

Reserve Bank of India's bold move: what next after it cuts by 50bp?

The RBI cut policy rates by more than expected and changed its policy stance from accommodative to neutral. We think that with this move, the RBI is signalling a near-term pause, while leaving the door open for more easing if growth or inflation weakens further. We continue to expect another 25bp rate cut in the fourth quarter of this year



Reserve Bank of India
(RBI) Governor Sanjay
Malhotra

The Reserve Bank of India (RBI) delivered a larger-than-expected 50bp cut to the repo rate, bringing it down to 5.5%. This brings total rate cuts by the RBI to 100bp in this cycle, leaving the real policy rate at 2.3%. The RBI also reduced the cash reserve ratio by a massive 100bp to 3%, the lowest since 2021.

The RBI's rate actions today hint at growing conviction within the Monetary Policy Committee that lower inflation is likely to persist, and that GDP growth remains on a weaker trajectory. By front-loading rate cuts, the RBI seems keen to ensure the benefits of lower rates reach the economy and that there's plenty of liquidity to keep things moving.

Signalling a pause for now, but not the end of rate cuts

What really caught markets off guard was the RBI's decision to shift its policy stance from 'accommodative' to 'neutral'— a notable reversal just two months after it had adopted an accommodative stance. That's a pretty quick U-turn, and it suggests the central bank might be done with rate cuts for now. It feels a bit counterintuitive, especially since CPI inflation has been running below the RBI's target and the real policy rate is still well above the usual comfort zone of around 1.5%.

We continue to expect another 25bp rate cut by the RBI this year in the fourth quarter

Our take? The RBI is signalling a pause, but it's leaving the door open for more easing if growth or inflation weakens further. The RBI trimmed its CPI inflation forecast to 3.7% from 4.0%, while keeping its GDP growth projection steady at 6.5% for the year ending March 2026. Our [own GDP growth estimates are slightly weaker](#) than the RBI's, and with real policy rates still sitting well above historical norms, we continue to expect one 25bp rate cut from the RBI later this year, likely in 4Q.

Impact on markets

Today's rate cut on its own probably won't move the INR much, since it seems more about responding to softer inflation than signalling concern about growth.

Looking ahead, we think two-way volatility is likely, but overall, the Reserve Bank of India's renewed focus on FX reserve accumulation, slower GDP growth this year as the impact of tariffs filters through, and geopolitical uncertainty should all mean the currency pair finds a floor around current levels and moves up from here.

On the bond side, the 10-year yield has rallied over 100bp in the past year, thanks to easing inflation and a healthy demand-supply balance. We still think the fundamentals support a further drop in yields, but the pace of decline is likely to be more gradual from here. Meanwhile, the shorter end of the curve should stay better supported, helped by abundant liquidity in the system.

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