RBI Monetary Policy: August 4-6 2025

Policy Highlights:

Reserve Bank of India (RBI) Governor Sanjay Malhotra on August 6, 2025 announced that the MPC voted to maintain the policy repo rate at 5.50 per cent. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) remains unchanged at 5.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 5.75 per cent. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Outlook:

Domestic growth remains resilient and is broadly evolving along the lines of assessment. Private consumption, aided by rural demand, and fixed investment, supported by buoyant government capex, continue to boost economic activity. On the supply side, a steady south-west monsoon is supporting kharif sowing, replenishing reservoir levels and boosting agriculture activity. Moreover, services sector and construction activity remain robust. As for the growth outlook, the above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations. The headwinds emanating from prolonged geopolitical tensions, persisting global uncertainties, and volatility in global financial markets pose risks to the growth outlook. Taking all these factors into account, projection for real GDP growth for 2025-26 has been retained at 6.5 per cent, with Q1 at 6.5 per cent, Q2 at 6.7 per cent, Q3 at 6.6 per cent, and Q4 at 6.3 per cent. Real GDP growth for Q1:2026-27 is projected at 6.6 per cent. The risks are evenly balanced. CPI headline inflation declined to low of 2.1 per cent in June 2025. This was driven primarily by a sharp decline in food inflation led by improved agricultural activity and various supply side measures. CPI inflation, however, is likely to edge up above 4 per cent by Q4:2025-26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play. Weather-related shocks pose risks to inflation outlook. Considering all these factors, CPI inflation for 2025-26 is now projected at 3.1 per cent with Q2 at 2.1 per cent; Q3 at 3.1 per cent; and Q4 at 4.4 per cent. CPI inflation for Q1:2026-27 is projected at 4.9 per cent. The risks are evenly balanced.

The impact of the 100 bps rate cuts since February 2025 on the economy is still unfolding. On balance, therefore, the current macroeconomic conditions, outlook and uncertainties call for continuation of the policy repo rate of 5.5 per cent and wait for further transmission of the front-loaded rate cuts to the credit markets and the broader economy. Accordingly, the MPC unanimously voted to keep the repo rate unchanged. The MPC further resolved to maintain a close vigil on the incoming data and the evolving domestic growth-inflation dynamics to chart out the appropriate monetary policy path. Accordingly, all members decided to continue with the neutral stance.

Policy Rates								
Y-O-Y Growth (%)	**Jan-25**	**Feb-25**	**Mar-25**	**Apr-25**	**May-25**	**June-25**	**July-25**	**Aug-25**
Repo	6.50%	6.25%	6.25%	6.00%	6.00%	5.50%	5.50%	5.50%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	**Nov-24**	**Dec-24**	**Jan-25**	**Feb-25**	**Mar-25**	**Apr-25**	**May-25**	**June-25**
Inflation (WPI)	2.16%	2.57%	2.51%	2.45%	2.05%	0.85%	0.39%	-0.13%
Inflation (CPI)	5.48%	5.22%	4.26%	3.61%	3.34%	3.16%	2.82%	2.10%
GDP Growth								
Y-O-Y Growth (%)	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**
GDP (% Growth)	9.66%	9.34%	9.51%	8.35%	6.51%	5.61%	6.37%	7.38%
GVA (% Growth)	9.94%	9.22%	8.00%	7.27%	6.55%	5.81%	6.49%	6.77%