

Implications of August 2025 MPC

The Monetary Policy Committee (MPC) announced status quo in the repo rate and retained it at 5.5% by a unanimous vote. Consequently, the MSF and SDF rate stands at 5.75% and 5.25% respectively. Majority of market participants had expected a status quo. The policy stance has also been retained as 'neutral; which is the same as the previous MPC and signifies flexibility on future rate actions.

GDP growth estimate for FY26 has been retained at 6.5%. This is significant because the RBI feels that the risks due to geo political events on growth can be managed. The impact of tariffs have already been factored in June MPC when FY26 growth forecast was revised downwards from 6.7% to 6.5%. Future impact of tariffs are difficult to quantify at this juncture.

Ample liquidity conditions and the likely impact of impending 100 bps CRR cut (in phases) would have also prompted unchanged policy rates.

Commenting on the internal committee constituted for ushering in a liquidity management framework it has been stated that *weighted average call rate (WACR) would continue to be the operating target of monetary policy* and the report would be shortly in the public domain.

MPC Growth (Real GDP) forecasts:

	Q1FY26	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27
June 2025	6.5	6.7	6.6	6.3	6.5	--
August 2025	6.5	6.7	6.6	6.3	6.5	6.6

The MPC states that though bank credit growth during FY25 (12%) was lower than FY24, it was higher than the average bank credit growth observed during the past decade. It was also observed that though bank credit growth has moderated further to 9.8% so far in FY26, the flow of resources from non-banking sectors including commercial papers and corporate bonds have improved which mitigates the impact of lower credit offtake from the banking system to a certain extent.

A real GDP growth of 6.5% will result in a nominal GDP growth rate of around 9.5%. *Metrics such as tax revenue, bank deposits and overall bank credit track nominal GDP growth. We retain the expectation that Asset and liability sides of bank balance sheets will post growth rates of 10-11% in FY26. There are, however, downside risks to growth from geo political issues and unpredictable tariffs by the US which could potentially impact textiles, auto components, marine products, gems and jewellery as well as pharma and semi-conductor exports to the US.*

CPI inflation forecasts

	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27
June 2025	3.4	3.9	4.4	3.7	
August 025	2.1	3.1	4.4	3.1	4.9

It is pertinent to note that Q2 and Q3 retail inflation forecasts have been revised downwards by 130 bps and 80 bps respectively while Q4 growth estimates have been retained. Good monsoon and probable reduction in crude oil prices due to OPEC+ augmenting production could have contributed to benign inflation forecasts.

The impact of geo political uncertainties on retail inflation has been estimated to be limited as the CPI basket consists largely of food and non-tradeables.

The factors which prompted MPC to maintain status quo in policy rates could be

1. 100 bps repo rate cuts since February 2025
2. Ample liquidity conditions due to government spending and 100 bps CRR cut
3. Limited impact of tariffs estimated on growth so far
4. Adequate resource flows from non-banking sectors despite bank credit growth slowing down leading to growth concerns being addressed.
5. Limits to monetary policy as a contributing factor to GDP growth.

Other measures announced in the policy

1. Standardisation of procedure for settlement of claims in respect of deposit accounts of deceased customers of banks as currently the procedures vary from banks to banks.
2. Introduction of Auto-bidding facilities in RBI Retail Direct for Investment and Re-investment in T-bills

Overall Implications

- The 10 yr benchmark bond yield hardened by 6 to 7 bps immediately after the policy announcement as the stance remained neutral and not much concerns have been expressed on the growth front. The range could be between 6.3% to 6.4% for the remainder of the quarter. Benign inflation has been factored by the bond markets.
- There is little immediate possibility of bank margins getting squeezed further as lending rates will be steady. In fact weighted average lending rates on fresh rupee loans and those on fresh deposits have declined by 71 bps and 87 bps respectively since February 2025.
- Future rate decisions would be data dependent as a 'neutral' stance gives flexibility to the RBI to alter the status quo if required. However going by the MPC tone, future rate cuts are unlikely unless there is a severe growth shock. Growth could assume primacy in future rate setting actions as inflation impact has been adequately built into.
- INR remained unchanged at 87.6 post the policy as repo rate remained steady and the stance was neutral. Future exchange rate movements depend on global developments. Possibility of rupee volatility would also be a factor in future rate actions though exchange rates as a variable is not explicitly considered by MPC.

- Weighted average call rate continues to be the operating policy rate which means the endeavour continues to be to align call rates closer to the repo rate. Liquidity management operations would continue as usual.
- Standardisation of procedures for settlement of claims in respect of deposit accounts will enhance customer service by banks and is a customer-centric measure. Introduction of auto bidding facility in retail direct platform will help increase the appeal of this channel among retail investors.

Overall, the policy actions and tone has been along expected lines. Future rate actions would be data dependent while recognizing the limits of monetary policy as a contributory factor to economic growth.

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