

# India Special Coverage

## RBI delivers a surprise 0.50% cut

### Key takeaways

- ◆ The Reserve Bank of India (RBI) surprised the markets by delivering a larger-than-expected 0.50% rate cut in its June MPC meeting. However, the central bank changed the monetary policy stance to “neutral” from “accommodative” previously. The RBI also reduced the Cash Reserve Ratio (CRR) for banks by 1% to 3%.
- ◆ In our assessment, the RBI’s larger-than-expected rate cut was done to front-load the rate cuts rather than being an indication of sharp downside risks to growth. We now expect the RBI to remain on hold in the August and October meetings, before delivering a 0.25% cut in December MPC meeting to take the benchmark rate to 5.25%.
- ◆ We retain our overweight stance on Indian equities and favour large-cap stocks as we believe they are better positioned to navigate the uncertain environment. Given the elevated global uncertainty, we like more domestically-oriented sectors and favour financials, healthcare and industrials. We are bullish on Indian local currency bonds and expect 10-year government bond yields to edge lower by end-2025.



**James Cheo**

Chief Investment Officer,  
Southeast Asia and India,  
HSBC Global Private Banking  
and Premier Wealth



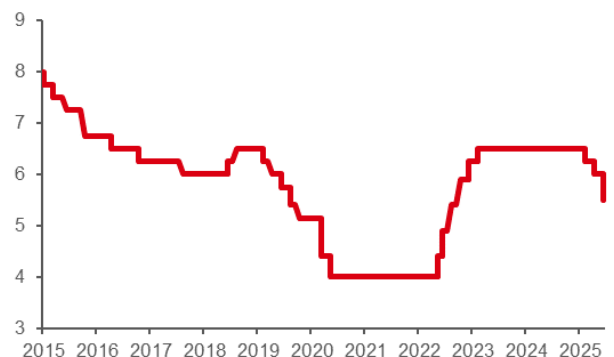
**Abhilash Narayan, CFA**

Investment Strategist, HSBC  
Global Private Banking and  
Premier Wealth

### What happened?

- In the Monetary Policy Committee (MPC) meeting on 6th June 2025, the Reserve Bank of India (RBI) surprised the markets by delivering a larger-than-expected 0.50% rate cut. In the lead-up to the meeting, most of the economist surveys by Bloomberg were expecting a 0.25% rate cut by the RBI.
- Five out of the six MPC members voted for a 0.50% rate cut. However, the central bank changed the monetary policy stance to “neutral” from “accommodative”. The RBI Governor Malhotra highlighted that the shift in the monetary policy stance means that the future policy direction would be largely data dependent.
- In addition to the jumbo 0.50% rate cut, the RBI also reduced the Cash Reserve Ratio (CRR) for banks by 1% to 3%. The 1% cut will be enacted in a staggered manner with 0.25% cuts each fortnight starting from 6th September.
- The RBI highlighted that this measure should release approximately INR 2.5tn (USD29.1bn) liquidity in the Indian financial system by November 2025.

**The RBI lowered Indian repo rate to 5.50%, the lowest since 2022**



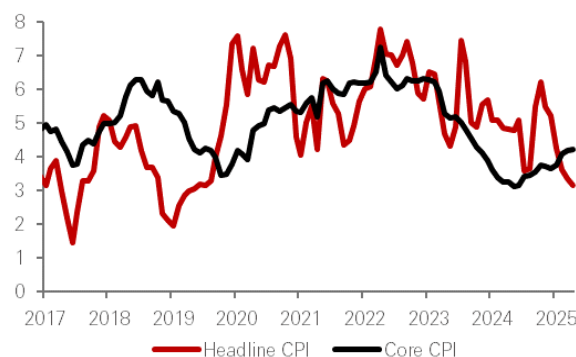
Source: Bloomberg, HSBC Global Private Banking and Premier Wealth as of 6 June 2025. Past performance is not a reliable indicator of future performance.

- The RBI kept its FY26 (April 2025-Mar 2026) GDP growth forecast unchanged at 6.5%. RBI Governor Malhotra highlighted that amid global uncertainties, Indian economy was a picture of strength and stability.
- Private consumption is expected to remain healthy with a gradual rise in discretionary spending and a pick-up in rural demand, due to a good monsoon season. Governor Malhotra also mentioned that while India has agreed on a trade deal with the UK and is negotiating with other countries, the central bank remains vigilant against downside growth risks due to geopolitical tensions.
- RBI Governor Malhotra also highlighted that the outlook for food inflation had softened while the core inflation outlook remained benign. As a result, the RBI lowered its FY26 inflation projection to 3.7% from 4.0% previously. Governor Malhotra also said that the battle against inflation, which has declined to a six-year low, **had been won and indicated that the central bank would increase its focus on supporting growth.**
- In our assessment, RBI's larger-than-expected rate cut was done to front-load the rate cuts rather than being an indication of sharp downside risks to growth. The change in monetary policy stance to "neutral" and the RBI governor's comments suggest that this was done to ensure a minimal time lag in the transmission of monetary easing to the real economy.

## Investment implications

- We now expect the RBI to remain on hold in the August and October meetings, before delivering a 0.25% cut in December MPC meeting to take the benchmark rate to 5.25%.
- RBI's monetary policy decision was viewed positively by the equity markets, which rose sharply following the announcement. Easier monetary policy to boost growth is generally supportive for the broader market. In particular, the 0.50% rate cut and the lowering of CRR are positive for banks, real estate and the consumer discretionary sector. 10-year government bond yields declined initially before edging 2-3bps higher at the time of writing, while USD/INR was largely unchanged.
- We retain our overweight stance on Indian equities, as most of the fundamentals and technical factors remain supportive.
- From a fundamental perspective, in addition to the tailwind from robust GDP growth, we see (i) potential signs of stabilisation in the earnings trajectory, with expectations of double-digit earnings growth and (ii) a healthy Return on Equity (RoE) of around 15% offsetting the concerns about valuations.
- From a technical perspective, the resilience of domestic investors, which was a big unknown, is viewed as a big positive. Also, there are visible signs of the return of foreign investor inflows and from a seasonal perspective, June – September has historically been a strong period for Indian equities.
- We favour large-cap stocks over the small- and mid-cap stocks. Large caps continue to trade at a sizeable discount and their larger size makes them more defensive should market volatility spike again. Given the still-elevated global uncertainty, we prefer domestically-oriented sectors, with a greater exposure to the Indian consumption story. We continue to favour the financials, healthcare and industrials sectors.
- We are bullish on Indian local currency bonds and expect them to outperform cash in 2025. We expect 10-year government bond yields to edge lower by end-2025.

### India's headline CPI inflation declined to the lowest level in nearly 6 years



Source: Bloomberg, HSBC Global Private Banking and Premier Wealth as of 6 June 2025. Past performance is not a reliable indicator of future performance.

## Disclaimer

This document or video is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document or video is distributed and/or made available, HSBC Bank (China) Company Limited, HSBC Bank (Singapore) Limited, HSBC Bank Middle East Limited (UAE), HSBC UK Bank Plc, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (20080100642 1 (807705-X)), HSBC Bank (Taiwan) Limited, HSBC Bank plc, Jersey Branch, HSBC Bank plc, Guernsey Branch, HSBC Bank plc in the Isle of Man, HSBC Continental Europe, Greece, The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank (Vietnam) Limited, PT Bank HSBC Indonesia (HBID), HSBC Bank (Uruguay) S.A. (HSBC Uruguay is authorised and oversought by Banco Central del Uruguay), HBAP Sri Lanka Branch, The Hongkong and Shanghai Banking Corporation Limited – Philippine Branch, HSBC Investment and Insurance Brokerage, Philippines Inc, and HSBC FinTech Services (Shanghai) Company Limited and HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group (collectively, the "Distributors") to their respective clients. This document or video is for general circulation and information purposes only.

The contents of this document or video may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document or video must not be distributed in any jurisdiction where its distribution is unlawful. All non-authorised reproduction or use of this document or video will be the responsibility of the user and may lead to legal proceedings. The material contained in this document or video is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document or video may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HBAP and the Distributors do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document or video has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed are based on the HSBC Global Investment Committee at the time of preparation and are subject to change at any time. **These views may not necessarily indicate HSBC Asset Management's current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.**

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document or video is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Investments are subject to market risks, read all investment related documents carefully.

This document or video provides a high-level overview of the recent economic environment and has been prepared for information purposes only. The views presented are those of HBAP and are based on HBAP's global views and may not necessarily align with the Distributors' local views. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It is not intended to provide and should not be relied on for accounting, legal or tax advice. Before you make any investment decision, you may wish to consult an independent financial adviser. In the event that you choose not to seek advice from a financial adviser, you should carefully consider whether the investment product is suitable for you. You are advised to obtain appropriate professional advice where necessary.

The accuracy and/or completeness of any third-party information obtained from sources which we believe to be reliable might have not been independently verified, hence Customer must seek from several sources prior to making investment decision.

**The following statement is only applicable to HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group with regard to how the publication is distributed to its customers:** This publication is distributed by Wealth Insights of HSBC México, and its objective is for informational purposes only and should not be interpreted as an offer or invitation to buy or sell any security related to financial instruments, investments or other financial product. This communication is not intended to contain an exhaustive description of the considerations that may be important in making a decision to make any change and/or modification to any product, and what is contained or reflected in this report does not constitute, and is not intended to constitute, nor should it be construed as advice, investment advice or a recommendation, offer or solicitation to buy or sell any service, product, security, merchandise, currency or any other asset.

Receiving parties should not consider this document as a substitute for their own judgment. The past performance of the securities or financial instruments mentioned herein is not necessarily indicative of future results. All information, as well as prices indicated, are subject to change without prior notice; Wealth Insights of HSBC Mexico is not obliged to update or keep it current or to give any notification in the event that the information presented here undergoes any update or change. The securities and investment products described herein may not be suitable for sale in all jurisdictions or may not be suitable for some categories of investors.

The information contained in this communication is derived from a variety of sources deemed reliable; however, its accuracy or completeness cannot be guaranteed. HSBC México will not be responsible for any loss or damage of any kind that may arise from transmission errors, inaccuracies, omissions, changes in market factors or conditions, or any other circumstance beyond the control of HSBC. Different HSBC legal entities may carry out distribution of Wealth Insights internationally in accordance with local regulatory requirements.

**Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India"):** HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. HSBC India does not distribute or refer investment products to those persons who are either the citizens or residents of United States of America (USA), Canada or any other jurisdiction where such distribution or referral would be contrary to law or regulation.

**HSBC India is an AMFI-registered Mutual Fund Distributor of select mutual funds and a referrer of other 3rd party investment products.** HSBC India will receive commission from HSBC Asset Management (India) Private Limited, in its capacity as a AMFI registered mutual fund distributor of HSBC Mutual Fund. The Sponsor of HSBC Mutual Fund is HSBC Securities and Capital Markets (India) Private Limited (HSCI), a member of the HSBC Group. Please note that HSBC India and the Sponsor being part of the HSBC Group, may give rise to real, perceived, or potential conflicts of interest. HSBC India has a policy in place to identify, prevent and manage such conflict of interest. For more information related to investments in the securities market, please visit the SEBI Investor Website: <https://investor.sebi.gov.in/> and the SEBI Saaṛthi Mobile App. **Mutual Fund investments are subject to market risks, read all scheme related documents carefully.** Issued by The Hongkong and Shanghai Banking Corporation Limited India. Incorporated in Hong Kong SAR with limited liability. HSBC Bank ARN - 0022 with validity from 19-Feb-2024 to 18-Feb-2027. Date of initial registration: 19-Feb-2002.

**The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers:** HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/ business. However, the Bank disclaims any guarantee on the management or operation performance of the trust business.

**The following statement is only applicable to PT Bank HSBC Indonesia ("HBID"):** HBID is licensed and supervised by Indonesia Financial Services Authority ("OJK"). Investment products that are offered in HBID are third party products, HBID is a selling agent for third party products such as Mutual Funds and Bonds. HBID and HSBC Group (HSBC Holdings Plc and its subsidiaries and associates company or any of its branches) do not guarantee the underlying investment, principal or return on customer's investment. You must read and understand the investment policy of each investment product to see if a product contains ESG and sustainability elements and is classified as an ESG and sustainable investment. Investment in Mutual Funds and Bonds are not covered by the deposit insurance program of the Indonesian Deposit Insurance Corporation ("LPS").

## Important information on ESG and sustainable investing

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information visit [www.hsbc.com/sustainability](https://www.hsbc.com/sustainability).

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't consider these factors. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the impact of ESG and Sustainable investing products. ESG and Sustainable investing and related impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the ESG / sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of ESG / sustainability impact will be achieved. ESG and Sustainable investing is an evolving area and new regulations are being developed which will affect how investments can be categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

THE CONTENTS OF THIS DOCUMENT OR VIDEO HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION.

YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT OR VIDEO. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT OR VIDEO, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

© Copyright 2025. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document or video may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.