

RBI to maintain status quo

After resorting to accelerate pace of rate cuts (100bps) in quick succession, the Monetary Policy committee is expected to keep the repo rate unchanged at 5.5% in the upcoming policy meet. Since inflation continues to remain within the targeted range which is the mandate of MPC, we do not see the scope of rate cut at the current juncture. We do not anticipate any change in the neutral stance too, with inflation and growth projection expected to remain unchanged. Our forecast for GDP also remains unchanged at 6.4-6.6% for FY26. Solid progress of South west monsoon along with higher kharif acreage will lend further support to food inflation. The liquidity continues to remain in the comfortable position and in case any pressure is seen, RBI can use various tools to manage the same. However, tariff related uncertainty could play an adverse impact on inflation and growth and hence remains a key watchable. We maintain our inflation forecast of ~3.8-3.9% for FY26. Given such conditions, we anticipate the next rate cut only in Oct'25.

What has changed since the last policy?: Since the last policy, RBI will be evaluating performance of economic activity, inflation trend, progress of monsoon, tariff related developments, movement of domestic high frequency indicators, and developments regarding global growth scenario. The next meeting which is the 3rd bi-monthly policy meet for FY26 is already ongoing and is expected to conclude by 6th of August with the next set of decisions. These decisions will be pertinent since it comes at the background of tariff related developments. US has imposed 25% tariffs on India from 26% stated earlier during the liberation day. The new tariffs are effective from 7th of Aug 2025.

Expectations on rate: *We expect no change in repo rate from the upcoming policy.* Since, RBI in the last policy meet has already frontloaded rate cuts as it slashed down repo rate by 50bps much higher than anticipated, thereby bringing the repo rate to 5.5%. After delivering the jumbo rate cut, RBI Governor noted that given the current situation, there is 'very limited space' for monetary policy to support growth. Furthermore, conditions for growth continues to remain unchanged as there is still expectations of 6.5% growth in FY26 and is currently not much of a concern.

On price front, it has been noted that the actual headline inflation at 2.7% in Q1FY26 is in line with the MPC projection of 2.9% and continues to remain within the RBI radar of 4% with the tolerance level of +/-2%.

Expectations on stance: *We expect no change in policy stance at - 'neutral' - from this meeting.* This is because there is host of uncertainty at play due to recent tariff related announcements. This might have an adverse impact on both domestic and international commodity prices, especially on imported inflation, which needs more clarity. On the domestic front, there are some concerns emanating due to higher vegetable prices specially tomato and even core inflation which has been higher and requires further monitoring. However, the progress of monsoon has been good so far as it remains 4% above LPA (as of 3rd Aug), with overall kharif acreage higher than last year and is expected to support inflation. Overall, we expect that any possible change in stance will act as a precursor to rate change.

System Liquidity remains comfortable: On an average, liquidity has remained in surplus in the month of Jul'25 at Rs 3 lakh crore, compared with a surplus of Rs 2.7 lakh crore in Jun'25 due to muted credit demand. Any change in this situation is only possible a) due to forwards contract maturity b) if RBI plans to defend rupee by selling rupee. These conditions might result in adding some pressure to liquidity. However, RBI has various tools at its disposal to counter any such pressure as it has done previously, these include OMOs and VRR (variable rate repo) auction. Additionally, inflow of Rs 2.5 lakh crore from the CRR cut in H2 is also expected to provide much needed support. Hence, no major changes are expected on this front.

Overview of the economy: In Q1FY26 so far (Apr-Jun'25), economic activity is signalling mixed trends. Indicators which are showing an improvement or are holding ground so far include: GST collections (Rs 6.2 lakh crore versus Rs 5.5 lakh crore during the same period last year), exports (1.9% versus -3.1%), e-way bill collections (20.5% versus 16%), diesel consumption (2.6% versus 1.6%), inflation (2.7% versus 4.9%), manufacturing (59.1 versus 58.4) and services (60.4 versus 58.8) PMIs. On the other hand, factors such as IIP (2% versus 5.5%), credit growth (9.5% versus 19.1%), deposit growth (9.9% versus 12.5%), air passenger traffic (5.6% versus 7.1%) amongst other are showing some signs of moderation in activity. The 10Y yield has traded in the range of 6.2%-6.5% in Q1 against 6.9%-7.2% range for the same quarter of previous year. On exchange rate, INR has depreciated by 2.4% in Q1 against steady movement noted in Q1 of last year. The average liquidity during this period has been in surplus at Rs 2 lakh crore in Q1FY26 against average liquidity deficit of Rs 0.6 lakh crore in Q1FY25. FPIs have registered an inflow of US\$ 397 mn in Q1 against US \$ 1521 mn last year for the same period. As economic activity remains broadly resilient, but external risks to growth persist, due to evolving tariff related developments, RBI may keep GDP forecasts unchanged for now in the upcoming policy meet. We expect GDP growth in the range of 6.4-6.6% in FY26.

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