India

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India: RBI – larger but more neutral cut

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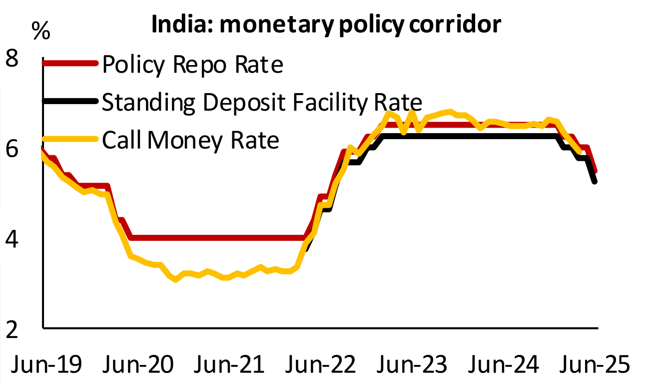
- Reserve Bank of India (RBI) delivered a bigger than expected 50bps cut at its 6 June meeting, taking the policy repo rate to 5.50%. RBI cut the cash reserve ratio (CRR) by 100bps to 3.00%, which will be implemented in a staggered manner.
- RBI followed through on its dovish ensemble from its 9 April meeting but the need for such dramatic policy moves in the coming months is reduced.
- We expect the RBI to lower its policy rate by a cumulative 50bps for the remainder of the year, given our lower FY26 GDP growth forecast.

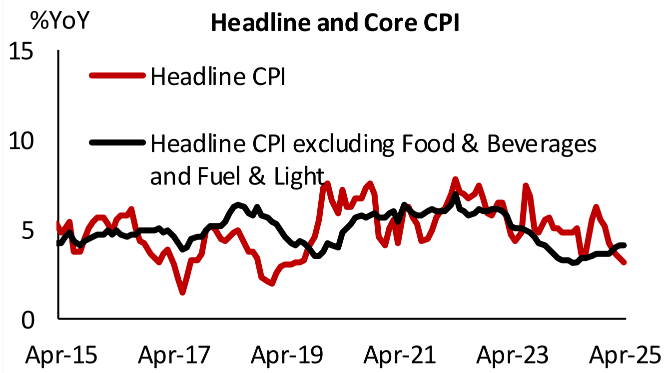
RBI cut its policy rate by a bigger than expected 50bps, taking the repo rate to 5.50% (Consensus & OCBC: 5.75%) and delivering a cumulative 100bps in rate cuts from February to June 2025. RBI also cut the CRR by 100bps to 3.00% in a staggered manner. RBI reverted to a neutral stance after shifting to an accommodative one at its 9 April meeting.

The justification for the larger than expected rate cut was the inflation outlook. RBI cut its FY26 (i.e., April 2025 until March 2026) headline inflation forecast to 3.7% YoY from 4.0% previously, which is below the mid-point of RBI 2-6% target range. RBI Governor Sanjay Malhotra noted that the RBI is now confident that the inflation outlook is in "durable alignment…with the target of 4 per cent" but "is likely to undershoot the target at the margin."

The confidence around the headline inflation forecasts come from food inflation remaining soft from "an early and promising start of the monsoon season" while core inflation "is expected to remain benign with easing of international commodity prices in line with the anticipated global growth slowdown."



Source: CEIC; OCBC

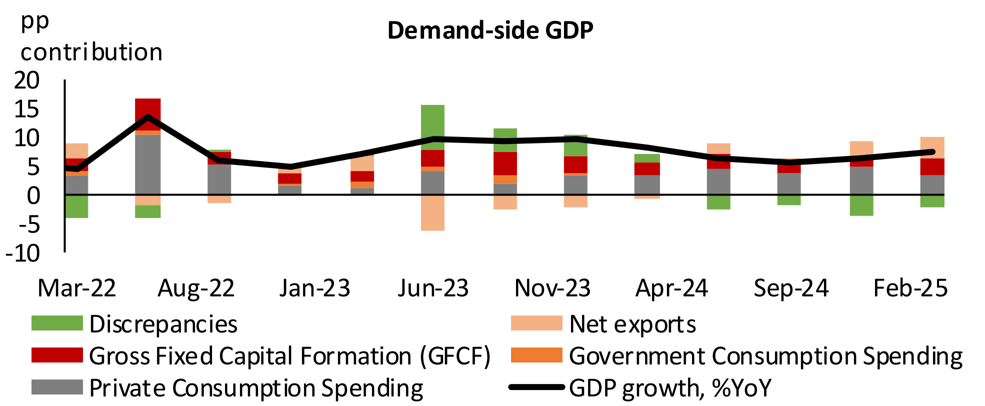


Source: CEIC; OCBC

RBI, however, noted that the growth outlook remains lower than its "aspirations amidst challenging global environment and heightened uncertainty". RBI maintained its FY26 (i.e., April 2025 until March 2026) GDP growth forecast of 6.5, with the quarterly trajectory unchanged from its 9 April meeting. Although GDP growth for the January to March quarter was better-than-expected at 7.4% YoY from 6.4% in the previous quarter, improvements on the supply-side were more modest at 6.8% from 6.5%.

While we do expect some stabilisation in key drivers of growth such as household spending, we are more watchful on the risks to investment spending particularly as trade tensions remain elevated. Although the direct impact of tariffs on India's exports is likely to be more limited than regional peers, we see the second-round impact as not insignificant. Anecdotal evidence of some drags to near-term manufacturing output is already visible from tighter restrictions of rare earth metals exports[1].

We, therefore, maintain our FY26 GDP growth forecast of 6.0%. We believe this leaves the door open for further rate cuts from the RBI. The shift in the stance of the RBI back to neutral from accommodative suggests that future rate cuts will be more calibrated and staggered.

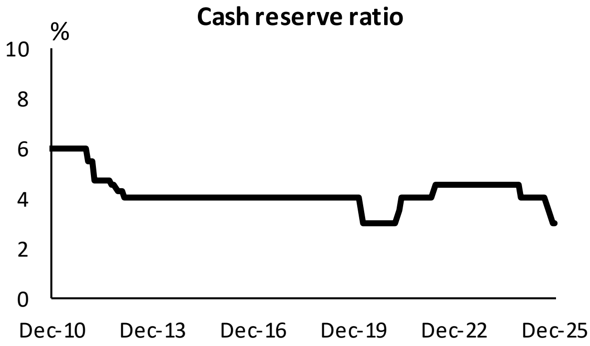


Source: CEIC; OCBC

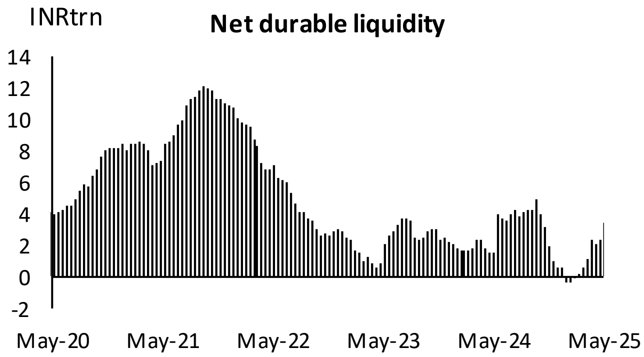
Apart from lowering the policy rate, RBI also cut the CRR by 100bps to 3.00%. RBI noted that the reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning 6 September, 4 October, 1 November and 29 November 2025. The cut in CRR would release primary liquidity of about INR2.5trn to the banking system by December 2025.

[1] India plans rare earth magnet incentives as supply threat mounts, sources say, Money Control, 6 June 2025.

The motivation behind the CRR cut, apart from providing durable liquidity, is to "reduce the cost of funding of the banks, thereby helping in monetary policy transmission to the credit market." The timing of the cut is surprising considering net durable liquidity in the banking system had improved. Nonetheless, given the staggered nature of the announced CRR cut, we expect no further changes to CRR for this year.



Source: CEIC; RBI; OCBC.



Source: CEIC; OCBC.

We expect RBI to cut by another cumulative 50bps through to end-2025, taking the repo rate to 5.00%. There are three more meetings left for the RBI in 2025 and one in 1Q26 to cover the remainder of the fiscal year (i.e., April 2025 until March 2026). We expect the rate cuts to be backloaded, i.e., likely in the 1 October and 5 December meetings, with the risk of delays to the 6 February 2026 meeting.

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