

RBI MPC frontloads policy stimulus; despite change in stance to neutral, marginal space remains for further easing

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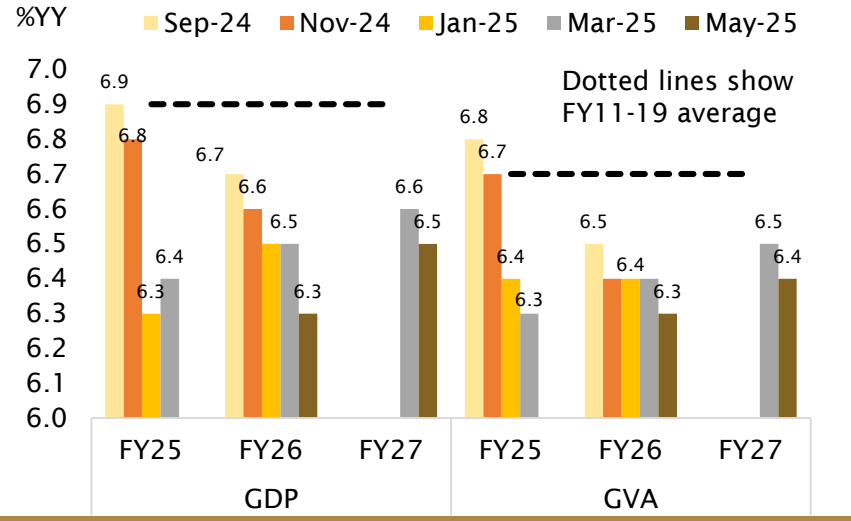
Key takeaways: RBI MPC meeting, June 2025

- At the monetary policy meeting that concluded on 6-Jun-2025, the RBI MPC cut the policy repo rate by 50 basis points to 5.50% by 5:1 vote. External member Shri Saugata Bhattacharya voted for a 25 bps cut to the repo rate, which was what most market participants had penciled in. However, markets had also priced in additional 25bp easing by Aug-Oct 2025, and the MPC statement cited the rationale for frontloading of rate cuts to support domestic growth, which remained below the aspirational rates of 7% - 8%.
- Accordingly, the standing deposit facility (SDF) rate stood adjusted to 5.25% and the marginal standing facility (MSF) rate and the Bank Rate to 5.75%. The MPC also unanimously voted to change the policy stance to 'neutral' from 'accommodative' after switching it to 'accommodative' just at the last MPC meeting in April, stating that after the recent successive rate cuts, the MPC was left with 'very limited space to support growth.' The latest decision led to cumulative easing of 100bps in the policy repo rate since start of the rate cut cycle in Feb-2025. An additional, unstated reason for the change in stance could be to curb further rally in yields that could narrow differentials vis-à-vis advanced economies such as the US and exacerbate foreign outflows from the debt segment that had transpired in Apr-May.
- Additionally, the RBI announced cut to the cash reserve ratio (CRR) by 100 basis points to 3% of NDTL in four equal tranches of 25 bps each with a gap of around one month each, starting in Sep-2025 and till end of Nov-2025. This expected to release primary liquidity of about Rs.2.5 lakh crore to the banking system by Dec-2025. In addition to providing durable liquidity, the CRR cut is expected to lower the cost of funding for banks, and thereby help in monetary policy transmission to the credit market. An additional rationale for the frontloading of policy easing and pre-announcement of CRR cuts was to create an environment of certainty in the domestic economy in the prevailing backdrop of external uncertainties.
- In the post policy conference, the Governor reiterated that the switching back of policy stance to neutral implied that future MPC actions would be data dependent. However, there still remains marginal space for additional 25-50bp rate cut in the current easing cycle. The rationale for this is two-fold pertaining to the growth-inflation dynamics. The recent policy easing could prompt the MPC to hike its growth forecasts for FY26 at the upcoming meetings. However, since monetary policy transmission works with a lag, it is likely that the improvement in growth reflects in H2, as also noted by the Governor in the post policy conference. In the interim, if inflation continues to surprise on the downside, particularly in the backdrop of change to current CPI series starting Feb-2026, there is a possibility of a downward bias to FY27 inflation trajectory, with probability of lower weights being assigned to the food basket and a higher base of FY24. This could provide the MPC with some room for easing at the margin to propel domestic growth trajectory to the aspirational rates of 7% - 8%. However, any further cut(s) are likely to be spaced over the period of next 6-12 months.

RBI MPC held growth forecast for FY26 unchanged at 6.5%; remains below aspirations amid global uncertainties

- The RBI MPC retained real GDP growth forecast for FY26 at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6%, and Q4 at 6.3%. Results from the latest round of survey of professional forecasters (SPF) indicate trimming of median real GDP growth estimates vis-à-vis the previous round for both FY26 and FY27 to 6.3% (-20bps) and 6.5% (-10bps), respectively. In its latest biannual Monetary Policy Report (MPR) published in April, the RBI's baseline projections for real GDP growth stand at 6.5% and 6.7% respectively, for FY26 and FY27.
- The MPC statement noted that domestic economic activity has remained resilient in FY26 so far but noted that growth remained below aspirations, with the Governor alluding this growth to 7% - 8% range in the post policy conference. The Governor's statement noted the economy's 5x5x3 matrix of fundamentals that could propel it to elevated growth path despite global uncertainties. These included *strength* from balance sheets of five sectors – corporates, banks, households, government, and external; *stability* on three fronts – price, financial, and political, and *opportunities* through 3Ds – demography, digitalisation and domestic demand.
- The MPC statement noted factors supportive of growth in FY26 and also risks that included spillovers from prolonged geopolitical tensions, tariff wars, and weather-related uncertainties. To capitalize on the domestic fundamentals noted earlier and propel growth to a higher trajectory, the MPC frontloaded easing by slashing the repo rate 50bps to 5.50%, instead of 25bp clip that was anticipated by market participants. The latest easing is aimed at stimulating consumption and investment in the backdrop of external challenges.
- In the post policy conference, the RBI Governor stated that in an uncertain external environment, it would be difficult to quantify the impact of latest easing measures on domestic growth. However, as monetary policy transmission happens with a lag, the Governor suggested that the impact would likely be felt after two-three quarters, more likely in H2-FY26. Despite acknowledging that monetary policy support is a necessary but not sufficient condition to raise growth, the Governor exuded confidence that the transmission of recent rate cuts to deposit and lending rates will happen in line with past trends, lift credit growth, and support economic activity. This indicates a possibility that the MPC might hike its growth projections for FY26 at upcoming meetings.

Latest RBI SPF survey shows cut to growth forecasts



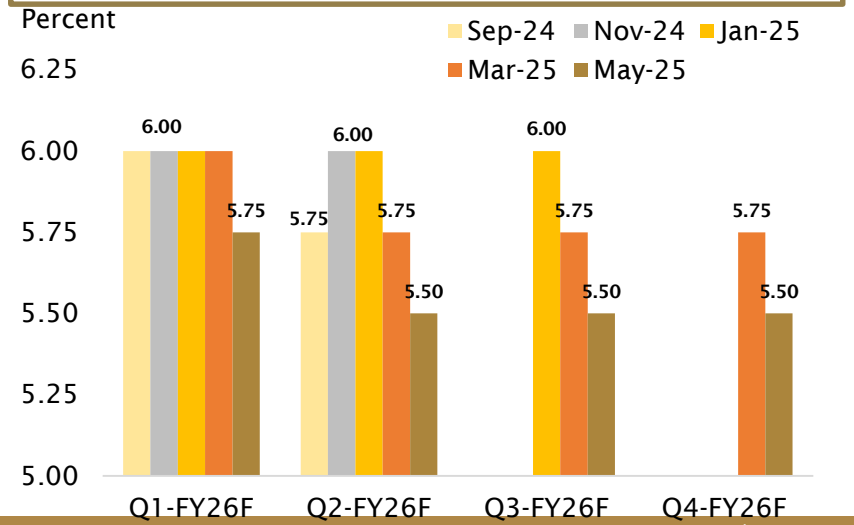
RBI MPC cut FY26 CPI inflation estimate to 3.7% amid falling food prices, benign core inflation, improved outlook

- In his policy statement, the RBI Governor noted the broad-based moderation in inflation over the past six months, and signs that the headline CPI would not only align with its 4% target in FY26 but also undershoot it at the margin. Accordingly, the MPC lowered its inflation forecast for the year to 3.7% from 4% in the previous meeting, with Q1 at 2.9% (-70bps), Q2 at 3.4% (-50bps), Q3 at 3.9% (+10bps), and Q4 at 4.4%.
- The comfort on inflation trajectory also reflects in results of the latest survey of professional forecasters (SPF). Compared to the previous survey result, median estimate for headline CPI inflation was at 3.8% for FY26 (-40bps), though it was unchanged for core inflation at 4.3%. For FY27, both the latest and previous survey results show that the headline print is expected to exceed core inflation. Similar to the results for FY26, headline inflation estimate in the latest survey round stood lower by 10bps at 4.2%. Forecast for core inflation stood mildly higher by 10bps at 4.1%. Despite the rise in FY27, both headline and core inflation are expected to remain well-behaved and average sub-4.5%.
- These estimates are also in line with the baseline projection for headline CPI for FY27 at 4.3%, as per the latest monetary policy report (MPR) published in April. In the post policy conference, the Governor stated expectations of inflation average rising to around 4.5% in FY27.
- Results from the latest rounds of RBI surveys show that one-year ahead expectations remain elevated relative to current household inflation expectations but have been moderating in the recent rounds of survey. Also, inflation expectations of households in rural areas, both current and one-year ahead, continue to remain below their urban counterparts. In addition to these anchoring of inflation expectations that bode well for inflation outlook, other supportive factors include the forecast of an above normal monsoon for the year, good Kharif and Rabi output, comfortable food stock levels, healthy reservoir levels, continued easing in global commodity prices, particularly crude oil.
- Also, from Feb-2026, a new CPI series with changes to constituents and weights is expected to become effective, with FY24 as the base year. Based on the latest household consumption expenditure survey (HCES) for FY24, the weight of food is likely to drop from 45.9 in the existing series that has 2011-12 as the base year. This is expected to lower volatility in the headline CPI. Low weight for food coupled with base year that was marked with inflation above 4% could impart downside bias to inflation prints in FY27. If this transpires along with a pick-up in growth, it could provide space for the RBI MPC to cut at the margin by around 25-50bps in the current easing cycle over the period of next 6-12 months.
- However, risks to inflation outlook remain in terms of weather-related uncertainties, protracted geopolitical tensions and evolving tariff-related concerns and their spillovers to global commodity prices.

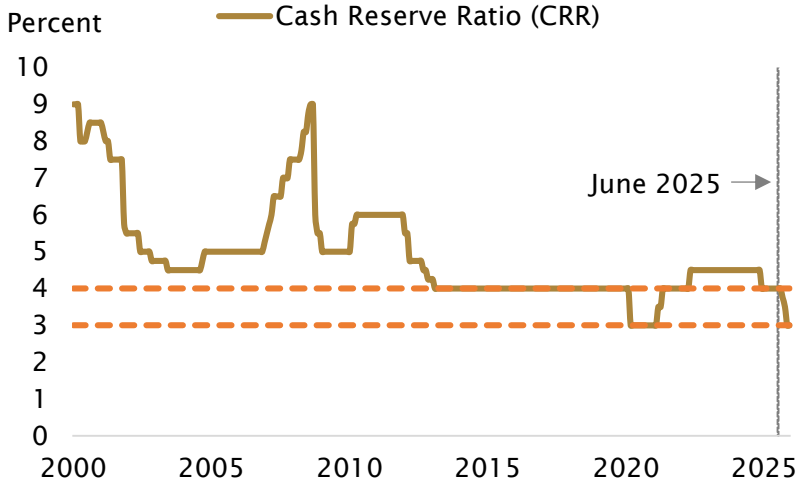
Frontloading of repo rate cut, announcement of CRR cut to provide certainty amid volatile global backdrop

- In addition to the larger-than-expected cut to the repo rate, the RBI also announced cut to the cash reserve ratio (CRR) by 100 basis points to 3% of NDTL in four equal tranches of 25 bps each with a gap of around one month each, starting in Sep-2025 and till the end of Nov-2025. The CRR has been held at around 4% since early 2013. The latest cut marks a shift from the usual policy of not lowering the CRR below 4% unless in a time of crisis, such as the COVID period, when the CRR was last cut to 3%.
- In addition to releasing primary liquidity of about Rs.2.5 lakh crore to the banking system, the CRR cut is expected to lower the cost of funding for banks and help in monetary policy transmission to the credit market.
- In the post policy conference, the RBI Governor stated that one of the reasons to frontload policy easing and pre-announce CRR cuts was to provide certainty in the domestic economy in the prevailing backdrop of external uncertainties, and thereby create an environment to lift growth to aspirational rates of 7% - 8%.
- The current policy repo rate at 5.5% and forecast of 3.7% average inflation for FY27 imply real interest rate of 1.8%. In the post policy conference in April, the Governor alluded to 1.5% as the neutral level for the real rate. This indicates scope for marginal easing of around 30bps, or at least one rate cut of 25bps. A study published by the RBI in Jul-2024 pegs the range of neutral rate at 1.4% - 1.9%, suggesting that the lower end of the range still allows scope for 40bps cut in the current easing cycle, though the upper end indicates no more easing.
- Results from the latest round of RBI survey (SPF) shows 5.5% median estimate for policy repo rate by Q4-FY26, implying current rate as terminal. But the minimum value of 5.0% in the survey shows scope for further cut(s).

SPF median forecasts show 5.5% as terminal repo rate



CRR was last eased to 3% during COVID period



Marginal policy space remains for additional easing despite change in stance to neutral

- After changing the policy stance to 'accommodative' in the previous policy meeting, the MPC switched it back to 'neutral' in the latest meeting, citing that 'monetary policy is left with very limited space to support growth.' The latest decision led to cumulative easing of 100bps in the policy repo rate since start of the rate cut cycle in Feb-2025. Though voting on stance has been discontinued under the new Governor, as it is not mandated by law, the Governor clarified in the post policy conference that the decision on stance was a unanimous one.
- The neutral stance implies that future MPC actions would be data dependent and that changes to the policy rate could be in any direction. Assessment of incoming data and the evolving outlook would also be relevant in the context of fluid external backdrop. An additional, unstated reason for the change in stance could be to curb further rally in yields that could narrow differentials vis-à-vis advanced economies such as the US and exacerbate foreign outflows from the debt segment that had transpired in Apr-May.
- Post the change to accommodative stance in April, the RBI allowed the operating target of monetary policy or the overnight call rate (WACR – weighted average call rate) to drop and remain close to the lower end of the LAF corridor. The revert to neutral stance in June sparked queries in the post policy conference on liquidity management and its impact on the WACR, to which the Governor stated that the RBI was yet to decide on where to let the overnight call rate settle. In his April statement, the Governor had clarified that the policy stance provided guidance on the repo rate and not liquidity conditions. However, in the week following the latest policy outcome, the RBI announced discontinuation of daily VRR auctions with effect from 11-Jun-2025. In Jan-2025, the RBI had started daily VRR as one of the steps to ease liquidity conditions.

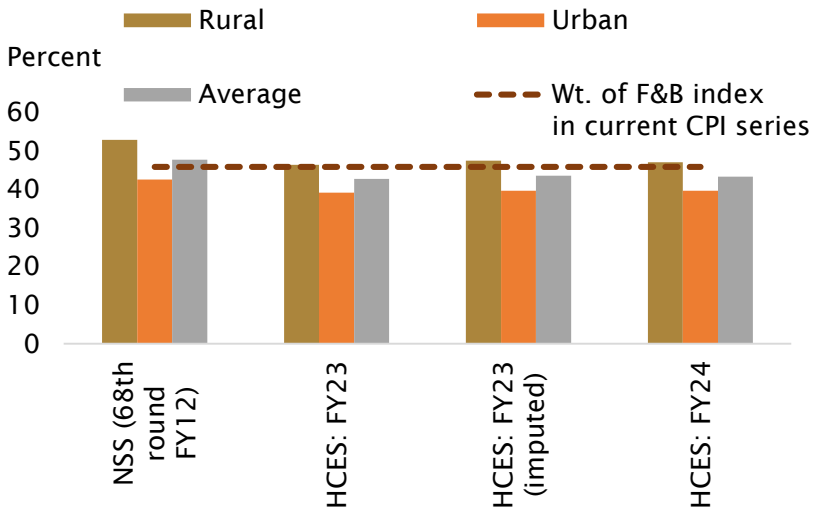
Summary of RBI policy actions since the end of rate hike cycle in Feb 2023

Date	Change in repo rate (bps)	Repo	SDF	MSF	Voting pattern Policy rate	Policy stance
		Percent				
08-Feb-23	△ 0.25	6.50	6.25	6.75	4:2#	WoA
06-Apr-23	0.00	6.50	6.25	6.75	6:0	WoA
08-Jun-23	0.00	6.50	6.25	6.75	6:0	WoA
10-Aug-23	0.00	6.50	6.25	6.75	6:0	WoA
06-Oct-23	0.00	6.50	6.25	6.75	6:0	WoA
08-Dec-23	0.00	6.50	6.25	6.75	6:0	WoA
08-Feb-24	0.00	6.50	6.25	6.75	5:1*	WoA
05-Apr-24	0.00	6.50	6.25	6.75	5:1	WoA
07-Jun-24	0.00	6.50	6.25	6.75	4:2**	WoA
08-Aug-24	0.00	6.50	6.25	6.75	4:2	WoA
10-Oct-24	0.00	6.50	6.25	6.75	5:1*	Neutral
06-Dec-24	0.00	6.50	6.25	6.75	4:2**	Neutral
07-Feb-25	▽ -0.25	6.25	6.00	6.50	6:0	Neutral
09-Apr-25	▽ -0.25	6.00	5.75	6.25	6:0	Accommodative
06-Jun-25	▽ -0.50	5.50	5.25	5.75	5:1*	Neutral

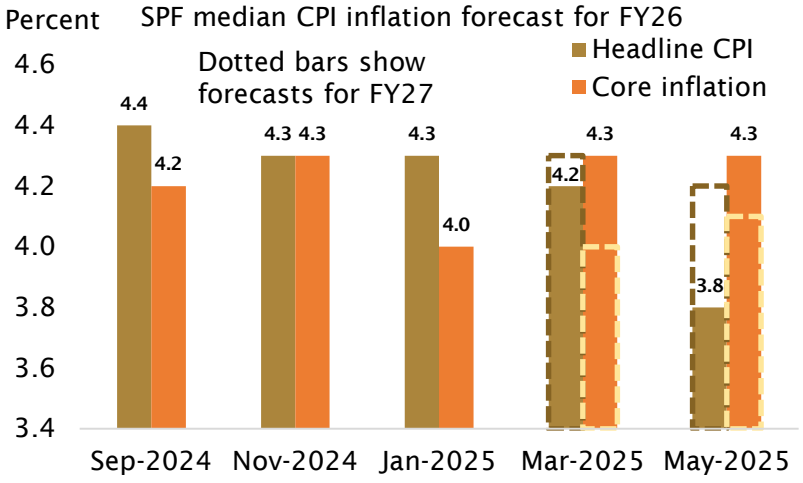
WoA: Withdrawal of accommodation; # Two MPC members voted against hike
* One MPC member voted for 25bp cut; ** Two MPC members voted for 25bp cut

Lower share of food in new CPI series could impart downward bias to inflation in FY27

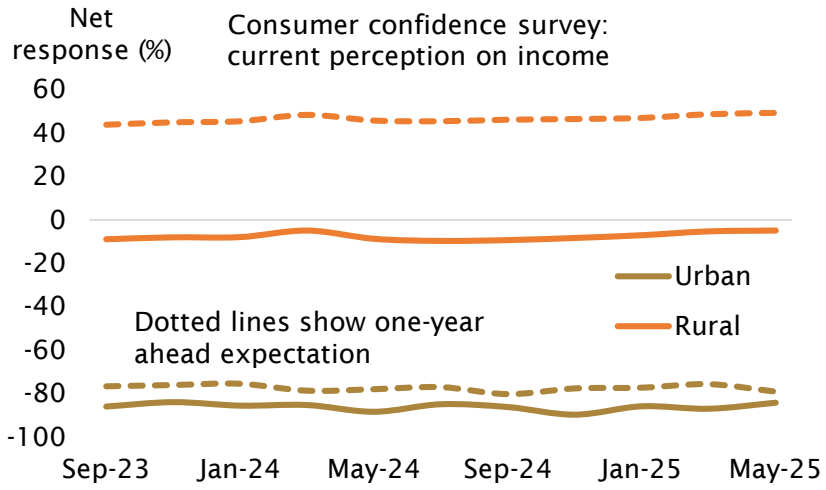
Share of food in monthly per capita consumption spend

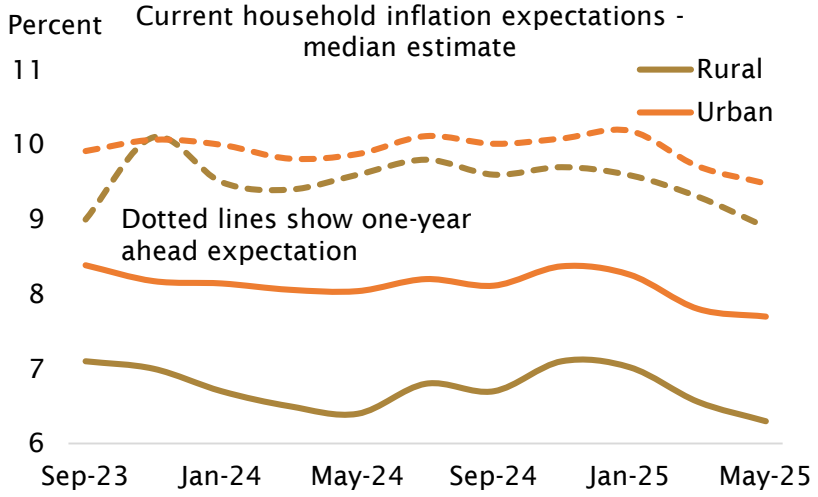


Headline CPI to exceed core inflation in FY27



RBI surveys show that rural areas fare better than their urban parts in terms of income and inflation expectations





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