

Fig 1: Macro projections, Jun'25 vs Apr'25 MPC

RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Apr'25	Jun'25	Apr'25	Jun'25
Q1	6.5	6.5	3.6	2.9
Q2	6.7	6.7	3.9	3.4
Q3	6.6	6.6	3.8	3.9
Q4	6.3	6.3	4.4	4.4
FY26	6.5	6.5	4.0	3.7

Fig 2: UBI vs MPC Macro projections

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q1	6.5	6.4	2.9	3.0
Q2	6.7	6.4	3.4	3.5
Q3	6.6	6.4	3.9	4.5
Q4	6.3	6.1	4.4	4.9
FY26	6.5	6.3	3.7	4.0*

\*currently tracking with downward bias

Source: RBI, UBI Research

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➤ **Policy decision a surprise, stealth easing with rate cut cycle over for now**

A 50bps repo rate cut to 5.50% versus our call of 25bps rate cut divided equally between June and August shows a clear intent to frontload policy easing in an attempt to support the economy amid elevated global geopolitical uncertainty (Please see “[Jun'25 MPC Preview](#)”). Also, the rate cut decision was not unanimous with Saugata Bhattacharya (a govt. nominee) a dissenter. That said, our call on terminal repo rate of 5.50% continues to remain and was affirmed by the shift in policy stance back from accommodative to neutral. The policy statement asserts that “*monetary policy is left with very limited space to support growth*”.

In terms of the market impact, we saw the yield curve steepening post policy today with 1-year Tbill yield down by 8bps to 5.52% while the 10-year yield rose by 5bps to 6.29%. While market pricing was of 50bps rate cut, given the signalling of policy pivot via shift in stance, profit taking was seen in the longer end of the curve even as shorter end continues to stay supported by the liquidity flush especially the surprise CRR cut.

➤ **CRR cut a bigger surprise factor aimed at hastening policy transmission**

In a bigger surprise, the Cash reserve ratio (CRR) was reduced by 100bps to 3.0% of NDTL (last seen during Covid), in a staggered manner. The CRR cut will be implemented in four tranches effective from fortnights beginning September 6, October 4, November 1 and November 29, 2025. Hence, it will align with the start of the busy credit season to provide liquidity boost of 1% of NDTL (Rs 2.5 lakh crore). It is also aligned with the Governor’s liquidity assurance of 1% of NDTL provided in April policy.

We believe that the CRR cut will play a pivotal role in hastening the lagging pace of monetary policy transmission via: i/ facilitating a rise in money multiplier and reducing the cost of funds and ii/ supporting a positive impact on net interest margins (NIMs) of banking system of ~7bps (provided by the RBI Governor himself) in order to cushion the adverse impact on NIMs of 50bps repo rate on faster asset repricing (esp. in external benchmark linked i.e. EBLR loans while deposit rates reprice with a lag). We estimate that 50 bps rate cut may see a fall of 5 to 10 bps in NIMs for banking system. The transmission process is underway with RBI data showing that in lending rates except EBLR, 50bps rate cut has been passed on by 6bps in WALR fresh and 17bps in WALR o/s rupee loans. Hence, now with policy easing front loaded, the baton has passed onto banks to facilitate monetary policy transmission.

We also believe that the liquidity flush is likely to keep the weighted average call rate (WACR), operative target of policy, at the lower end of the policy corridor i.e. SDF even as the Governor avoided commenting on the level of call rate in the post policy press conference. Hence, the extent of rate easing is way more than the 100bps repo rate cut.

➤ **Change in macro projections on expected lines**

The FY26 growth forecast was kept unchanged at 6.5%, while inflation projection was revised lower to 3.7% from 4.0% with risks evenly balanced (Fig 1). The Governor asserted that “*it is safe to say that we have won the war on inflation*”. That said, we are yet to revise our 4% CPI forecast for full year FY26, as we would like to watch for monsoon distribution (spatial & temporal) and impact on food inflation before revising our numbers as the latter has played spoilsport in inflation dynamics in recent years. On growth dynamics, we see slight slowdown to 6.3% in FY26, yet geopolitical uncertainty and global growth dynamics remain on close watch.

➤ **We see rate cutting cycle done for now; policy to stay data dependent**

We 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. As asserted by the Governor, the MPC is likely to stay data dependent in order to assess policy space for further easing. Hence, we will remain watch of global geopolitical uncertainty, Fed rate trajectory apart from domestic inflation trends (partly guided by monsoon) before considering space for further rate cuts in this cycle. More importantly, frontloaded rate easing and liquidity (supply) measures are likely to support pickup in credit (demand) with a lag of at least 2-3 quarters and possibility of delay given global geopolitical uncertainty is weighing on capex pickup.

# RBI's Policy Decision

Policy Decision	February 2025	April 2025	June 2025
<b>Repo rate</b>	<b>6.25%</b>	<b>6.0%</b>	<b>5.50%</b>
<b>Stance</b>	<b>Neutral</b>	<b>Accommodative</b>	<b>Neutral</b>
<b>Growth Projection</b>	FY26 real GDP projection at 6.7%, with Q1 at 6.7% (6.9% earlier), Q2 at 7.0% (7.3% earlier), Q3 at 6.5% and Q4 growth seen at 6.5% respectively. Risks are evenly balanced as per the MPC.	FY26 real GDP projection is revised lower at 6.5% (6.7% projected earlier), with Q1 at 6.5% (6.7%), Q2 at 6.7% (7.0%), Q3 at 6.6% (6.5%) and Q4 growth seen at 6.3% (6.5%) respectively. Risks are evenly balanced.	FY26 real GDP projection is retained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6% and Q4 growth seen at 6.3% respectively. Risks are evenly balanced. Spill overs emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth.
<b>Inflation Projection</b>	CPI inflation for FY25 projection retained at 4.8% with Q4 at 4.4% (4.5% earlier). FY26 CPI projected at 4.2% with Q1 at 4.5% (4.6% earlier), Q2 at 4.0% (same as earlier), Q3 at 3.8% and Q4 at 4.2%. Risks are evenly balanced.	FY26 projection revised downward from 4.2% earlier to 4.0% with Q1 at 3.6% (4.5% earlier), Q2 at 3.9% (4.0%), Q3 at 3.8% (3.8%) and Q4 at 4.4% (4.2%). Risks are evenly balanced.	FY26 CPI projection was revised downward from 4.0% earlier to 3.7% with Q1 at 2.9% (3.6% earlier), Q2 at 3.4% (3.9%), Q3 at 3.9% (3.8%) and Q4 at 4.4% (same as earlier). Risks are evenly balanced. Weather-related uncertainties and still evolving tariff related concerns with their attendant impact on global commodity prices are upside risks.
<b>Liquidity</b>	The RBI remains committed to provide sufficient system liquidity. It will continue to monitor the evolving liquidity and financial market conditions and proactively take appropriate measures to ensure orderly liquidity conditions. The RBI also observed that some banks are reluctant to onlend in the uncollateralised call money market. They are passively parking funds with the RBI and hence urged the banks to actively trade among themselves in the uncollateralised call money market to make it deeper and vibrant for better signal extraction from the weighted average call money rate (WACR).	The RBI remains committed to keep liquidity sufficiently in surplus with an aim to keep surplus at close to 1% of NDTL. Transmission usually happens with a lag.	CRR reduced by 100 bps to 3.0% of NDTL, in a staggered manner. The reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning 6 <sup>th</sup> September, 4 <sup>th</sup> October, 1 <sup>st</sup> November and 29 <sup>th</sup> November, 2025. The cut in CRR would release primary liquidity of about Rs 2.5 lakh Cr to the banking system by Dec'25.
<b>Policy guidance</b>	The MPC gave a balanced guidance as focus on inflation remains to ensure a sustained growth trajectory. However, there was emphasis on risks to growth as global economic backdrop remains challenging and hence need to maintain flexibility with a neutral policy stance. This will provide MPC the flexibility to respond to the evolving macroeconomic environment.	The RBI Governor asserted " <i>the domestic growth-inflation trajectory demands monetary policy to be growth supportive, while being watchful on the inflation front...aiming for a non-inflationary growth</i> ".	The RBI Governor mentioned that given the current circumstances, monetary policy is left with very limited space to support growth. Going forward, the MPC will be carefully assessing the incoming data and the evolving outlook to chart out the future course of monetary policy in order to strike the right growth-inflation balance.

## Other Regulatory Measures Proposed

- There will not be any change in FII investment guidelines for banks.
- Final guidelines on gold loans will be provided on or before 9<sup>th</sup> June including following:
  - i. Small gold loans up to Rs 2.5 lakh will not be subject to credit appraisal
  - ii. End-use will be crucial to specify in case loan part of priority sector
  - iii. LTV will be relevant only for consumption loans
  - iv. LTV including interest for small gold loans up to Rs 2.5 lakh will be increased to 85% from 75% currently.

Fig 3: WACR has slipped to the lower end of the corridor due to liquidity flush in the banking system

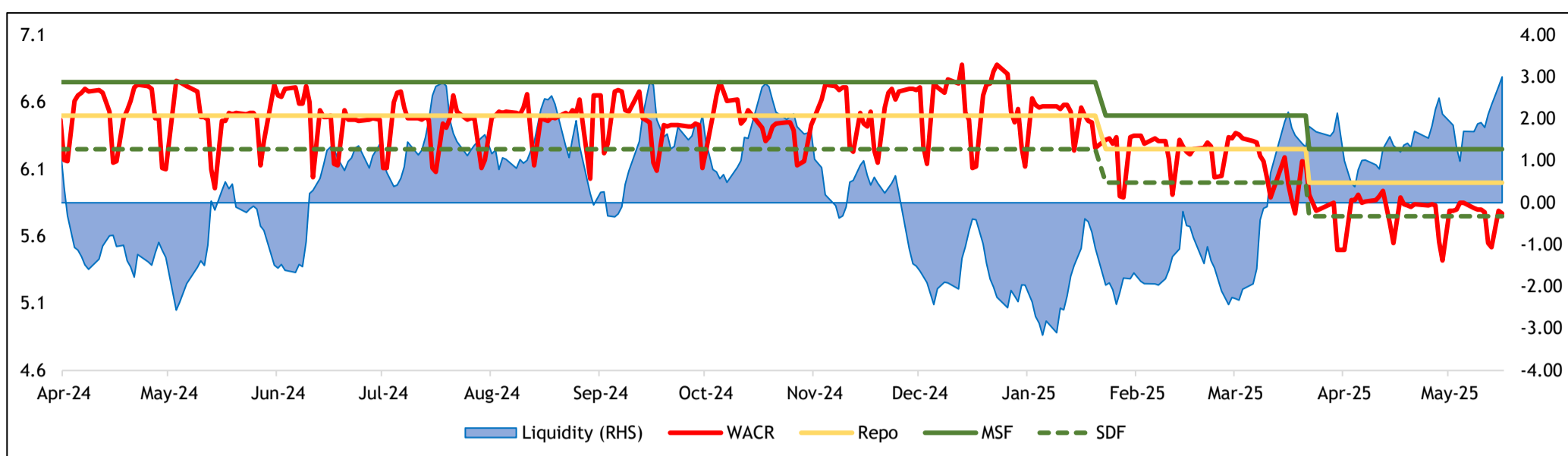


Fig 4: Transmission is usually lagged in deposit rates & MCLR during rate cutting cycle

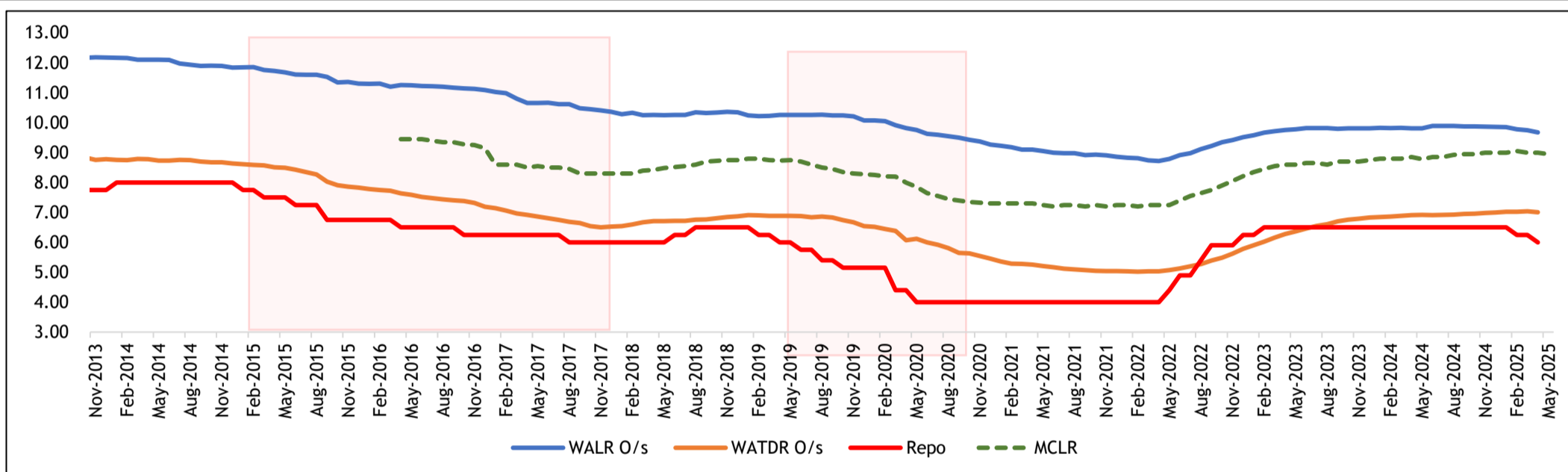


Fig 5: CD-Tbill spreads stay elevated, yet may ease sharply further with policy boost

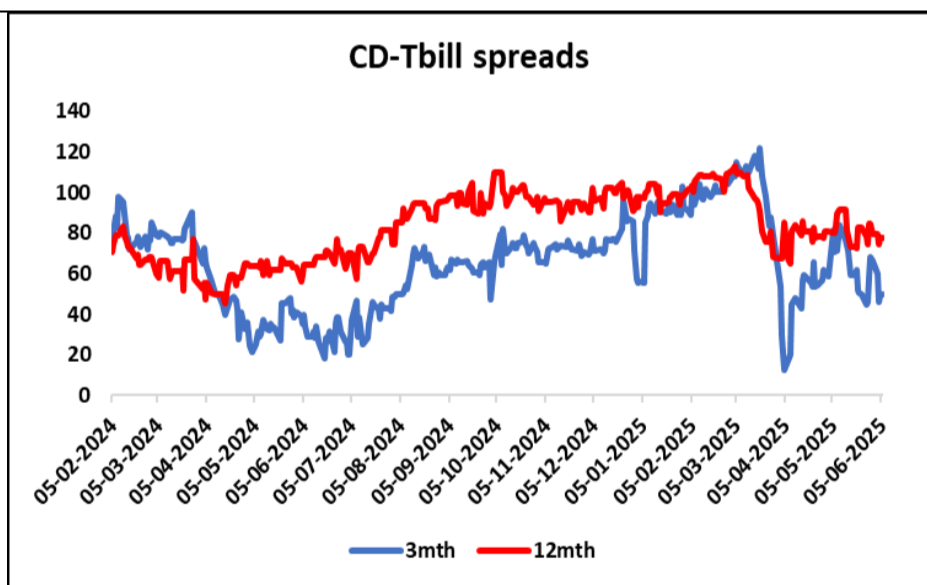


Fig 7: Yet weak credit (demand) may be addressed by surplus liquidity (supply) and lower rates with a lag of 2-3 qtrs

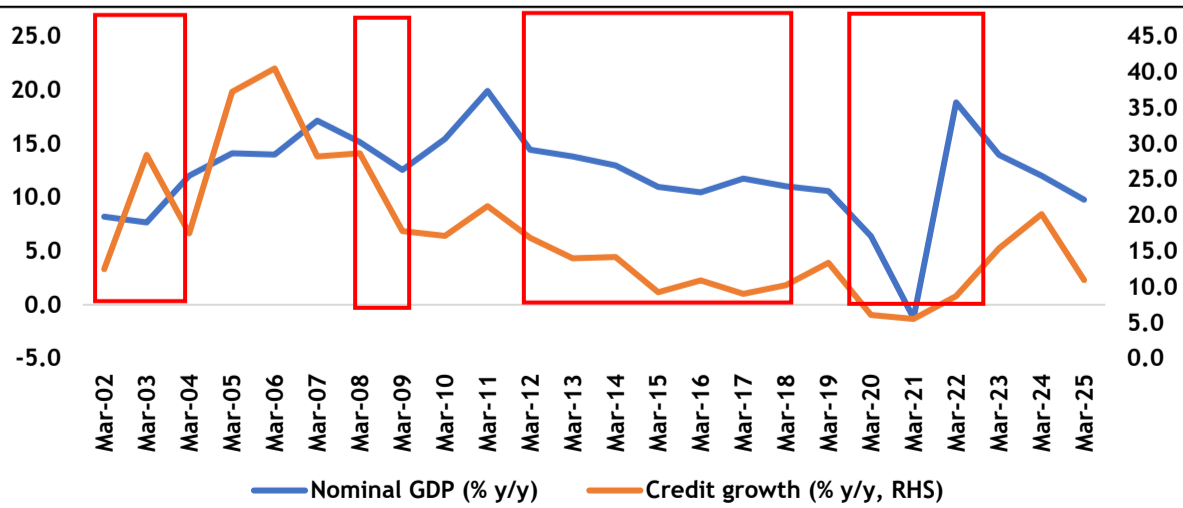


Fig 6: 50 bps rate cut may see a fall of 5 to 10 bps in bank NIMs; 100bps CRR cut likely to cushion impact

Parameter	SCBs (Dec-24)
Credit (% share in assets)	69.6
o/w	
EBLR+ TBLR*	60.6
MCLR	35.9
Others	3.5
Investment (% share in assets)	25.2
Deposits (% share in Liabilities)	90.3
o/w	
CA	9.7
SA	31.3
RTD**	33.2
Bulk deposit	25.8
Borrowings (% share in liabilities)	9.7

\*For PVBs, even though the EBLR portfolio is ~85%, drop in NIM may be capped by a large fixed rate portfolio of ~30%; \*\*For SCBs, Term Deposits with less than Rs 1 Cr is considered as Retail & for UBI, it is less than Rs 3 Cr.

Fig 8: Transmission of policy easing has been limited till now

Period	Transmission to Banks' Deposit & Lending Rates (Variation in bps)						
	Repo rate	Term Deposit Rates		Lending Rates			
		WADTDR-Fresh Deposits	WADTDR-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

WALR: Weighted Average Lending Rate; WADTDR: Weighted Average Domestic Term Deposit Rate; MCLR: Marginal Cost of Funds-based Lending Rate; EBLR: External Benchmark-based Lending Rate; Source: RBI, CEIC, UBI Research

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