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Implications of June 2025 MPC

The Monetary Policy Committee (MPC) announced a cut in the repo rate by 50 bps from 6% to 5.5%. It has also been decided to cut the CRR by 100 bps in 4 equal tranches of 25 bps each from September 6 to November 29. Majority of market participants had expected a rate cut of only 25 bps. The change in policy stance from accommodative to neutral signifies those future actions on the rate front would be data dependent.

GDP growth estimate for FY26 has been retained at 6.5%. This is significant because the RBI feels that the risks due to geo political events on growth can be managed.

MPC Growth (Real GDP) forecasts:

	Q1FY26	Q2FY26	Q3FY26	Q4FY26	FY26
April 2025	6.5	6.7	6.6	6.3	6.5
June 2025	6.5	6.7	6.6	6.3	6.5

A real GDP growth of 6.5% will enable achievement of nominal GDP growth rate of around 9.8%. *Metrics such as tax revenue, bank deposits and overall bank credit track nominal GDP growth. Asset and liability sides of bank balance sheets are expected to post growth rates of 10-11%. There are, however, downside risks to growth from geo political issues like the recent tariff of 50% on steel and aluminium imports into the US which could potentially hit our engineering goods segment.*

CPI inflation forecasts

	FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	FY26
April 2025	4.7	3.6	3.9	3.8	4.4	4.0
June 2025	4.7	2.9	3.4	3.9	4.4	3.7

Going by the revised 3.7% CPI inflation forecasts and a normal monsoon outlook, we are definitely set to enter a benign interest rate regime. However, rate cuts have been front-loaded for now as has been evidenced by the change in stance to neutral.

Overall Implications

- The front-loading of rate cuts is intended to ensure that the impact is felt as soon as possible as there is invariably a lag between rate cuts and the impact on lending. If rate cuts are delayed the impact may not be felt entirely in the current financial year as the lag is usually 6 months. A CRR cut will ensure actual transmission of the rate cut.
- About 60% of loans in the banking system have now migrated to EBLR which could see an immediate reduction in rates. On gross bank credit of Rs 183 lakh crore this comes to Rs 110 lakh crore and the reduction in interest income due to a 50-bps rate cut will be Rs 41,250 crore for the rest of the current financial year. This is in addition to the loss in interest income of Rs 18,000 crore due to the 25bps cut done in April 2025 taking the total for the whole year to Rs 60,000 crore.

- The 100 bps CRR cut will infuse Rs 2.65 lakh crore and will help banks to cut deposit rates on both retail and bulk deposits though competition to raise resources will still remain. Here the additional liquidity of Rs 2.7 lakh crore that could come to the system by way of government spending facilitated by surplus transfer from RBI has not been considered and the total liquidity surplus could go up to 3% of NDTL from the committed level of 1%.
- Due to the surplus in liquidity, the usual tools like VRRRs and OMO purchases would be used to maintain balance so that the weighted average call rate continues to stay within the SDF-MSF corridor.
- The immediate reaction will be for yield curve to steepen as short term rates adjust much faster to rate cuts. However, we can expect long tenor yields also to soften in response to the rate cuts and softer inflation estimates.
- Going by the front-loading of liquidity and rate cut, the message apparently is for banks to lend specially to sectors like MSMEs and lend more MUDRA loans. A 50bps rate cut along with a 100 bps CRR cut implies the need for faster monetary policy transmission without lags and to use monetary policy instruments as tools to achieve faster economic growth. This could also mean a more coordinated approach between the fiscal and monetary authorities.
- It has been clearly stated that monetary policy has reached its limits as regards growth and inflation and the central bank has walked its talk on liquidity. This reinforces that the onus is on lenders to facilitate economic growth by expanding lending. As there is some lag between rate cuts and actual credit offtake, the expectation would be to achieve enhanced credit growth starting from H2 of fiscal 2026.
- There could be a possibility for INR to depreciate temporarily due to the larger than expected rate cuts but fundamentals of the Indian economy, the impact of trade deals and free trade agreements will weigh over the medium-term.

Annexure: Overall impact on banking system NIM (approximate)

Particulars	Rs. Cr
Gross bank credit (L Cr)	183
Advances linked to EBLR@60% (L Cr)	110
Int income foregone for 9 months (June to March)	41,250
If MCLR cut by 0.1% loss in int income for 9 months	5,475
Total interest income foregone	46,725
CRR cut liquidity impact	
25bps cut in 6 th Sept, 2025 @deposits of Rs 250 L Cr	62,500
Interest income gain @8.5% notional yield on advance for 7 months	3,099
25bp cut in Oct 4@ deposits of Rs 260 L Cr	65,000
Int income gain @8.5% notional yield on advance for 6months	2,763
25bps cut in Nov 1@deposits of Rs 270 L Cr	67,500
Int income gain @8.5% yield on adv for 5 months	2,390
25bps cut in Nov 29 @280 L Cr deposits	70,000
Int income gain @8.5% yield on advances for 4 months	1,983
Total liquidity expected to be released	2,65,000
Gain in Int income	10,235

Loss in Net int income	36,490
Estimated avg deposits now @90% of total (L Cr)	205.2
Impact on NIM*	18bps

*Possible decline in yield on investments and more loans migrating to EBLR not considered which will impact NIM

Conclusion

The policy has set the tone for an orderly transmission of monetary policy aided by a comfortable liquidity environment. The central bank has clearly stated that there is no growth inflation trade-off now and the onus is on banking system to ensure credit fuelled growth. The central bank has taken all possible measures to provide the required support to Indian economy in the current scenario of global economic turmoil.

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