NSE

Macro Review

August 5, 2026 | Vol. 8, Issue 3

RBI Monetary Policy: An expected pause

The RBI's Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 5.25% for the fourth consecutive meeting and retained its neutral stance amid a volatile global environment. In contrast to the divided votes seen at several major central banks, the decision was unanimous, reflecting confidence in India's macroeconomic resilience. With domestic activity stronger than anticipated, near-term inflation pressures largely supply-driven and crude oil prices easing from earlier highs, the MPC marginally lowered its FY27 CPI inflation forecast to 5.0% and raised its real GDP growth projection to 6.7%. The revisions point to a more favourable growth-inflation balance than envisaged in the previous policy review.

With banking-system liquidity remaining comfortably in surplus—at around Rs 1.1 lakh crore in July—the RBI reiterated its commitment to proactive liquidity management to support effective policy transmission. Going forward, the RBI is likely to maintain a cautious, data-dependent approach, with further rate action unlikely unless there is a material change in the growth-inflation outlook. Geopolitical uncertainty, an uneven monsoon and slower kharif sowing remain key risks, although inflation pressures are still largely supply-driven and underlying core inflation remains benign. Meanwhile, measures to attract capital through FCNR(B) deposits, which stood at US$36.7 bn as of July 31st, have strengthened the external-sector buffer, eased pressure on the rupee and afforded the RBI greater flexibility to focus on domestic growth and inflation dynamics.

- **Status quo amid a volatile global backdrop:** Despite elevated geopolitical uncertainty, the growth-inflation balance has improved since the June monetary policy review. Domestic economic activity remained resilient through Q1FY27, as reflected in high-frequency indicators, while headline CPI inflation, at 3.9%, came in below the RBI's June projection of 4.2%. Crude oil prices also moderated from their earlier highs. Against this backdrop, the MPC unanimously kept the policy repo rate unchanged at 5.25% for the fourth consecutive meeting. Accordingly, the Standing Deposit Facility and Marginal Standing Facility rates—the lower and upper bounds of the liquidity adjustment facility corridor—remained unchanged at 5.0% and 5.5%, respectively. The MPC also retained its neutral stance, preserving policy flexibility amid an evolving external environment and changing domestic growth-inflation dynamics.

The RBI's MPC unanimously decided to keep the policy repo rate unchanged for the fourth consecutive meeting at 5.25%, while retaining the stance at "Neutral."

- **Inflation projections eased…:** The MPC noted that near-term inflation pressures remain largely supply-driven, reflecting movements in food and fuel prices rather than broad-based demand pressures. In view of the softer-than-expected inflation trajectory, the RBI lowered its FY27 headline CPI inflation forecast by 10 basis points to 5.0%. The Q2FY27 projection was reduced by 40 basis points to 4.7%, while the Q3 forecast was retained at 5.9% and the Q4 projection was raised marginally by 10 basis points to 5.5%. The uneven distribution of rainfall amid El Niño conditions and volatility in global commodity prices, with potential spillovers to food, fuel and other input costs, remain key risks to the outlook. However, the MPC expects second-round effects to remain contained. Against this backdrop, FY27 core inflation is expected at 4.3%, 40 basis points below the previous policy estimate. Excluding precious metals, core inflation is likely to remain subdued in the near term.

FY27 inflation has been revised down by 10bps to 5% while GDP growth projected to be 10bps higher at 6.7%.

- **…While GDP projections revised up:** The MPC noted that domestic economic activity remained more resilient than anticipated despite persistent global uncertainty and intermittent disruptions arising from the conflict in West Asia. High-frequency indicators, healthy corporate earnings, resilient discretionary consumption and robust credit growth pointed to sustained momentum in Q1FY27.

Reflecting the stronger-than-expected outturn, the RBI raised its FY27 real GDP growth forecast by 10 basis points to 6.7%. The Q1FY27 projection was revised sharply upwards to 7.0% from 6.6%, while growth was projected at 6.4% in Q2, 6.5% in Q3 and 6.8% in Q4. Growth in Q1FY28 was projected at 7.3%. Going forward, the RBI expects resilient services activity and robust investment, supported by high capacity utilisation, healthy credit flows and continued public infrastructure spending. External demand is also expected to benefit from recent trade agreements. However, deficient and uneven monsoon conditions associated with El Niño remain a risk to agricultural output and rural demand, while renewed geopolitical tensions and potential disruptions to global supply chains pose downside risks to growth.

- **Liquidity surplus has widened to above Rs 1 lakh crore:** After moderating significantly during April–June 2026, the average monthly banking-system liquidity surplus widened from Rs 0.9 lakh crore in June to around Rs 1.1 lakh crore in July. The comfortable liquidity position kept the weighted average call rate (WACR) closely aligned with the policy repo rate, averaging only 6bps above it between June 6 and July 31st, 2026. Policy transmission to bank rates has been substantial but remains incomplete. The weighted average lending rate on fresh rupee loans and the weighted average term-deposit rate on fresh deposits of scheduled commercial banks declined by 80bps and 83bps, respectively. However, both lending and deposit rates hardened somewhat during May–June. The RBI reiterated its commitment to proactive liquidity management, with the objective of maintaining adequate system liquidity and ensuring that the WACR remains closely aligned with the policy repo rate.

The average WACR was at 5.31% since June meeting, only 6 bps above the repo rate, reflecting RBI's nimble banking system liquidity operations.

- **Policy outlook remains data dependent:** The RBI is expected to remain vigilant and retain a data-dependent approach, with further rate action unlikely unless there is a material shift in the growth-inflation outlook. Geopolitical uncertainty, an uneven monsoon—with rainfall 12% below normal as of August 4th—and slower kharif sowing, down 2.9% year-on-year as of July 31st remain key risks. However, current inflation pressures are predominantly supply-driven, while underlying core inflation, excluding precious metals, remains benign. At the same time, the Government's fiscal measures have absorbed a significant part of the fuel-price shock, while the RBI's measures to augment capital inflows have strengthened the external-sector buffer. Between the June policy review and July 31st, 2026, foreign inflows of US$40.8 bn were mobilised, including US$36.7 bn through FCNR(B) deposits. These inflows have eased pressure on the rupee and improved the balance-of-payments outlook, affording the RBI greater policy flexibility to focus on domestic growth and inflation dynamics while complementing the broader policy response.

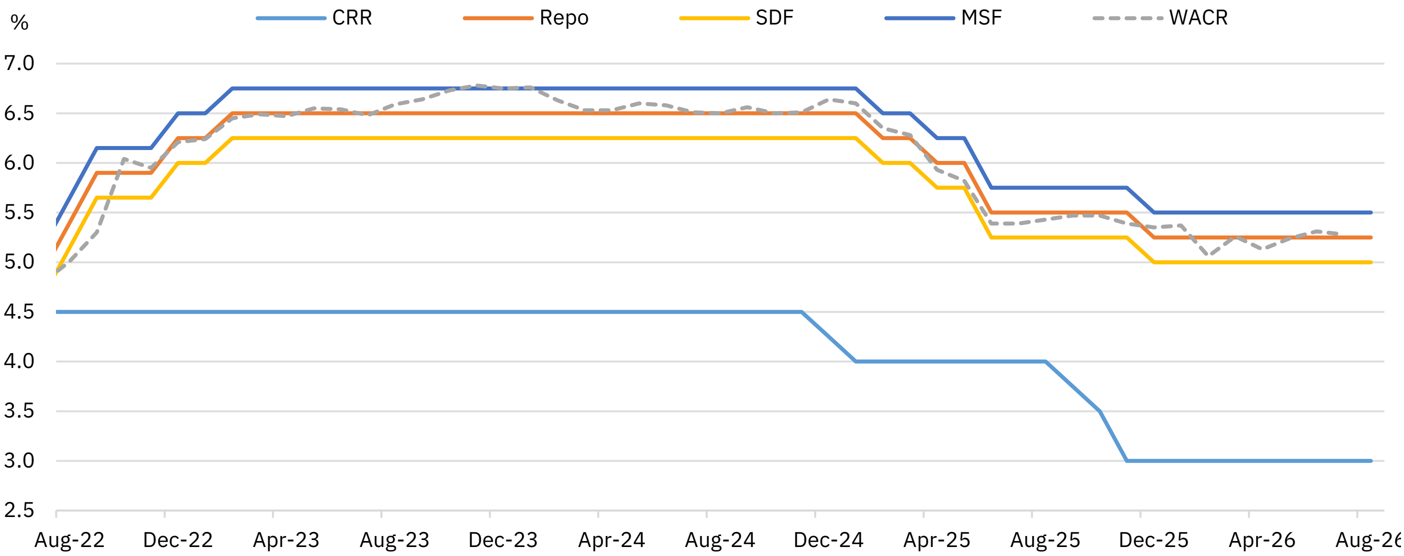
Table 1: Current policy rates

The policy repo rate was unanimously kept unchanged at 5.25%, with the stance retained at "Neutral".

Key rates	February 2026	April 2026	June 2026	August 2026
Repo Rate	5.25%	5.25%	5.25%	5.25%
Standing Deposit Facility (SDF)*	5.00%	5.00%	5.00%	5.00%
Marginal Standing Facility (MSF)	5.50%	5.50%	5.50%	5.50%
Bank Rate	5.50%	5.50%	5.50%	5.50%
Cash Reserve Ratio (CRR)	3.00%	3.00%	3.00%	3.00%

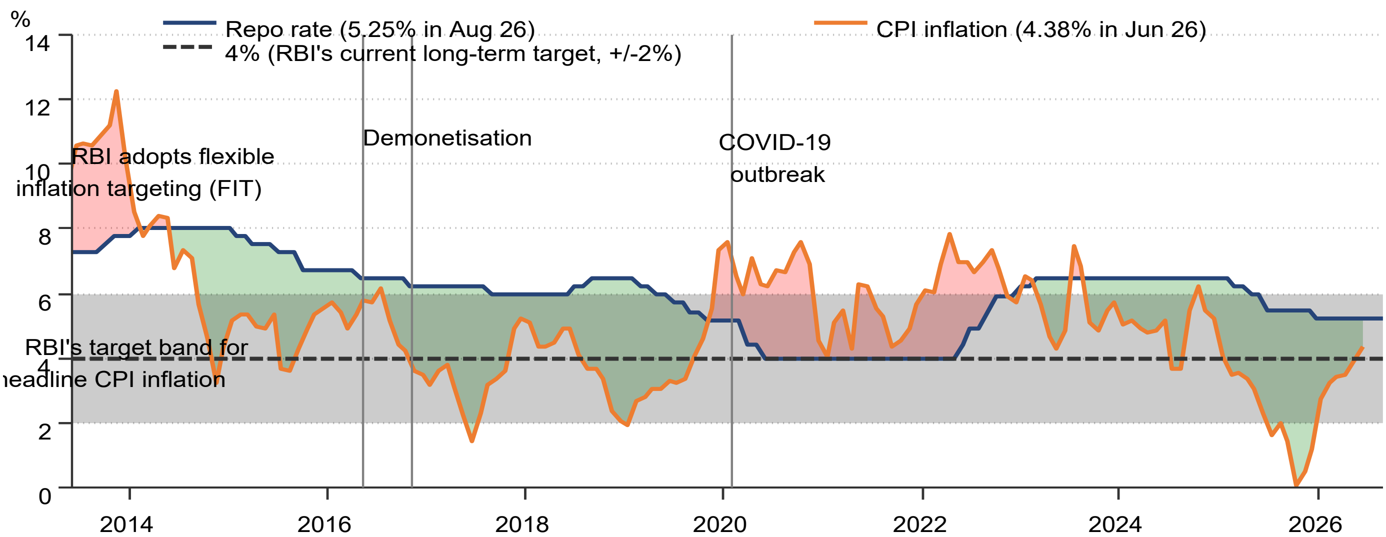
Source: RBI, NSE EPR. * Introduced in April 2022 policy as the new floor of the LAF corridor.

Figure 1: Movement in key policy rates



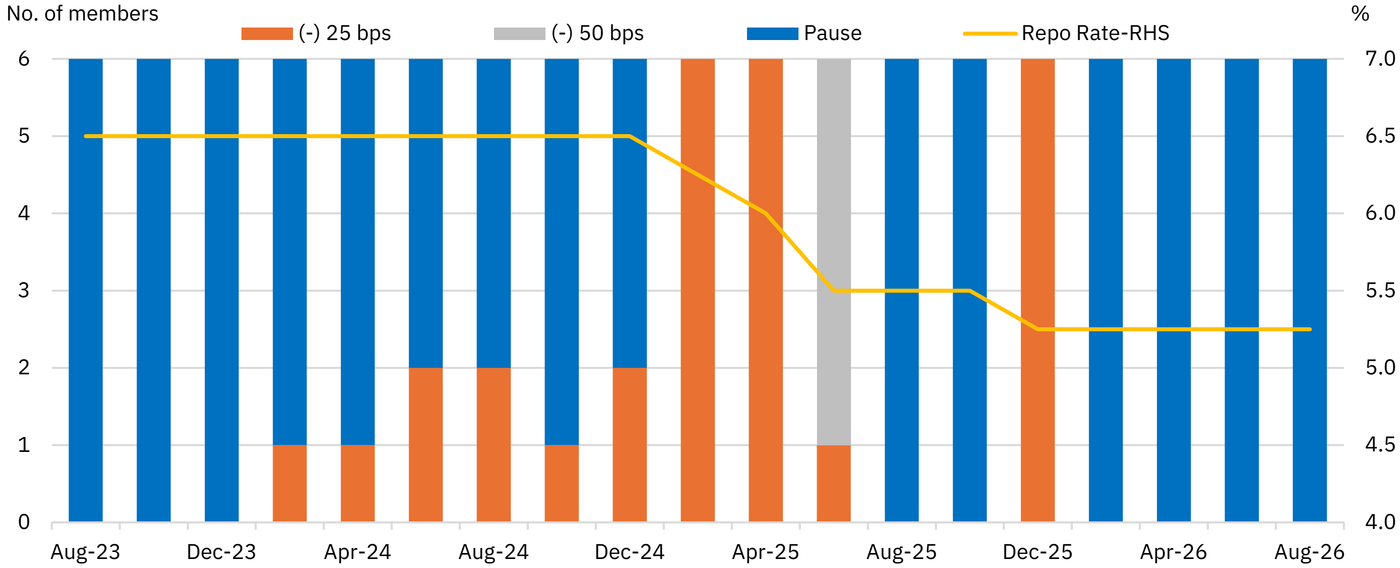
Source: CMIE Economic Outlook, NSE EPR. Notes: 1) Data for WACR has been captured till July 31st, 2026

Figure 2: Movement in real interest rates



Source: LSEG Workspace, NSE EPR.

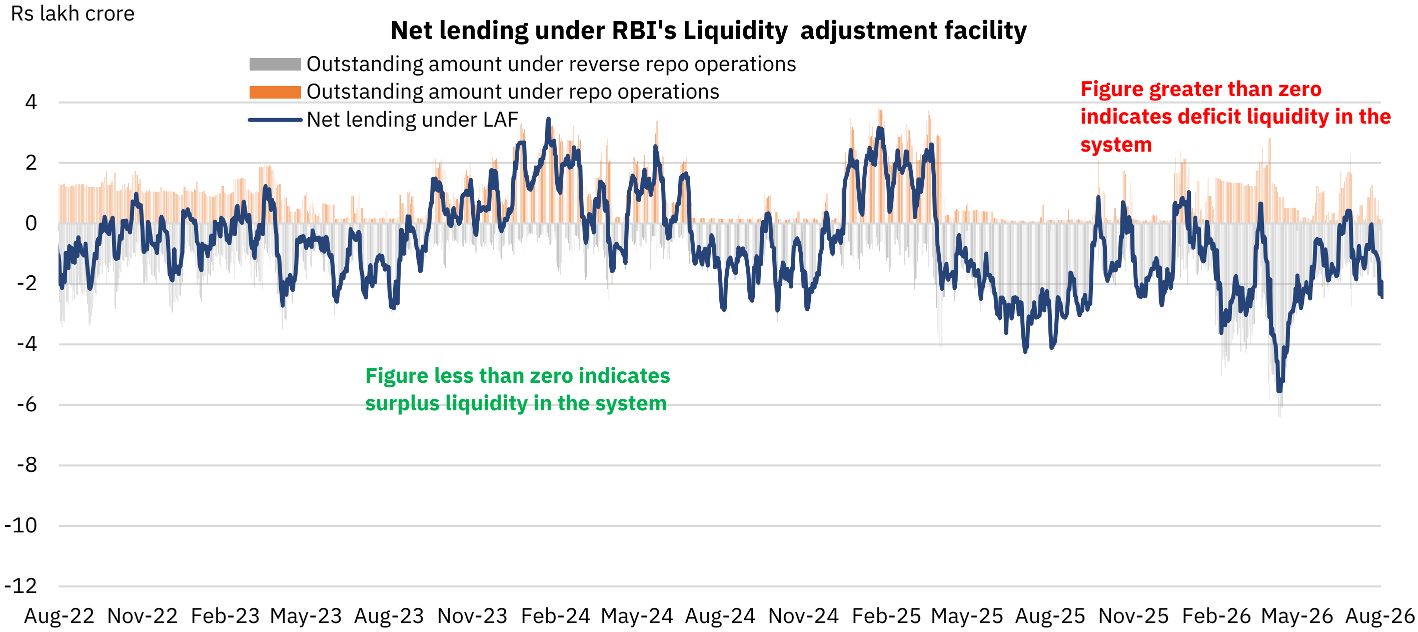
Figure 3: MPC members' voting pattern



Source: RBI, NSE EPR.

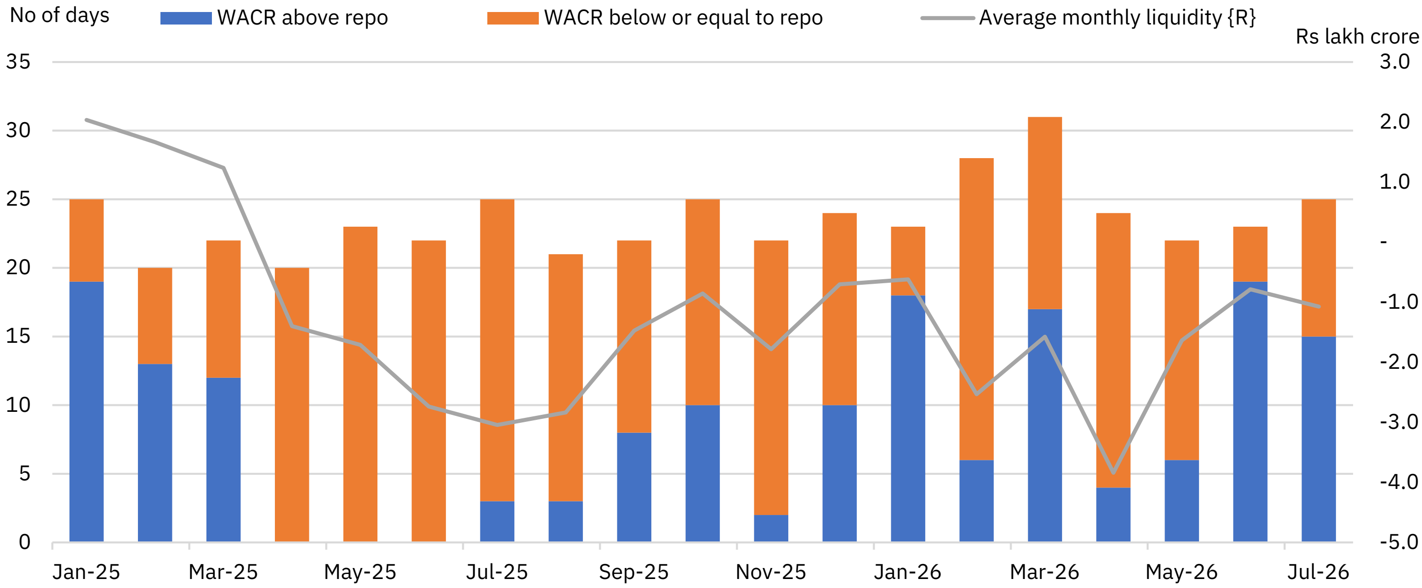
Figure 4: Net lending under RBI's Liquidity Adjustment Facility

Average banking system liquidity which had moderated from Rs 1.7 lakh crore in May'26 to Rs 0.9 lakh crore in June'26 has thereafter widened to Rs 1.1 lakh crore in July'2026.



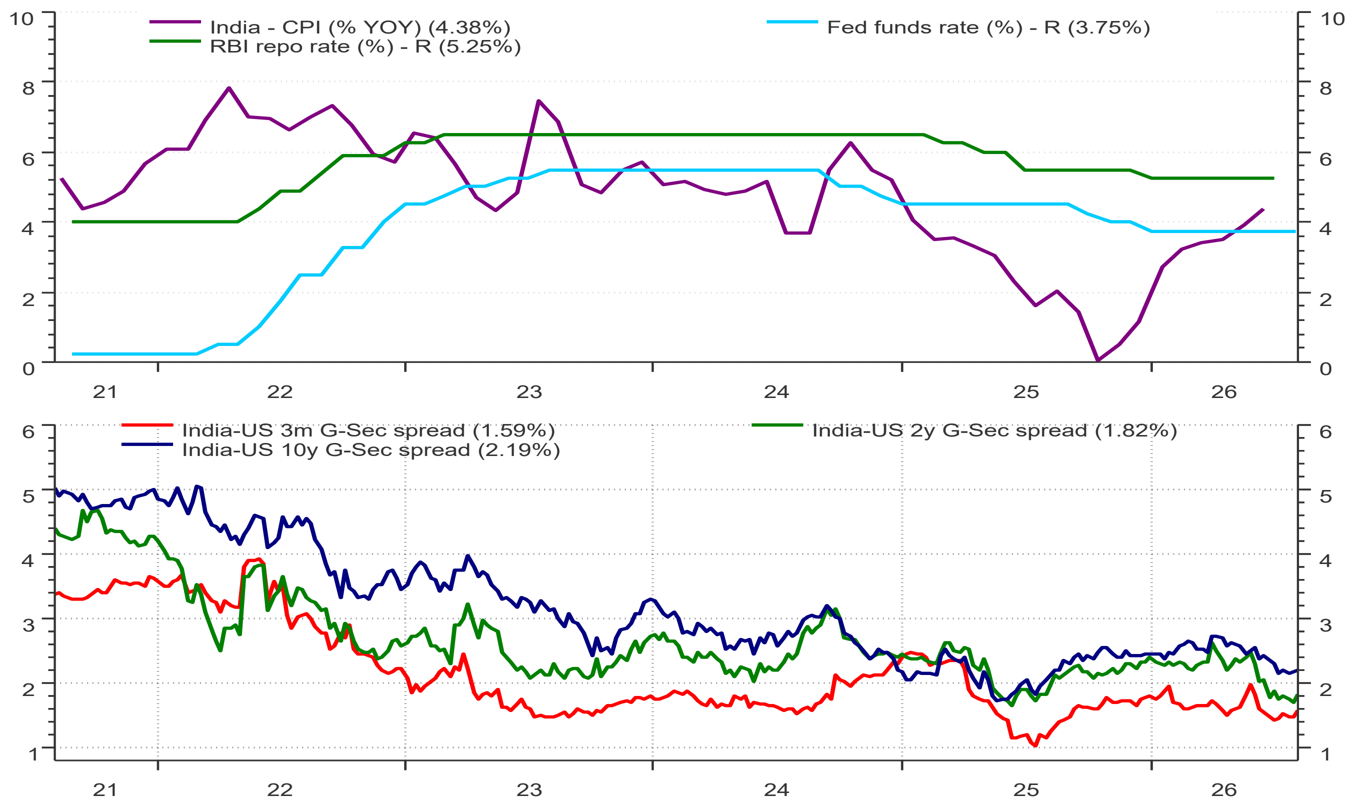
Source: CMIE Economic Outlook, NSE EPR. Note: Data till August 3rd, 2026

Figure 5: Monthly trend in weighted call money rate and average monthly banking liquidity



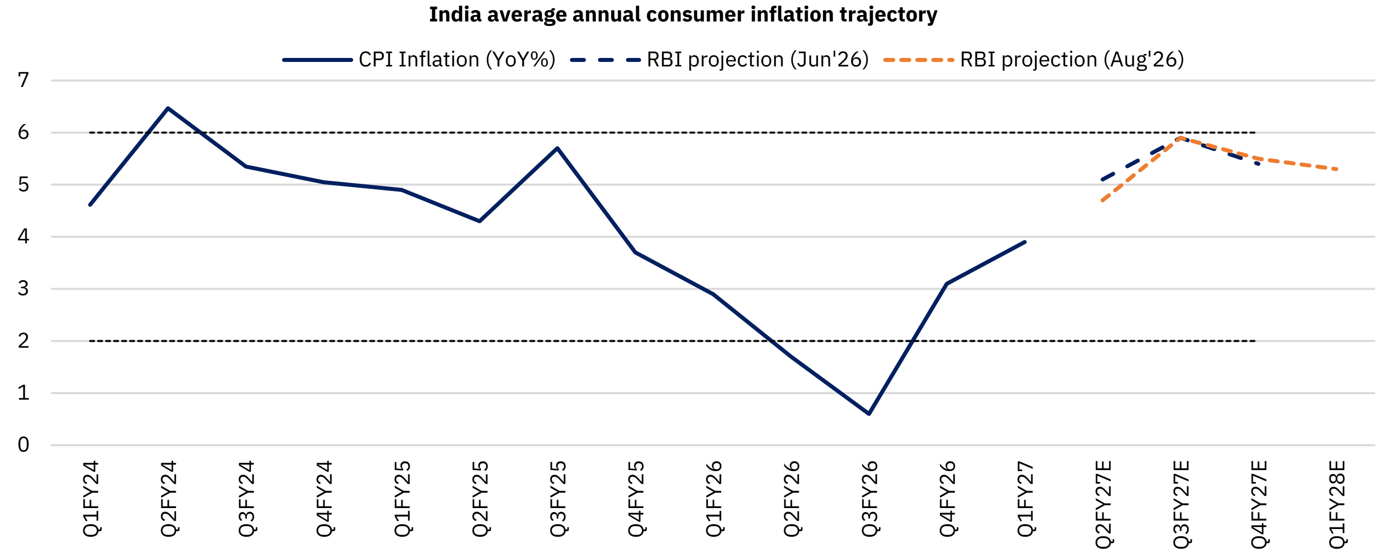
Source: CMIE Economic Outlook, NSE EPR. Note: 1) Positive values indicate deficit, while negative values indicate surplus

Figure 6: India vs. US policy rates and yield differential



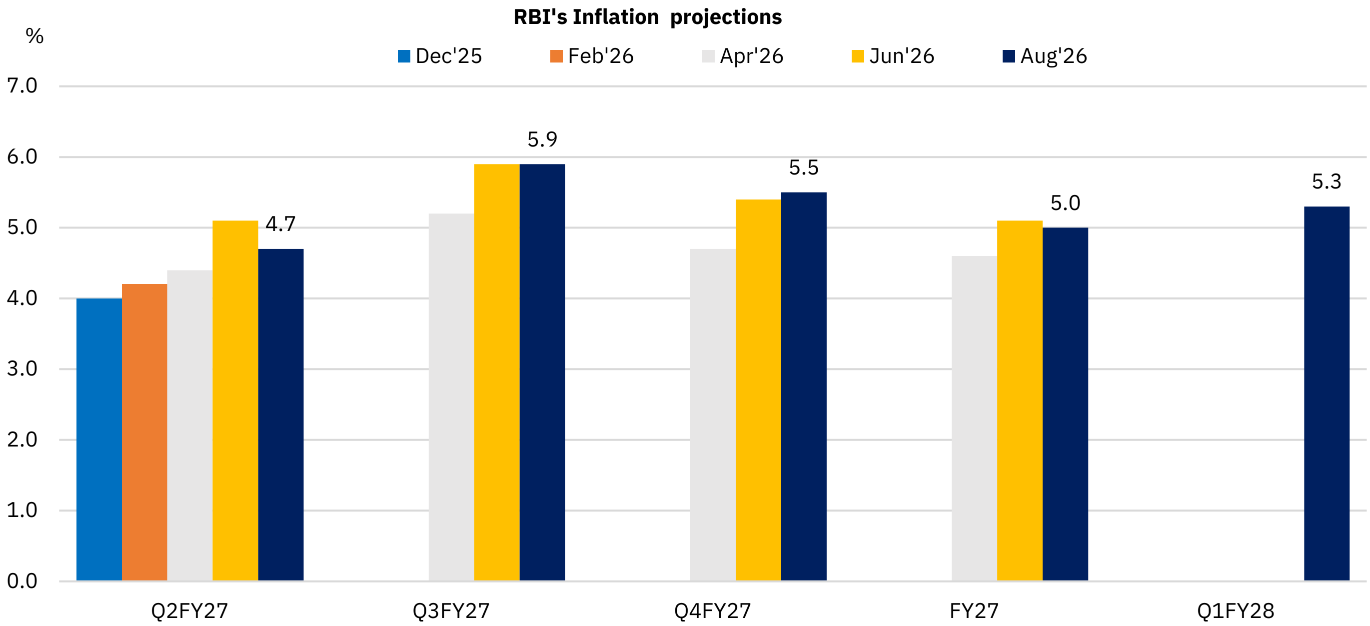
Source: LSEG Workspace, NSE EPR.

Figure 7: India's consumer inflation trajectory and RBI's forecasts



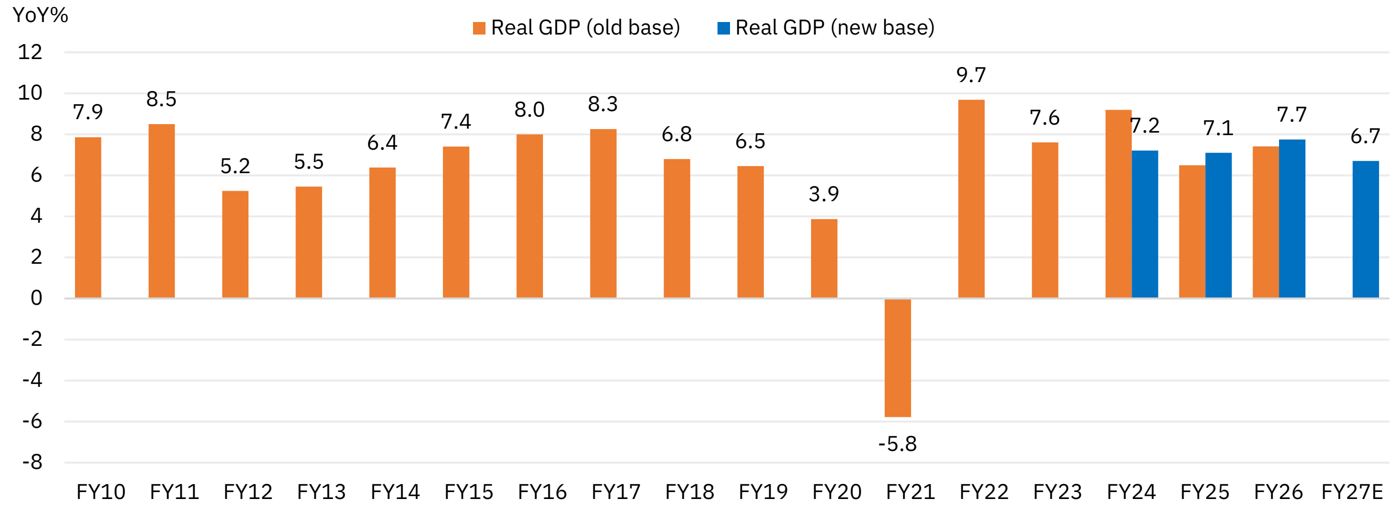
Source: CMIE Economic Outlook, RBI, NSE EPR.

Figure 8: Quarterly and annual inflation forecasts by RBI



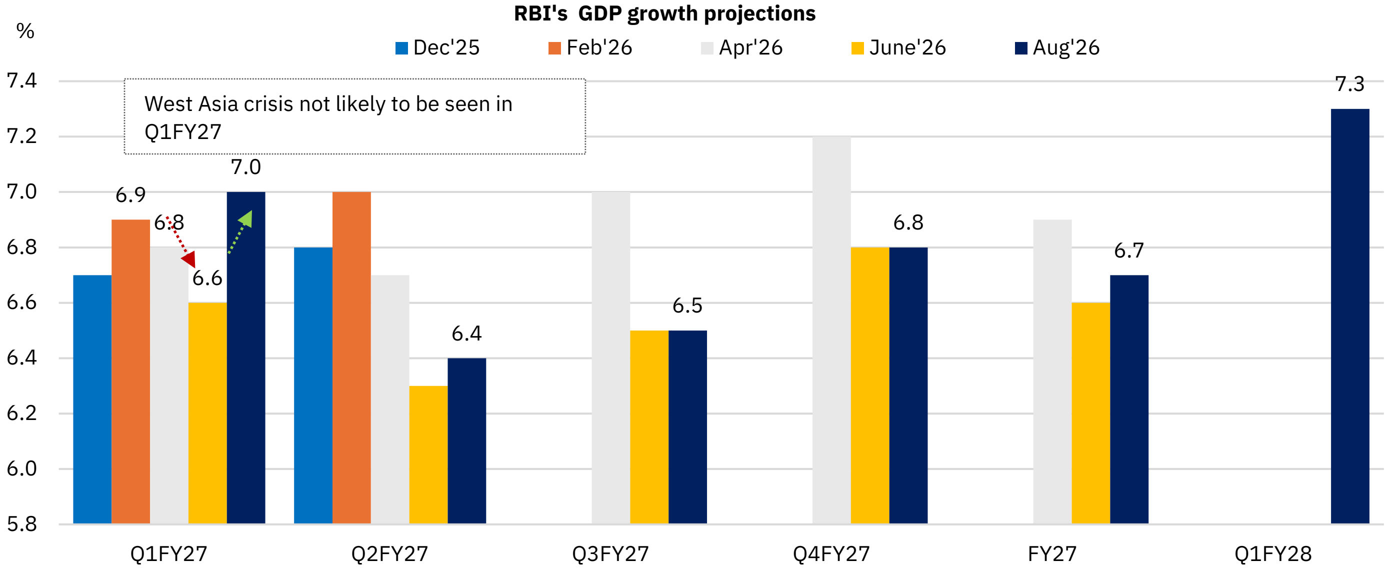
Source: RBI, NSE EPR

Figure 9: GDP growth trend and RBI's estimates



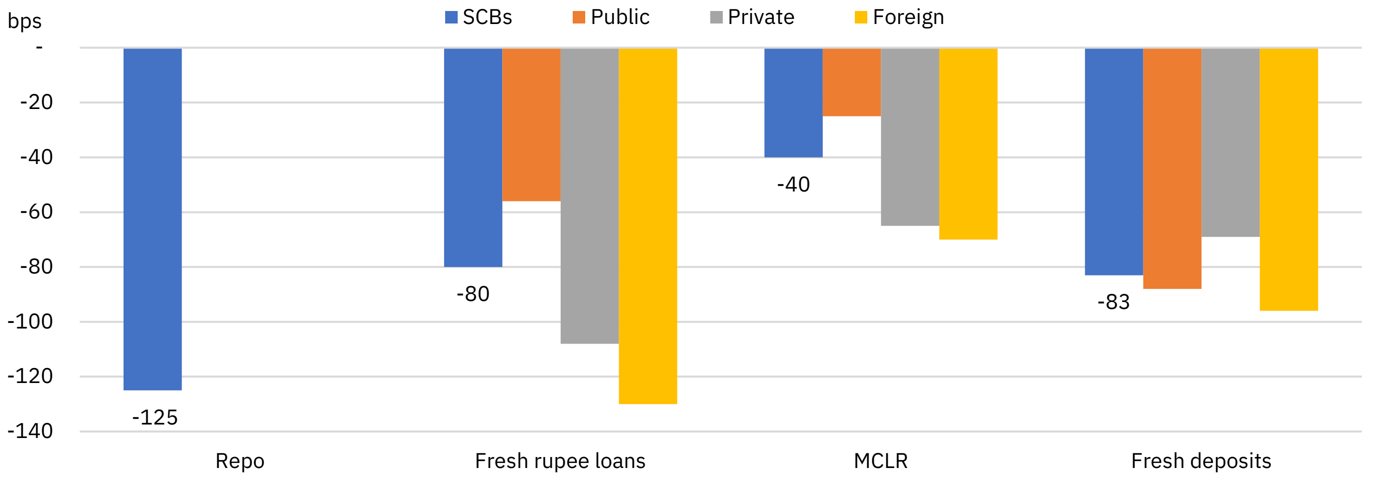
Source: CMIE Economic Outlook, RBI, NSE EPR. FY27E = RBI estimate

Figure 10: RBI's quarterly and annual GDP growth forecasts



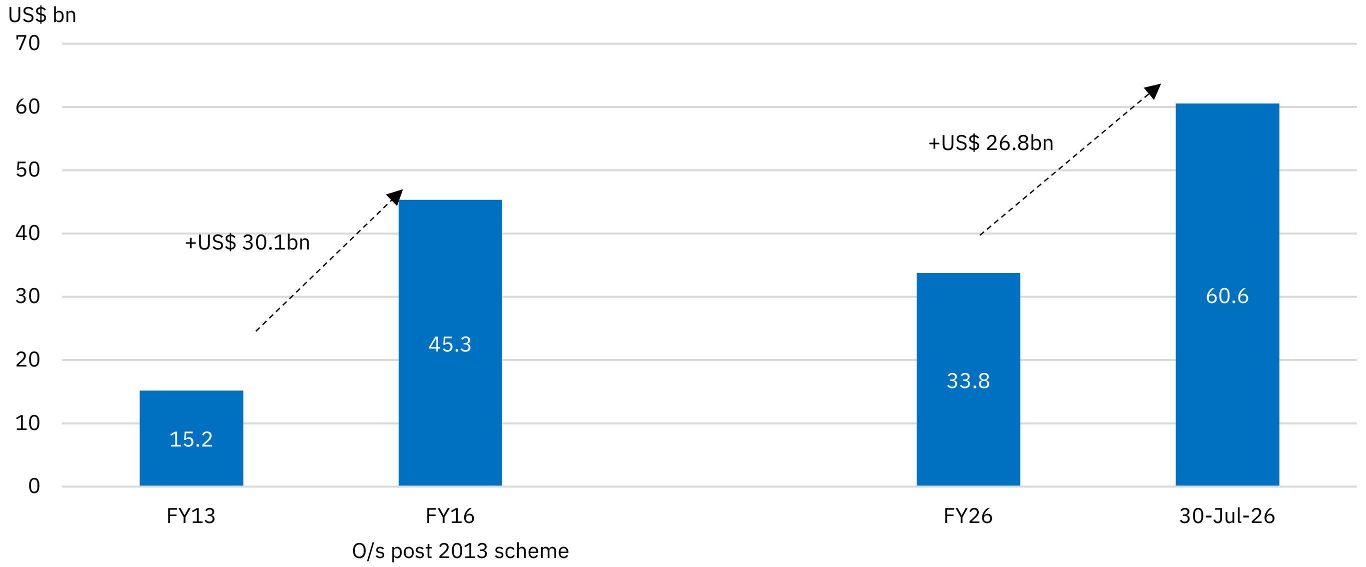
Source: RBI, NSE EPR.

Figure 11: Change in policy, lending and deposit rate during the current policy rate cycle



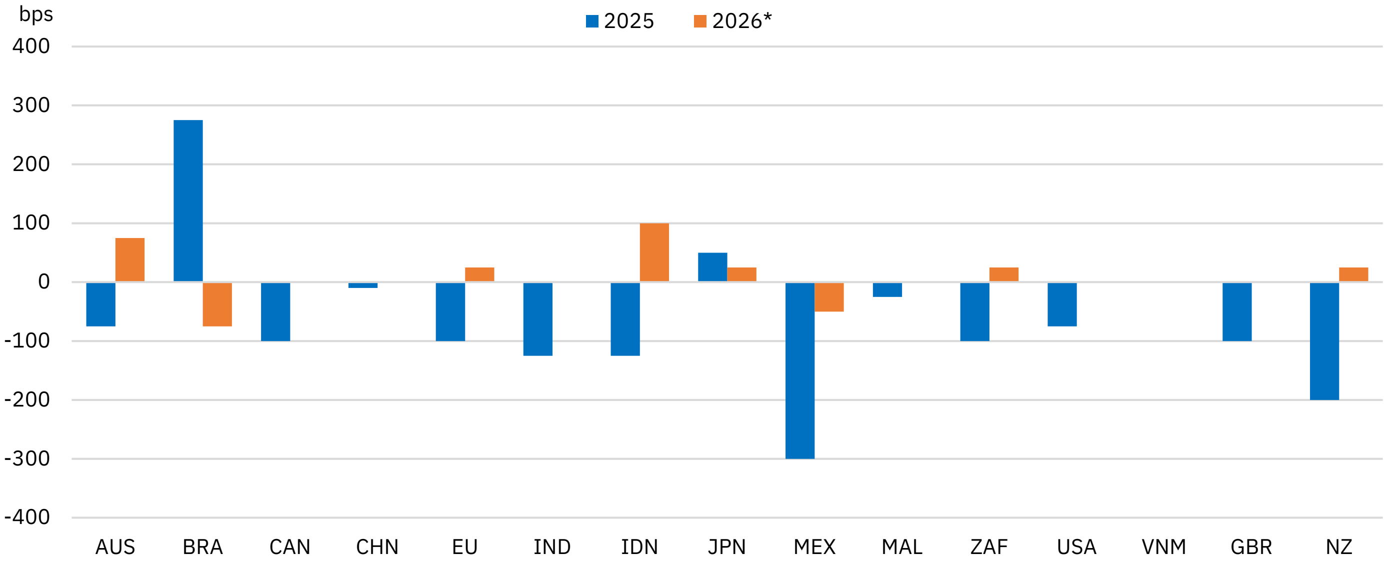
Source: CMIE Economic Outlook, NSE EPR; Notes: 1) The change in repo rate, fresh rupee loans and fresh deposits is between January'25 and Jun'26, while in case of MCLR, the change is between January'25 and Jul'26

Figure 12: Outstanding FCNR(B) deposit inflows- 2013 vs. now



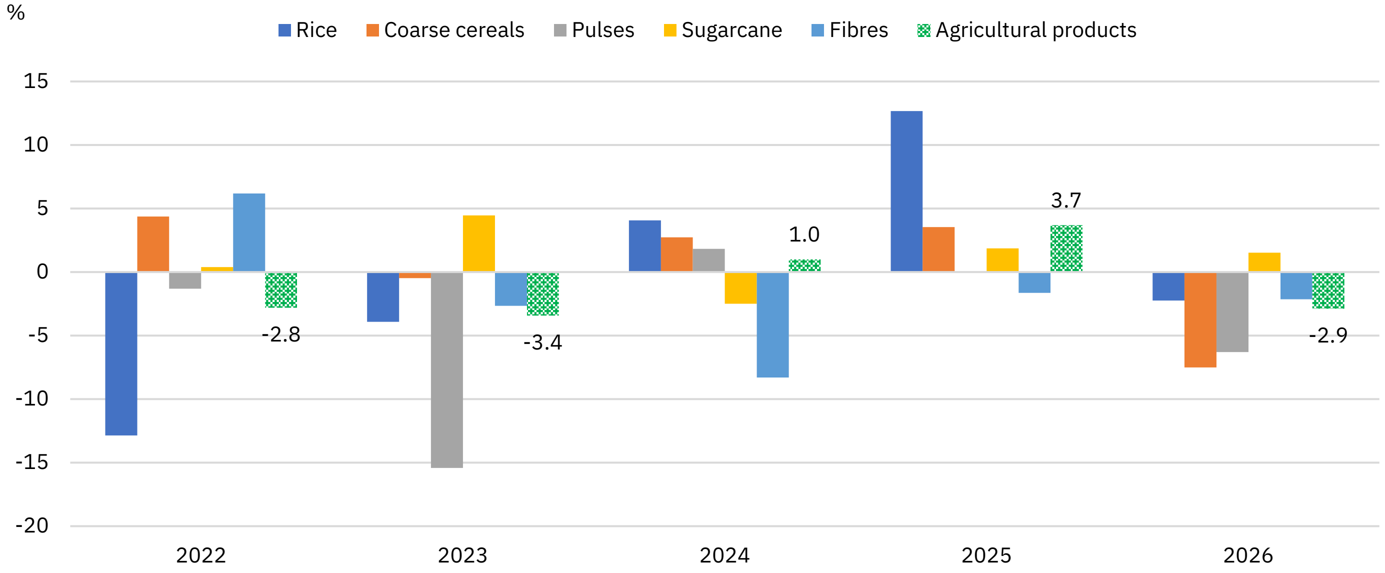
Source: RBI, Ministry of Finance, NSE EPR.

Figure 13: Variation in policy rates across countries



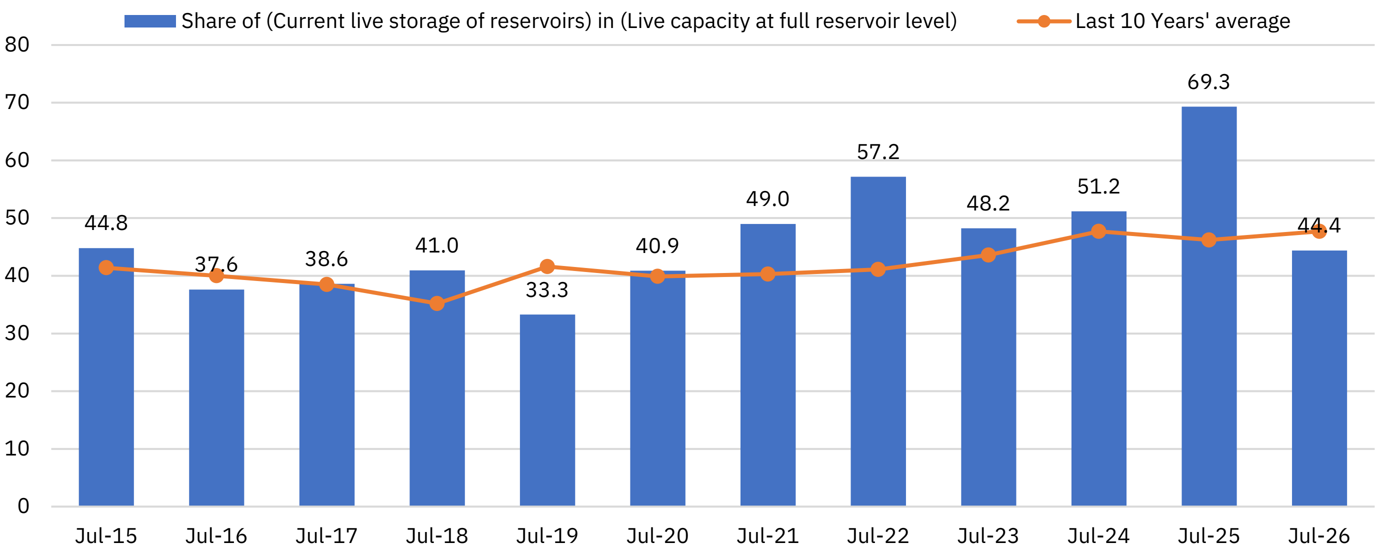
Source: CEIC, LSEG Workspace, NSE EPR. Notes: 1) For China, the loan prime rate for 1 year has been considered for computation 3) AUS = Australia, BRA = Brazil, CAN = Canada, CHN= China, EU = European Union, IND= India, INDO=Indonesia, JAP= Japan, MEX=Mexico, MAL=Malaysia, SA= South Africa, USA=United States of America, VIE-=Vietnam, UK=United Kingdom, NZ= New Zealand. 2) Data captured for other countries is end-July 2026

Figure 14: YoY % change in actual sown area (as of 31st July 2026)



Source: CMIE Economic Outlook, NSE EPR

Figure 15: Live reservoir storage levels



Source: CMIE Economic Outlook, NSE EPR Notes: 1) Data captured here is for the week ended July 30th, 2026 and the yearly comparison is done for the similar week end period in the corresponding years.

Economic Policy & Research

Name	Email Id	Contact no.
Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Prerna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Prosenjit Pal	ppal@nse.co.in	+91-22-26598163
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Sushant Hede	shede@nse.co.in	+91-22-26598237
Stuti Bakshi	sbakshi@nse.co.in	+91-22-26598163
Puja Parmar, PhD	pujap@nse.co.in	
Aratrik Chakraborty	aratrikc@nse.co.in	
Sahil Bagdi	sbagdi@nse.co.in	
Anuska Mukherjee	anuskam@nse.co.in	
Anoushka Singh	anoushkas@nse.co.in	
Research Associates		
Taruna Bajaj	consultant_tbajaj@nse.co.in	
Akancha Kaushal	consultant_akaushal@nse.co.in	
Khushi Kumari Singh	consultant_ksingh@nse.co.in	
Soham Raut	consultant_sraut@nse.co.in	
Shruti Tayal	consultant_stayal@nse.co.in	
Arpan Das	consultant_adas@nse.co.in	