Reserve Bank of India (RBI) Monetary Policy Committee (MPC) meeting outcome- August 2026

Balancing growth resilience with inflation vigilance amid global uncertainty

August 2026

Key takeaways and policy decision

RBI MPC unanimously votes to preserve the status quo, keeping the repo rate at 5.25% and maintaining its 'Neutral' stance.

RBI holds policy repo rate steady at 5.25%; Stability over monetary tightening amid rising inflation risks and global volatility

The Reserve Bank of India Monetary Policy Committee (MPC) unanimously voted to hold the benchmark repo rate steady at 5.25% during its 62nd bi-monthly monetary-policy meeting concluded on August 5, 2026. By extending this status quo for a fourth consecutive session, the committee reaffirmed a strictly "neutral" stance. To reinforce this measured positioning, the central bank left its broader policy corridor unaltered, maintaining the standing deposit facility at 5.00% and both the marginal standing facility and the bank rate at 5.50%.

RBI adopts "Wait-and-Watch" approach amid global volatility and strong domestic growth

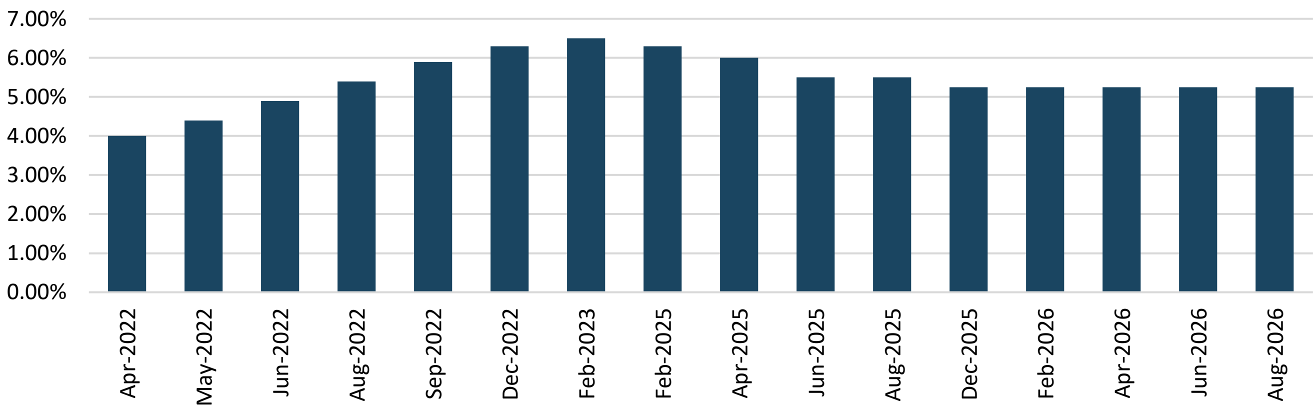
The decision reflects a strategic wait-and-watch approach, balancing resilient domestic economic momentum against heightened global volatility driven by Middle East geopolitical tensions, elevated international energy costs, and trade policy frictions. By prolonging the policy pause, the central bank offers corporate treasurers near-term certainty for balance sheet planning and keeps short-term yields firmly anchored.

Table 1:
Policy decisions

Policy rate	June 2026 review	August 2026 review	Status
Repo rate	5.25%	5.25%	Unchanged
Standing deposit facility (SDF)	5.00%	5.00%	Unchanged
Marginal standing facility (MSF)	5.50%	5.50%	Unchanged
Bank rate	5.50%	5.50%	Unchanged
Policy stance	Neutral	Neutral	Retained
MPC voting pattern	6-0	6-0	Unanimous

Source: Reserve Bank of India

Figure 1:
Repo rate trend (%)



Source: Reserve Bank of India

Macroeconomic assessment: GDP growth and inflation outlook

GDP growth projection upgraded to 6.7%

RBI upgrades FY27 GDP growth projection to 6.7% on strong domestic demand

The RBI upgraded its real GDP growth projection for FY27 to 6.7%, up by 10 basis points from its previous estimate of 6.6%. Quarterly forecasts reflect sustained resilience, with Q1FY27 expanding at 7.0%, followed by 6.4% in Q2, 6.5% in Q3, and 6.8% in Q4, while Q1FY28 is projected at 7.3%. This optimistic trajectory is fuelled by a well-rounded domestic consumption base, resilient urban discretionary spending, a steady recovery in rural demand, high manufacturing capacity utilization, and robust public/private capital expenditure alongside resilient service exports.

Table 2:
Growth outlook

Trajectory period	FY27 real GDP projection	Previous projection	CPI inflation projection (Current)
Q1 FY27	7.0%	6.6%	—
Q2 FY27	6.4%	6.3%	4.7%
Q3 FY27	6.5%	6.5%	5.9%
Q4 FY27	6.8%	6.8%	5.5%
Full Year FY27	**6.7%**	**6.6%**	**5.0%**
Q1 FY28	7.3%	—	5.3%

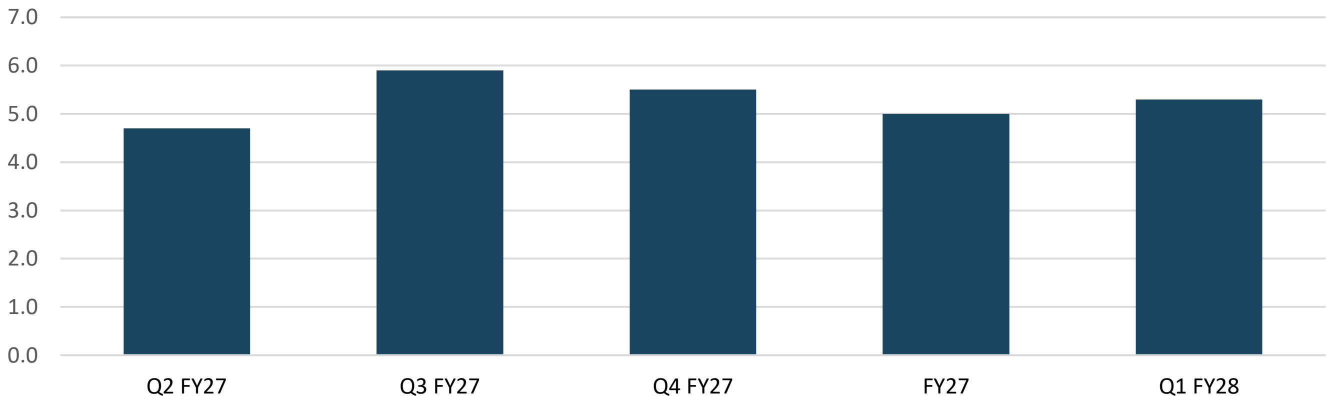
Source: Reserve Bank of India

CPI inflation forecast trimmed to 5.0%; Q3 peak anticipated

Inflation expected to peak at 5.9% in Q3; FY27 inflation forecast revised to 5.0%

Consumer Price Index (CPI) inflation is expected to peak at 5.9% in Q3 of FY27 before reducing to 5.5% in Q4, mainly due to increasing food and fuel prices. The RBI has slightly lowered its Consumer Price Index inflation forecast for FY27 to 5.0%, down from June 2026 forecast of 5.1%. Core inflation remains moderate, indicating that underlying demand pressures are stable, allowing the RBI some policy leeway, although food and fuel inflation may still pose second-round effects.

Figure 2:
CPI inflation estimates (%)



Source: Reserve Bank of India

Domestic climate risks and West Asia conflict drive RBI's inflation trajectory

The underlying drivers of this headline inflation curve stem from a blend of domestic climate risks and international supply-chain frictions. Southwest monsoon distribution, potential El Nino patterns, and volatile crude oil markets driven by persistent conflicts in West Asia pose continual upside risks to headline baskets. Nevertheless, because underlying core demand remains stable and non-inflationary, the RBI expects these headline pressures to recede organically toward the target band by early FY28 without requiring aggressive monetary tightening.

External sector, liquidity and credit rating impact

Robust capital inflows shield external balance sheet

Strong foreign inflows shield India's external balance sheet from global volatility

Global financial markets confront persistent uncertainties, including elevated US Treasury yields and dollar strength. However, India's external balance sheet acts as a strong shock absorber. Gross FDI inflows expanded to USD 30.7 billion in Q1 FY27, while net Foreign Portfolio Investment (FPI) debt inflows registered a strong turnaround to USD 7.1 billion across June-July 2026. These capital inflows helped the Indian Rupee appreciate against USD post-announcement and anchored the 10-year Government-Securities yield curve.

Figure 3:
Foreign direct investment inflows (USD billion) (Q1 Year-on-Year)

Source: Reserve Bank of India.

Surplus liquidity & banking system stability

India's strong external balance acts as vital shock absorber against global spillovers

Systemic liquidity remains comfortable, with the Liquidity Adjustment Facility (LAF) operating at an average daily surplus of approximately INR 1 trillion. This surplus anchors short-term money market rates and supports credit delivery. Scheduled Commercial Banks (SCBs) and NBFCs display strong capital adequacy and multi-year low Gross NPA ratios. Despite minor Net Interest Margin (NIM) moderation due to lagged deposit repricing, healthy credit volume expansion continues to uphold financial sector profitability. Stable money market conditions have enabled banks to manage their liability costs efficiently while catering to expanding credit demand from retail and corporate borrowers.

Implications for corporate debt and rated entities

RBI rate pause brings short-term relief to corporate debt, but risks vary across sectors

By keeping interest rates steady, the Monetary Policy Committee (MPC) establishes a predictable environment that stabilizes interest coverage and debt service ratios for corporate borrowers and safeguards net interest margins for financial intermediaries. Concurrently, an upgraded 6.7% GDP growth projection, lower forecasted inflation (5.0%), and reduced global commodity price pressures enhance India's overall sovereign credit profile and debt sustainability. While this rate pause mitigates refinancing risks for high-rated corporate issuers, lower-rated or market-dependent NBFCs face potential margin compression if credit spreads widen, underscoring the ongoing need for prudent liquidity and funding strategies.

Strategic outlook and downside risks

Key downside credit risks

Geopolitical tensions, El Nino, and global yield volatility drive downside credit risks

Key downside credit risks include geopolitical tensions in West Asia and volatile Brent crude prices, which squeeze margins for energy-dependent corporate sectors. Additionally, uneven monsoons and El Nino weather patterns threaten to elevate food inflation through Q3 FY27, potentially stalling central bank interest rate cuts. These domestic pressures are further compounded by global financial instability, as fluctuations in US yields and international central bank rate policies risk disrupting portfolio inflows and widening domestic corporate bond spreads.

Forward policy trajectory

Monsoons, oil, and global signals: The three pillars dictating RBI's next shift

Looking ahead, the Reserve Bank of India's decision to hold the repo rate at 5.25% under a 'Neutral' stance reflects a prudent, wait-and-watch posture rather than an explicit easing or tightening bias, and we expect this balanced stance to persist through the near term even as it is likely to shift as the current cycle progresses; immediate rate action remains unlikely at the next policy meeting given contained core inflation, but the timing and direction of future adjustments will hinge closely on three key catalysts: the southwest monsoon's yield and distribution, geopolitical crude oil volatility, and policy moves by major global central banks.

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