

RBI Monetary Policy Highlights – June'25

Double Delight – Repo Rate Cut of 50bps and CRR cut of 100bps

The RBI's decision to cut rates by 50bps came as a surprise against a consensus expectation of a third consecutive 25bps rate cut. **The regulator is in favour of front-loading rate cuts to support growth. However, the RBI has changed its stance from Accommodative to Neutral. This provides limited scope for further rate cuts and we believe, any policy action on rates will be largely data driven.** However, softening inflation trends which are expected to remain within or broadly below the tolerance limit and a likely demand recovery can be viewed as positive. The regulator has revised its inflation forecast for FY26 downwards to 3.7% vs. 4% earlier, while maintaining its GDP growth forecast at 6.5% for FY26.

Another surprise came in the form of a CRR cut of 100bps in four tranches, effective from Sep'25, should provide further liquidity boost. This will support credit growth for banks, especially during H2FY26, characterised by the festive season. The CRR cut would release primary liquidity of about Rs 2.5 Lc Cr to the banking system by Dec'25. **We view this as a positive development for banks. This should also support our thesis of margins finding support in H2FY26 and onwards, which we had highlighted in our [Top Conviction Ideas](#).**

From a banking sector perspective, the pick-up in credit growth, which has been subdued as banks exited FY25, remains pivotal. Hopes are pinned on a recovery in H2FY26 supported by falling interest rates, expectations of a strong monsoon, consumption boost from the tax rate cut, and potential recovery in demand in the unsecured segments as stress subsides. We see tailwinds for NIMs, given the improving systemic liquidity, the CRR cut of 100bps announced and the deposit rate cuts taken by most banks to play out over H2FY26. **However, H1FY26 will see a more pronounced impact of the rate cut on NIMs, especially with the impact of the latest 50bps rate cut trickling down, thereby impacting yields.**

Asset Quality concerns seem to be steadily waning with unsecured segment stress showing gradual signs of stability. Moreover, concerns in the secured segment continues to hold up well. The RBI Governor has also highlighted that the stress seen earlier in the unsecured personal loans and credit card portfolio has abated, while the stress in microfinance (MFI) segment continues to persist. We had earlier highlighted that we expect the stress in the MFI segment to stabilize from H2FY26 onwards.

At present, we would prefer banks with promising growth prospects, healthy deposit franchises, stable asset quality metrics, and strong and steady management teams.

*Stock Picks:

Private Banks – HDFC Bank, Kotak Mahindra Bank, ICICI Bank, City Union Bank, AU Small Finance Bank, and Ujjivan Small Finance Bank

PSU Banks – SBI, Bank of Baroda, and Canara Bank

NBFCs – Shriram Finance, Cholamandalam Inv & Finance, Bajaj Finance and SBI Cards

(*Pls note these are event-based picks)

Key Rates

	Current (%)	Previous (%)
Repo Rate	5.50	6.00
Reverse Repo Rate	3.35	3.35
MSF	5.75	6.25
SDF	5.25	5.75

GDP Growth Estimates

	Current (%)	Previous (%)
Q1FY26	6.5	6.5
Q2FY26	6.7	6.7
Q3FY26	6.6	6.6
Q4FY26	6.3	6.3
FY26	6.5	6.5

Inflation Estimates

	Current (%)	Previous (%)
Q1FY26	2.9	3.6
Q2FY26	3.4	3.9
Q3FY26	3.9	3.8
Q4FY26	4.4	4.4
FY26	3.7	4.0

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