RBI cuts repo rate by 50 bps, reverses stance to 'neutral'

Announces staggered CRR reduction of 100 bps

MANOJIT SAHA
Mumbai, 6 June

The monetary policy committee (MPC) of the Reserve Bank of India (RBI) on Friday cut the repo rate by 50 basis points (bps) to 5.5 per cent, surprising markets, which had largely priced in a more modest reduction of 25 bps. Frontloading of the repo rate cut is aimed at faster transmission of policy rate to lending and deposit rates.

This decision was welcomed by the bond market, but the exuberance was short-lived, as the RBI simultaneously shifted its policy stance from accommodative to neutral, citing limited room for further monetary accommodation.

Simultaneously, it announced a staggered 100-bp reduction in the cash reserve ratio (CRR), bringing it down to 3 per cent of banks' net demand and time liabilities — a level not seen in normal times.

The rate cut underscored the central bank's commitment to supporting economic growth. RBI Governor Sanjay Malhotra said growth remained below aspirational levels amid a challenging global environment and heightened uncertainty.

"It is imperative to continue to stimulate domestic private consumption and investment through policy levers to step up the growth momentum," said Malhotra while announcing the monetary policy outcome. "This changed growth-inflation dynamic calls for not only continuing with the policy easing but also frontloading the rate cuts to support growth."

He noted that while monetary transmission had been faster this time than on previous occasions, more rapid action was still needed. Banks need to do it faster, and that is why the rate cuts have been frontloaded, explained the RBI governor.

The decision to cut the repo rate by 50 bps was backed by a 5:1 vote, with external member Saugata Bhattacharya favouring a 25-bp reduction.

There was no vote required on the change in policy stance, which Malhotra said was unanimously agreed. The stance had been shifted from neutral to accommodative only in April, making Friday's decision one of the quickest reversals in recent memory.

"This thought had crossed our minds too — that we had changed the stance in the last policy itself," Malhotra said in response to questions. "We had the option to retain the accommodative stance and do nothing, but the action is what truly matters."

"We could have continued with an accommodative stance or offered more certainty; we believe the latter was the right course. We had promised to lower rates and we delivered," he said.

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What Malhotra said

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- Inflation likely to undershoot the target at the margin
- Growth remains lower than aspirations
- Imperative to continue to stimulate domestic private consumption and investment through policy levers to step up the growth momentum
- Frontloading the rate cuts to support growth
- Monetary policy is left with very limited space to support growth

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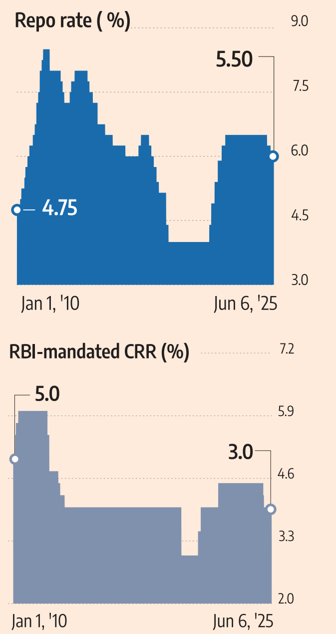
Changing course



Note: CRR reduction in four tranches of 25 bps each with effect from the fortnights beginning September 6, October 4, November 1, and November 29, 2025 Sources: Bloomberg,RBI

From showrooms to shelves, India may witness consumption uptick

SHARLEEN D'SOUZA & SOHINI DAS
Mumbai, 6 June

India's consumption engine is expected to rev up in the coming months, with fast-moving consumer goods (FMCG), consumer durables and automotive sectors poised for higher demand. A combination of factors — the income-tax relief, a cumulative 100-basis-point rate cut by the Reserve Bank of India (RBI) since the start of 2025, and expectations of a strong monsoon — is likely to lift sentiment across urban and rural markets.

In the FMCG space, firms are projecting double-digit growth, supported by stable agricultural produce prices and more money consumers' hands. "All initiatives taken by the government are positive for consumption. There will be higher discretionary spends, and demand across both rural and urban markets is expected to be strong. This will drive double-digit growth for the rest of the financial year," Mayank Shah, vice-president at Parle Products, told *Business Standard*.

Lauding the RBI's policy decisions, Tarun Arora, chief executive officer at Zydus Wellness, said: "This will enhance consumers' purchasing power as cheaper credit frees up disposable income and encourages spending. Given that the central government has recently given relief in income tax, these (measures) together will further fuel consumption and optimism, and hopefully will translate into strengthening of economic momentum." In the FMCG sector, he further said, rising consumer confidence and improved affordability shall directly translate into higher demand for daily essentials.

Godrej Consumer Products echoed this outlook, expecting increased demand in personal and home care segments.

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■ Home loan rates may reduce to 8%: Realty experts P5

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Starlink may get spectrum within 15 to 20 days of application

The company can now apply for a trial spectrum to test out its technology. It is expected to receive the necessary spectrum within 15 to 20 days of its application. It was not immediately clear if Starlink had received the final nod from the Indian National Space Promotion and Authorisation Centre (IN-SPACe).

Amazon's Project Kuiper remains the only major satcom contender still awaiting a go-ahead from the government.

Starlink provides satcom services in over 125 countries through a constellation of over 7,600 low earth orbit (LEO) satellites operated by SpaceX — the American spacecraft manufacturer, launch service provider, and satcom company owned by Musk.

In April, the satcom operator had received provisional registration from Pakistan's space regulator, with Islamabad stating on record that it hoped Starlink would receive full clearance and begin operations by the end of 2025. In May, Bangladeshi telecom authorities granted necessary licences for Starlink to operate in the country. Bhutan had been the first country in the subcontinent to get Starlink connectivity in February.

Currently the largest space-based communications network, Starlink has increasingly targeted developing and low-income countries. For instance, it went live in the Democratic Republic of the Congo earlier this week.

Surge in action

Starlink's application for a GMPCS licence had remained under processing since November 2022. It had been held up due to the company's inability to comply with mandatory ownership disclosure norms overseen by the Department for Promotion of Industry and Internal Trade (DPIIT). Additionally, Starlink had also clashed with the government over rules that a licensee must provide call data records to security agencies upon request and turn off services at times of crises under government direction.

With the DoT bringing in a range of tighter security conditions for satcom in India last month, analysts had initially written off Starlink's chances of securing permissions anytime soon. From securing separate security clearance for each satellite gateway in India, localisation of all lawful interception facilities, and special provisions that mandate services to specific individuals, groups or geographical areas during hostilities, the security conditions increased the regulatory burden on industry.But soon after, Starlink was granted the LoI, with the company promising to meet all the conditions in the latest directive. Following that, Trai released its recommendations on the pricing and allocation guidelines for satellite spectrum in India.