

MNI RBI Preview – June 2025.

Meeting Date: Thursday June 06, 2025

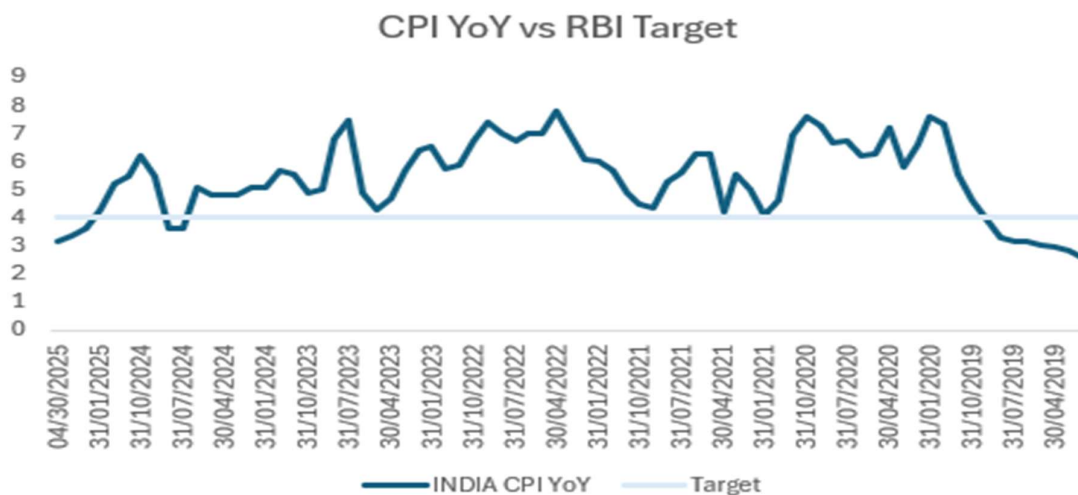
Link To Prior Statement: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=60177

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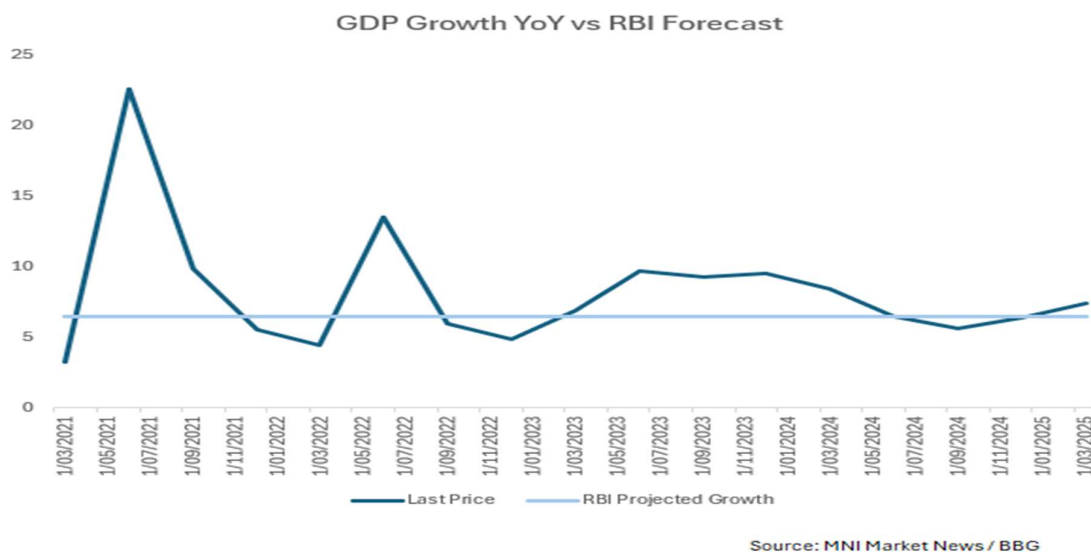
MNI POV (Point Of View): RBI to Cut Again

The Reserve Bank of India (“RBI”) is expected to cut rates again tomorrow at their June meeting. One of the key rationales for the cut at their last meeting was the decline in inflation. Since the meeting on April 09, there has been a continued softening in prices. The RBI has a CPI target of 4% for 2025 and the most recent CPI release saw the year-on-year number at +3.16%. Core inflation does remain above the 4% target though much of this can be attributed to gold prices which is likely to be discounted.

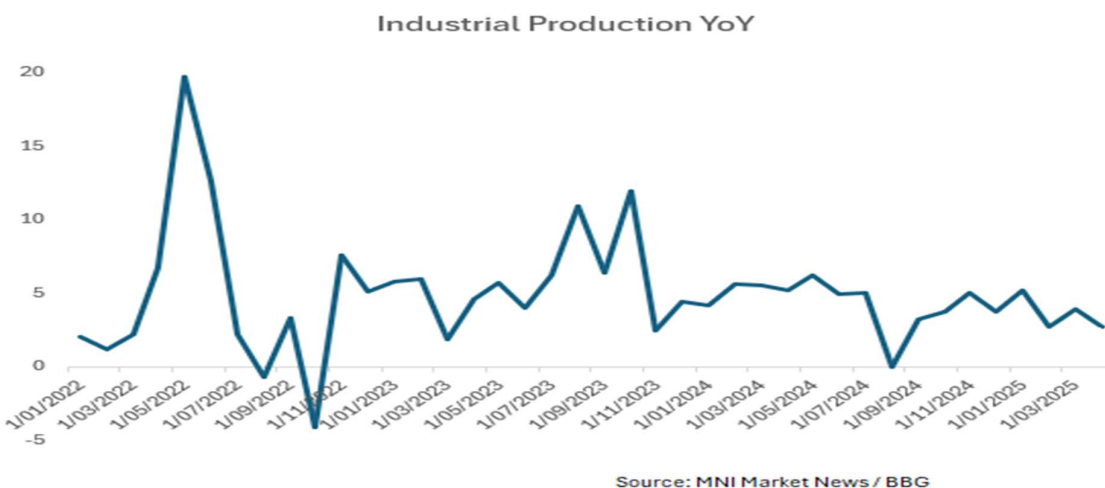


Source: MNI Market News / BBG

The MPC monetary statement at the last meeting described growth on a recovery path after an underwhelming performance in the first half of 2024-25 and noted that it is impeded by a challenging global growth environment. RBI has revised down its projected GDP growth for 2025-26 to 6.5 percent. RBI has said that this downward revision of its earlier assessment of 6.7 percent essentially reflects the impact of global trade and policy uncertainties. The recent GDP release for the first quarter saw GDP move above the target at +7.4% with the prior quarter being revised up to +6.4%.



Other activity data remains mixed with May PMI Manufacturing at +57.6 (slightly down from April's result of +58.3) but significantly stronger than all regional peers. The malaise however in Industrial Production speaks to the ongoing global uncertainty and the recent April result of +2.7%, was weaker than the month prior and below recent averages.



The currency for now does not appear to a major factor in the RBI's thinking, despite it being one of the worst performers of its regional peers over the last month. The Rupee weakness may continue as the central bank aims to avert a depletion in its foreign-exchange reserves. Having already pledged to sell billions of dollars via derivatives contracts at various points in the future, the RBI is expected to buy up sizeable amounts of the US currency to prevent its holdings from running down. This activity can be evidenced by the increase in FX reserves in February, March and April from the near-term low in January. Those purchases are seen putting pressure on the rupee, yet longer term will give the RBI more flexibility.

Our swaps model assigns a near 100% probability of a cut tomorrow as per market pricing and economists (via the BBG survey) agree. With 34 respondents there are no forecasts for no change and one forecaster suggesting a 50bps cut is possible.

In line with the measured approach so evident from this monetary policy committee following their unanimous vote in April, we forecast a 25bps cut at the meeting on June 06th and the policy stance to remain neutral.

RBI April 09, 2025, Monetary Policy Statement

Governor's Statement: April 9, 2025

Decisions of the Monetary Policy Committee (MPC)

4. After a detailed assessment of the evolving macroeconomic and financial conditions and outlook, the MPC voted unanimously to reduce the policy repo rate by 25 basis points to 6.00 per cent with immediate effect; consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) shall stand adjusted to 5.75 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.25 per cent.

5. I shall now briefly set out the rationale for these decisions. The MPC noted that inflation is currently below the target, supported by a sharp fall in food inflation. Moreover, there is a decisive improvement in the inflation outlook. As per projections, there is now a greater confidence of a durable alignment of headline inflation with the target of 4 per cent over a 12-month horizon. On the other hand, impeded by a challenging global environment, growth is still on a recovery path after an underwhelming performance in the first half of 2024-25. In such challenging global economic conditions, the benign inflation outlook and moderate growth demand that the MPC continues to support growth. Accordingly, the MPC unanimously voted to reduce the policy repo rate by 25 basis points to 6.0 per cent. Moreover, it also decided to change the stance from neutral to accommodative. It also noted that the rapidly evolving situation requires continuous monitoring and assessment of the economic outlook.

6. Let me dwell a little on the monetary policy stance. From a cross-country perspective, monetary policy stance is typically characterised as accommodative, neutral or tightening. While an accommodative stance entails easy monetary policy that is geared towards stimulating the economy through softer interest rates; tightening refers to contractionary monetary policy whereby interest rates are hiked to restrain spending and curb economic activity, all with the objective of reining in inflation. A neutral stance is typically associated with a state of economy which neither calls for stimulating economic activity nor calls for controlling inflation by curtailing demand and provides flexibility to move in either direction on the basis of evolving economic conditions.

7. In our context, the stance of monetary policy signals the intended direction of policy rates going forward. Accordingly, with respect to the policy rate, which is the mandate of the MPC, today's change in stance from 'neutral' to 'accommodative' means that going forward, absent any shocks, the MPC is considering only two options – status quo or a rate cut. Let me also clarify that the stance should not be directly associated with liquidity conditions. While liquidity management is important for monetary policy including decisions related to policy rate, it is an operating tool with the RBI for various purposes including monetary policy transmission. Monetary policy decisions to change policy rates do however have implications for liquidity management, being the operational tool to carry out the policy changes. To summarise, our stance provides policy rate guidance, without any direct guidance on liquidity management. I will discuss our approach to management of liquidity a little later.

Assessment of Growth and Inflation

Impact of Global Trade and Policy Uncertainties on Growth and Inflation

8. Before I share our assessment of growth and inflation, a few words on the implications of the recent global trade and related policy uncertainties are in order. Let me first highlight the possible implications for growth.

First and foremost, uncertainty in itself dampens growth by affecting investment and spending decisions of businesses and households. Second, the dent on global growth due to trade frictions will impede domestic growth. Third, higher tariffs shall have a negative impact on net exports. There are, however, several known unknowns - the impact of relative tariffs, the elasticities of our export and import demand; and the policy measures adopted by the Government including the proposed Foreign Trade Agreement with the USA, to name a few. These make the quantification of the adverse impact difficult.

9. The risks to inflation, on the other hand, are two sided. On the upside, uncertainties may lead to possible currency pressures and imported inflation. On the downside, slowdown in global growth could entail further softening in commodity and crude oil prices, putting downward pressure on inflation. Overall, while global trade and policy uncertainties shall impede growth, its impact on domestic inflation, while requiring us to be vigilant, is not expected to be of high concern.

Growth

10. Real GDP is estimated to grow at 6.5 per cent in 2024-25 on top of a 9.2 per cent growth rate observed in the previous year.² In 2025-26, prospects of agriculture sector remain bright on the back of healthy reservoir levels and robust crop production.³ Manufacturing activity is showing signs of revival⁴ with business expectations remaining robust⁵, while services sector activity continues to be resilient⁶.

11. On the demand side, bright prospects of the agriculture sector bode well for rural demand which continues to be healthy, while urban consumption is gradually picking up with an uptick in discretionary spending.⁷ Investment activity has gained traction⁸ and it is expected to improve further on the back of sustained higher capacity utilisation,⁹ government's continued thrust on infrastructure spending,¹⁰ healthy balance sheets of banks and corporates, along with the easing of financial conditions. Merchandise exports will be weighed down by global uncertainties, while services exports are expected to remain resilient.¹¹ Headwinds from global trade disruptions continue to pose downward risks.

12. Taking all these factors into consideration, real GDP growth for 2025-26 is now projected at 6.5 per cent, with Q1 at 6.5 per cent; Q2 at 6.7 per cent; Q3 at 6.6 per cent; and Q4 at 6.3 per cent. While the risks are evenly balanced around these baseline projections, uncertainties remain high in the wake of the recent spike in global volatility. It may be noted that the growth projection for the current year has been marked down by 20 basis points relative to our earlier assessment of 6.7 per cent in the February policy. This downward revision essentially reflects the impact of global trade and policy uncertainties, which I had highlighted earlier.

Inflation

13. Headline inflation moderated during January-February 2025 following a sharp correction in food inflation.¹² The outlook for food inflation has turned decisively positive. The uncertainties regarding rabi crops have abated considerably and the second advance estimates point to a record wheat production and higher production of key pulses over that last year.¹³ Along with robust kharif arrivals, this is expected to set the stage for a durable softening of food inflation. Sharp decline in inflation expectations in our latest survey for three months and one year ahead would also help anchor inflation expectations, going ahead.¹⁴ Furthermore, the fall in crude oil prices augurs well for the inflation outlook. Concerns on lingering global market uncertainties and recurrence of adverse weather-related supply disruptions, however, pose upside risks to the inflation trajectory.

14. Taking all these factors into consideration, and assuming a normal monsoon, CPI inflation for the financial year 2025-26 is projected at 4.0 per cent, with Q1 at 3.6 per cent; Q2 at 3.9 per cent; Q3 at 3.8 per cent; and Q4 at 4.4 per cent. The risks are evenly balanced.

External Sector

15. India's services exports remained resilient in January-February 2025, driven by software, business and transportation services.15 Going forward, net services and remittance receipts are expected to remain in large surplus, partly offsetting the trade deficit. The CAD for 2024-25 and 2025-26 are expected to remain well within the sustainable level.

16. On the financing side, gross foreign direct investment (FDI) remained strong during the period of April 24 to January 25 in 2024-25 reflecting India's strong macroeconomic fundamentals. Net FDI however moderated sharply during this period due to higher repatriations and outward FDI.16 Net FPI inflows to India stood at 1.7 billion US dollars during 2024-25, supported by debt inflows as the equity segment recorded net outflows. External commercial borrowings and non-resident deposits, on the other hand, witnessed higher net inflows compared to that last year.17

17. As on 4th April, 2025, India's foreign exchange reserves stood at 676.3 billion US dollars, providing an import cover of about 11 months.18 Overall, India's external sector remains resilient as key indicators stay robust.19

Liquidity and Financial Market Conditions

18. System liquidity was in deficit in January 2025 with net injection under the liquidity adjustment facility (LAF) scaling a peak of ₹3.1 lakh crore on 23rd January 2025. However, as a result of a slew of measures injecting liquidity of about 6.9 lakh crore20 rupees, the system liquidity deficit tapered during February-March 2025 and further turned into surplus on 29th March 2025. Coupled with government spending picking up pace during the latter half of March, system liquidity further improved and it stood at a surplus of ₹1.5 lakh crore as on 7th April, 2025.

19. Reflecting these developments, the weighted average call rate (WACR) softened and remained near the repo rate since the last policy meeting.21 The spreads of 3-month CP and 3-month CD rates over 91-day Treasury bill rate have also softened since the second half of March, suggesting improvement in liquidity conditions.22

20. The Reserve Bank is committed to provide sufficient system liquidity. We will continue to monitor the evolving liquidity and financial market conditions and proactively take appropriate measures to ensure adequate liquidity.

Concluding Remarks

29. The global economy is going through a period of exceptional uncertainties. The difficulty to extract signal from a noisy and uncertain environment poses challenges for policy making. Nevertheless, monetary policy can play a vital anchoring role in ensuring that the economy remains on an even keel.

30. In our context, as I mentioned earlier, the domestic growth-inflation trajectory demands monetary policy to be growth supportive, while being watchful on the inflation front. We are aiming for a non-inflationary growth that is built on the foundations of an improved demand and supply response and sustained macroeconomic balance. As before, we shall remain agile and decisive in our response and put in place policies that are clear, consistent, credible and in the best interest of the economy.

Sell-Side Analyst Views

ANZ (cut) : “We expect the MPC to deliver a 25bp cut at its upcoming June meeting given domestic inflation eased further in April and May and it is set to remain subdued for 2025. Core inflation is above 4% though much of the acceleration has been driven by gold prices and is likely to be discounted. We see downside risks to RBI’s FY GDP and CPI forecasts, warranting a bolder monetary policy push. The pressure on the exchange rate has waned, meaning the RBI can pursue easing despite global financial market volatilities. We expect terminal repo rate at 5.25% by Q4 2025.

BofA (cut) : “With CPI inflation within its tolerance band of 2-6% and sub 7% GDP growth, we expect another 25bp cut in repo rate to 5.75% in June policy meeting.”

HSBC (cut) : “Inflation is likely to average c2.5% for the next six months, helped by a variety of factors – a high base, falling food prices, and subdued core inflation momentum. Growth is likely to remain on the soft side, driven by weak investment and formal sector consumption growth, even as the informal sector improves. Finally, the currency is relatively stable, led by a low current account deficit, despite weak capital inflows. We expect the RBI to cut policy rate by another 25bp in its June policy meeting to 5.75%, while maintaining an accommodative stance.

MUFG (cut) : “We forecast RBI to cut its repo rate further to 5.75% from 6.00% currently, while also maintaining a dovish tone to guide for further rate cuts moving forward. The big macro picture for INR and India is that inflation is likely to remain manageable for some time based on latest indications, with CPI expected to remain below 4% over the next few quarters. With global commodity and oil prices generally soft, coupled with reduced left tail risks of a global and US recession from the recent US-China tariff pause, we are as such still comfortable with our USD/INR forecast profile for now. We forecast RBI to cut rates by another 50bps this year on top of the 25bps cut we expect next week, bringing the repo rate to 5.25% by the end of the year. Meanwhile, markets will also focus on the non-farm payrolls number, which will give some indication of whether the US labour market is starting to be impacted by tariffs and policy uncertainty.

SCOTIA (cut): “The Reserve Bank of India is unanimously expected to further cut its repo rate by 25bps on Friday, marking the third consecutive reduction in 2025 for a total cumulative cut of 75 bps so far. At its last meeting, after gaining greater confidence that inflation was aligning with the 4% target, the bank shifted its stance from 'neutral' to 'accommodative' to further support growth amid a moderate economic outlook. Since then, headline inflation has continued to ease, driven by a correction in food prices, reinforcing the bank’s confidence in supporting growth while keeping inflation in check. Key will be to watch whether the bank provides further guidance on additional policy support for the rest of the year.”

SOCGEN (cut) : “After maintaining rates for nearly two years, the RBI announced two consecutive rate cuts during its February and April bi-monthly meetings under the leadership of new Governor Malhotra. With inflation continuing to ease and headwinds to growth intensifying, the central bank is likely to announce a third consecutive rate cut of 25 basis points at the June meeting. India’s April headline CPI decreased to 3.2% year-over-year, down from 3.3% in March, aligning with our expectations. This marks the sixth consecutive month of disinflation and the lowest reading in sixty-nine months. Food prices have been a significant factor in driving headline inflation lower, with food inflation recorded at 1.8%, largely due to sharply declining vegetable prices, which have seen deflation for three consecutive months. Looking ahead, we expect headline inflation to remain within the RBI’s median target until the end of 2025, before reversing this trend as base effects come into play. A concerning development for the central bank is the rise in core inflation, which increased to 4.4%—the third consecutive month it has exceeded the RBI’s median target. However, this surge in core inflation is primarily driven by rising gold prices. Excluding gold, India’s super core inflation stands at

3.6% year-over year. Despite the clear disinflationary trend in headline CPI, economic activity is showing signs of weakening, contrary to what the headline GDP data suggests. The increasing headwinds to growth, driven by tariff-induced uncertainty, will prompt the RBI to maintain a supportive monetary policy. We continue to expect four rate cuts by the RBI in 2025, although we cannot dismiss the possibility of an additional cut given the emerging signs of weaker-than-officially expected economic activity and well-contained inflation.”

UOB (cut) : “The Reserve Bank Of India (RBI) will announce its monetary policy decision on Fri (6 Jun, 12:30pm SGT). According to Bloomberg (as of 30 May), all 12 economists polled expect the RBI to cut its repo rate by 25-bps to 5.75% while cash reserve ratio is expected to be kept unchanged at 4.00%. Our economist, Jester Koh, also expects RBI to deliver its third 25 bps rate cut in this upcoming Jun MPC meeting and project a total of 100bps of rate cuts in this easing cycle, taking our terminal rate forecast to 5.50%, which remains consistent with RBI’s assessment of the (real) neutral rate in the range of 1.4-1.9% in its Jul 2024 monthly bulletin.”