

RBI MPC Minutes: Improved inflation outlook provided policy space to frontload easing and support growth

June 30, 2025

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Key takeaways: Minutes of RBI MPC meeting, June 2025

- The decisions of the RBI MPC that met in Jun-2025 surprised the market, as the committee front-loaded easing to support domestic growth by capitalizing on the policy space provided by improved outlook for inflation. The MPC expects inflation to undershoot its 4% target and average 3.7% in FY26, and growth to remain stable at around 6.5%. Accordingly, the committee lowered the policy repo rate by larger-than-expected amount of 50bps by 5:1 vote, when the markets had priced in a 25bp cut.

- The minutes of the meeting underpin the rationale for CRR cut and change in policy stance. To protect banks' margins, while attempting to accelerate transmission of easy monetary policy to credit markets, the RBI slashed the CRR by 100bps to 3%. At the same time, to send a clear signal regarding the extent of policy space left for further easing and curb any financial market excesses, the MPC switched the stance back to neutral from accommodative.

- The minutes of the meeting show that all members remained comfortable regarding the current and future domestic inflation trajectory, while acknowledging the underlying risks. However, views on growth varied, as also reflected in the vote split on the rate cut. While noting the resilience and stability in growth, members viewed it to be below aspirations and vulnerable to risks from global and domestic uncertainties. Some of the members also alluded to the segments that needed policy push, and provided arguments in favor of a 50bp cut.

- The underlying tone of the minutes indicates that with the change in stance to neutral, the RBI would prefer to be data dependent in its policy making going forward. This largely suggests a pause in the upcoming one-two meetings scheduled in August and October, unless there is any material change in growth-inflation dynamics and the corresponding outlook. There still remains marginal scope to ease by 25-50bp in the current cycle but the MPC is likely to deliver in a cautious and calibrated manner amid the prevailing uncertainties, particularly global.

- On the other side of the globe, the US Federal Reserve kept the target range for the federal funds rate unchanged at 4.25% - 4.50% in its latest meeting that concluded on June 18. The quarterly projections on the policy rate show that the median projection for 2025 was unchanged, implying 50bps policy rate cut, but the margin for median estimate (8 members) was slim, with increasingly more members (7) expecting no change amid higher forecasts for inflation and lower projections for GDP growth in 2025.

Comfort on actual and future inflation trajectory

Most MPC members expressed comfort on the ongoing disinflation and improved outlook for FY26 to sub-4% that had opened policy space to support growth and drive it to the aspirational rates of 7% - 8%. Governor Shri Sanjay Malhotra noted the sharp reduction in actual and projected inflation over the past few months.

Members not only noted the sharper-than-expected pace of disinflation but also the continued downtrend to sub-4% and 69-month low in Apr-2025. They acknowledged the sustained and broad-based moderation in food inflation, and contained core inflation. Dr. Rajiv Ranjan cited the central bank's anti-inflationary policies, government's supply side measures and a good agricultural season as reasons for the moderation in inflation.

Members noted that the outlook for inflation had improved since the previous meeting in April. Inflation was now not only expected to align durably with the 4% target in FY26 but also undershoot it at the margin, supported by the following factors: 1) healthy harvests of Kharif and Rabi crops in marketing season 2024-25 (July-June) 2) forecast of above normal rains in southwest monsoon season this year that had improved outlook for crop output and therefore, food inflation, for FY26 3) anchoring of household inflation expectations, as noted in recent RBI surveys 4) moderating commodity prices and stable outlook that bode well for core inflation

Dr. Nagesh Kumar also cited soft dollar among reasons for benign inflationary outlook. Prof. Ram Singh noted that improvements in supply chain logistics would also help to keep a lid on food inflation and reduce volatility. He noted some of the additional nuances such as the fall in vegetables inflation, and no visible sign of adverse impact on prices due to early onset of monsoon. Prof. Singh viewed the recent cut to import duty on edible oil to further support food disinflation. Both he and Dr. Poonam Gupta noted that excluding gold, core inflation was lower and below 4%, with Dr. Ranjan also noting the softness in various other measures of core inflation.

Domestic growth resilient but below aspirations and not broad-based; global uncertainties confound the outlook

External member Shri Saugata Bhattacharya was the only member who voted for a 25bp cut to the policy repo rate, instead of 50bp easing, as he noted the resilience in domestic growth impulses despite external risks. Shri Bhattacharya alluded to the revisions to GDP data prints that could transpire, akin to the ones for FY24, and also awaited the effects of income tax rate cuts and other policy measures to support growth.

Dr. Poonam Gupta echoed similar thoughts in terms of economic resilience, though her sentiment enveloped an entire decade, and her support for accelerated growth was calibrated from a long-term perspective of making the most of 1) favorable demographics 2) conducive shift in regulatory policies 3) infrastructure enhancement 4) leveraging on macroeconomic stability achieved during the past decade. Most of the other members alluded to similar views, when they cited policy support to lift growth to aspirational rates of 7% - 8%.

Some of the members noted the sequential improvement in growth in Q4-FY25, and steady outlook for growth in FY26 at 6.5%, supported by 1) lift to rural demand from above normal rains in FY25 and similar forecast for FY26 2) government spending on infrastructure. Governor Shri Sanjay Malhotra also noted that the moderation in inflation and momentum in services sector could revive urban consumption.

Despite these favorable factors, members noted that the ongoing and expected recovery in domestic growth was not broad-based. In fact, Dr. Nagesh Kumar noted that the growth momentum of Q4-FY25 might not continue in Q1-FY26, as consumption and investment growth were moderating. Other members also pointed the domestic areas of concern that could be further exacerbated by external risks and impinge on growth trajectory.

Most members noted that in case of investment, the government continued to do the heavy lifting, with private capital spending not yet being broad-based. In fact, both Prof. Ram Singh and Dr. Nagesh Kumar cited muted trends in data on private investment such as capex to net surplus from operations, and investment intentions. Dr. Ranjan and Governor Malhotra noted the possibility of external risks further curbing domestic investment impulses and called for policy support to create an environment of certainty in the domestic economy.

Prof. Ram Singh and Dr. Nagesh Kumar also cited likely concerns for the labor market from particular weakness in the manufacturing and other labor intensive sectors. Dr. Nagesh Kumar reiterated the challenges for domestic industry from dumping of cheap Chinese goods, while Prof. Ram Singh pointed to subdued urban consumption amid moderation in actual and expected corporate salary outgo, and low demand for mid-size housing.

The rationale for front-loading of policy easing

Among the arguments put forth for front-loading of policy easing by various MPC members, one of the reasons that stood out was the observation by Dr. Rajiv Ranjan – ***"Literature suggest that uncertainty plays a role in forming the 'zone of inaction' whereby economic agents may see-through incremental changes while larger policy impetus may trigger threshold effects."***

Except for Shri Saugata Bhattacharya, who voted for a 25bp rate cut, all the other members felt the need to accelerate the pace and improve the quantum of transmission of policy easing to credit markets via lower lending rates to enable a pick-up in credit growth. Most members noted some progress on these fronts since the first rate cut in the current cycle in Feb-2025, but the underlying rationale to frontload easing was to send a decisive policy signal to borrowers and lenders, who were perhaps postponing their spending and investment decisions in anticipation of further rate cuts. Providing policy uncertainty on domestic rate and liquidity fronts, particularly in the backdrop of myriad uncertainties, was among the key factors to deliver the package of policy measures, as also reiterated by Governor Malhotra in his minutes and the post policy conference.

Prof. Singh noted that frontloading of rate cuts would generate major income effect for middle-income groups and the MSME sector by lowering the EMI/NMI ratio or the debt service period for EBR-linked loans. Also, his arguments on the neutral interest rate for the economy suggested scope for 75bps cut in the current cycle without creating any inflationary pressures amid low core inflation and subdued outlook for commodity prices. Instead, his support for lower but frontloaded 50bp cut was in consideration of both domestic and global uncertainties, and the lag in monetary policy transmission, following the recent two rate cuts.

The rationale for the CRR cut was brought forth in the statements by Prof. Ram Singh and Dr. Rajiv Ranjan, as a step towards protecting banks' margins in a rate easing cycle, while also lending support to credit growth.

Shri Saugata Bhattacharya, the sole MPC supporter of a 25bp rate cut, viewed that the prevailing uncertainties warranted a measured and cautious approach in policy easing. He noted that the transmission of policy rate cuts to lending and some deposit rates had accelerated post March 2025, and put forth that continued support to durable liquidity would be more effective in policy transmission than a deeper rate cut.

The rationale for change in stance to neutral from accommodative

MPC members highlighted different reasons while supporting the change in stance to neutral, some of which are noted here and further elucidated below 1) limited monetary policy space to ease further after the cumulative 100bps cut in a short span of time since Feb-2025 2) to enable policy flexibility amid myriad global (tariff wars, geopolitical risks) and domestic uncertainties (temporal and spatial distribution of rainfall) 3) to indicate a data dependent approach going forward 4) to prevent financial market volatility.

Dr. Nagesh Kumar alluded to the global economic outlook as being fragile and fluid, with Governor Shri Sanjay Malhotra concurring with implications for the near- and medium-term amidst geopolitical flare-ups and shifts in the global trade order.

Dr. Rajiv Ranjan and Prof. Ram Singh suggested implications for financial markets, though under different contexts. Dr. Ranjan viewed that the combination of 50bps cut and continued accommodative stance could mislead financial markets about the scale and scope for further easing, and its repricing could create volatility. He suggested that a neutral stance would not only provide flexibility in policy making but also signal that "there is no strong bias for any rate action absent any meaningful change in the macroeconomic outlook."

In the context of a larger rate cut by the RBI MPC, Prof. Singh mentioned about the interest rate differential with the US Fed and its likely impact on the rupee, but viewed any such impact to be short-term. He expected a pick up in domestic growth to offset any likely effect of lower interest rate differential. Prof. Singh's support for change in stance was in the backdrop of "unquantifiable global uncertainties."

Dr. Poonam Gupta summarized neatly, citing that the change in stance to neutral implied that further actions would be contingent upon incoming data and the evolving global uncertainties.

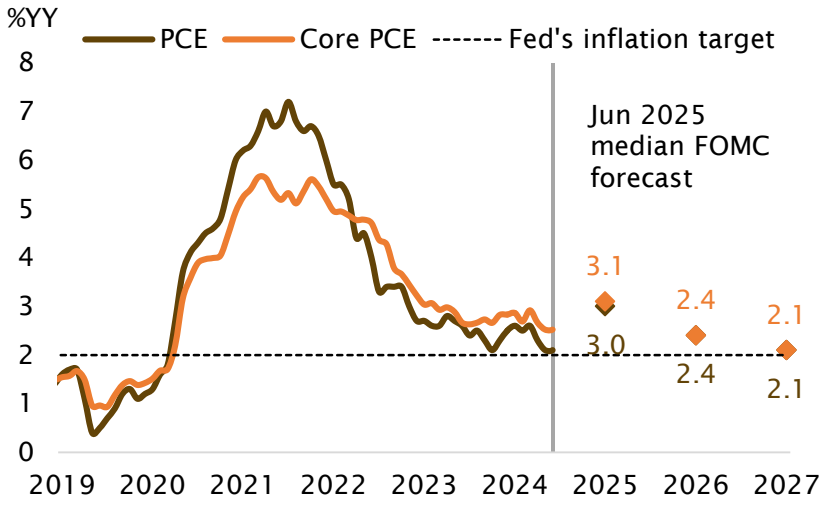
Appendix – Insights from the US Fed's latest dot plot and forecasts

- At its latest policy meeting concluded on June 18, the US Federal Reserve kept the policy target range unchanged for the fourth meeting at 4.25% - 4.50%. The Fed embarked on easing in Sep-2024 when it cut its policy rate by 50bps after holding it steady for more than a year at 5.25% - 5.50%. Thereafter, the Fed eased twice by lowering the federal funds range by 25bps each in Nov-2024 and Dec-2024, taking cumulative easing to 100bps so far.
- The longer run forecasts for the policy rate were unchanged from Mar-2025, with the median estimate at 2.75% - 3.00 %. Though the median projection for 2025 was unchanged, implying 50bps policy rate cut, the margin for median estimate (8 members) was slim, with increasingly more members (7) expecting no change.
- The median estimate for GDP growth in 2025 was cut to 1.4% from 1.7% in March. Median forecasts for headline and core PCE inflation were raised 30bps each to 3.0% and 3.1%, respectively.

More members expect no rate change in 2025

2025	Sep-24	Dec-24	Mar-25	Jun-25
4.50				
		•	••••	•••••••
4.25				
	•	•••	••••	••
4.00				
	•	••••••••••	•••••••••	••••••••
3.75				
	•••	•••	••	••
3.50				
	••••••	•		
3.25				
	••••••	•		
3.00				
	••			
2.75				

Fed FOMC members expect inflation to align close to 2% target by 2027; long term funds rate projections unchanged



Longer run	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
4.00						
				•	•	•
3.75	•	•	•	•	•	•
		•	•	••	••	••
3.50	••	••	••	••	••	••
			••	•	•	•
3.25			•			
	•	•		•	•	•
3.00	•••	••••	••	•••	•••	•••
			••	••••	••••	••••
2.75	•	•••	•••	•		
	•	•	•	•	••	••
2.50	••••••••	•••••	•••	•	••	••
	•	•	•	•		
2.25						

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