MONETARY POLICY STATEMENT (JUNE 4-6) 2025-26

Governor's Statement

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Sanjay Malhotra

The 55th meeting of the Monetary Policy Committee (MPC) was held in the backdrop of an early and promising start of the monsoon season, which is of vital significance for the Indian economy. In contrast, the global backdrop remains fragile and highly fluid. The uncertainty around the global economic outlook has somewhat ebbed since the MPC met in April in the wake of temporary tariff reprieve and optimism around trade negotiations. However, it is still high to weaken sentiments and lower global growth prospects. Accordingly, global growth and trade projections have been revised downwards by multilateral agencies.[1] Moreover, the last mile of disinflation is turning out to be more protracted. As growth-inflation trade-off is becoming more challenging, monetary authorities are charting out a more cautious and carefully calibrated policy trajectory.

Looking beyond the near-term, growing economic and financial fragmentation is reshaping the global economy. Besides, complex interconnections within the financial system, elevated debt levels and growing influence of frontier technologies are raising financial stability concerns. Amidst heightened volatility in capital flows and exchange rates, coupled with constrained policy space, central banks of emerging market economies have a tougher task to stabilise their economies against global spillovers.

In this global milieu, the Indian economy presents a picture of strength, stability, and opportunity. First, strength comes from the strong balance sheets of the five major sectors - corporates, banks, households, government, and the external sector. Second, there is stability on all three fronts – price, financial, and political – providing policy and economic certainty in this dynamically evolving global economic order. Third, the Indian economy offers immense opportunities to investors through 3Ds – demography, digitalisation and domestic demand.[2] This 5x3x3 matrix of fundamentals provides the necessary core strength to cushion the Indian economy against global spillovers and propel it to grow at a faster pace.

Decisions of the Monetary Policy Committee (MPC)

The Monetary Policy Committee (MPC) met on the 4th, 5th and 6th of June to deliberate and decide on the policy repo rate. After a detailed assessment of the evolving macroeconomic and financial developments and the outlook, the MPC decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.50 per cent with immediate effect; consequently, the standing deposit facility (SDF) rate shall stand adjusted to 5.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.75 per cent.

I shall now briefly set out the rationale for these decisions. Inflation has softened significantly over the last six months from above the tolerance band in October 2024 to well below the target with signs of a broad-based moderation. The near-term and medium-term outlook now gives us the confidence of not only a durable alignment of headline inflation with the target of 4 per cent, as exuded in the last meeting but also the belief that during the year, it is likely to undershoot the target at the margin. While food inflation outlook remains soft, core inflation is expected to remain benign with easing of international commodity prices

* Governor's Statement - June 6, 2025.

[1] The OECD, in its Economic Outlook released in June 2025, revised down the global growth forecast by 20 basis points to 2.9 per cent for 2025 while the IMF in its April World Economic Outlook lowered the global growth projection to 2.8 per cent for 2025 and 3.0 per cent for 2026—well below the historical average of 3.7 per cent recorded between 2000 and 2019. Furthermore, the WTO now projects world merchandise trade volume to contract by 0.2 per cent in 2025, marking a notable downgrade of nearly 3 percentage points from earlier forecasts.

[2] India: A partner in progress and prosperity; Keynote Address by Shri Sanjay Malhotra, Governor, RBI - at the US-India Economic Forum organised by the Confederation of Indian Industry (CII) and US India Strategic Partnership Forum (USISPF), Washington DC; April 25, 2025.

in line with the anticipated global growth slowdown. The inflation outlook for the year is being revised downwards from the earlier forecast of 4.0 per cent to 3.7 per cent. Growth, on the other hand, remains lower than our aspirations amidst challenging global environment and heightened uncertainty.

Thus, it is imperative to continue to stimulate domestic private consumption and investment through policy levers to step up the growth momentum. This changed growth-inflation dynamics calls for not only continuing with the policy easing but also frontloading the rate cuts to support growth. Accordingly, the MPC voted to reduce the policy repo rate by 50 basis points to 5.50 per cent.

After having reduced the policy repo rate by 100 bps in quick succession since February 2025, under the current circumstances, monetary policy is left with very limited space to support growth. Hence, the MPC also decided to change the stance from accommodative to neutral. From here onwards, 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. The fast-changing global economic situation too necessitates continuous monitoring and assessment of the evolving macroeconomic outlook.

Assessment of Growth and Inflation

Growth

The provisional estimates released by the National Statistical Office (NSO) placed India's real GDP growth in 2024-25 at 6.5 per cent.[3] During 2025-26 so far, domestic economic activity has exhibited resilience. Agriculture sector remains strong. With a very good harvest in both the *kharif* as well as *rabi* cropping seasons, the supply of major food crops is comfortable.[4] The reservoir levels remain healthy.[5] The highest procurement of wheat[6] in the last four years provides a comforting stock position.[7] Industrial activity is gaining gradually, even though the pace of recovery is uneven.[8] Services sector is expected to maintain momentum.[9] PMI services stood strong at 58.8 in May 2025, indicating robust expansion in activity.[10]

On the demand side, private consumption, the mainstay of aggregate demand, remains healthy, with a gradual rise in discretionary spending.[11] Rural demand[12] remains steady, while urban demand[13] is improving. Investment activity is reviving as

[3] Real GDP expanded by 7.4 per cent in Q4:2024-25. Private consumption and gross fixed capital formation (GFCF) grew by 6.0 per cent and 9.4 per cent, respectively, in Q4:2024-25. For the full year 2024-25, private consumption and GFCF expanded by 7.2 per cent and 7.1 per cent, respectively. On the supply side, gross value added (GVA) expanded by 6.8 per cent in Q4:2024-25. Manufacturing rose by 4.8 per cent and services registered growth of 7.9 per cent in Q4. For 2024-25, GVA expanded by 6.4 per cent. Manufacturing and services sector grew by 4.5 per cent and 7.5 per cent, respectively in 2024-25.

[4] As per the third advance estimates, the combined *kharif* and *rabi* food-grains production at 354.0 million tonnes in 2024-25 is 6.5 per cent higher than a year ago.

[5] As of June 5, 2025, reservoir levels were at 31.1 per cent of the full capacity, above last year's level of 22.5 per cent and higher than the decadal average of 24.2 per cent.

[6] Procurement of wheat as on June 1, 2025 at 298.8 lakh tonnes is 13.3 per cent higher over the last year.

[7] As on May 16, 2025, the stocks held by the Food Corporation of India for wheat stands at 5.1 times the buffer norms (highest in 4 years) and rice at 4.4 times the buffer norms.

[8] IIP during April 2025 expanded at tepid rate of 2.7 per cent despite a lower base of 4.0 per cent growth in 2024-25. While mining contracted by 0.2 per cent in April, electricity and manufacturing recorded growth of 1.1 per cent and 3.4 per cent, respectively. Manufacturing PMI for May 2025 moderated to 57.6 but remains well above the long-run average.

[9] E-way bills increased strongly by 23.4 per cent in April 2025, while toll collections increased by 16.4 per cent in May 2025. Gross GST collections rose by a healthy 16.4 per cent in May 2025. Domestic air cargo posted a growth of 16.6 per cent in April. Domestic air passenger traffic grew by 9.7 per cent in April, however moderated to 3.7 per cent in May. Port cargo witnessed a growth of 5.6 per cent in April-May 2025.

[10] PMI services for May 2025 edged up to 58.8 from 58.7 in April, maintaining a level that reflects the sector's recent stable and robust performance.

[11] IIP consumer durables expanded by 6.4 per cent in April 2025.

[12] As per the NielsenIQ's Retail Audit Service, FMCG sales volume growth in rural areas improved to 8.7 per cent in April 2025 from 8.1 per cent in March.

[13] Wholesale passenger vehicle sales and FMCG products sales (urban) recorded a growth of 5.5 per cent and 4.5 per cent, respectively, during April 2025.

reflected by high-frequency indicators.[14] Merchandise exports recorded a strong growth in April 2025 after a lacklustre performance in the recent past.[15] Non-oil, non-gold imports posted a double-digit growth, reflecting buoyant domestic demand conditions.[16] Services exports continue on a strong growth trajectory.[17]

Going forward, the outlook for agriculture sector and rural demand is expected to receive further impetus by the expected above normal southwest monsoon rainfall.[18] On the other hand, sustained buoyancy in services activity should nurture revival in urban consumption. The healthy balance sheets of banks and corporates; government's continued thrust on capex;[19] elevated capacity utilisation;[20] improving business optimism[21] and easing of financial conditions should help further revive investment activity. Trade policy uncertainty however continues to weigh on merchandise exports prospects, while conclusion of free trade agreement (FTA) with the United Kingdom[22] and progress with other countries should provide a fillip to trade in goods and services. Spillovers emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth. Taking all these factors into consideration, real GDP growth for 2025-26 is projected at 6.5 per cent with Q1 at 6.5, Q2 at 6.7, Q3 at 6.6 and Q4 at 6.3 per cent. The risks are evenly balanced.

Inflation

CPI headline inflation continued its declining trajectory in March-April, with headline CPI inflation moderating to a nearly six-year low of 3.2 per cent (y-o-y) in April 2025. This was led mainly by food inflation, which recorded the sixth consecutive monthly decline. Fuel group witnessed a reversal of deflationary conditions and recorded positive inflation prints during March and April, partly reflecting the hike in LPG prices. Core[23] inflation remained largely steady and contained during March-April, despite increase in gold prices exerting upward pressure.[24]

The outlook for inflation points towards benign prices across major constituents. The record wheat production and higher production of key pulses in the *Rabi* crop season should ensure adequate supply of key food items. Going forward, the likely above normal monsoon along with its early onset augurs well for *Kharif* crop prospects. Reflecting this, inflation expectations are showing a moderating trend, more

[14] Production and Imports of capital goods rose sharply by 20.3 per cent and 21.5 per cent, respectively, in April 2025. Steel consumption and cement production recorded double-digit growth in Q4:2024-25 before moderating to 6.0 per cent and 6.7 per cent, respectively in the month of April.

[15] Merchandise exports recorded a growth of 9.2 per cent in April 2025 with non-oil exports growing at a healthy 10.3 per cent.

[16] Non-oil non-gold imports witnessed a strong growth of 17.3 per cent, with overall imports growing at 19.1 per cent.

[17] Services exports increased by 18.6 per cent during March 2025, on the back of robust software and business exports. However, it moderated to 8.8 per cent in April 2025.

[18] Monsoon landed on coast of Kerala on May 24, 2025, eight days in advance. As per the IMD's updated long-range forecast, monsoon season rainfall is likely to be 106 per cent of the long period average (LPA) with a model error of ±4 per cent.

[19] As per the Union Budget 2025-26, the central government's effective capital expenditure (including grants-in-aid for creation of capital assets) is budgeted to grow by 17.4 per cent.

[20] As per the early results of quarterly order books, inventories, and capacity utilisation (OBICUS) survey of RBI, seasonally adjusted capacity utilisation (CU) of manufacturing sector at 75.5 per cent in Q4:2024-25 is above the long-period average of 73.9 per cent.

[21] PMI manufacturing Future Output Index is at a healthy 63.1in May 2025. Future Output Index has hovered above 60.0 since April 2023. Future Activity Index of PMI services rebounded in May after declining in April.

[22] As per the Ministry of Commerce and Industry, 99 per cent of Indian exports to the UK will benefit from this Free Trade Agreement.

[23] CPI headline excluding food and fuel.

[24] CPI headline inflation declined by a cumulative 45 basis points during March-April 2025, from 3.6 per cent in February 2025 to a low of 3.2 per cent in April 2025 – the lowest reading since July 2019. As vegetable prices continued to record a strong seasonal correction, food inflation dropped to a 42-month low of 2.1 per cent in April from 3.8 per cent in February 2025. Fuel group, however, exited the deflationary zone, recording an year-on-year inflation of 1.4 per cent in March 2025 and rose further to 2.9 per cent in April 2025. CPI excluding food and fuel inflation also edged up to 4.2 per cent, year-on-year, in April 2025 after remaining steady at 4.1 per cent in March 2025. Gold, which has a share of 2.3 per cent within CPI excluding food and fuel, contributed 21.4 per cent to the core inflation in April 2025.

so for the rural households.[25] Most projections point towards continued moderation in the prices of key commodities, including crude oil. Notwithstanding these favourable prognoses, we need to remain watchful of weather-related uncertainties and still evolving tariff related concerns with their attendant impact on global commodity prices. Taking all these factors into consideration, and assuming a normal monsoon, CPI inflation for the financial year 2025-26 is now projected at 3.7 per cent, with Q1 at 2.9 per cent; Q2 at 3.4 per cent; Q3 at 3.9 per cent; and Q4 at 4.4 per cent. The risks are evenly balanced.

External Sector

With the moderation in trade deficit in Q4:2024-25, alongside strong services exports[26] and remittance receipts, the current account deficit (CAD) for 2024-25 is expected to remain low.[27] Furthermore, despite rising geopolitical uncertainties and trade tensions, India's merchandise trade remained robust in April 2025. As imports grew faster than exports, trade deficit however widened during the month.[28] Going forward, net services and remittance receipts are likely to remain in surplus, counterbalancing the rise in trade deficit. The CAD for 2025-26 is expected to remain well within the sustainable level.

On the financing side in 2024-25, foreign portfolio investment (FPI) to India dropped sharply to 1.7 billion US$, as foreign portfolio investors booked profits in equities.[29] Net foreign direct investment (FDI)[30] too moderated. It is germane to point out that this moderation is on account of a rise in repatriation and net outward FDI while gross FDI actually increased by 14 per cent. Rise in repatriation is a sign of a mature market where foreign investors can enter and exit smoothly, while high gross FDI indicates that India continues to remain an attractive investment destination. External commercial borrowings (ECBs) and non-resident deposits, on the other hand, witnessed higher net inflows compared to the previous year.[31] As on May 30, 2025, India's foreign exchange reserves stood at US$ 691.5 billion. These are sufficient to fund more than 11 months of goods imports[32] and about 96 per cent of external debt outstanding.[33] Overall, India's external sector remains resilient as key external sector vulnerability indicators continue to improve.[34] We remain confident of meeting our external financing requirements.

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[25] Urban households' perception of the current median inflation declined by 10 basis points (bps) and reached 7.7 per cent, while their inflation expectations for the next three months remained unchanged at 8.9 per cent. Moreover, their expectation for year ahead reduced by 20 bps to 9.5 per cent. For rural households, the current perception of inflation reduced by 30 basis points (bps) to 6.3 per cent in May 2025 as compared with the previous round. Moreover, their year ahead inflation expectation also declined by 40 bps to 8.9 per cent in the latest survey.

[26] As per provisional figures, India's services exports grew by 13.6 per cent to US$ 387.5 billion during 2024-25, whereas services imports registered a growth of 11.4 per cent (US$ 198.7 billion). Net services receipts reached an all-time high of US$ 188.8 during 2024-25. In April 2025, services exports grew by 8.8 per cent to US$32.8 billion on a y-o-y basis, while services imports rose moderately by 0.9 per cent (US$16.9 billion). Net services receipts at US$15.9 billion recorded a y-o-y expansion of 18.8 per cent.

[27] India's current account balance recorded a deficit of 1.1 per cent of GDP in Q3:2024-25 lower than 1.8 per cent of GDP in Q2:2024-25.

[28] India's merchandise exports expanded for the second consecutive month, growing by 9.0 per cent (y-o-y) to US$ 38.5 billion in April 2025. Merchandise imports at US$ 64.9 billion expanded by 19.1 per cent (y-o-y) in April 2025. India's merchandise trade deficit increased to US$ 26.4 billion in April 2025 from US$ 19.2 billion a year ago.

[29] During 2025-26 so far (up to June 4), foreign portfolio investment (FPI) to India registered net outflows of US$ 2.1 billion.

[30] Gross foreign direct investment (FDI) inflows remained strong, rising by around 14 per cent to US$ 81.0 billion in 2024-25 from US$ 71.3 billion a year ago. However, net FDI inflows moderated to US$ 0.4 billion in 2024-25 from US$ 10.1 billion a year ago.

[31] Net inflows under external commercial borrowings (ECBs) to India increased to US$ 18.7 billion during 2024-25 as compared with US$ 3.6 billion a year ago. In April 2025, net ECB to India rose to US$2.8 billion from US$0.5 billion a year ago. Non-resident deposits recorded a higher net inflow of US$ 16.2 billion in 2024-25 than US$ 14.7 billion a year ago.

[32] Based on actual merchandise imports (on a BoP basis) during the four quarters (Q4:2023-24 to Q3:2024-25).

[33] Based on external debt outstanding, as at end-December 2024.

[34] India's CAD stood at 0.7 per cent of GDP in 2023-24 and 1.1 per cent during Q3:2024-25 (0.9 per cent in Q1:2024-25 and 1.8 per cent in Q2:2024-25). India's external debt to GDP ratio stood at 19.1 per cent at end-December 2024 from 18.5 per cent at end-March 2024.

Liquidity and Financial Market Conditions

A total amount of ₹9.5 lakh crore of durable liquidity was injected into the banking system since January.[35] As a result, after remaining in deficit since mid-December, liquidity conditions transitioned to surplus at the end of March. This is also evident from the tepid response to daily VRR auctions[36] and high SDF balances – the average daily balance during April-May amounted to ₹2.0 lakh crore.

Reflecting the improvement in liquidity conditions, the weighted average call rate (WACR) – the operating target of monetary policy – traded at the lower end of the LAF corridor since the last policy.[37] The comfortable liquidity surplus in the banking system has further reinforced transmission of policy repo rate cuts to short term rates.[38] However, we are yet to see a perceptible transmission in the credit market segment, though we must keep in mind that it happens with some lag.[39]

The Reserve Bank remains committed to provide sufficient liquidity to the banking system. To further provide durable liquidity, it has been decided to reduce the cash reserve ratio (CRR) by 100 basis points (bps) to 3.0 per cent of net demand and time liabilities (NDTL) in a staggered manner during the course of the year. This reduction will be carried out in four equal tranches of 25 bps each with effect from the fortnights beginning September 6, October 4, November 1 and November 29, 2025. The cut in CRR would release primary liquidity of about ₹2.5 lakh crore to the banking system by December 2025. Besides providing durable liquidity, it will reduce the cost of funding of the banks, thereby helping in monetary policy transmission to the credit market. I would like to reiterate that we will continue to monitor the evolving liquidity and financial market conditions and proactively take further measures, as warranted.

Financial Stability

The system-level financial parameters of Scheduled Commercial Banks (SCBs) continue to be robust.[40] The asset quality parameters, liquidity buffers and profitability parameters have shown further improvement. Credit Deposit ratio for the banking system at the end of December 2024 was at 81.84 per cent, broadly similar to a year ago. Similarly, the system-level parameters of NBFCs too are sound

[35] Open market purchases (including through NDS-OM) injected durable liquidity amounting to ₹5.2 lakh crore since January. Additionally, term VRR auctions and USD/INR buy-sell swaps injected liquidity amounting to ₹2.1 lakh crore and ₹2.2 lakh crore, respectively, during the same period.

[36] The average bid cover ratio of daily VRRs was 0.26 during April-June (up to June 4).

[37] The WACR, on an average, traded 16 bps below the policy repo rate during April-June (up to June 4) as compared to 6 bps above the repo rate during February-March.

[38] In response to the policy repo rate cut of 50 bps in the current easing cycle (up to June 4), the WACR moderated by 70 bps, 3-month T-bill rate by 88 bps, 3-month CP issued by NBFCs by 143 bps and 3-month CD rate by 138 bps. The compression in CP and CD spreads over T-bill suggests easier financing conditions for banks and corporates. The average CP and CD spread over T-bill moderated from 134 bps and 108 bps, respectively in March to 82 bps and 65 bps, respectively in May.

[39] The weighted average lending rate (WALR) on fresh rupee loans and outstanding rupee loans declined by 6 bps and 17 bps, respectively, during February-April 2025, reflecting policy rate transmission to lending rates. The weighted average domestic term deposit rates (WADTDR) on fresh deposits declined by 27 bps, while WADTDR on outstanding deposits declined by 1 bp during February-April 2025.

[40] Scheduled Commercial Banks (SCBs) Parameters: The outstanding credit and deposit on a y-o-y basis increased by 11.03 per cent and 10.18 per cent, respectively, between March-24 and March-25. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 16.43 per cent in December 2024 was well above the regulatory minimum level. Ratio of non-performing loans improved further (GNPA ratio at 2.42 per cent in December 2024 vis-à-vis 2.96 per cent in December 2023, NNPA Ratio at 0.55 per cent in December 2024 vis-à-vis 0.69 per cent in December 2023). SMA-2 ratio, the proportion of loans that are overdue by 61–90 days as a share of total advances -- a lead indicator of the build-up of fresh stress in the banking book – remained stable on a y-o-y basis at 0.96 per cent in December 2024 (0.90 per cent in December 2023). Liquidity buffers were robust, with an LCR of 130.21 per cent as of December end 2024. The annualised return on assets (RoA) and return on equity (RoE) stood at 1.37 per cent and 14.14 per cent, respectively, in December 2024. Net Interest Margin was 3.49 per cent for December 2024. (3.64 per cent in December 2023).

with comfortable capital position and improved GNPA ratios.[41]

The stress witnessed earlier in retail segments like unsecured personal loans and credit card receivables portfolio has abated, while the stress in micro-finance segment is persisting. Banks and NBFCs active in these segments are already recalibrating their business models, strengthening their credit underwriting practices and stepping up their collection efforts to avoid any excessive build-up of risks on this front in future.

Concluding Remarks

On both inflation and growth fronts, the Indian economy is progressing well and broadly on expected lines. Strong macroeconomic fundamentals and benign inflation outlook provide space to monetary policy to support growth, while remaining consistent with the goal of price stability. As global environment remains uncertain, it has become even more important to focus on domestic growth amidst sustained price stability. Accordingly, today's monetary policy actions should be seen as a step towards propelling growth to a higher aspirational trajectory.

Here, I would like to highlight that there is no tussle between price stability and growth in the medium and long term. Price stability preserves purchasing power, imparts certainty to households and businesses in their savings and investment decisions and ensures congenial interest rate and financial conditions, all of which foster consumption, investment and overall activity. Moreover, it is crucial for equitable growth and shared prosperity because its absence is disproportionately burdensome on the poor.

I must also add that while price stability is a necessary condition, it is not sufficient to ensure growth. A supportive policy environment is vital. This is even more important during periods of high uncertainties such as the current times. At the Reserve Bank, therefore, while price stability remains the focus of monetary policy, we are not oblivious to putting in place complementary monetary and credit policies and regulations that support growth and prosperity.

Thank you. Namaskar and Jai Hind.

[41] Non-Bank Financial Companies (NBFCs) Parameters: Total CRAR of NBFCs was 26.22 per cent and Tier I capital of 24.13 per cent in December 2024, well above the minimum regulatory requirements. RoA for the sector, decreased from 3.11 per cent in December 2023 to 2.86 per cent in December 2024. GNPA ratio has improved from 2.70 per cent in December 2023 to 2.53 per cent in December 2024, while NNPA ratio remained almost same at 1.10 per cent in December 2024 as compared to 1.11 per cent in December 2023.