BUSINESS STANDARD POLL

On terminal policy repo rate, Street views are evenly split

Respondents who see terminal rate at 5.25% expect 25 bps cut in Oct or Dec

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The street is evenly split on the terminal policy repo rate in the current interest rate easing cycle with half of the respondents in a *Business Standard* poll reckoning it to be 5.25 per cent, while the other half expect it to stay at 5.50 per cent.

The Reserve Bank of India's Monetary Policy Committee (MPC) had cut the policy repo rate by 50 basis points (bps) to 5.50 per cent in the June meeting, higher than the market expectation of 25 bps, and changed its stance to 'neutral' from 'accommodative'. RBI Governor Sanjay Malhotra had said monetary policy is left with limited space to support growth after cutting the repo rate by 100 bps 'in quick succession' since February.

In an interview to *Business Standard* on Tuesday Malhotra said if the inflation outlook turns out to be below RBI projections, it will open up policy space. CPI inflation eased to 2.82 per cent in May 2025 — lower than street estimate, it's lowest reading since February 2019.

RBI has a mandate to keep inflation at 4 per cent with a permissible variation of 2 per cent in either direction.

Poll respondents who see the terminal rate at 5.25 per cent, expect the MPC to cut the policy repo rate by 25 basis points in October or December. They said that even after accounting for potential supply-side shocks — which tend to emerge regularly with some food item or another spike — headline inflation is projected to average around 3 per cent in FY26, well below RBI's 3.7 per cent estimate.

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Expert view

	What is the likely terminal rate in the current rate cut cycle?	When is the next repo rate cut expected?
Standard Chartered bank	5.5%	No more rate cuts unless inflation / growth surprises on the downside
Bank of America	5.5%	No more cuts expected
HDFC Bank	5.5%	—
IDFC First Bank	5.25%	October or December
Bank of Baroda	5.5%	No more rate cut
Icra	5.25%	October
Bandhan Bank	5.5%	Not during 2025
Crisil	5.25%	—
Yes Bank	5.25%	October or December
Emkay Global Financial	5.25%	October

RBI GOVERNOR HAS SAID MONETARY POLICY IS LEFT WITH LIMITED SPACE TO SUPPORT GROWTH AFTER CUTTING REPO RATE BY 100 BPS 'IN QUICK SUCCESSION'

"While our GDP growth forecast is close to RBI's 6.5%, we see it slightly lower at 6.3%, with some downside risks stemming from weak exports, geopolitical uncertainties, and tariff-related ambiguity. Urban demand remains relatively soft though rural indicators are improving. With inflation well below the target, there is clear policy space for another rate cut," said Gaura Sengupta, chief economist at IDFC First Bank.

The other half of the economists said that while inflation readings for June to September may appear lower, they are unlikely to alter the overall assessment significantly. The broader view is that inflation may pick up next year and more rate cuts are unlikely for a while, particularly as the RBI has already accounted for prevailing factors in its policy stance. "We continue to expect the terminal repo rate at 5.5 per cent. There's no change in our view. While inflation may come in lower for June and September, it won't materially alter the overall picture — especially with vegetable prices rising sharply. We shouldn't rush into rate cuts based on temporary dips, and with a likely correction next year, we don't see any further cuts at this stage," said Madan Sabnavis, chief economist at Bank of Baroda.

Economists who expect a 5.25 per cent terminal rate believe the timing of the rate cut is the key consideration. With the RBI shifting its stance to 'neutral' and awaiting monsoon clarity, a rate cut in August seems unlikely.

By the time of the October or December policy review meetings, the monsoon impact will be fully known, giving insights into both kharif and rabi crop outcomes. The banks' cash reserve ratio requirement cut scheduled between September and November will also have played out by December, allowing the RBI to assess its full impact on liquidity and transmission.