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RBI's Monetary Policy Review

6th August 2025

RBI Policy Stance

- The MPC decided to keep the policy repo rate unchanged at 5.50%.
- The MPC maintained a 'Neutral' stance, highlighting the need for continued close monitoring of data and evolving growth-inflation dynamics to guide future policy decisions.

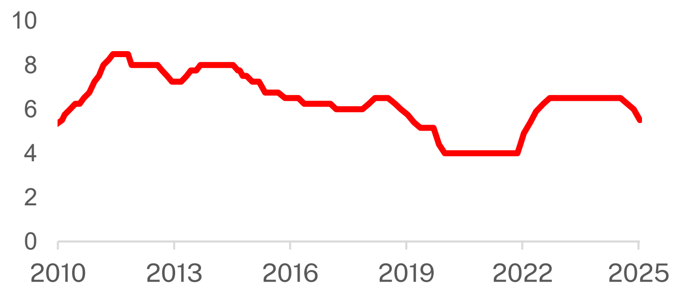
Policy Rates	Pre Policy	Post Policy	Status
Repo	5.50%	5.50%	Unchanged
Reverse Repo	3.35%	3.35%	Unchanged
MSF	5.75%	5.75%	Unchanged
Bank Rate	5.75%	5.75%	Unchanged
CRR	3.00%	3.00%	Unchanged
SDF	5.25%	5.25%	Unchanged
SLR	18.00%	18.00%	Unchanged

Key Highlights

- The inflation forecast for FY'26 was revised downwards to 3.1% from 3.7%.
- The GDP forecast for FY'26 remains unchanged at 6.5% owing to the challenging global environment.
- India's current account deficit moderated to 0.6% of GDP in 2024-25, down from 0.7% of GDP in 2023-24.
- The 5Y and 10Y G-sec yield (6.79 GS benchmark) declined by 63 bps and 28 bps, respectively since the February policy. Over the same period, 5-year AAA corporate bond yields declined by 56 basis points. During this period, the Indian bond market was one of the best performers globally.
- Gross FDI inflows remained strong, rising by around 5% to US $15.9 Bn in April-May 2025-26 from US $15.2 Bn a year ago. However, net FDI inflows contracted by 2.2% to US $3.9 Bn in April-May 2025-26 from US $4.0 Bn a year ago.

Time Frame	Projection – Inflation		Projection - Real GDP	
	Jun-25	Aug-25	Jun-25	Aug-25
Q1 FY'26	-	-	6.5%	6.5%
Q2 FY'26	3.4%	2.1%	6.7%	6.7%
Q3 FY'26	3.9%	3.1%	6.6%	6.6%
Q4 FY'26	4.4%	4.4%	6.3%	6.3%
FY'26	**3.7%**	**3.1%**	**6.5%**	**6.5%**

RBI Repo Rate Trajectory



RBI's Projection on Inflation and Growth

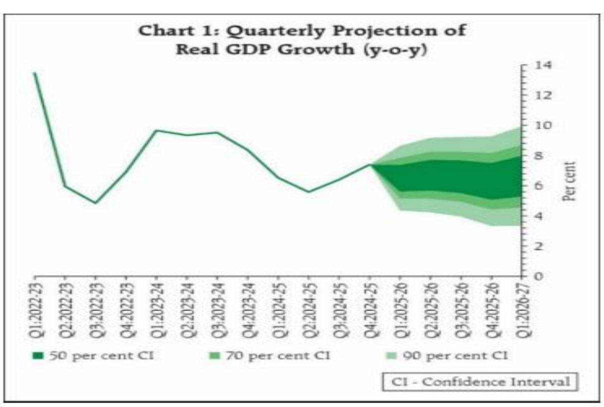


Chart 1: Quarterly Projection of Real GDP Growth (y-o-y)

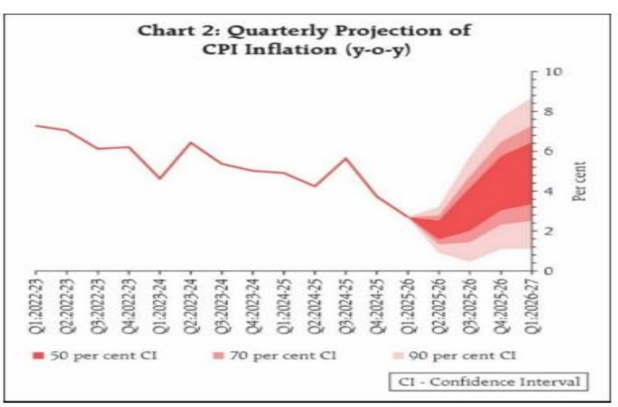


Chart 2: Quarterly Projection of CPI Inflation (y-o-y)

RBI’s Assessment of Global and Domestic Economy

- The global economy remains under pressure, with growth being modest despite recent upward revisions by the IMF. Disinflationary trends are slowing, and some advanced economies are even experiencing a rebound in inflation. While financial market volatility and geopolitical tensions have eased from their recent peaks, challenges in trade negotiations persist, continuing to weigh on global stability.

- The Indian economy remains stable, although high-frequency indicators showed mixed signals for May-Jun’25. On the demand side, rural consumption continues to demonstrate resilience, with key indicators like tractor sales and two-wheeler sales posting growth of 9.2% and 4.9%, respectively, during Q1 of 2025-26. In contrast, the recovery in urban consumption has been more subdued. FMCG sales volumes increased by 6.0% in Q1 2025-26, while retail sales of passenger vehicles grew by 3.0% and domestic air passenger traffic rose by 5.3% over the same period.

- On the supply side, agricultural activity remains strong, bolstered by favorable kharif sowing supported by a steady southwest monsoon. Additionally, services and construction sectors continue to show resilience, with the Services PMI reaching an 11-month high of 60.5 in Jul’25. However, growth in the industrial sector has been subdued and uneven, with weaknesses in electricity and mining. On a positive note, the Manufacturing PMI surged to a 16-month high of 59.1 in Jul’25, and manufacturing IIP recorded a modest growth of 3.4% in Q1 2025-26.

- **Outlook for Growth –** Domestic economic activity continues to be supported by a combination of favorable factors, including low inflation, an above-normal southwest monsoon, rising capacity utilization, conducive financial conditions, and strong government expenditure. However, the outlook for external demand remains uncertain amid ongoing tariff announcements and unsettled trade negotiations. In addition, prolonged geopolitical tensions, persistent global uncertainties, and heightened volatility in international financial markets present notable risks to the overall growth outlook.

- **Outlook for Inflation:** Inflation continued its downward trajectory, easing to a 77-month low of 2.1% in Jun’25, primarily driven by a decline in food prices. Fuel inflation also moderated, while core inflation remained within a narrow range of 4.1%–4.2%, before edging up to 4.4% in June — partly due to sustained increases in gold prices. The inflation outlook for FY2025–26 has turned more favourable, supported by a largely by base effect, steady progress of the southwest monsoon, robust kharif sowing, adequate reservoir levels, and healthy buffer stocks of foodgrains. However, CPI inflation is expected to rise above 4% in Q4 FY2025–26 and thereafter, as the impact of unfavourable base effects and demand-side pressures from policy actions begin to materialize. Core inflation is likely to stay moderately above 4% through the year, barring any major adverse shocks to input prices. Weather-related disruptions remain a key risk to the overall inflation trajectory.

Outlook

- RBI, as widely anticipated, kept the policy rate unchanged In the backdrop of the current macroeconomic landscape, outlook and prevailing uncertainties, as well as to ensure effective transmission of the earlier front-loaded rate cuts to credit markets and the broader economy.

- The MPC emphasized close monitoring of data and growth-inflation trends to guide policy, leading the RBI to retain its 'Neutral' stance.

- Our Investment positioning should be able to benefit from continued yield compression in the short and medium end of the yield curve. We believe allocation to longer duration may be less attractive going forward, even though further easing of 25 bps may not be ruled out in subsequent MPC meetings scheduled in CY’25.

- We recommend holding on to existing allocations in short to medium duration and reduce allocations to long dated maturities as a large part of the capital gains owing to duration compression may already have been realized. We remain bullish in the 1–3-year maturity bucket, especially across higher rated corporate bonds which is expected to benefit from spread compression owing to easier overnight liquidity conditions, especially owing to CRR cut announcement and recent reduction in benchmark interest rates.

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