

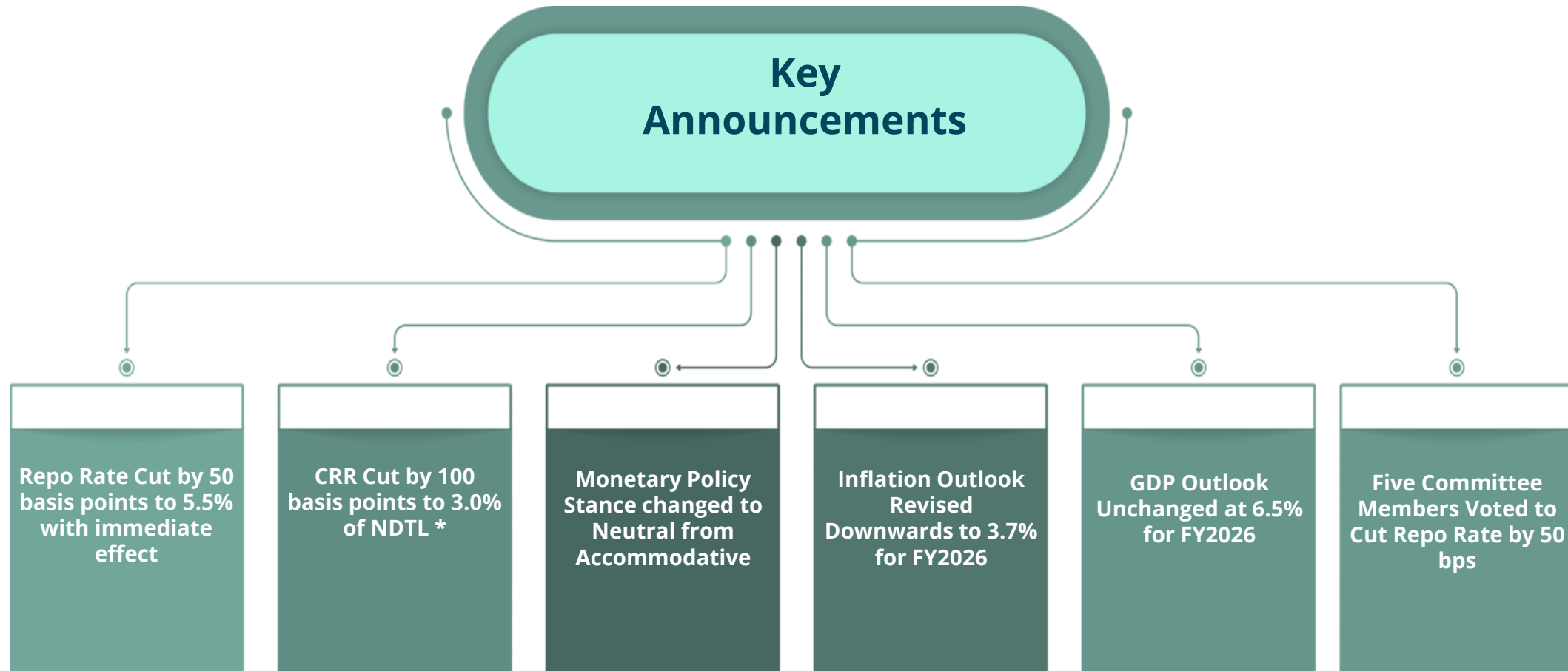
B2K

ECONOMY BYTES

MPC MEETING: JUNE 2025

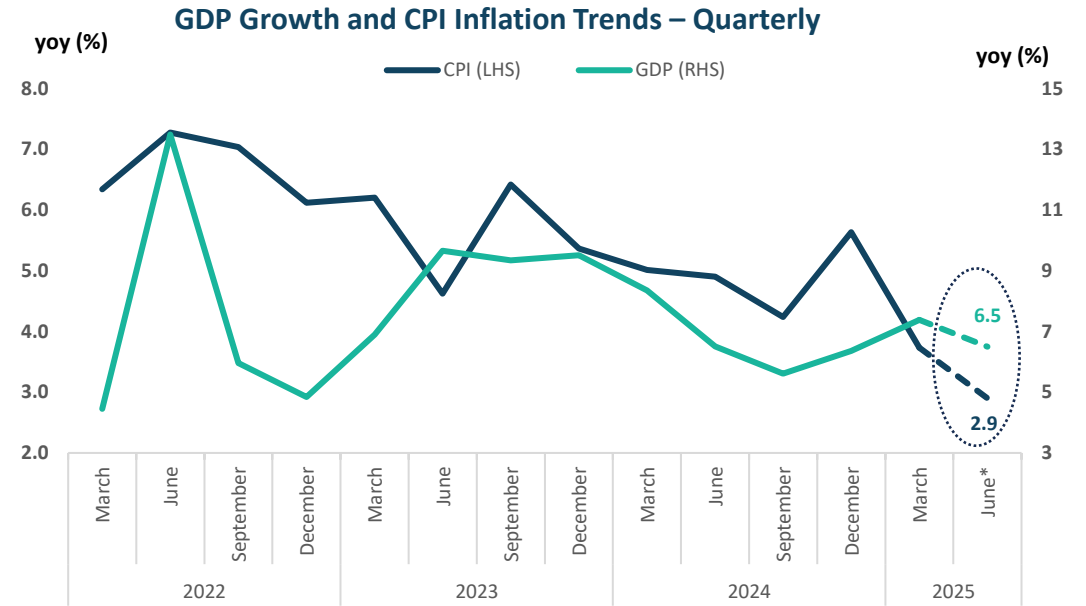
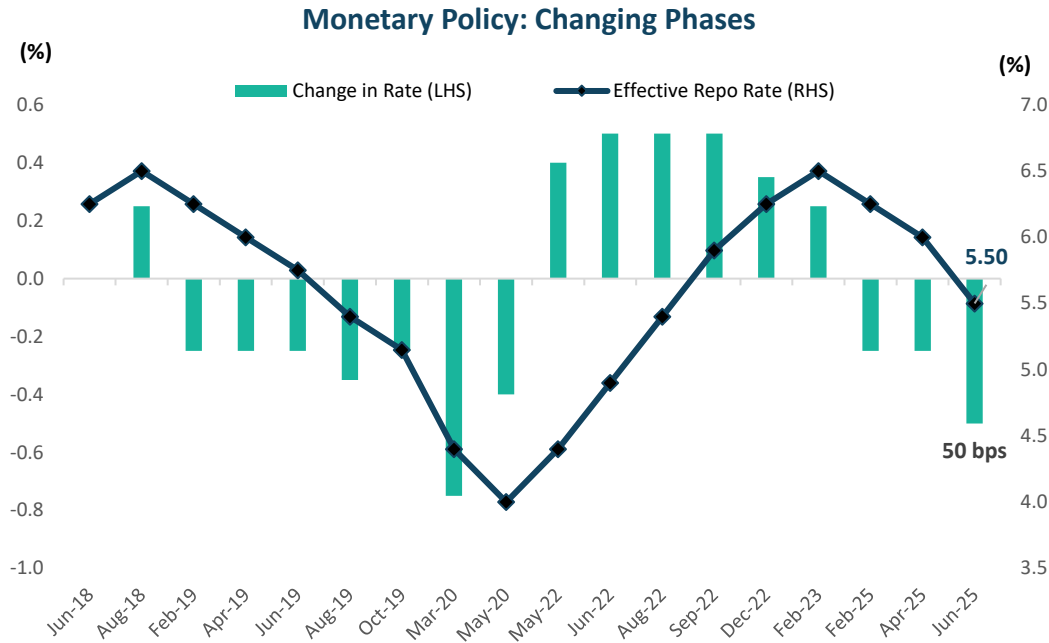


RBI MPC Meeting: A Front-Loaded Monetary Bazooka



* Cash Reserve Ratio (CRR) to be reduced in four equal tranches of 25 bps beginning September 6, October 4, November 1 and November 29, 2025.

Monetary Policy Changes & Growth Dynamics



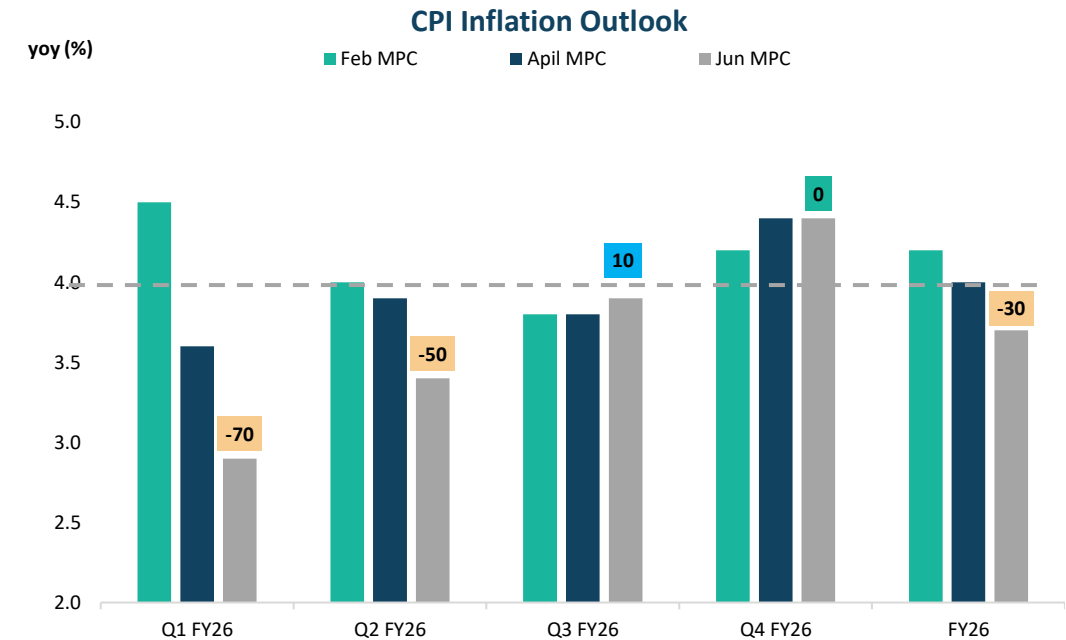
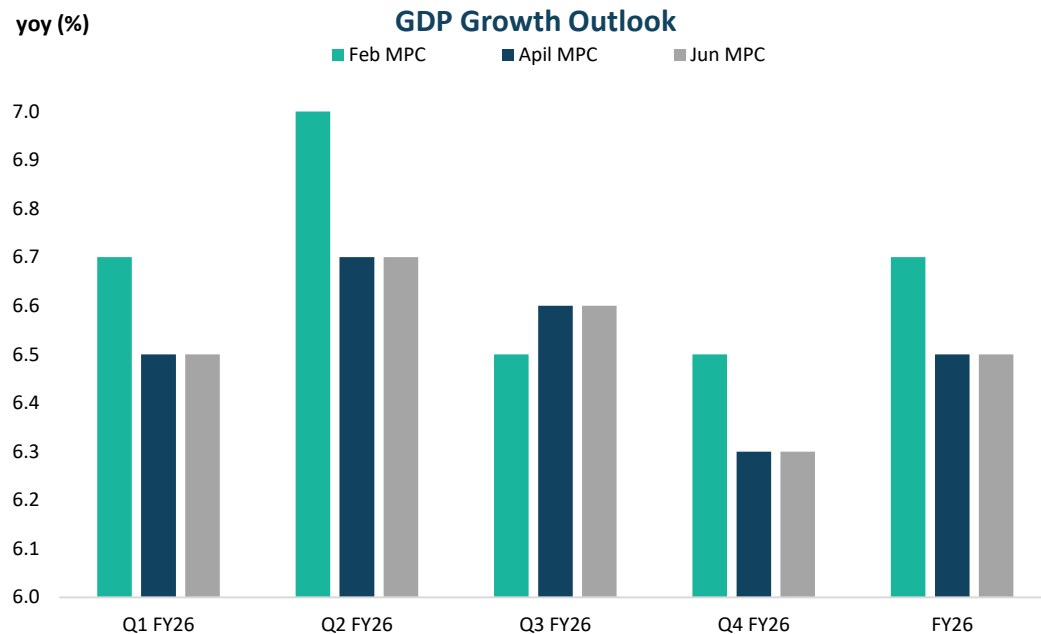
- The MPC members unanimously decided to shift the policy stance to neutral, while five members voted to reduce the policy repo rate by 50 basis points.
- Significant easing in Inflation, which is well below target level of 4% provides sufficient space to frontload the rate cuts.
- As per MoSPI's provisional estimates, real GDP grew at 6.5% in FY2025 (9.2% in FY2024). For FY2026, the growth estimates are not very encouraging as per the RBI forecast.

GDP: Gross Domestic Product, CPI: Consumer Price Index, MPC: Monetary Policy Committee

*Based on RBI MPC Estimates for FY26

Source: MoSPI, RBI, B2K Research

RBI's Outlook on Growth and Inflation

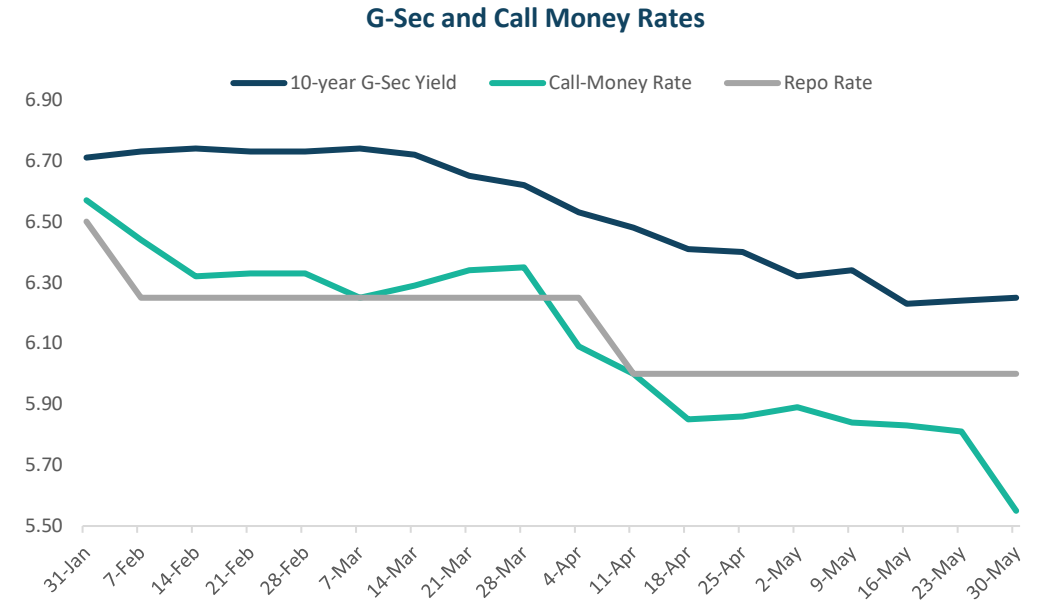
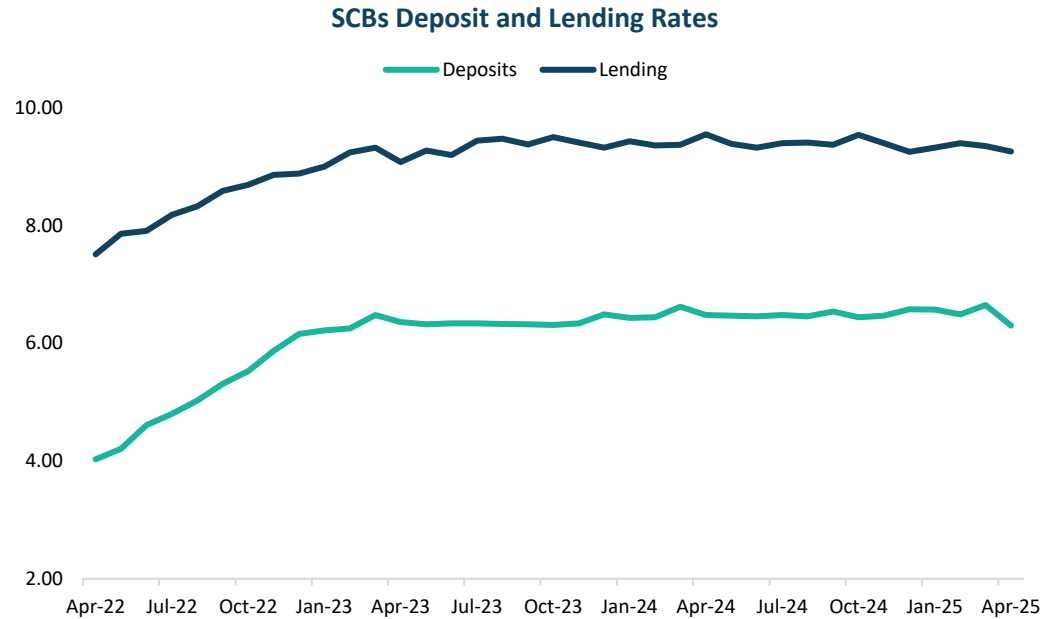


- GDP growth projections for FY2026 remain unchanged at 6.5% in June MPC, despite the improving domestic economic activity and above normal monsoon projections.
- Trade policy uncertainty however continues to weigh in addition to spillovers emanating from protracted geopolitical tensions.
- Inflation outlook revised downwards by 30 bps to 3.7% in June MPC compared to April MPC as favourable monsoon projections are expected to increase the agriculture output.
- Quarterly estimates for Q1 and Q2 FY26 undergo sharp downward revision while Q3 sees an upward revision and Q4 estimates remain unchanged.

Note: Numbers in shaded box inside the charts denotes revision in GDP and inflation outlook in June MPC compared to April and February MPC meeting

Source: RBI's MPC statements, B2K Research

Monetary Policy Transmission



- The transmission of previous repo rate cuts to short term rates were quick so far, however the banks lending rates remained high.
- Weighted average deposit rates of SCBs fell by 19 basis points since February 2025, while lending rates were reduced by 14 basis points during the same period as against the 50 basis points cut in repo rate.
- The delay in transmission of interest rate could adversely impact the credit demand in the economy which had already slowed in the recent months. The non-food credit grew at 10.2% (yoy) in April 2025 compared to 19.1% growth reported in April 2024.

Assessing Economic Trends - Past and Present

- While there is some improvement in economic activities in the recent months, some of the economic indicators are still below their last year levels.
- MPC's recent actions were supported by consistent fall in inflation. Easing food prices and crude oil prices suggest a benign inflation outlook.

A Snapshot of High Frequency Economic Indicators																	
Particulars	FY2015	FY2019	FY2024	FY2025	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
GDP Growth (yoy %)	7.41	6.45	9.19	6.49		5.61			6.37			7.38			-		
Repo Rate (%)	7.50	6.25	6.50	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.00	6.00	5.50
CPI Inflation (yoy %)	5.93	3.41	5.36	4.63	5.08	3.60	3.65	5.49	6.21	5.48	5.22	4.26	3.61	3.34	3.16	-	-
IIP Growth (yoy %)	4.03	3.83	5.92	4.02	4.93	4.98	0.00	3.23	3.73	4.96	3.74	5.21	2.72	3.94	2.70	-	-
Consumer Durables Growth (yoy %)	3.97	5.50	3.58	7.93	8.82	8.21	5.36	6.32	5.53	14.08	8.12	7.08	3.69	6.85	6.44	-	-
Non-food Bank Credit Growth (yoy %)	9.27	13.36	20.17	10.96	17.35	13.68	13.58	13.04	11.54	10.61	11.11	11.38	10.94	10.96	10.20	-	-
Merchandise Exports (USD bn)	310.34	330.08	437.07	437.51	35.16	34.71	34.48	34.30	38.97	31.96	37.80	36.34	36.82	42.06	38.49	-	-
Merchandise Imports (USD bn)	448.03	514.08	678.21	721.32	56.00	59.47	68.51	58.72	65.07	63.93	58.48	59.84	51.37	63.77	64.91	-	-
Forex Reserves (USD bn)^	341.38	411.91	645.58	665.40	652.00	667.39	683.99	704.89	684.81	658.09	640.28	630.61	638.70	665.40	688.13	-	-
FPI Investments in Equity (USD bn)	18.37	0.12	25.27	-14.63	3.19	3.87	0.87	6.89	-11.20	-2.56	1.83	-9.04	-3.98	-0.40	0.51	2.34	-
FPI Investments in Debt (USD bn)	27.33	-6.13	14.24	16.86	1.68	1.93	2.04	3.92	-0.43	0.00	1.48	0.05	1.21	4.34	-2.84	1.42	-
USD-INR Exchange Rate^	62.59	69.17	83.37	85.58	83.45	83.74	83.87	83.79	84.09	84.50	85.62	86.64	87.40	85.58	85.05	85.48	-
Crude Oil Prices (end)^	53.69	67.93	86.17	77.23	87.26	81.39	80.20	72.35	73.25	74.16	74.58	77.11	74.76	77.23	63.37	64.32	-

Note: Green to Red shades indicate strong to poor performance of the respective indicators.

'- Not available, ^: End of the period, * As per the latest available data as on 6th June 2025.

Source: EMIS, RBI, NSDL, Mospi, EIA, B2K Research

Rationale

- **Easing inflation:** CPI inflation has fallen to a five-year low of 3.16% in April 2025 and has consistently remained below the targeted 4% rate since February 2025. Forecasts also suggest inflation to remain below the target in FY2026.
 - **Underwhelming growth:** Despite strong Q4 growth and encouraging monsoon which may boost agricultural performance, GDP growth expectations for FY2026 remain unchanged in June MPC. Ongoing global tensions and increasing trade uncertainty in global markets following the Trump Administration's foreign economic policies and tariffs are weighing on the growth prospects. Global growth has been revised downwards by multiple agencies such as the IMF due to uncertainty surrounding the trade wars.
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- **Rate cut to support growth:** Since February 2025, the MPC have reduced the repo rate by a 100 bps in quick succession. The rate cuts are expected to reduce the borrowing costs and stimulate domestic private consumption, investments and growth.
 - **Boost liquidity:** The reduction in CRR by a 100 bps to 3% will provide sufficient liquidity to the banking system, which is expected to be around Rs 2.5 trillion. This will help the banks to bring down the lending rates.
 - **Spur demand:** Ample liquidity in addition to rate cuts are expected to boost consumption and drive credit demand. Demand for retail and MSME loans are expected to pick up.
 - **No further Easing:** Frontloading of the rate cut and shift in policy stance to neutral suggest there will be limited scope for additional rate cuts in the rest of 2025 .

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The B2K team has experienced domain experts and industry practitioners who have provided such services and implemented solutions across institutions in different countries. As such, team members are experts in regulatory and management practices in these areas and have helped many clients in adopting best practices.

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