investment flows have slowed a bit, partly because investors are booking profits and some capital is being repatriated. But gross foreign direct investment actually rose 14%, showing that India remains an attractive place to invest. On trade, despite global uncertainties, India's exports remained strong in April, although imports grew faster, widening the trade deficit due to healthy services exports and remittance inflows.

GROWTH BOOST

Looking ahead, inflation looks set to remain moderate due to record production of wheat and pulses and a promising early monsoon, food supplies should be adequate. Rural households in particular are seeing easing price pressures. Commodity prices, including oil, are also expected to soften with the global slowdown. Need to remain cautious about risks from weather fluctuations and tariff changes that could impact global prices. The agriculture sector and rural demand should get a boost from the good monsoon forecast, while urban consumption is expected to revive with strong services activity, healthy corporate and bank balance sheets, government investment, and improved business confidence. Trade policy uncertainties still hang over merchandise exports, but progress on free trade agreements, especially with the UK, should help growth in trade and services. Overall, RBI expect inflation to stay close to or slightly below the RBI's 4% target over the coming year. Food inflation will likely remain soft, and core inflation benign. Risks are fairly balanced. Given this outlook, the RBI believes it's important to keep stimulating domestic consumption and investment through policy measures. The Loan-to-Value (LTV) ratio for gold loans up to ₹2.5 lakh will be increased from 75% to 85%. The final guidelines on this revision are expected to be released later today or by June 9, 2025, at the latest.

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