RBI Monetary Policy Meet Outcome – August 2025

RBI Holds Repo Rate; Inflation Forecast Slashed to 3.1% for FY26 while GDP Growth Outlook Retained

BRICKWORK RESEARCH

August 2025

No Change in Repo Rate as RBI Weighs Inflation and Growth Outlook, Stance Remains Neutral; Signals Cautious Optimism Amid Global Uncertainty

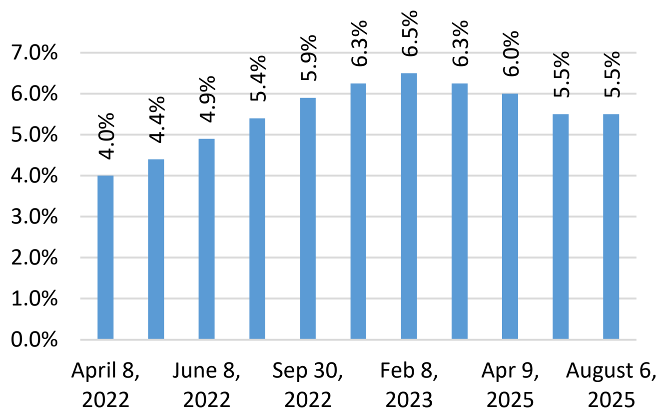
KEY TAKEAWAYS:

Category	Details	Remarks
Repo Rate	Unchanged at 5.50%	Held steady after 100 bps cumulative cuts earlier in 2025
Policy Stance	Neutral (Maintained)	Continued from June 2025; signals data-driven approach
Standing Deposit Facility (SDF)	Unchanged at 5.25%	
Marginal Standing Facility (MSF)	Unchanged at 5.75%	
Bank Rate	Unchanged at 5.75%	
Cash Reserve Ratio (CRR)	Cut from 4% to 3% (effective from September 2025, phased in 4 steps)	Aims to enhance liquidity and credit flow
FY26 GDP Growth Forecast	Retained at 6.5%	Indicates confidence in domestic demand and rural recovery Strong rural consumption, favorable monsoon, and festive season demand are expected to support GDP growth.
Quarterly GDP Forecasts	Q1: 6.5%, Q2: 6.7%, Q3: 6.6%, Q4: 6.3%, Q1 FY27: 6.6%	Stable growth trajectory projected
FY26 CPI Inflation Forecast	Revised downward from 3.7% to 3.1%	Reflects easing price pressures and soft food inflation
Q2 FY26 CPI Forecast	• Revised downward from 3.4% to 2.1% • Q3: 3.1%, Q4: 4.4%, Q1 FY27: 4.9%	Gradual uptick expected in later quarters
Food Inflation	Softened; Consumer Food Price Index (CFPI) at -1.06% YoY in June	Food inflation turned negative driven by falling prices in rural and urban areas
Wholesale Inflation (WPI)	Turned negative at -0.13% in June	Favorable monsoon conditions and robust foodgrain stocks were cited as key drivers
Banking Sector Health	CRAR: 17%, Net Interest Margin: 3.5%, Liquidity: 132%, Credit-Deposit Ratio: 78.9%	Sector remains robust and well-capitalized
Credit Growth (FY25)	12.1%, above 10-year average of 10.3%	
Forward Guidance	RBI to allow previous rate cuts to take full effect before further action	RBI adopts a wait-and-watch approach
External Risks and Global Factors	• **US Tariffs:** A new 25% tariff on Indian exports starting August 7 has raised concerns about trade friction and its impact on GDP and currency stability • **Oil Prices:** Rising global oil costs remain a risk factor for inflation and fiscal balance • **Global Uncertainty:** RBI emphasized a cautious approach due to geopolitical tensions and uncertain global growth	U.S. tariff threats and global trade volatility remain key risks, but RBI signals strategic confidence in India's fundamentals RBI remains cautious but confident in domestic resilience

Why the Pause?

- Inflation has eased significantly, with CPI inflation projected at 3.1% for FY26, down from 3.7%
- Food inflation remains soft, and wholesale inflation has turned negative
- RBI wants to allow earlier rate cuts (100 bps since February) to fully play out before making further moves

Repo Rate Trend (%)



Source: RBI

The RBI maintained a neutral policy stance and kept the repo rate unchanged at 5.5%, allowing previous rate cuts to continue transmitting through the economy

Inflation Outlook Revised Downward

Period	Current Forecast	Previous Forecast
FY 2025-26	3.1%	3.7%
Q1 FY26	-	2.9%
Q2 FY26	2.1%	3.4%
Q3 FY26	3.1%	3.9%
Q4 FY26	4.4%	4.4%
Q1 FY27	4.9%	

Source: RBI

RBI sees a generally benign inflation outlook for 2025-26 but expects a moderate rise above the target level later in the fiscal year due to base effects and demand-side pressures, maintaining a wait-and-watch approach to policy adjustment

GDP Growth Outlook Retained

Period	Current Forecast	Previous Forecast
FY 2025-26	6.5%	6.5%
Q1 FY26	6.5%	6.5%
Q2 FY26	6.7%	6.7%
Q3 FY26	6.6%	6.6%
Q4 FY26	6.3%	6.3%
Q1 FY27	6.6%	-

Source: RBI

RBI Governor affirmed India's macroeconomic stability despite global trade uncertainties and geopolitical tensions

The central bank predicts a 6.6% GDP growth in Q1 FY27, supported by strong rural consumption, fiscal stability, and easing inflationary pressures

Highlights from the RBI MPC meeting- August 2025

- **RBI Keeps Repo Rate Unchanged at 5.5%:** The MPC decided unanimously to keep the policy repo rate unchanged at 5.50%, after having cut it by a total of 100 basis points since February 2025. This follows a 50-basis-point reduction in June 2025. The Repo rate stands at 5.50%, with the Standing Deposit Facility (SDF) rate at 5.25% and Marginal Standing Facility (MSF) and Bank Rate at 5.75%

- **Monetary Policy Stance Remains Neutral:** The RBI maintained a neutral stance on monetary policy. This stance implies flexibility for rate changes based on incoming data trends in growth and inflation, suggesting that interest rates could move either direction depending on economic conditions. Governor Sanjay Malhotra highlighted that the "very little policy room" remains to support growth, signaling a wait-and-watch approach for now

- **Inflation Moderates Further:**
  - The MPC sharply revised its inflation forecast downward for FY26 to 3.1%, compared to earlier estimates around 3.7%
  - Retail inflation had dropped to a six-year low of 2.1% in June 2025
  - However, the committee remains cautious due to risks of rising core inflation, uneven monsoons, and possible wage pressures. It expects inflation to rise above 4% subsequently and reach about 4.9% in FY27

- **GDP Growth Outlook Retained:** The RBI retained its GDP growth forecast for FY26 at a robust 6.5%. Quarterly projections also remain stable at around 6.3% to 6.7% across the year. The economy is seen as resilient with strong private consumption (especially in rural areas) and fixed investment, boosting growth. India's growth resilience is notable despite global uncertainties and recent US tariffs on Indian exports

- **CRR Cut to Begin in September:**
  - The central bank confirmed that the cut in Cash Reserve Ratio (CRR), announced in June, will be implemented in phased steps starting September 2025, aimed at supporting bank liquidity and credit growth
  - CRR will be reduced from 4% to 3% in four steps of 25 basis points each, starting September 6
  - This move aims to inject liquidity and support credit growth

- **Transmission of Rate Cuts Underway:** The MPC noted that the full impact of the earlier rate cuts is still unfolding in credit markets and the broader economy, warranting a wait-and-watch approach before any further rate adjustments

- **Strong Banking Sector Indicators:** The RBI highlighted the ongoing health of the banking system, with healthy capital, liquidity, and profitability levels, and bank credit growth above the long-term average
  - Bank credit growth stood at 12.1% in FY25, exceeding the 10-year average of 10.3%, though slightly below the previous year's 16.3%.

- **Economic Context and Uncertainties:** The RBI highlighted global and domestic challenges:
  - Global growth remains muted with trade tensions and tariff uncertainties, especially due to US policy changes
  - Domestically, the growth momentum continues, supported by agriculture (benefiting from a steady monsoon) and the services sector, while some industrial sectors lag
  - Monetary policy transmission of previous rate cuts is still unfolding; hence the MPC opted for stabilization to allow these effects to percolate
  - **External risks** including rupee volatility and evolving tariff regimes particularly US tariffs on Indian exports, and shifts in global monetary policy pose risks to the domestic economy

- **Liquidity & External Sector:** The RBI highlighted India's system liquidity remains in surplus, supporting monetary policy transmission. India's current account deficit (CAD) moderated to 0.6% of GDP in FY25, with robust services exports and remittance inflows expected to keep CAD manageable

- **Forward Guidance:** The RBI will continue vigilant monitoring of incoming data, particularly inflation and growth dynamics, to decide on future policy moves. Market expectations indicate the next possible rate move might only occur beyond October 2025, after assessing further economic developments and festive demand impacts

- **Significance of the Decision:** The RBI's hold on rates amid easing inflation and stable growth reflects a balanced approach to support economic recovery while keeping inflation in check. The shift to a neutral stance from an accommodative one signals cautiousness due to limited policy space and external uncertainties

Policy Rationale

- **Wait and Watch:** Having frontloaded rate cuts in the first half of 2025, the RBI is opting for a pause to assess the full transmission impact of these cuts on credit and economic growth. There is caution as the effects work through the banking system and the real economy

- **Inflation Moderation:** Rapid inflation decline is attributed to favorable weather, steady southwest monsoon, adequate food stock reserves, and a strong supply side response. But global oil price volatility and new US tariffs could create fresh risks

- **Flexible Response to Global Shocks:** The MPC's "neutral" stance and measured tone address the heightened global uncertainty, including recent US trade tariffs on Indian goods and wider volatility in global markets. Economists expect the 25% tariffs imposed by the US to shave 20–30 bps off India's GDP, but RBI is expected to "wait and watch" before further reacting

Impact and Implications

- **For Borrowers and Households:** Lending rates, including home and retail loans, are now expected to remain stable. Banks that reduced their lending rates in response to RBI's earlier cuts are unlikely to proceed with further reductions immediately. This pause allows the financial system and consumers time to adjust to earlier rate actions and should support loan demand heading into the festive season

- **For the Markets:** The RBI's decision signals confidence in the macroeconomic outlook and should bolster investor sentiment in equities, bonds, and the real estate market. Stability in rates helps reinforce market expectations and provides predictability for business planning

- **For Economic Sectors:** Manufacturing and services are expected to benefit from both improved credit flow (due to previous cuts) and the stable policy environment. Real estate, in particular, is seen as a beneficiary of predictability and steady rates. Export-oriented sectors remain at risk from global trade tensions and tariffs

- **Rate-Cut Cycle:** RBI is likely to keep rates steady for the remainder of 2025, barring any inflation shocks or dramatic deterioration in growth. Economists widely see the central bank as having completed its rate-cutting phase in this cycle, with further moves contingent on global and domestic data

- **Growth-Inflation Balance:** With inflation well below target for now, RBI could theoretically ease further if growth falters or global shocks intensify. However, any rate increases seem off the table unless inflation rises sharply

- **Global Risks Under Watch:** The trajectory of US monetary policy, global trade wars, and commodity prices remain key watchpoints. RBI will remain data-dependent, with any future policy moves hinging on evolving inflation, growth, and external stability data

Sectoral Impact Assessment

Sector	Impact Summary	Outlook
Banking and NBFCs	• Stable repo rate and CRR cuts support liquidity; lending rates may soften further • Liquidity surplus and stable monetary conditions support credit growth but muted immediate rate cuts may keep loan growth moderate for now	Positive
Real Estate	• Lower borrowing costs and festive season demand could boost housing sales	Positive
Automobile	• Mixed short-term reaction; long-term benefits from lower EMIs and festive demand	Cautiously Positive
Industrial	• Patchy growth persists; subdued IIP and mining drag performance	Neutral
Services	• PMI at 11-month high; sector remains buoyant and resilient	Strong
Exports	• Facing headwinds from new US tariffs and global trade tensions, likely impacting export-oriented industries and capital flows adversely in short to medium term • Tariff pressures from U.S. may hurt textiles, gems, chemicals	Negative
Debt Markets	• Stable rates and lower inflation enhance bond attractiveness	Positive
Agriculture	• Benefitting from favorable monsoon and government investment. Negative food inflation signals relief for input and consumer prices in rural areas, supporting rural demand	Positive

* Views are personal

Authors

Manasvi Joshi - Research Analyst
Abhishek Das, Senior Research Analyst
Girish Basantani, Senior Research Analyst
Vikrant Chaturvedi, Associate Director – Research
Rajeev Saran, Director – Criteria, Model Development & Research

ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR) is India's home-grown credit rating agency built with the superior analytical prowess of the industry's most experienced credit analysts, bankers and regulators. Established in 2007, BWR aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. BWR provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. Our experienced analysts have published over 13,370 ratings across asset classes. BWR is committed to providing the investment community with products and services needed to make informed investment decisions. BWR is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Agency (ECAI) by the Reserve Bank of India (RBI) to carry out credit ratings in India. BWR is promoted by Canara Bank, India's leading public sector bank.

More information on Canara Bank is available for reference at www.canarabank.com BWR Rating Criteria are available at https://www.brickworkratings.com/ratingscriteria.aspx Brickwork Ratings, a SEBI-registered credit rating agency, has also been accredited by the RBI, and it offers rating services for bank loan, NCD, commercial paper, bonds, securitised paper etc. BWR has Canara Bank, a nationalised bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence, with offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitised paper of over 19,09,101 Cr. Additionally, fixed deposits and commercial papers, among others, worth over ¬ 84,580 Cr have been rated.

DISCLAIMER

 The Research team at Brickwork Ratings (BWR) takes great care in ensuring the reliability and accuracy of the information published. However, Brickwork Ratings takes no responsibility for any inaccuracies in the information (whether expressed or implied). Consequently, neither Brickwork Ratings nor the authors provide any qualitative or quantitative guarantee that the content is 100% accurate.

BWR appreciates that the readers of the report read and understand the following:

- The BWR Research report, in whole or in part, may not be sold, circulated, or quoted to a third party without the explicit written permission of BWR.
- Furthermore, no part of the report may be reproduced or transmitted in any form or by any means electronic, photocopying, mechanical, recording, or otherwise without the publisher's permission, i.e., BWR.
- All statements of fact, opinion, or analysis expressed in reports are those of the respective analysts. They do not necessarily reflect formal positions or views of BWR.
- The information and statements of fact made are not guarantees, warranties, or representations of their completeness or accuracy. BWR assumes no liability for any short-term or long-term decisions made by any reader based on the analysis included in our reports.