

The 4-6 Jun'25 monetary policy decision will be announced amid an uncertain global backdrop. We expect repeat of a 25bps rate cut to 5.75% in a unanimous decision, as part of continuing with the policy easing cycle. While headline inflation is expected to trend back below the 4% target in FY26, GDP growth, on the other hand, is likely to be around ~6% versus MPC's forecast of 6.5% for FY26. Liquidity conditions have become comfortable with various recent measures taken by the RBI in order to align with the Governor's assurance of 1% of NDTL in April.

- **Unanimous decision on rate cut likely with an accommodative stance**

We expect a 25bps repo rate cut to 5.75% in a unanimous decision, with accommodative stance maintained. Inflation continues to remain below the target of 4%. Notwithstanding the positive data surprise, India's GDP growth slowed to four-year low of 6.5% in FY25 and is likely to slow down to 6.3% in FY26 as global tariff uncertainty has hurt business sentiment and further delayed broad based private capex recovery. In our view, while the Q4-FY25 GDP growth at 7.4% provided a positive surprise, the uptick from 6.4% in Q3 was partly statistical and hence unsustainable, in our view (Please see report "[Positive growth surprise in Q4FY25; slowdown seen in FY26](#)"). Inflation on the other hand is expected to be below 4% in FY26 (tracking ~3% in Q1-FY26), barring in situations of climate or commodity price shocks. Given benign inflation conditions and with an aim to boost growth amid continued global uncertainty, we see 25bps rate cut cycle in the 4-6th June MPC meeting.

- **Inflation tracking well below 4% target; marginal downside revision in FY26 projection likely**

Inflation remains in check with monsoon on close watch. Food inflation has fallen consistently post peak seen in Oct'24 primarily driven by consistent correction in food prices which has extended well into the summer months despite heat challenges. Core inflation on the other hand is subdued, with fall in commodity prices keeping it in check during FY26. Although monsoon is expected to be normal this year, food prices remains highly uncertain and is highly dependent on the monsoon trends and distribution (spatial & temporal) which the MPC needs to watch out for. While downward bias to inflation forecast is likely, the MPC may choose to watch out for monsoon trends and distribution (spatial & temporal) before considering forecast revision given food has been playing spoilsport in recent years.

- **We see growth slowing in FY26 even as MPC likely to keep growth forecast flat at 6.5%**

We do not expect any major revision in growth and inflation forecasts for FY26 at 6.5% and 4.0% respectively. While FY26 growth is estimated at 6.5%, we expect it to slow down to 6.0%, despite positive surprise in Q4FY25. Even though global recession fears have lowered, growth may remain weak amid global uncertainty and tariff concerns. The finalization of US-India trade deal may support growth to some extent. However, broad based capex recovery remains delayed. Further, credit growth has slowed to below 10% as credit demand remains subdued. The interest sensitivity of capex is low.

The RBI's analysis on how the global environment would be affecting the domestic economy considering that the tariff reprieve provided by the US would end in July will be watched out. Also, the commentary on both growth and inflation as there are expectations of revisions in their forecasts for both the parameters.

- **Liquidity remains in (high) surplus mode; any guidance on liquidity management framework on watch**

While the RBI ensured comfortable liquidity situation through various measures such as Rs 11 lakh Cr injected by the RBI via OMOs, FX swaps and 50bps CRR cut along with recent Rs 2.7 lakh cr worth dividend. This has led to a sharp increase in core liquidity to Rs.6.01 lakh crore, which is c.2.7% of NDTL. Due to the liquidity flush, the operating target rate i.e. WACR trading at lower end of the policy corridor i.e. at SDF. Hence, we do not expect any further liquidity measures even as the Governor has assured liquidity of 1% of NDTL. In fact, due to weak credit demand, a large part of the banking system liquidity is parked daily in SDF with the RBI. For instance, average liquidity balance for the banking system in May'25 had surplus of Rs. 1.71 lakh crore, while banks with surplus liquidity parked Rs. 2.03 lakh crore (Apr'25 average) in SDF with the RBI. That said, transmission of the 50bps rate cut till now in the cycle is still underway and lagged in non-repo linked lending rates i.e. MCLR with any commentary in the MPC decision in this regard on close watch.

- **We see terminal repo rate at 5.50% with another 25bps rate cut seen in August**

Overall, we expect the MPC to persist with the rate cutting cycle with the terminal rate seen at 5.50% given our expectation of 25bps rate cut each in June and August, assuming a real rate of ~150bps vis-à-vis our inflation forecast of 4%. That said, with the operating target rate i.e. WACR trading at lower end of the policy corridor i.e. at SDF, the terminal operative rate may be closer to 5.25% as RBI has undertaken significant liquidity steps driving liquidity into surplus. We acknowledge that there are downside risks to our repo rate forecast, yet we would want to watch out extent of impact of global tariff uncertainty on macro outlook apart from monsoon distribution on food inflation, which has been an inflation spoilsport in recent years.

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Jaya Laxmi Sarepalli
s.jayalaxmi@unionbankofindia.bank

Fig 1: We see possibility of a downward revision by MPC to FY26 inflation projections even as growth forecasts are kept unchanged

UBI vs MPC projection comparison						
	GDP			CPI		
	RBI MPC	UBI		RBI MPC	UBI	
Q1	6.5	6.4		3.6	3.0	
Q2	6.7	6.4		3.9	3.5	
Q3	6.6	6.4		3.8	4.5	
Q4	6.3	6.1		4.4	4.9	
FY26	6.5	6.3		4.0	4.0	

Fig 2: CPI has slipped towards 3% handle in Q1-FY26; % YoY

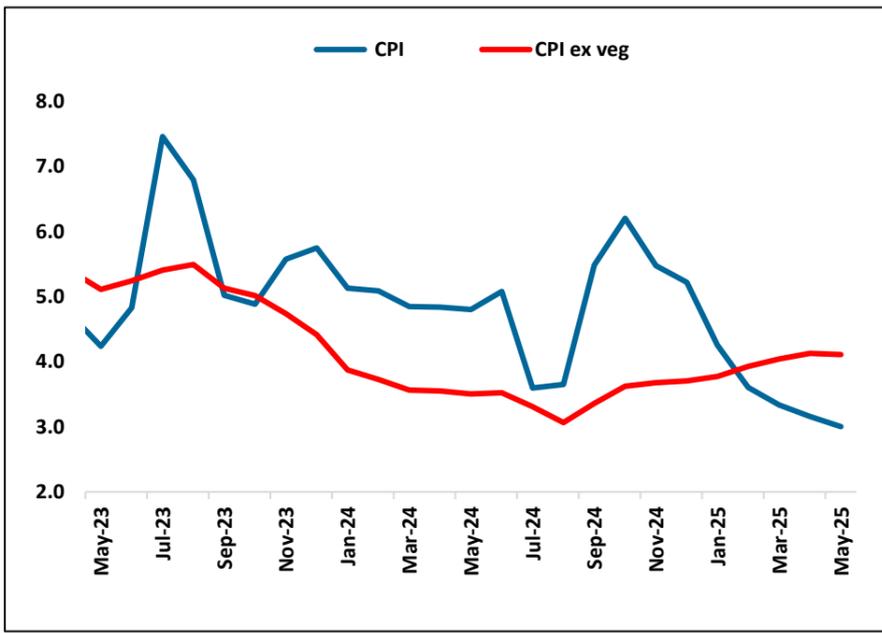


Fig 3: Core liquidity has recently jumped to ~Rs.6 lakh crore, post RBI dividend transfer

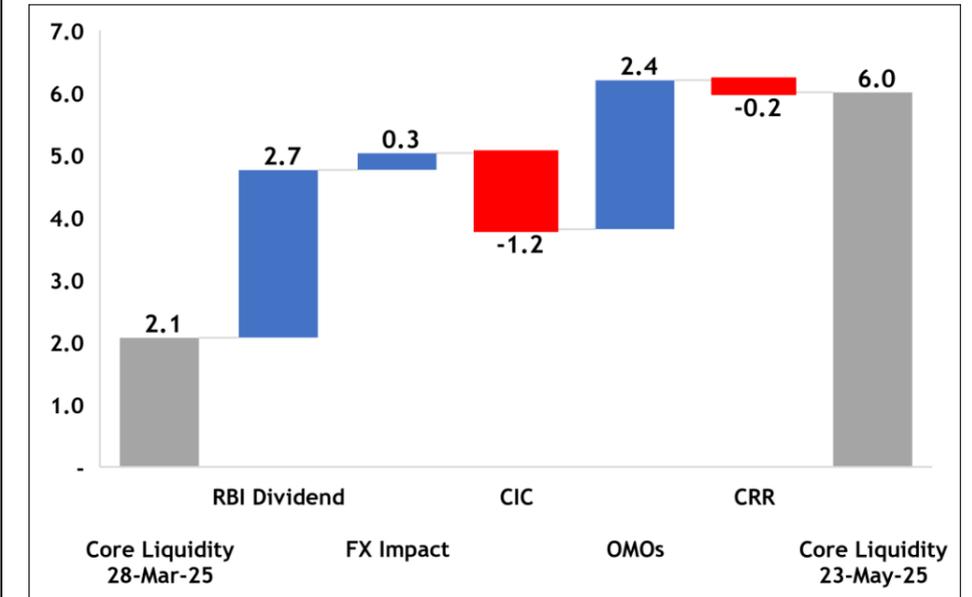
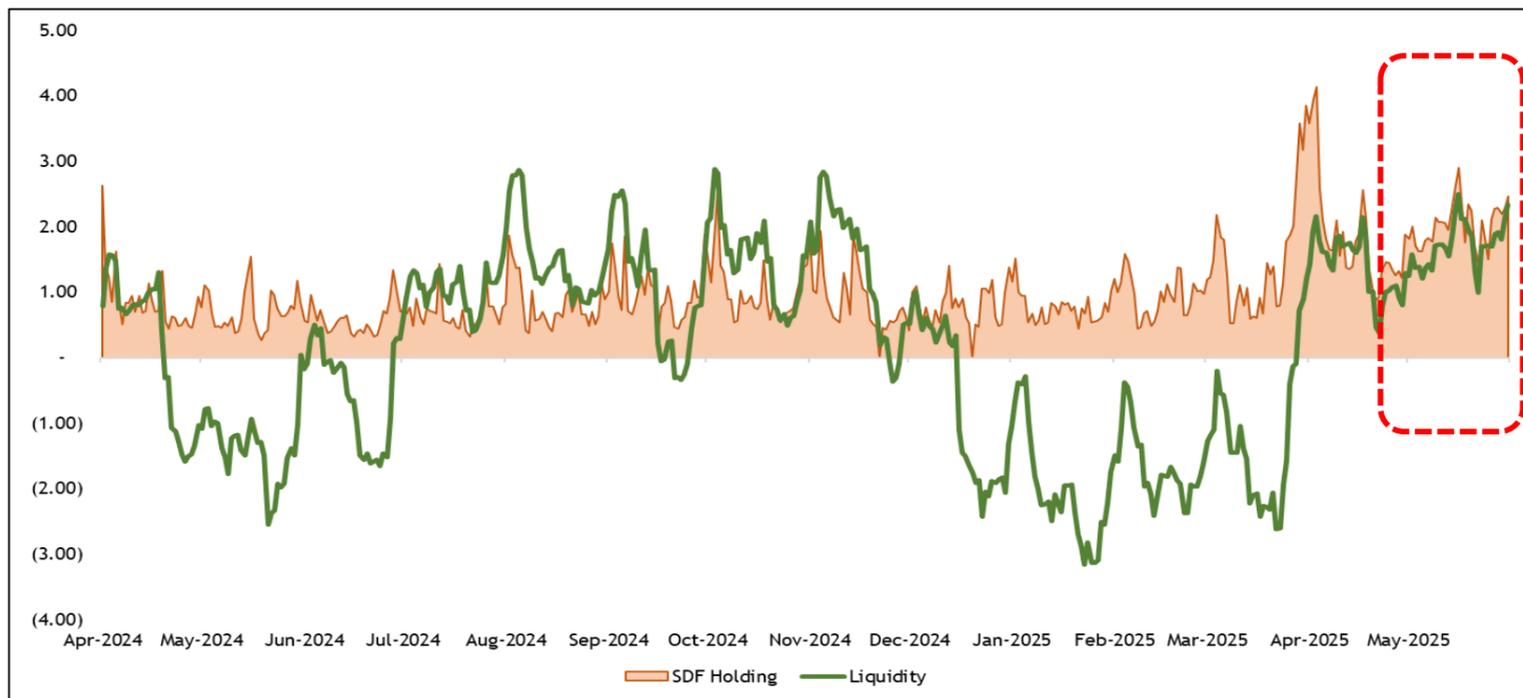


Fig 4: High SDF Holdings signal weak credit demand & elevated precautionary liquidity demand for Banks



Source: RBI, UBI research

Fig 5: RBI analysis shows absence of causality from credit to output growth, hence demand for credit contingent on pickup in economic activity

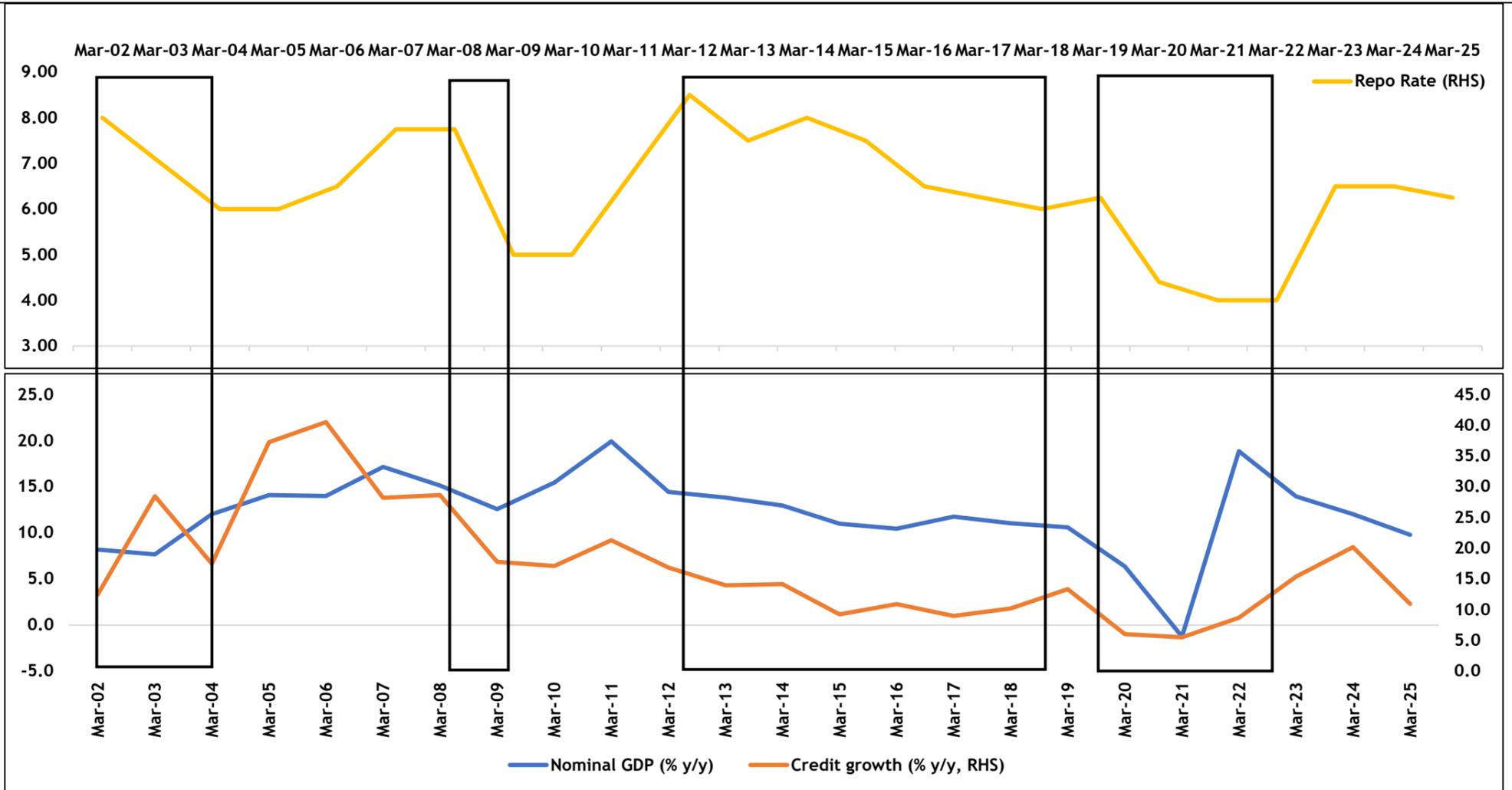


Fig 6: Transmission is usually lagged in deposit rates during rate cutting cycle

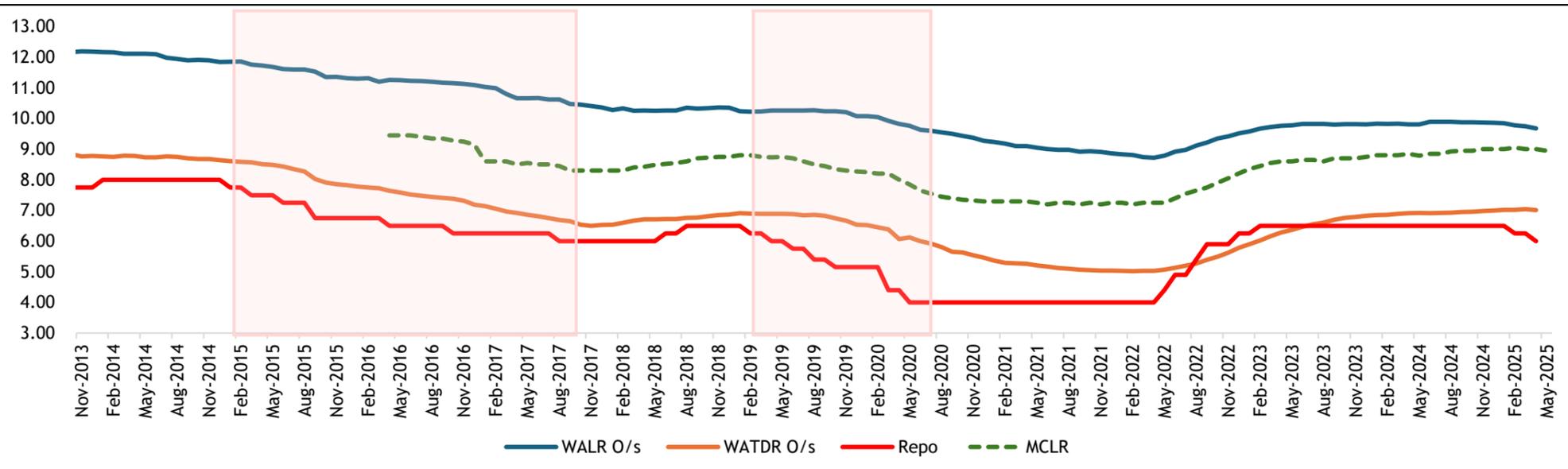
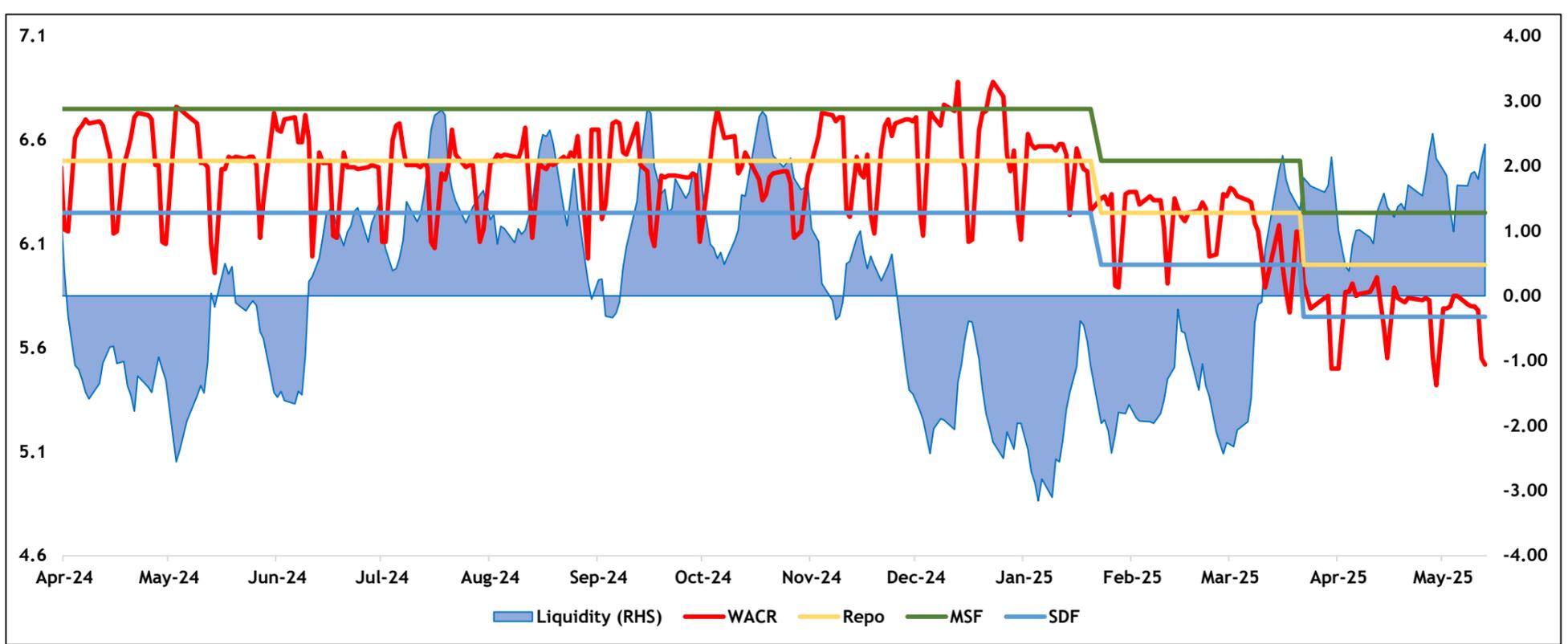


Fig 7: Transmission process underway during the current rate cutting cycle

Transmission to Banks' Deposit & Lending Rates (Variation in bps)							
Period	Repo rate	Term Deposit Rates		Lending Rates			
		WATDR-Fresh Deposits	WATDR-Outstanding Deposits	EBLR	1-Yr MCLR	WALR - Fresh Loans	WALR - Outstanding Rupee Loans
Easing Phase (Feb'25 to Apr'25)	-50	-27	-1	-50	-5	-6	-17
Tightening Phase (May'22 to Jan'25)	+250	253	199	250	178	181	115

Source: RBI, UBI research

Fig 8: WACR has slipped to lower end of policy corridor as banking system is flushed with liquidity



Source: RBI, UBI research

High frequency lead indicators present a mixed picture and remain on close watch

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
IIP (YoY Gr%)	5.2	6.3	4.9	5.0	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.9	2.7	
Mining (YoY Gr%)	6.8	6.6	10.3	3.8	-4.3	0.2	0.9	1.9	2.7	4.4	1.6	1.2	-0.2	
Manufacturing (YoY Gr%)	4.2	5.1	3.5	4.7	1.2	4.0	4.4	5.5	3.7	5.8	2.8	4.0	3.4	
Electricity (YoY Gr%)	10.2	13.7	8.6	7.9	-3.7	0.5	2.0	4.4	6.2	2.4	3.6	7.5	1.1	
Core Infra Growth (YoY Gr%)	6.9	6.9	5.0	6.3	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.6	0.5	
Cement Production (YoY Gr%)	0.2	-0.6	1.8	5.1	-2.5	7.6	3.1	13.1	10.3	14.3	10.8	12.2	6.7	
Steel Production (YoY Gr%)	9.8	8.9	6.3	7.0	4.1	1.8	5.7	10.5	7.3	4.7	6.9	9.3	3.0	
Petroleum Products (YoY Gr%)	3.9	0.5	-1.5	6.6	-1.0	5.8	5.2	2.9	2.8	8.3	0.8	0.2	-4.5	
Fertilizers Production (YoY Gr%)	-0.8	-1.7	2.4	5.3	3.2	1.9	0.4	2.0	1.7	3.0	10.2	8.8	-4.2	
Coal Production (YoY Gr%)	7.5	10.2	14.8	6.8	-8.1	2.6	7.8	7.5	5.3	4.6	1.7	1.6	3.5	
Capital Goods Production (YoY Gr%)	2.8	2.6	3.6	11.7	0.0	3.5	2.9	8.9	10.5	10.2	8.2	3.6	20.3	
PMI Manufacturing	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6
PMI Services	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8
Banking Sector	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Bank Credit (YoY Gr%)	19.0	19.8	17.4	13.7	13.6	13.0	11.5	10.6	11.2	11.4	11.0	11.0	10.3	
Agriculture Credit (YoY Gr%)	19.8	21.6	17.4	18.1	17.7	16.4	15.5	15.3	12.5	12.2	11.4	10.4	9.2	
Industry Credit (YoY Gr%)	7.4	9.4	8.1	10.2	9.7	8.9	7.9	8.0	7.2	8.0	7.1	7.8	6.6	
Services Credit (YoY Gr%)	22.0	23.2	17.4	14.5	13.9	13.7	12.7	13.0	11.7	12.5	12.0	12.4	10.5	
Retail Credit (YoY Gr%)	26.7	28.7	25.6	13.9	13.9	13.4	12.9	13.3	12.0	11.8	11.7	11.6	11.9	
Bank Deposits (YoY Gr%)	12.6	14.0	11.1	10.6	12.7	10.4	11.5	11.2	9.8	12.1	12.0	10.3	9.9	
Demand (YoY Gr%)	9.9	14.8	6.2	8.2	20.6	7.2	10.2	7.7	5.4	13.5	14.2	10.4	6.4	
Time (YoY Gr%)	12.9	13.9	11.8	10.9	11.7	10.8	11.7	11.7	10.4	11.9	11.7	10.3	10.4	
C-D Ratio (%)	79.5	79.6	79.3	79.3	78.4	79.2	79.4	79.5	80.4	80.3	80.4	80.8	79.6	
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.6	9.4	9.3	9.4	9.4	9.4	9.5	9.4	9.3	9.3	9.4	9.4	9.3	
Weighted Average Deposit Rate (%)	6.9	6.9	6.9	6.9	6.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	
Banking Sector	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
UPI (No. in Cr)	1330	1404	1389	1444	1496	1504	1658	1548	1673	1700	1611	1830	1789	
IMPS (No. in Cr)	55.0	55.8	51.7	49.0	45.3	43.0	46.7	40.8	44.1	44.4	40.5	46.2	44.9	
NPCI Retail Transaction value (Y-o-Y Gr%)	24.0	22.0	22.8	23.0	20.5	20.6	29.6	14.9	19.5	20.5	12.3	17.0		
NPCI Retail transactions volume (Y-o-Y Gr%)	44.2	42.9	44.1	39.0	37.4	39.0	43.2	31.8	34.4	35.2	29.3	31.6		
Inflation	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
CPI (Y-o-Y Gr%)	4.8	4.8	5.1	3.6	3.7	5.5	6.2	5.5	5.2	4.3	3.6	3.3	3.2	
Core CPI (Y-o-Y Gr%)	3.2	3.1	3.1	3.4	3.4	3.5	3.7	3.6	3.6	3.7	4.0	4.1	4.1	
WPI (Y-o-Y Gr%)	1.2	2.7	3.4	2.1	1.2	1.9	2.8	2.2	2.6	2.5	2.4	2.0	0.9	
Consumer	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Electricity Consumption (YoY Gr%)	9.0	13.6	8.0	4.0	-5.0	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.1	2.1
Petroleum Consumption (YoY Gr%)	-2.5	8.2	9.0	7.4	0.3	-10.6	8.4	2.0	4.0	1.4	-11.3	3.7	-4.5	-4.5
Consumer Durables (YoY Gr%)	10.5	12.6	8.8	8.2	5.4	6.3	5.5	14.1	8.1	7.1	3.7	6.9	6.4	
Consumer Non Durables (YoY Gr%)	-2.5	2.8	-1.0	-4.2	-4.4	2.2	2.8	0.6	-7.1	0.1	-2.1	-4.0	-1.7	
Unemployment (YoY Gr%)	8.1	7.0	9.2	7.9	8.5	7.8	8.8	8.8	9.8	10.8	11.8	12.8	13.8	14.8
Trade	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Merchandise Export (YoY Gr%)	2.0	13.3	2.4	0.6	-9.9	-0.3	16.6	-5.3	-1.5	-2.6	-11.1	0.7	9.0	
Merchandise Import (YoY Gr%)	11.1	7.3	4.6	11.2	10.0	7.8	1.9	16.1	2.3	10.3	-16.3	11.4	19.1	
Service Export (YoY Gr%)	17.1	9.7	3.2	16.6	5.7	14.6	22.7	14.2	16.9	12.0	11.6	18.6	8.8	
Service Import (YoY Gr%)	20.0	6.2	-3.1	16.0	9.1	13.5	28.0	26.1	13.9	12.6	-4.8	5.3	1.0	
Logistics	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
E Way bill generated (Nos. in Cr)	9.7	10.3	10.0	10.5	10.5	10.9	11.7	10.2	11.2	11.8	11.2	12.5	11.9	
Air Freight (YoY Gr%)	10.0	15.6	15.9	18.1	12.5	18.0	14.5	9.7	8.0	7.0	-4.9	3.8	11.5	
Fiscal	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
GST Collection (YoY Gr%)	12.4	10.0	7.6	10.3	10.0	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4
Govt. Expenditure (YoY Gr%)	39.3	-37.9	-18.4	0.1	20.9	2.6	31.7	3.6	22.1	12.4	-17.7	9.7	10.0	

Source: RBI, UBI research

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.