

RBI Monetary Policy Review

6 August 2025



Wait & Watch: Letting it all play out

MPC takes a pause to assess: The RBI MPC unanimously decided to maintain a status-quo on policy rates with the Repo Rate held steady at 5.50% and retained the policy stance as neutral. We see today's policy decision as a neutral hold and the MPC would take a meeting-by-meeting approach. Today's hold is the first rate hold since Dec'24, as the RBI had undertaken 100bps of policy rate cuts in 1H CY25. At the Jun'25 policy, the RBI Governor had signaled data dependency after a frontloaded move of 50bps cut.

Today's policy decision is in sync with its earlier policy remark "... monetary policy is left with very limited space to support growth." While the MPC has retained its growth forecast at 6.5% for FY26 and 6.6% for Q1FY27, the downside risks to growth are somewhat higher amid the trade tariff related uncertainty. Meanwhile, the downward revision in its inflation forecast by 60bps to 3.1% for FY26 still gives the elbow room to act on policy rates. The space to cut, however, remains constrained as the four-quarter ahead inflation forecast is pegged at 4.9% YoY for the June-ending quarter of 2026.

Growth-inflation outlook: Growth has held up well with some pick-up expected in the coming festive season and is evolving in line with MPC's assessment of 6.5% for FY26 and is sticky at 6.6% for Q1FY27 - while stating that the uncertainties of tariffs are still evolving.

The FY26 inflation outlook has turned more benign than expected in June supported by large favourable base effects, steady progress of the monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of foodgrains. MPC also noted that, core inflation is likely to remain moderately above 4% during the year. Overall, inflation forecast is above the 4% levels for 1H CY26.

MPC's growth and inflation forecasts laid out below:

	Growth			Inflation			
Period	Jun-25	Aug-25	Revision	Apr-25	Jun-25	Aug-25	Revision
Q1 FY2026	6.50%	6.50%	0.00%	3.60%	2.90%	2.70%	-0.20%
Q2 FY2026	6.70%	6.70%	0.00%	3.90%	3.40%	2.10%	-1.30%
Q3 FY2026	6.60%	6.60%	0.00%	3.80%	3.90%	3.10%	-0.80%
Q4 FY2026	6.30%	6.30%	0.00%	4.40%	4.40%	4.40%	0.00%
FY2026	6.50%	6.50%	0.00%	4.00%	3.70%	3.10%	-0.60%
Q1FY27	-	6.60%	-	-	-	4.90%	-

Source: RBI MPC Policy Resolutions

Liquidity: The RBI did not announce any fresh measures, but did indicate that it will continue to be nimble and flexible in its liquidity management. The remark was to "maintain sufficient liquidity in the banking system" as compared to any indication on the level of liquidity per se. The Governors' statement did reveal that the weighted average call rate (WACR) will continue to be the operating target of monetary policy, and it would continue with the two-sided operations across tenors to modulate system liquidity with the objective of maintaining the operating target rate at the policy rate. This is expected to keep the shorter dated rates aligned to the WACR rate. The easy liquidity conditions would enhance policy transmission.

Our Take:

The policy outcome was largely a non-event policy and in-line with our expectations. However, the markets were disappointed following the unanimous decision of a status-quo policy, no downward revision in growth and higher inflation prints for 1HCY26. Going forward, as the dust settles on tariff related uncertainties and its impact on India's growth becoming more visible the RBI-MPC would take a calibrated approach by end-CY25, more so with inflation outlook remaining benign till Q4FY26. The liquidity conditions would stay easy with the CRR cuts kicking-in in one-months' time furthering the past policy easing to permeate into lower borrowing rates. Lastly, the US Fed moving lower on its rates from September may further provide the wiggle room to act on the policy rates. Currently, with a benign inflation outlook, India's growth story will take center stage at the next few policy meetings. We continue to believe that the easing cycle is not over yet and that the room to cut opens-up in the backdrop of the abovementioned scenarios playing out. The Governor at the presser stated that it remains data dependent and that it will take a meeting-by-meeting approach.

Abbreviations:

RBI: Reserve Bank of India
MPC: Monetary Policy Committee
SDF: Standing Deposit Facility
MSF: Marginal Standing Facility
CRR: Cash Reserve Ratio
OMO: Open Market Operations
GDP: Gross Domestic Product
CPI: Consumer Price Index
Core CPI: CPI excluding food and fuel components

Source - RBI, HSBC MF Research, Data as on 6 Aug 2025.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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