

The June'25 MPC minutes were on close watch given the surprise frontloading of 50bps repo rate cut along with 100bps CRR cut to record low of 3%. More importantly, the shift in stance to "neutral" from accommodative (lasted only for one policy) was unanticipated as well.

The minutes were broadly in line with the policy statement with all the members exhibiting a strong bias to expedite growth recovery via faster rates transmission as below 4% target inflation (69-month low of 2.8% hit in May'25) has opened up policy space. Even as the dissenter Saugata voted for 25bps rate cut, it was premised on the view that liquidity assurance will suffice towards expediting transmission and limits need for deep rate cut. That said, the RBI Governor continued to assert ***"after having reduced the policy repo rate by 100 bps in quick succession since Feb'25, monetary policy is left with very limited space to support growth"***. ***This remains aligned, in our view, with the Governor's latest media interview, asserting that policy space may open up if inflation is below the 3.7% projection for full year FY26.***

The change in stance in favour of "neutral" from "accommodative" was undertaken to retain flexibility amid rising global & domestic macro uncertainty. The members have raised concerns about global uncertainties regarding tariff wars and dampened growth outlook, but it has also been asserted that the MPC will respond appropriately depending upon the data indicating to any material change in the macro outlook.

From the markets perspective, any "communication" especially from the RBI members with regards to the alignment of the call rate (operating target rate) with the repo rate given the shift in policy stance to neutral amid ample liquidity, was on watch as well. However, such clarification was not provided in the minutes and for now, the cues from the RBI Governor's recent interview will be taken into account that call rate may operate at the SDF under surplus liquidity conditions, much needed for better rates transmission.

On balance, we continue to believe that this stealth easing concludes the rate cutting cycle for now with terminal rate of 5.50% assuming a real rate of ~150bps vis-à-vis our inflation forecast of 4% for FY26. The MPC is likely to stay data dependent in order to assess policy space for further easing. Hence, while **currently tracking inflation projections do point to outside chance of a 25-50bps rate cut(s) in H2 FY26** (with consensus slowly shifting in this direction), we remain watchful of global geopolitical uncertainty (trade tariffs, Israel-Iran war & impact on oil prices), Fed rate trajectory apart from domestic inflation trends (partly guided by monsoon) before considering space for further rate cuts in this cycle.

#### Key themes in MPC minutes:

##### a. Package of measures given to provide certainty in an uncertain world

- i. Frontloaded easing of monetary policy was intended to expedite pickup in growth via faster (rates) transmission (however dissenter Saugata Bhattacharya argued that the liquidity push with a 25bps repo rate cut may be sufficient for supporting transmission; he too was in favour of change in stance from accommodative to neutral).
- ii. Most of the members believe that ***"while food inflation has decelerated sharply, core inflation has been contained at around 4 per cent and would be lower if the impact of high and rising gold prices is excluded"***. Hence, benign inflation (revised FY26 forecast to 3.7% from 4%) and softer growth (6.5% in FY25 versus 9.2% in FY24) provided space for the policy easing.
- iii. The MPC noted a slowdown in private investment particularly evident in the weaker Q4FY25 manufacturing and consumption data. Policy decisions were aimed at stimulating private capex by lowering borrowing costs and improving liquidity conditions.
- iv. 100 bps CRR cut aims to provide liquidity (Rs 2.5 lakh cr), raises money multiplier, lowers funding costs, improve NIM (7bps annual impact) and facilitates monetary policy transmission.

##### b. Shift in stance to neutral amid uncertainty provides flexibility and data dependence

- i. Global uncertainties including trade tensions, potential US tariffs and geo-political conflicts pose risks to India's growth outlook. A favourable monsoon outlook, robust kharif harvest arrivals, winter season corrections in vegetable prices and a promising rabi crop outlook would ease food inflation pressures supporting the benign inflation forecast of 3.7% for FY26 and thus a shift to a neutral stance and the rate cut to support economic momentum. ***"A neutral stance would provide monetary policy the necessary flexibility to cut, pause or hike policy rate in response to the evolving domestic and global economic conditions"***.
- ii. Governor reasserted that the 50bps rate cut and 100 bps CRR cut were designed to provide "certainty in the times of uncertainty" and support growth amidst volatile global conditions. He acknowledged that after cumulative rate cuts of 100 bps since Feb'25, monetary policy has limited space for further easing (as of now). However, in his recent media interview, the Governor clearly signaled that policy space may open if inflation is below projections.
- iii. In this regard, the Governor flagged that ***"the stance not only reflects the current macroeconomic conditions, but more importantly the outlook that goes into policy calculus. While the CPI headline inflation for April 2025 is 3.2%, the projection for Q4 is 4.4%"***. Hence, ***"monetary policy will be left with very limited space to support growth"***.

##### c. Fall in (neutral) real rate levels also opens up space for policy easing

- i. Among the members, only Ram Singh discussed about real rates and emphasized that even if we assume the post-pandemic real rate of 1.65% (despite decline in recent years), the 3.7% inflation projection for FY26 open up space for ~75bps rate cut.
- ii. Hence, if we go with Prof Singh's estimates, with the frontloaded rate cut, the pending policy space of 15-25bps appears limited unless inflation this year surprises on the downside. This is aligned with the RBI Governor's view in [the latest media interview](#).

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# Key Statements by members (paraphrased)

Member	Key Statements
RBI Governor Shri Sanjay Malhotra	RBI Governor highlighted that the global economic situation remains fragile and fluid. Apart from the near-term uncertainties, the medium-term outlook is also overcast amidst recurrent geopolitical flareups and reshaping of a new global trade order. The GDP growth print for Q4:2024-25 indicates sequential improvement in the economic activity but private sector investments have been weak despite high capacity utilisation and improved corporate balance sheets. With a CPI projection of 3.7% for 2025-26, the inflation outlook for the year is looking more benign than anticipated in the April policy. While growth remains steady, it is lower than aspirations. Given the current macroeconomic conditions and the outlook, monetary policy needs to support growth, while remaining consistent with the objective of price stability. Front-loaded rate action along with certainty on the liquidity front would send a clear signal to the economic agents, thereby supporting consumption and investment through lower cost of borrowing. <b>After having reduced the policy rates by 100 bps in quick succession since February, in the prevailing growth-inflation scenario and the outlook, monetary policy will be left with very limited space to support growth.</b> Stance not only reflects the current macroeconomic conditions, but more importantly the outlook that goes into policy calculus. A neutral stance would provide monetary policy the necessary flexibility viz., to cut, pause or hike policy rate, in response to the evolving domestic and global economic conditions.
Dr. Nagesh Kumar	He highlighted the backdrop of continued global uncertainties on tariffs & trade wars and India facing the dumping risk from China. Q4FY25 growth recovery was pleasantly surprising but it is not clear that the momentum will continue in Q1FY26 also given the moderating consumption and investment growth. Transmission of the monetary easing and credit growth has been slow or moderate. Difficult external environment calls for supporting growth through both fiscal and monetary policy. Fiscal consolidation provides some potential for a fiscal stimulus whereas monetary policy space has been created by the benign inflationary outlook. <b>A 50bps rate cut would send a clear message that India is serious about supporting economic growth momentum and would spare no effort in terms of policy interventions. Further, a double dose of rate cut is likely to bring down lending rates significantly.</b>
Shri Saugata Bhattacharya	Current growth impulses continue to exhibit economic resilience despite the prevailing uncertainty. The experience of the periodic FY24 GDP data revisions also support a calibrated policy easing path. Transmission of the policy rate cuts into bank lending (and some deposits) rates did accelerate post March'25. <b>RBI's assurance of continuing large durable liquidity support is likely to have a more dominant effect on further transmission compared to a deep cut in the repo rate.</b> A measured and cautious progress in policy easing is more appropriate at this time.
Prof. Ram Singh	To be growth supportive, real rate should be lower than neutral interest rate ( $r^*$ ). Neutral interest rates have been declining over the last two and a half decades, for both advanced and emerging economies, including India. The average $r^*$ estimated for India had increased from 1.2% for Q3:2021-22 (Covid period) to 1.65% for Q4: 2023-24. <b>Even if we go by the post-pandemic average neutral interest rate (1.65%), there is scope for about a 75 bps cut in the current cycle without heating the economy.</b> A 50-basis-point rate cut in this cycle seems very reasonable and highly desirable. <b>Moreover, the current situation warrants a front-loaded rate cut that is likely to help achieve the twin objectives of supporting demand and growth by reducing the cost of funds for borrowers.</b> The 50-basis-point rate cut should not cause any overheating in the economy, as there are no indications of demand-pull inflation. However, some of the adverse effect on NIM can be neutralised by other monetary policy instruments available with the RBI. A relatively big rate cut would mean that the interest rate differential with the U.S. Fed would reduce to lowest levels in recent time, however, given the robust fundamentals of Indian economy and a pick in growth can more than offset the adverse effect of reduced interest rate differentials.
Dr. Rajiv Ranjan	Domestic investment though on a recovery mode continues to suffer as enhanced global uncertainties are restraining investment impulses. A larger cut in the expansionary cycle may be necessary to have the same effect on output as in the contractionary cycle. This rate cut, coupled with several liquidity measures already undertaken, along with a CRR cut from September onwards should help boost credit growth while protecting bank margins in a rate easing cycle. Having front-loaded the policy rate cut by 50 bps, there would be lesser room for further downward adjustments in policy rates. Combination of 50 bps cut with an accommodative stance could mislead financial markets about the scale and scope of further monetary policy easing, repricing of which eventually could create unnecessary volatility. <b>The shift in stance to neutral should not be confused to be a sign that the direction of monetary policy has changed. Any material change in the outlook will be responded appropriately through the policy action. In the near term, there is a need to focus more on facilitating transmission of easier monetary policy, while keeping a close watch on the incoming data.</b>
Dr. Poonam Gupta	Growth in 2024-25 was mainly driven by a revival in private consumption while private corporate capex remained tentative. While food inflation has decelerated sharply, core inflation has been contained at around 4 per cent and would be lower if the impact of high and rising gold prices is excluded. There is both a need as well as the room for monetary policy to provide support to the economy for it to attain and even surpass the past rates of growth. A front loaded 50 bps cut in repo rate will foster policy certainty and faster transmission than a staggered rate cut. <b>Overall, while a case can be made for two consecutive rate cuts of 25 bps each in this as well as the next policy cycle, there is also merit in front-loading these cuts.</b>

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