

# RBI MONETARY POLICY

## AUGUST 2025 REVIEW

Date: 6<sup>th</sup> August 2025



# RBI MPC (August 2025) - Review



BP WEALTH

## Economy Report

06<sup>th</sup> August, 2025

### RBI Monetary Policy : Retains 6.5% Growth Forecast; Inflation Surprise Creates Room Ahead

#### Key Highlights

- ⇒ The outcome of the MPC meeting was in line with our expectations, with the RBI unanimously deciding to keep the policy repo rate unchanged at 5.50% under the Liquidity Adjustment Facility (LAF).
- ⇒ Consequently, the standing deposit facility (SDF) rate was unchanged at 5.25%, and the marginal standing facility (MSF) rate was unchanged at 5.75%.
- ⇒ The monetary policy maintained its neutral stance, indicating that the central bank is not currently inclined toward either raising or cutting interest rates. This provides flexibility to respond to evolving inflation and growth dynamics.
- ⇒ Real GDP growth for FY26 is retained at 6.5%. The RBI Governor said that growth projections remain unchanged from the previous assessment due to uncertainty in global sentiment.
- ⇒ The GDP growth forecast for Q1FY26 remained unchanged at 6.5%, Q2FY26 remained unchanged to 6.7%, Q3FY26 remained unchanged to 6.6% and Q4FY26 remained unchanged at 6.3%. GDP forecast for Q1FY27 is projected at 6.6%.
- ⇒ The consumer price inflation forecast for FY26 was downwardly revised to 3.1% from 3.7%, with the outlook for growth expected to improve and inflation to remain moderate. The consumer price inflation forecast for Q2FY26 was revised downwards to 2.1% from 3.4%, Q3FY26 was revised upwards to 3.1% from 3.9%, and Q4FY26 remained unchanged at 4.4%. CPI inflation for Q1FY27 is projected at 4.9%. CPI headline inflation declined for the eighth consecutive month to a 77-month low of 2.1% in June 2025.

#### Key Rates

	Current (%)	Previous (%)
Repo	5.50%	5.50%
Reverse Repo	3.35%	3.35%
MSF	5.75%	5.75%
SDF	5.25%	5.25%

#### GDP Growth Estimate

	Current (%)	Previous (%)
Q1FY26	6.50%	6.50%
Q2FY26	6.70%	6.70%
Q3FY26	6.60%	6.60%
Q4FY26	6.30%	6.30%
FY26	6.50%	6.50%
Q1FY27	6.60%	-

#### Inflation Estimate

	Current (%)	Previous (%)
Q2FY26	2.10%	3.40%
Q3FY26	3.10%	3.90%
Q4FY26	4.40%	4.40%
FY26	3.10%	3.70%
Q1FY27	4.90%	-

#### Our View

The RBI's decision to hold the repo rate at 5.50% was in line with our expectations, following a cumulative 100 bps rate cut in 2025, including 50 bps in June. Inflation has eased meaningfully, with headline CPI falling to a 77-month low, now below the 4% target. This moderation is largely attributed to a sharp and sustained decline in food inflation, which has turned negative for the first time since February 2019. In our view, the full transmission of the 100 bps easing since February is still working its way through the economy, and the central bank's wait-and-watch approach, reflected in today's stance, is appropriate. On the growth front, the RBI retained its FY26 GDP forecast, citing geopolitical risks, though domestic trends remain encouraging. A steady south-west monsoon is supporting agriculture, while services and construction sectors continue to show resilience. Despite no upward revision to growth estimates, the tone of the policy remains constructive, and the neutral stance allows flexibility. High-frequency indicators are holding firm, fiscal metrics remain stable, and consumption is improving across rural and urban areas. **Looking ahead, we believe the RBI may consider a 25 bps rate cut in the September meeting to support festive season demand, provided inflation remains under control and growth signals warrant it. We also expect other major global central banks to maintain a cautious stance in the near term.**

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### Macro & Policy Outlook: Inflation, Growth, and RBI Forward Guidance

#### Inflation

- The consumer price inflation forecast for FY26 was downwardly revised to 3.1% from 3.7%.
- Consumer Price Index (CPI) headline inflation declined for the eighth consecutive month, reaching a 77-month low of 2.1% in June 2025. This significant moderation was largely driven by a sharp fall in food inflation, reflecting improved agricultural activity and the impact of various supply-side measures. Notably, food inflation registered its first negative print since February 2019, coming in at (-) 0.2 per cent in June. The near-term and medium-term outlook now gives RBI the confidence of not only a durable alignment of headline inflation with the target of 4 per cent, as exuded in the last meeting but also the belief that during the year, it is likely to under-shoot the target at the margin.
- **Inflation outlook** : The inflation outlook for FY26 has turned more benign than earlier anticipated in June. This improved outlook is supported by large favourable base effects, the steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels, and comfortable buffer stocks of foodgrains, all of which have contributed to the recent moderation in inflation. **However, CPI inflation is expected to rise above 4 per cent by the fourth quarter of FY26 and may remain elevated thereafter, as unfavorable base effects and demand-side pressures, stemming from policy actions, begin to surface..**

#### Growth

- Real GDP growth for FY26 is retained at 6.5%. The RBI Governor said that growth projections remain unchanged from the previous assessment due to uncertainty in global sentiment.
- Domestic growth remains resilient and is broadly evolving in line with earlier assessments. Private consumption, supported by improving rural demand, and fixed investment, driven by buoyant government capital expenditure, continue to underpin economic activity.
- On the supply side, a steady southwest monsoon is aiding kharif sowing, replenishing reservoir levels, and bolstering agricultural output. Additionally, services and construction activity remain robust, providing further momentum. However, industrial sector growth has been subdued and uneven across segments, weighed down notably by weak performance in electricity and mining.
- **Growth outlook** : The above-normal southwest monsoon, moderating inflation, rising capacity utilization, and favourable financial conditions continue to support domestic economic activity. Additionally, supportive monetary, regulatory, and fiscal policies, particularly robust government capital expenditure, are expected to provide further impetus to aggregate demand. The services sector is likely to remain buoyant, with continued momentum in construction and trade over the coming months. **However, the prospects for external demand remain uncertain, given ongoing tariff announcements and prolonged trade negotiations. Furthermore, geopolitical tensions, persistent global uncertainties, and volatility in global financial markets pose downside risks to the growth outlook.**

#### Additional Measures

1. With the Jan Dhan Yojana marking 10 years, banks are holding Panchayat-level camps from July 1 to September 30 for re-KYC, account opening, micro-insurance, pension enrolments, and grievance redressal, to further deepen financial inclusion.
2. RBI is standardising procedures for claim settlements related to bank accounts, safe custody articles, and lockers of deceased customers, to make the process simpler and faster.
3. RBI Retail Direct platform will soon allow retail investors to invest in Treasury Bills via Systematic Investment Plans (SIPs), encouraging broader and more regular participation.

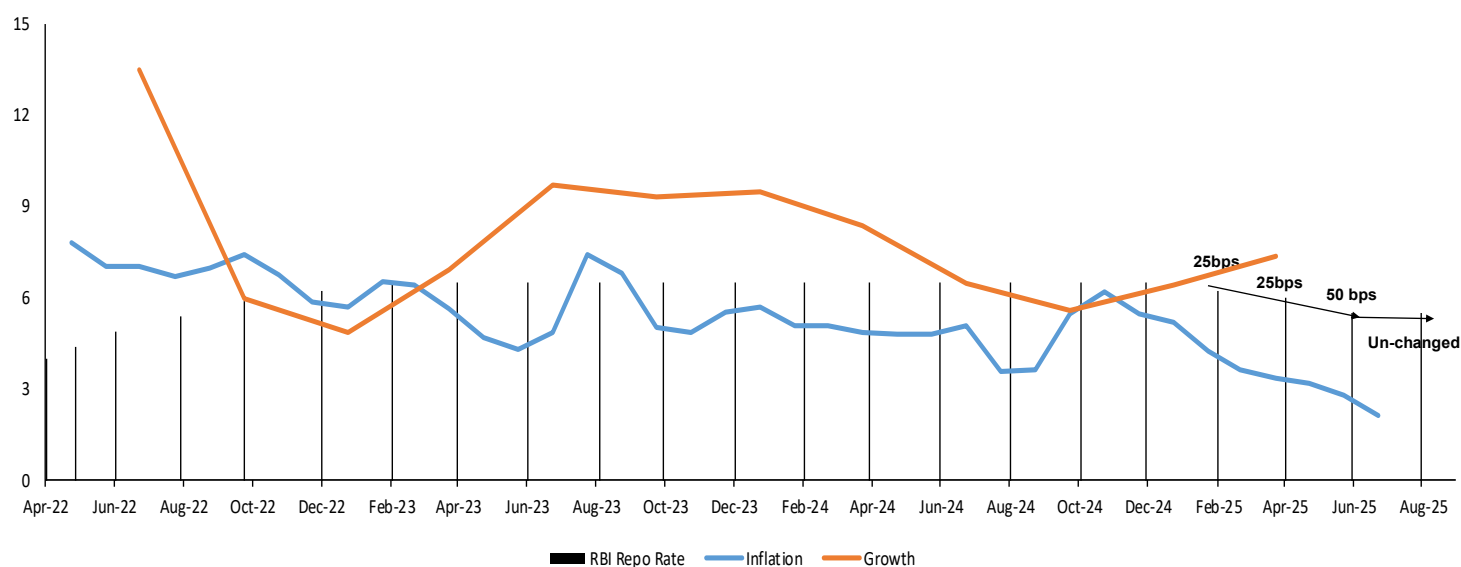
#### Conclusion Statement

- Despite a challenging external environment, the Indian economy continues to chart a steady growth path, underpinned by price stability. Monetary policy has judiciously utilized the space made available by a benign inflation outlook to provide support to growth, without compromising on its primary mandate of maintaining price stability. The transmission of our recent policy actions to the broader economy is currently underway and expected to strengthen in the coming months.
- **As we look ahead, strong and coordinated policy frameworks across sectors will be essential for India's continued progress. We will remain agile, data-driven, and transparent, ensuring that our policy stance evolves in line with the growth-inflation dynamics, backed by credible communication and decisive action.**

## RBI MPC (August 2025) - Review

Individual Member Stance						
MPC	Shri Sanjay Malhotra	Dr. Poonam Gupta	Dr. Rajiv Ranjan	Dr. Nagesh Kumar	Shri Saugata Bhattacharya	Prof. Ram Singh
Repo Rate	↔	↔	↔	↔	↔	↔
Stance	Neutral					

### Repo Rate - Trend



Source : Bloomberg, BP Equities Research

## Disclaimer Appendix

**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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