Macro Insights
19 June 2025


Policy Tailwinds to Support India’s Growth Momentum

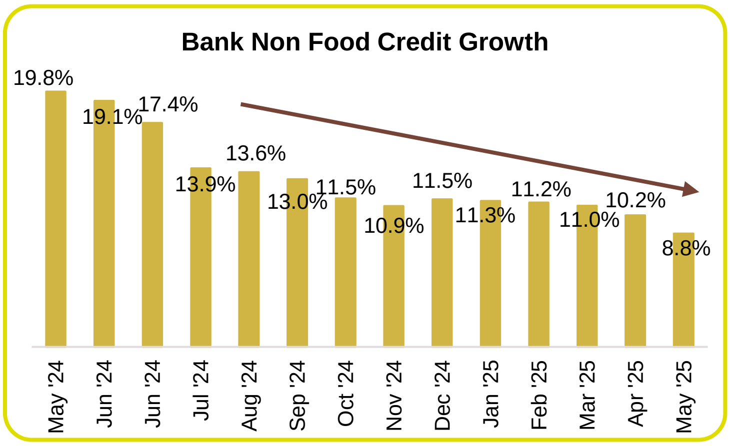
Key Highlights:

- In Feb 2025, the **RBI rolled back higher risk weight** assigned for bank loans to NBFCs in 2023.
- In May 2025, the **RBI declared record dividend** of ₹2.69 Trillion for the government - Highest in absolute terms and second highest in percent terms at 0.75% of GDP.
- Further in June 2025, the **MPC announced blockbuster policy** by cutting the policy rate to 5.50% and CRR to 3.00% (in a phased manner); however, took away some cheer by changing the stance back to “Neutral”.
- All these measures are expected to bring the **lending and deposit rate down; at the same time revive credit growth thereby supporting economic growth and bringing the fiscal deficit in tolerable range.**

The Backdrop:

Rollback of Higher Risk Weights:

In Feb 2025, the Reserve Bank of India (RBI) **rolled back the higher risk weight assigned for bank loans to NBFCs in 2023**, after very tight regulations in the last 1.5 years easing norms was taken as a positive for the sector. Universal banks and some Small Finance Banks with significant exposure to the microfinance sector were the key beneficiaries.



Source: RBI DBIE

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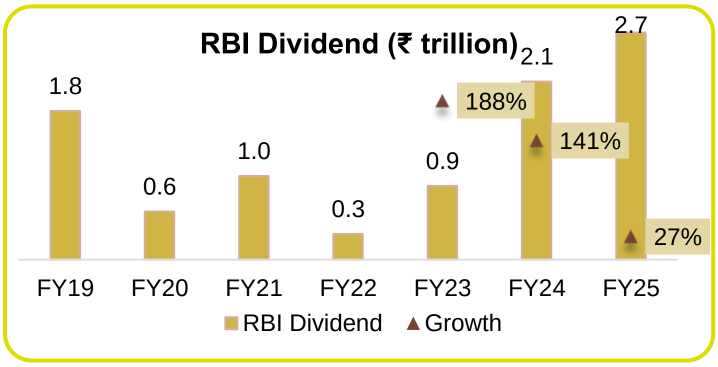
RBI higher Dividend Payout to the government:

In the last week of May 2025, **the RBI transferred a record ₹2.69 trillion as dividend to the central government for FY25.** This is a 27% increase from the ₹2.1 trillion payout in FY24 and significantly higher than the ₹87,416 crore transferred in FY23.



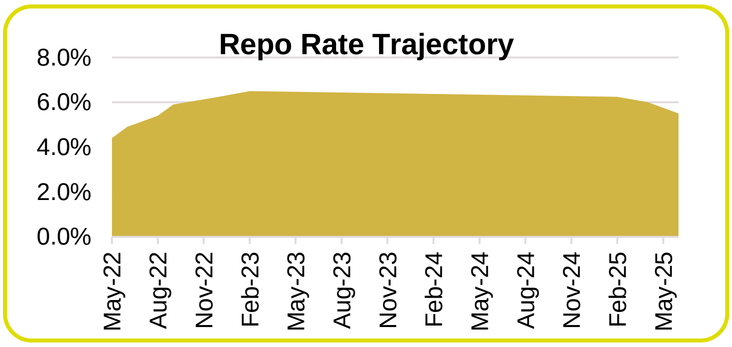
Source: RBI and news articles

RBI cut the Cash Reserve Ratio (CRR):

Further in the first week of June 2025, the **RBI Governor announced a 100 bps CRR cut**. This reduction will be carried out in four equal tranches with effect from Sep 6, 2025.

MPC cut Repo Rate, however changed the stance back to 'Neutral':

During the same meeting, the Monetary Policy Committee **(MPC) delivered a further surprise 50 bps cut in the Repo Rate bringing it down to 5.50%,** however at the same **time MPC chose to change stance to 'neutral', after having just shifted to 'accommodative'** in the April 2025 policy.



Source: RBI DBIE

Impact on the Economy:

Transmission to Lending and Deposit rate:

The policy rate cut is expected to **strengthen monetary transmission**. A 30bps reduction in average lending rates is anticipated in the short term, while fixed deposit rates have already declined by 30–70 bps since Feb 2025.

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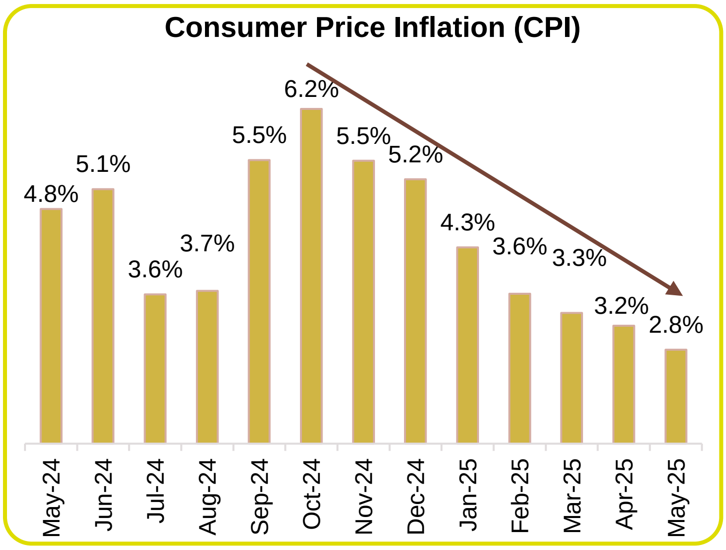
Easing Inflationary Pressure:

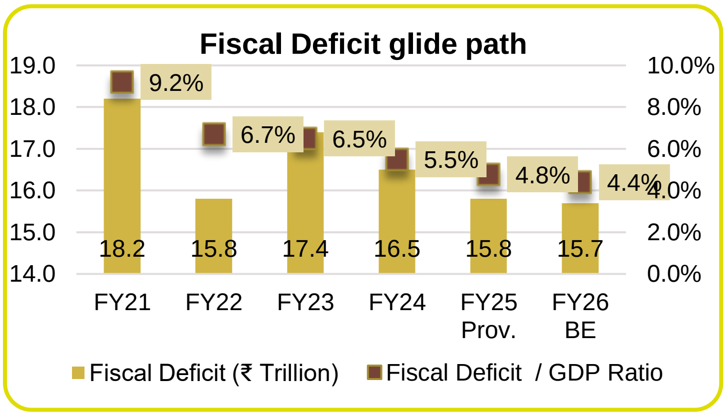
A key goal of India's monetary policy is to maintain price stability, targeting inflation at 4%. With expectations of an above-normal monsoon and stable prices, the **RBI has revised its FY26 CPI projection down to. 3.7% from earlier target of 4.0%.**



Source: MOSPI

Lowering of Fiscal Deficit:

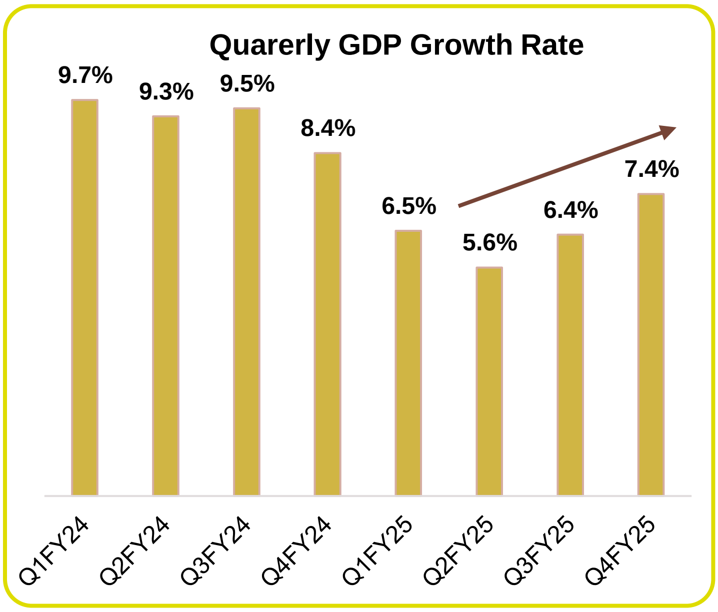
The dividend transfer has given the **government added fiscal space, likely reducing the FY26 fiscal deficit target to 4.4% of GDP** — a significant improvement from the 9.2% seen during the pandemic peak in FY21.



Source: MOSPI. BE – Budget Estimates

Support for Growth:

The **lowering of the CRR is expected to release around ₹2.5 lakh crore in primary liquidity into the banking system by the end of Dec 2025**. The text analysis of the RBI Governor's statement indicates a stronger focus on expansion-related terms compared to inflation-related concerns. As per industry reports, the CRR reduction will not only provide durable liquidity but also lower banks' cost of funds. This is expected to facilitate monetary policy transmission and moderate lending rates.



Source: MOSPI

Summary:

While the rate cut signals strong pro-growth intent, the RBI has also emphasized that **further rate reductions may be limited** unless growth weakens meaningfully. Hence, the next policy meetings may see a status quo unless macro indicators shift significantly.

Conclusion: A Supportive Macro Backdrop

India's macro narrative has strengthened:

- **Easing inflation,**
- **Proactive monetary policy support,**
- **Strong dividend-led fiscal flexibility and**
- **Sustained domestic demand fundamentals.**

Together, these developments set the stage for a **robust GDP rebound** in FY26. Structural tailwinds — from **favourable demographics** to **resilient consumption** — continue to position India attractively amidst global uncertainties.

It is expected that these measures will:

- **Lower lending and deposit rates,**
- **Revive credit demand,**
- **Support capital formation and**
- **Keep fiscal metrics within a sustainable range.**

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