

RBI Monetary Policy Review

6 June 2025



Rate Cuts - Going all the way!

A jumbo rate cut: The RBI MPC has delivered a policy bonanza with the clear objective of propelling growth. The Governor clearly stated that the policy decision to cut the Repo Rate by 50 bps is a front-loaded move taking the Repo Rate to 5.50%.

While RBI MPC put foot on accelerator on rate cuts, it simultaneously switched the gear lower by changing the monetary policy stance to **neutral** from accommodative which was changed at the April 2025 policy. The change in stance to neutral is reflected in its following remark... "monetary policy is left with very limited space to support growth."

A Liquidity Boost: A massive 100 bps cut in the Cash Reserve Ratio (CRR) to 3.00% of NDTL during September-November 2025 to release INR 2.5 lakh crore by end-CY25. Although in a phased manner, this move underpins the RBI's intent of keeping the system liquidity into abundant surplus with the objective of policy transmission. The liquidity infusion via the CRR move has diminished the prospects of further OMO Purchases. Having said that, the banking system liquidity as % of NDTL has swung into a surplus of ~1.3% of NDTL, and with the CRR cut, assuming there are no significant leakages, we could see these levels of surplus persist through FY26.

The emphasis is on boosting growth and the comfort on inflation trajectory has provided the space to act. The RBI Governor in his speech and at the presser emphasized on keeping liquidity conditions in surplus for faster policy transmission to rates. which buoyed market sentiments and has steepened the curve.

Growth-inflation outlook: The MPC lowered inflation forecast by 30bps to 3.70% due to softer food inflation and normal monsoon is seen keep inflation benign. While growth forecasts remain unchanged at 6.5% headwinds to growth remain due to fast changing global developments.

The Monetary Policy Committee (MPC) came out with its second bi-monthly policy statement for FY26 on June 06, 2025. Some of the key takeaways are as follows:

- ◆ In a 5 : 1 vote, the MPC decided to lower the policy Repo Rate by 50bps to 5.50%. Consequently, the SDF rate stands at 5.25% and the MSF rate at 5.75%
- ◆ The policy stance is changed back to 'neutral' from accommodative.
- ◆ On Liquidity, the Governor emphasised that the RBI remains committed to provide sufficient liquidity to the banking system and the 100bps CRR reduction backs that intent.
- ◆ The CRR reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning September 6, October 4, November 1 and November 29, 2025.
- ◆ The CRR cut is estimated to release primary liquidity of about INR 2.5 lakh crore to the banking system by December 2025.
- ◆ The outlook for food inflation has turned positive on robust agriculture output. Additionally, a normal monsoon and softer commodity prices should further keep inflation soft. Resultantly, CPI inflation has been revised lower to 3.70% vs 4.0% in April 2025.
- ◆ On Growth, although it has maintained the forecast at 6.50%, the MPC states that it remains lower than our aspirations more so in the current challenging global environment and heightened uncertainty.

MPC's growth and inflation forecasts laid out below:

	Growth		Inflation	
Period	Apr 2025 forecast	Jun 2025 forecast	Apr 2025 forecast	Jun 2025 forecast.
Q1 FY26	6.50%	6.50%	3.60%	2.90%
Q2 FY26	6.70%	6.70%	3.90%	3.40%
Q3 FY26	6.60%	6.60%	3.80%	3.90%
Q4 FY26	6.30%	6.30%	4.40%	4.40%
FY26	6.50%	6.50%	4.00%	3.70%

Source: RBI MPC Policy Resolutions

The (RBI's) Matrix: From the Governors' statement, the noteworthy points were on the CRR cut and policy transmission. Also, was the remark on how policy making for the EMs remains constrained in the global backdrop, "Amidst heightened volatility in capital flows and exchange rates, coupled with constrained policy space, central banks of emerging market economies have a tougher task to stabilise their economies against global spillovers." In this milieu, RBI-MPC believes that the Indian economy presents a picture of strength, stability, and opportunity – citing the below mentioned remarks:

- 1) Strength comes from the strong balance sheets of the five major sectors - corporates, banks, households, government, and the external sector
- 2) Stability on all three fronts – price, financial, and political – providing policy and economic certainty in this dynamically evolving global economic order
- 3) The Indian economy offers immense opportunities to investors through 3Ds – demography, digitalisation and domestic demand

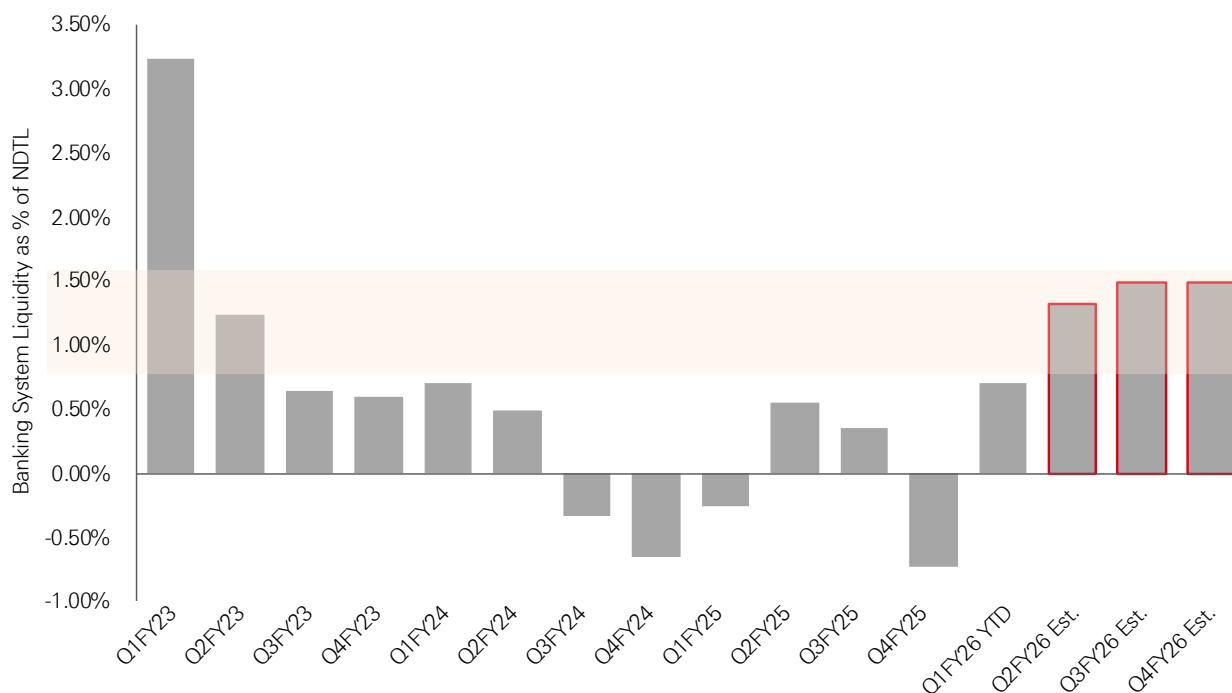
The above indicator based 5x3x3 matrix of fundamentals provides the necessary core strength to cushion the Indian economy against global spillovers and propel it to grow at a faster pace, as per RBI.

Our Take:

In a surprise move, the RBI-MPC front-loaded the rate cut; lowering the Repo Rate by 50bps to 5.50%. The front-loaded cut also has a catch where the RBI-MPC also decided to change the policy stance to neutral. The policy statement cited that monetary policy is left with very limited space to support growth and the neutral stance reflects the same.

A 100bps rate cut so far in this rate-cut cycle coupled with liquidity infusion of INR 9.5 lakh crore since January 2025 (and an estimated release of INR 2.5 lakh crore by December 2025 from the CRR cut) has put the ball in the court of the banking system to quicken policy transmission in rates and also the credit market. Basis the current CRR and banking system liquidity, the system surplus is hovering around 1.3% of NDTL and with the CRR cut, assuming no significant leakages, we could see surplus persist through FY26 – this surplus level was last observed during the 2023 period.

RBI's Swift and Substantial Liquidity steps to push system liquidity deeper into surplus, to levels seen in 2023 period (2020-2022 still being the pandemic phase)



***Note:** Data for Q1FY26 is YTD till 5-June and Q2-Q4 of FY26 are our indicative estimates; Average of daily data for the quarter

Source: Bloomberg, RBI DBIE, HSBC MF, Fixed Income Research

With Q4FY26 inflation forecast at 4.40% and the current Repo Rate at 5.50%, the policy rate and inflation difference stands at 110bps; shrinking the policy space to act in future policies.

Furthermore, on policy stance, if we were to take the cues from the April 2025 policy, a neutral stance suggests that the policy rates could move in either direction depending on evolving economic conditions.

For FY26, with inflation outlook staying benign and a tad lower than the medium-term target of 4.0% and growth seen tracking 6.0-6.5%, the global developments especially the US recession risks and the US Fed's monetary policy leaning in CY25 will be key to watch out for. At this juncture, we believe that the ensuing MPC outcomes will remain data dependent and thus, future actions could either be a status-quo or a cut. The August policy clearly looks like a pause to us at 5.50%, but we would keep watching the system liquidity conditions and RBI's actions on liquidity steps/measures to assess the market implications.

We believe liquidity will be the main driver of softer yields domestically, going forward. Currently, corporate bonds in the 3-5 year segment offer favourable spreads of 50-70 bps over IGBs. This we believe is the sweet spot on the corporate yield curve. Given liquidity is expected to remain in surplus for the foreseeable future, we believe corporate bond spread compression story will continue and provides for an opportunity for further compression in corporate bonds. While the corporate bond spread has compressed by ~15-20 bps on the shorter end, lower absolute levels in IGBs, lower differential with US treasuries point towards a gradual reallocation towards corporate bonds to chase the carry.

Abbreviations:

RBI: Reserve Bank of India
MPC: Monetary Policy Committee
SDF: Standing Deposit Facility
MSF: Marginal Standing Facility
CRR: Cash Reserve Ratio
OMO: Open Market Operations

GDP: Gross Domestic Product
CPI: Consumer Price Index
G-Sec: Government Securities
EMs: Emerging Markets
FX: Foreign Exchange

Source - RBI MPC Policy Resolutions, HSBC MF Research, Data as on June 6, 2025.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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