



Complete Investment Banking Solutions

RBI MONETARY POLICY UPDATE

COMFORTABLE GROWTH-INFLATION DYNAMIC ENABLES STATUS QUO

06 AUGUST 2025



CONTENTS

1	Executive Summary	<u>03</u>
2	Policy Rates Left Unchanged, Stance Remains Neutral	<u>04</u>
3	Downside Risks To CPI Dominate In FY26	<u>05</u>
4	Growth Outlook Remains Subject To Global Headwinds	<u>07</u>
5	RBI Winds Down FX Derivative Position	<u>09</u>
6	Liquidity Remains Ample Through YTDFY26	<u>11</u>
7	Union G-sec Yields Remain Rangebound	<u>13</u>
8	Transmission To Bank Rates Almost Complete	<u>14</u>

MPC unanimous in inaction on policy rate and stance as growth-inflation dynamic remains conducive

Repo rate was kept at 5.50%, and policy stance retained at “Neutral”, both by unanimous decisions. The decision reflects RBI’s sanguine outlook for growth as it kept projection for FY26 unchanged at 6.50% y/y and posited Q1FY27 at an optimistic 6.60%. Even as inflation projection was slashed, the Governor was quick to point out that rockbottom numbers in the near term are enabled by tanking of volatile vegetable prices, and Core remains steady at ~4% y/y. Thus, the RBI seems to be confident about growth and cautious on inflation

Gong of positivity sounded on growth even as global headwinds could lash India

Aided by above normal southwest monsoon, lower inflation, rising capacity utilisation and congenial financial conditions, the RBI kept its growth outlook intact. However, things may not be as dandy. Flow of non-food bank credit reduced by Rs. 3.4 trn in FY25 to ~Rs. 18 trn. This meant that overall flow of financial resources to the commercial sector increased by <3% y/y in FY25, indicating reluctance for capex. We also forecast stronger than initially expected tariff impact in light of recent announcements by the US, which will keep the real GDP growth limited to 6.2% y/y in FY26

Inflation is benign for now though risks remain evenly balanced

A sharp fall in vegetable prices led to RBI slashing its inflation forecast from 3.7% y/y to 3.1% in FY26. This is sharpest cut in full fiscal inflation projections within a single policy (80bps) since at least Apr’21. The number remains prey to volatility and excessive and unseasonal rains in some parts of the country are driving up vegetable prices in the past few days. Even as Brent Crude prices remain below USD 70/bbl, the price of India’s crude basket could see a rise due to sanctions. Core has been steady around 4%. These factors pushed the RBI to keep its projection for Q1FY27 stiff. *We broadly align with the RBI on CPI*

Systemic liquidity remains ample, new liquidity framework to remain similar to current model

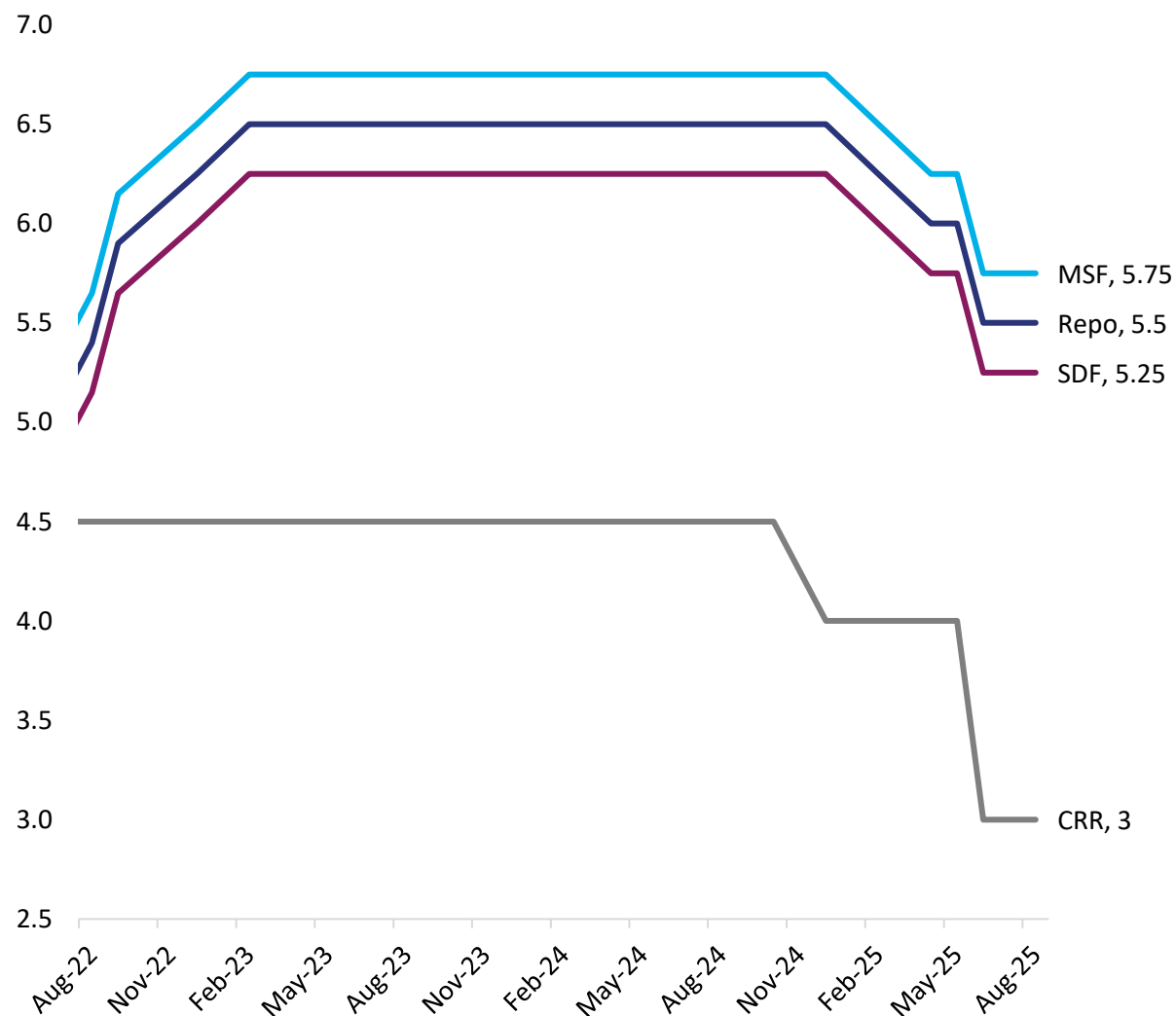
Banking system liquidity remained in excess of Rs. 3 trn on most days since the Jun’25 policy. Infact recent auctions by RBI to pump liquidity have not seen full response. Phased CRR cuts which will occur in the next few months will further supplement liquidity. Further, the new liquidity policy which will be announced soon is expected to remain in line with the current one, with WACR remaining the operating target of the repo, and VRR and VRRR of various tenors as instruments.

Union G-sec yields to remain rangebound, transmission to bank rates is accelerating

10Y benchmark Union G-sec yields inched up in the aftermath of the policy by ~5bps as markets perceived the policy as a “hawkish hold”. In effect, Union G-sec yields are expected to remain rangebound in the coming months. 10Y yields have fallen ~30 bps since the first rate cut in Feb’25. Remarkably, the 100bps repo cuts since then have translated to ~80bps cuts in fresh bank lending and deposit rates in the same time period, indicating excellent efficacy in transmission. *We expect future rate decisions to be data driven, with atmost 1 cut more in FY26. Further, corporate spreads could widen as risk pricing gets better.*

POLICY RATES LEFT UNCHANGED, STANCE REMAINS NEUTRAL

KEY RATES (%)



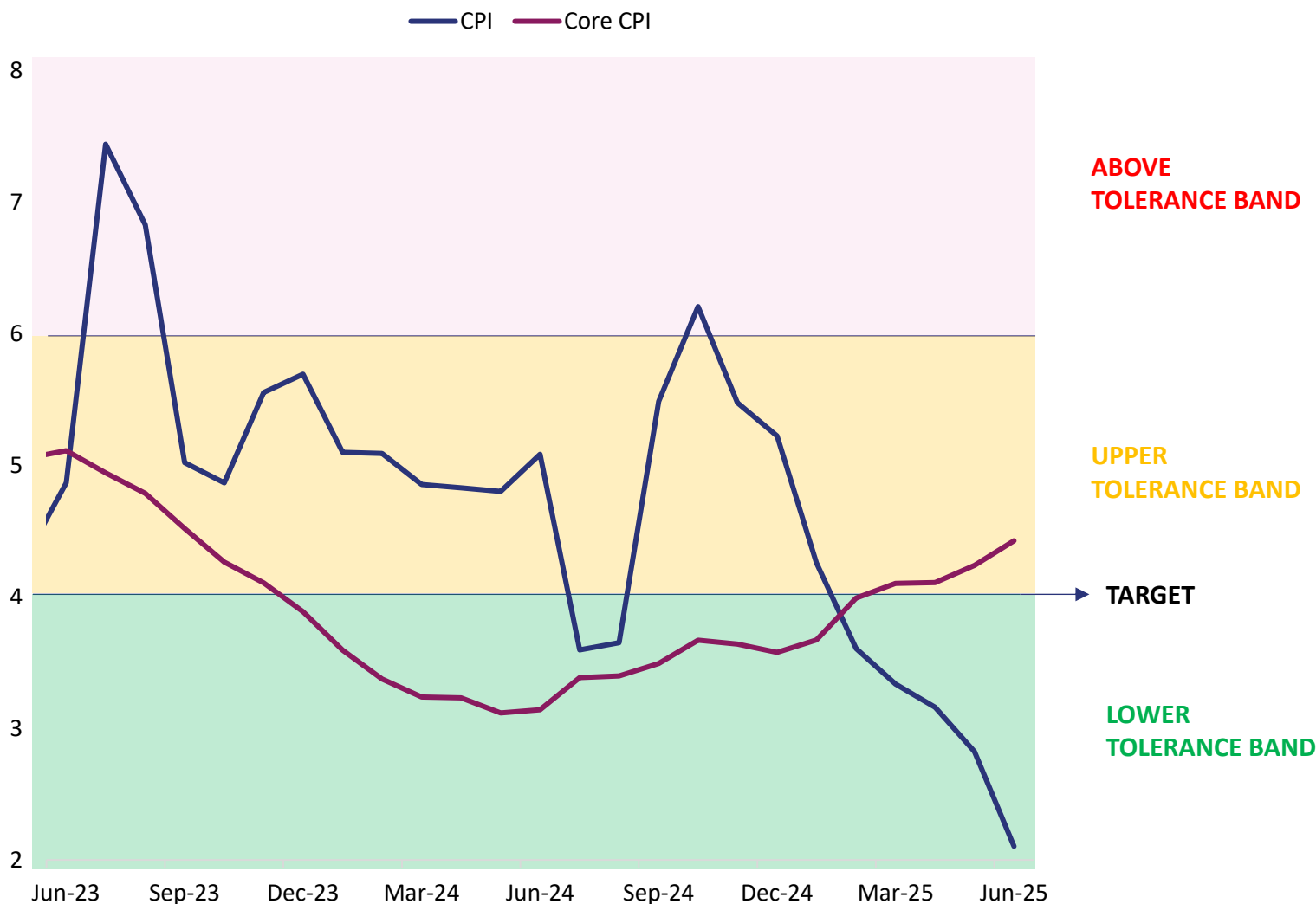
STANCE OF POLICY

DATE	STANCE	VOTE
05-Aug-22	WITHDRAWAL OF ACCOMMODATION	6-0
30-Sep-22	WITHDRAWAL OF ACCOMMODATION	5-1
07-Dec-22	WITHDRAWAL OF ACCOMMODATION	4-2
08-Feb-23		
06-Apr-23	WITHDRAWAL OF ACCOMMODATION	5-1
08-Jun-23		
10-Aug-23		
06-Oct-23		
08-Dec-23		
08-Feb-24		
05-Apr-24		
07-Jun-24	WITHDRAWAL OF ACCOMMODATION	4-2
07-Aug-24		
09-Oct-24	NEUTRAL	6-0
05-Dec-24		
07-Feb-25		
09-Apr-25	ACCOMODATIVE	6-0
06-Jun-25	NEUTRAL	6-0
06-Aug-25	NEUTRAL	6-0

- MPC unanimously decided on a status quo policy, with Governor Mr. Malhotra citing sustained growth in face of benign food inflation amidst abating geopolitical challenges. He has reiterated support through conducive monetary, regulatory and fiscal policies
- We anticipate future policy decisions to be data driven, with at max ~25bps of additional rate cuts

DOWNSIDE RISKS TO CPI DOMINATE IN FY26

CPI AND CORE CPI (% Y/Y)



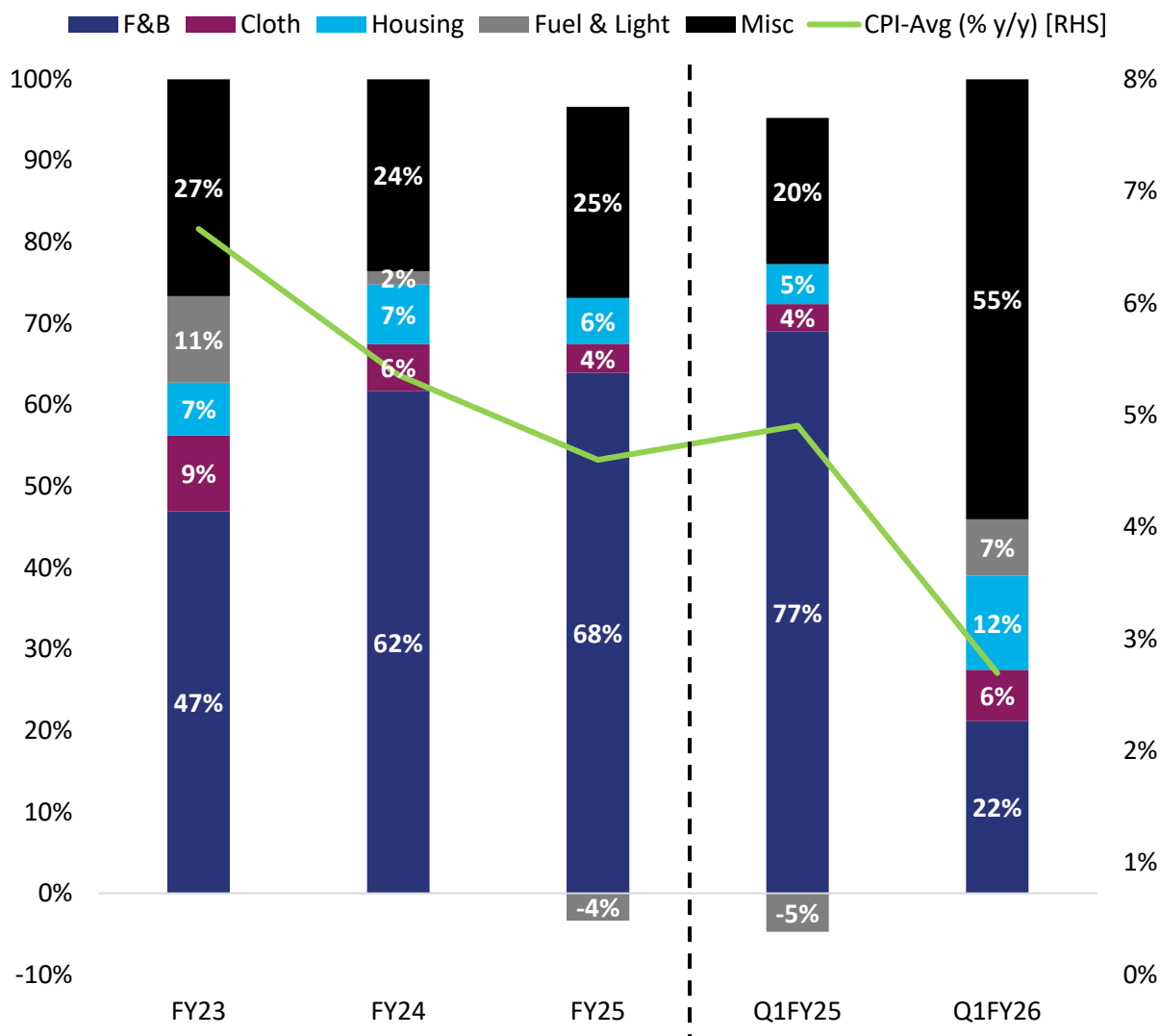
PROJECTED CPI (Y/Y) AS PER RBI

Period	06-Jun-25 Meeting	06-Aug-25 Meeting
Q2FY26	3.4%	2.1% ↓
Q3FY26	3.9%	3.1% ↓
Q4FY26	4.4%	4.4% ↔
FY26	3.7%	3.1% ↓
Q1FY27		4.9%

- CPI inflation reached an 8-year low in Jun'25, driven by contracting food prices, despite buoyant core inflation
- RBI Governor noted that decline in inflation was due to tanking of volatile vegetable prices, with steady core stoked by shiny gold prices
- RBI dipped its projection for CPI in FY26 further to 3.1%, which is below the target. *We align our CPI estimate in line with RBI's estimate*

OUTLOOK FOR FOOD INFLATION REMAINS BENIGN ON GOOD MONSOON

CONTRIBUTION TO Y/Y CHANGE IN CPI (%)



CHANGE IN PRICES OF KEY COMMODITIES

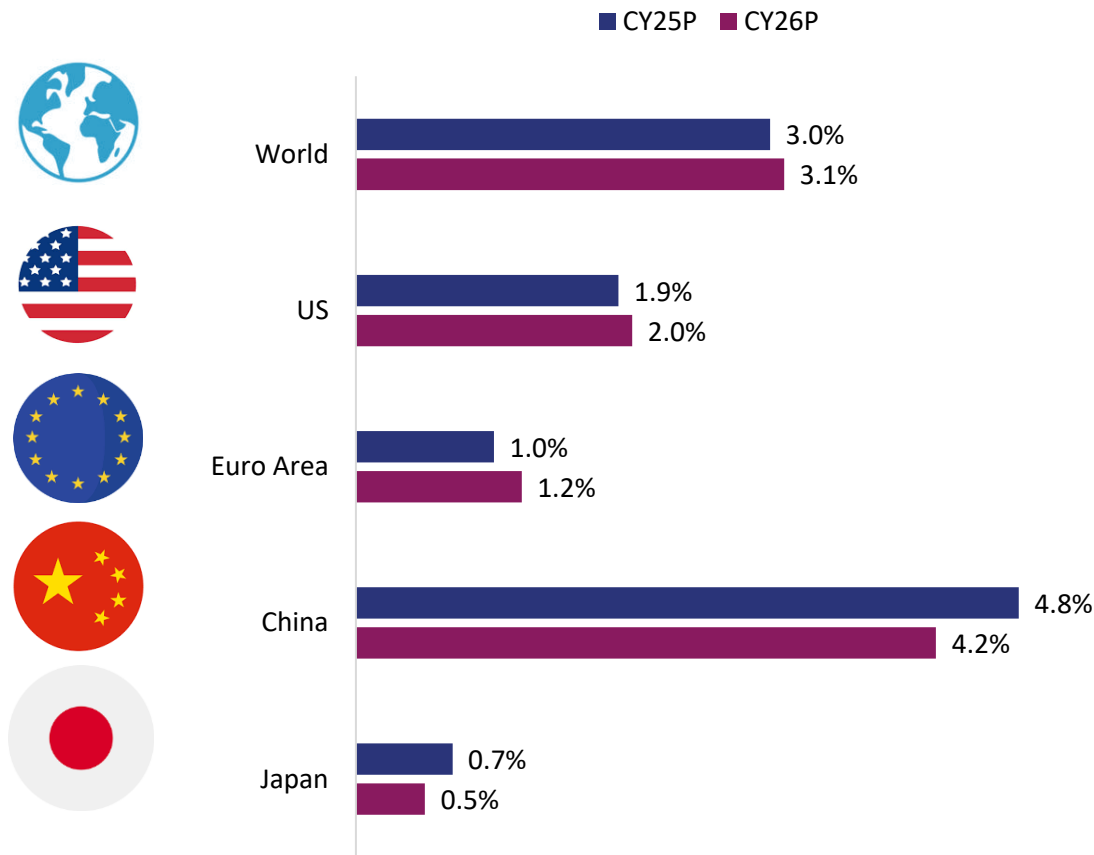
COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	-2%	7%
Copper	-5%	7%
Aluminium	-1%	12%
Iron Ore 62% Fe*	7%	-3%
Gold	1%	38%
Brent Crude	2%	-10%
Natural Gas	-11%	54%
Newcastle Coal	3%	-19%

*As on 4 Aug'25

- Generous fall in the headline CPI is driven by broad-based easing in food inflation, with prices of vegetables, pulses and spices contracting in Q1FY26. *Food inflation is expected to be benign in FY26, with forecast of plentiful monsoon aiding sumptuous sowing pace*
- Contribution of core inflation has risen considerably at the start of FY26, although remaining range-bound ~4.5%, driven by healthy demand with hint of tariff volatility.
- Fuel inflation continues to remain muted, with Brent crude remaining below USD 70/bbl for most of CY25

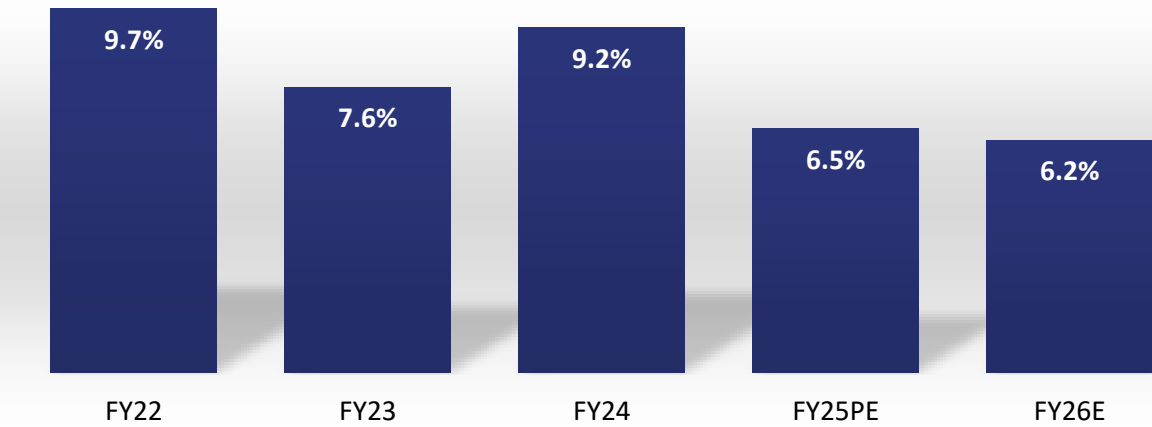
GROWTH OUTLOOK REMAINS SUBJECT TO GLOBAL HEADWINDS

REAL GDP GROWTH (Y/Y)

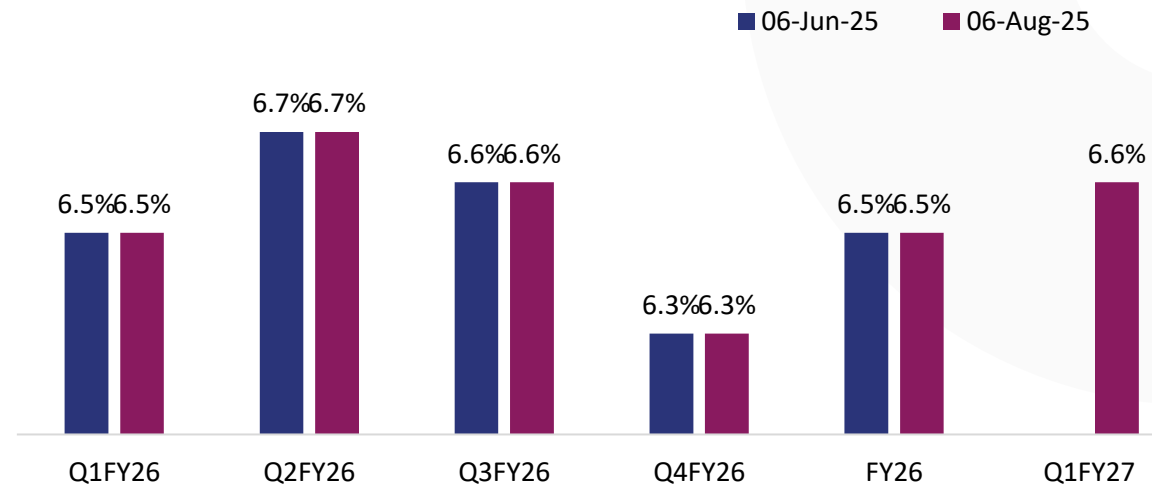


- Growth projections were upward revised by IMF in Jul'25, reflecting tariff-related front-loading, lower effective tariff rates and better financial conditions in major jurisdictions.
- Domestic demand in India stays strong, though significant global challenges remain underpinning our FY26 GDP forecast of 6.2% y/y real and 9% nominal growth

INDIA REAL GDP (Y/Y)



PROJECTED REAL GDP (Y/Y) AS PER RBI



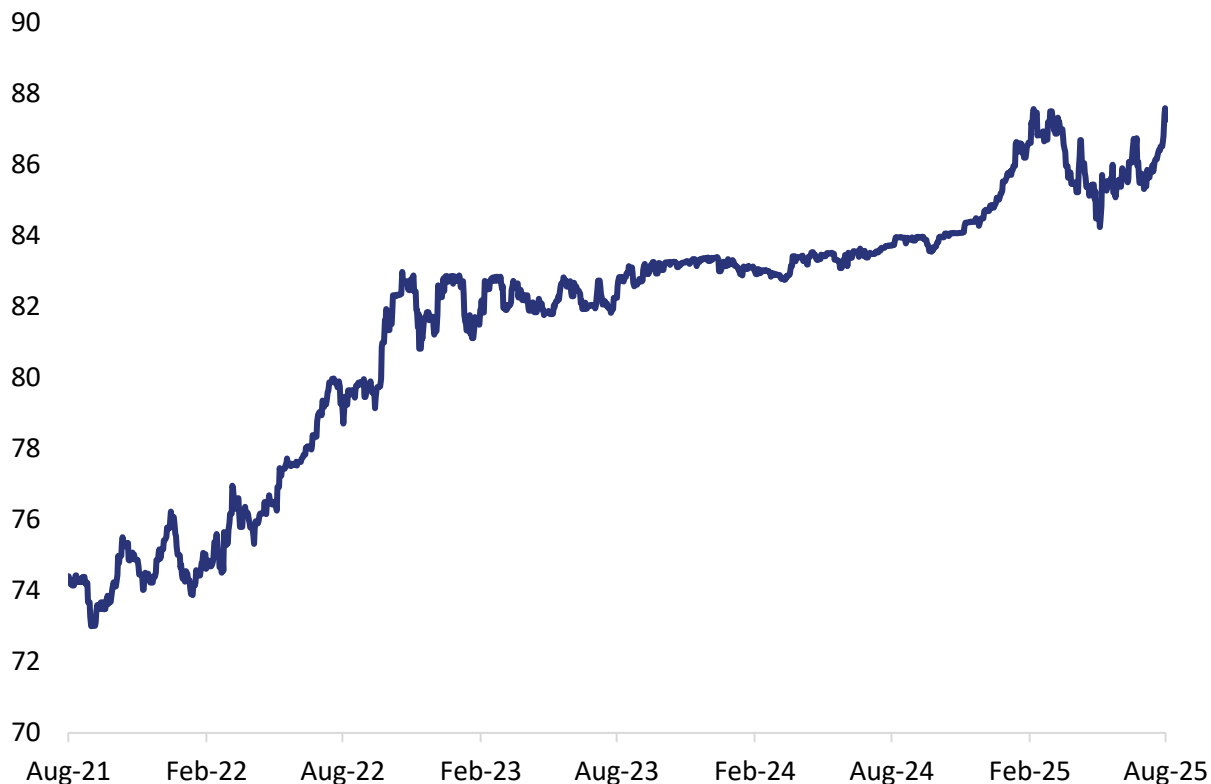
DIVIDENDS AID CAPEX PUSH AMIDST FISCAL CONSOLIDATION

ITEM (Rs. bn)	FY24A	FY25RE	FY26BE	GROWTH FY26BE/FY25PE	Q1FY25	Q1FY26	GROWTH Q1FY26/Q1FY25	Q1FY26/FY26BE
Corporation Tax	9,111	9,868	10,820	9.7%	1,748	1,727	-1.2%	16.0%
Income Tax	10,447	11,830	14,380	21.6%	2,873	2,858	-0.5%	19.9%
Customs Duty	2,331	2,329	2,400	3.1%	471	424	-9.9%	17.7%
Excise Duty	3,054	3,003	3,170	5.6%	514	556	8.3%	17.5%
Service Tax	4	0	1		0	-2		
GST	9,572	10,316	11,780	14.2%	2,568	2,981	16.1%	25.3%
Other Taxes	39	50	50	0.0%	19	14		
Gross tax Revenue	34,655	37,952	42,702	12.5%	8,308	8,690	4.6%	20.4%
(-) Transfer to States, UTs	11,295	12,869	14,224	10.5%	2,795	3,269	17.0%	23.0%
Net tax Revenue	23,273	24,987	28,374	13.6%	5,496	5,403	-1.7%	19.0%
Non-Tax Revenue	4,018	5,375	5,830	8.5%	2,800	3,731	33.2%	64.0%
Non-debt Capital Receipts	598	418	760	81.7%	45	280	519.9%	36.9%
Total Receipts	27,888	30,781	34,964	13.6%	8,342	9,414	12.9%	26.9%
Revenue Expenditure	34,943	36,035	39,443	9.5%	7,889	9,470	20.0%	24.0%
Capital Expenditure	9,492	10,520	11,211	6.6%	1,811	2,751	52.0%	24.5%
Total Expenditure	44,434	46,555	50,653	8.8%	9,699	12,221	26.0%	24.1%
Revenue Deficit	7,652	5,671	5,238	-7.6%	-408	336	-182.4%	6.4%
Fiscal Deficit	16,546	15,773	15,689	-0.5%	1,357	2,807	106.9%	17.9%
Nominal GDP	295,357	327,718	356,979	8.9%				

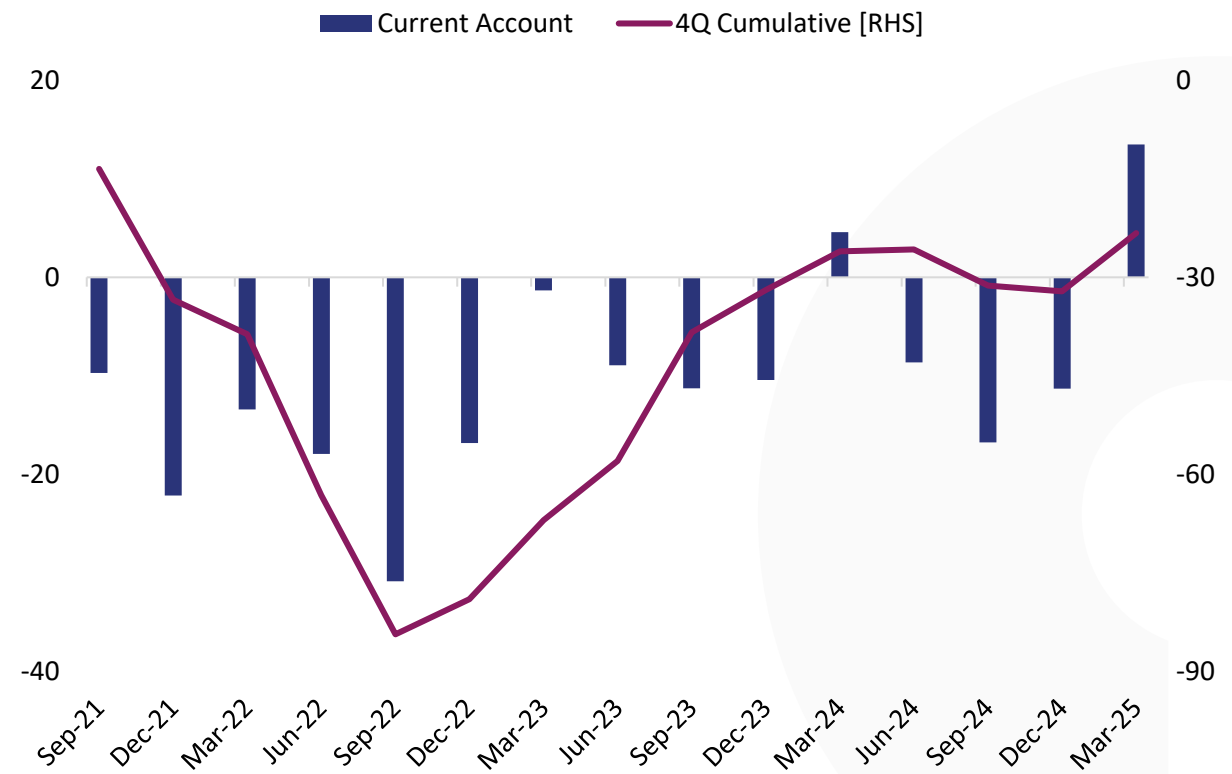
- Fiscal deficit stood at 17.9% of FY26BE in Q1FY26, with 33% y/y rise in non-tax receipts driven by surge in RBI's dividends aiding total receipts. Direct tax collections contracted in Q1FY26, with lower customs collections offset by excise duties. GST collections remain strong, owing to buoyant demand in FY26
- Capex pace improved in Q1FY26, boosted by lower base and spending push by roads, railways and defense, as Union front-loads capex to stimulate demand. State capex was also strong

RBI WINDS DOWN FX DERIVATIVE POSITION

USD/INR EXCHANGE RATE (Rs. per USD)



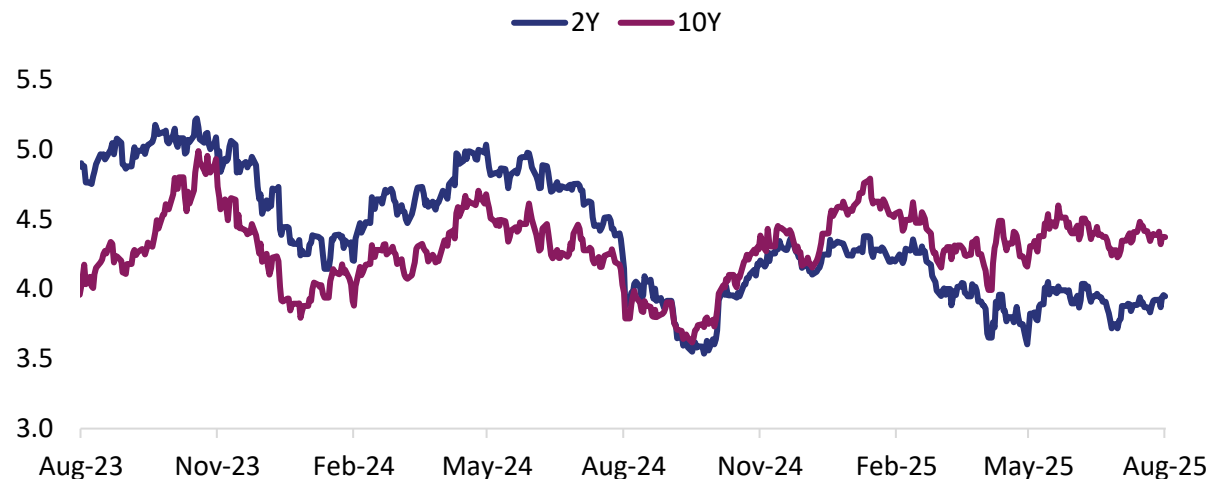
CURRENT ACCOUNT BALANCE (USD bn)



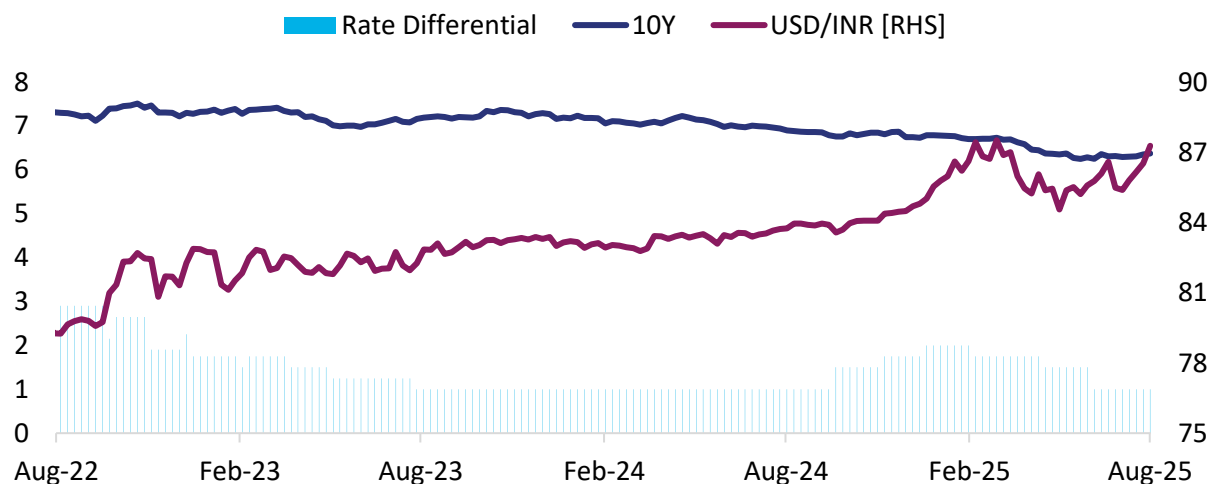
- RBI has actively curbed its USD exposure with net short forward positions dwindling to USD 60.2 bn in Jul'25, from USD 88 bn in Feb'25, mainly to curb forex volatility while nimbly managing liquidity. Notably, ~2/3rd of the position is maturing within a year, indicating RBI's intention to not let INR slide faster than required as POTUS raises the tariffs ante

BEDLAM IN US FED KEEPS MARKETS GUESSING

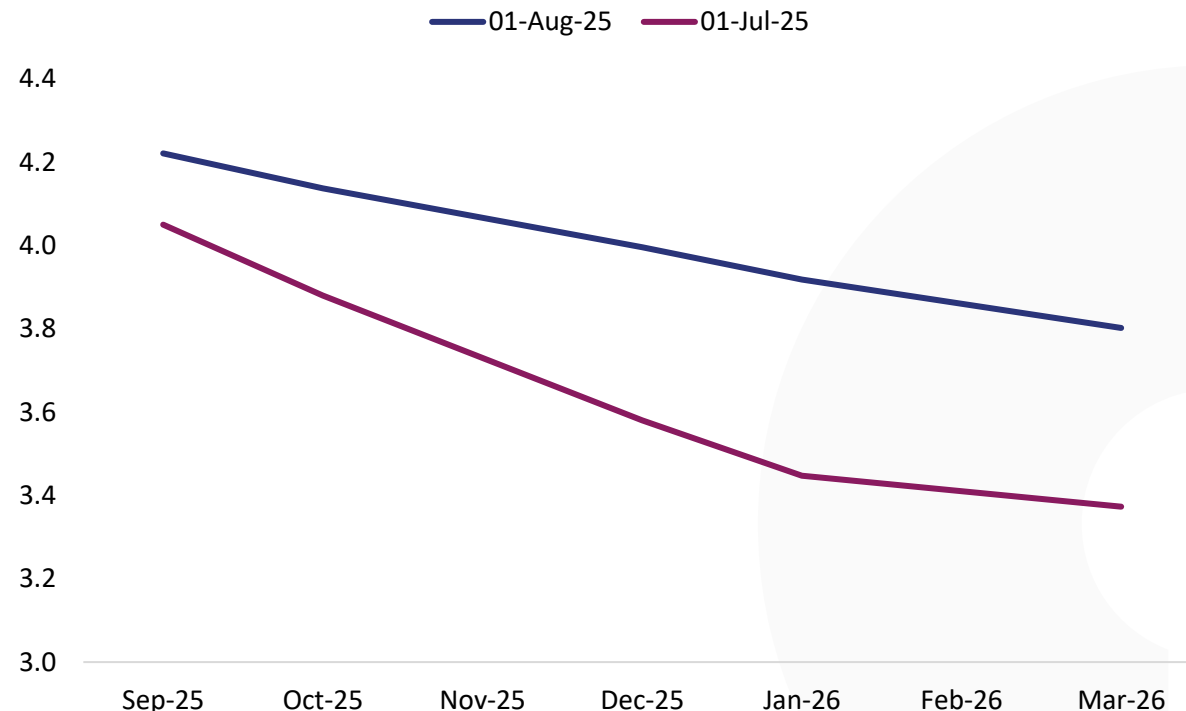
US G-SEC YIELDS (%)



INDIA-US POLICY RATE DIFFERENTIAL VS. INDIA YIELD VS. CURRENCY



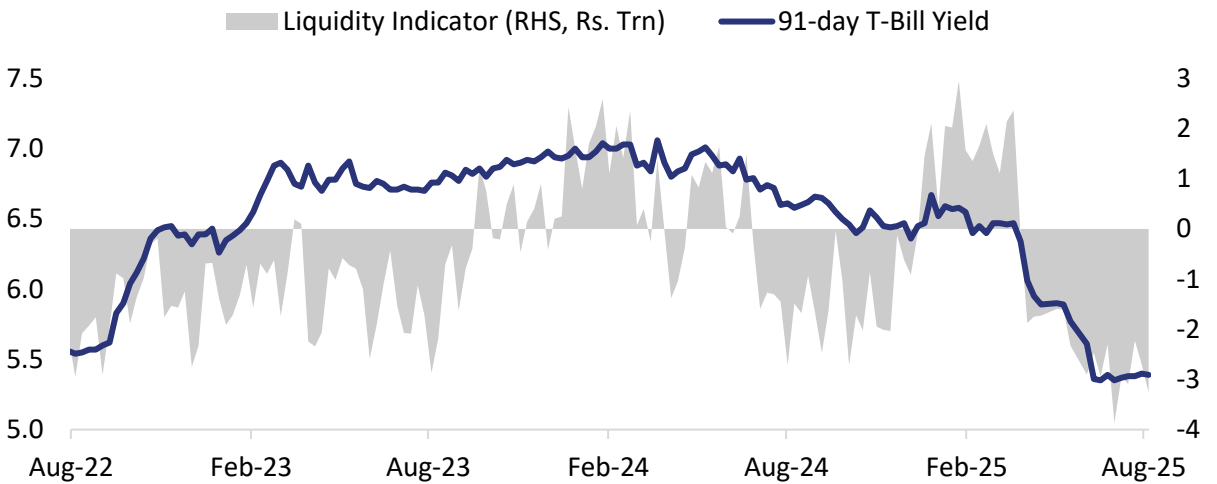
MARKET-IMPLIED PATH OF US FED POLICY RATE (IN %)



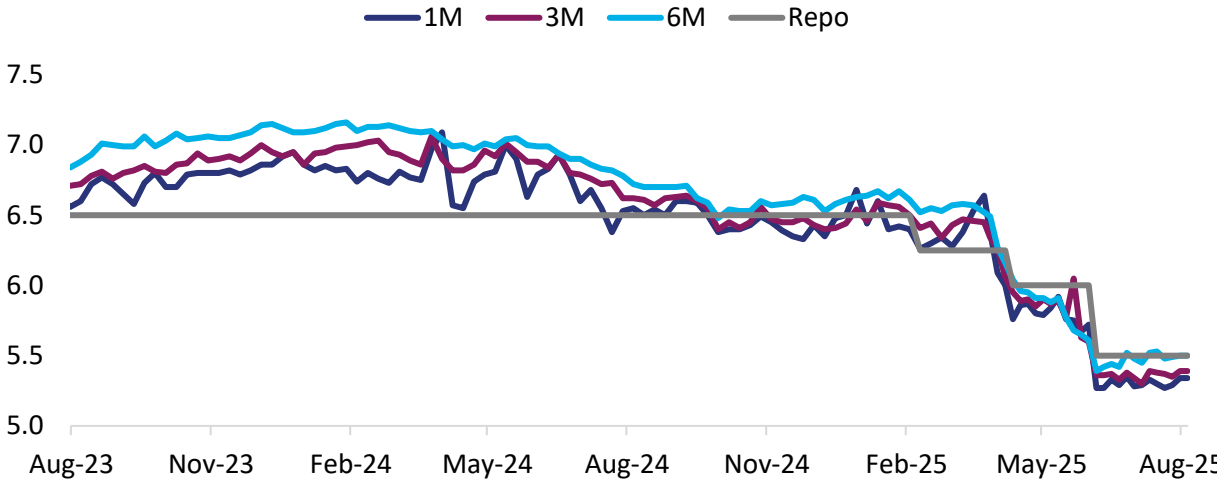
- US FOMC held rates steady in a split vote in Jul'25, with Chair Powell advocating for modestly restrictive policy amidst uncertain outlook.
- Persistently weak jobs data has US Fed doves calling for cuts, despite inflation hinting at tariff related price hikes
- With India cutting rates as usual and the Fed likely to stay put, differentials could again narrow, putting pressure on capital flows and the INR

LIQUIDITY REMAINS AMPLE THROUGH YTDFY26

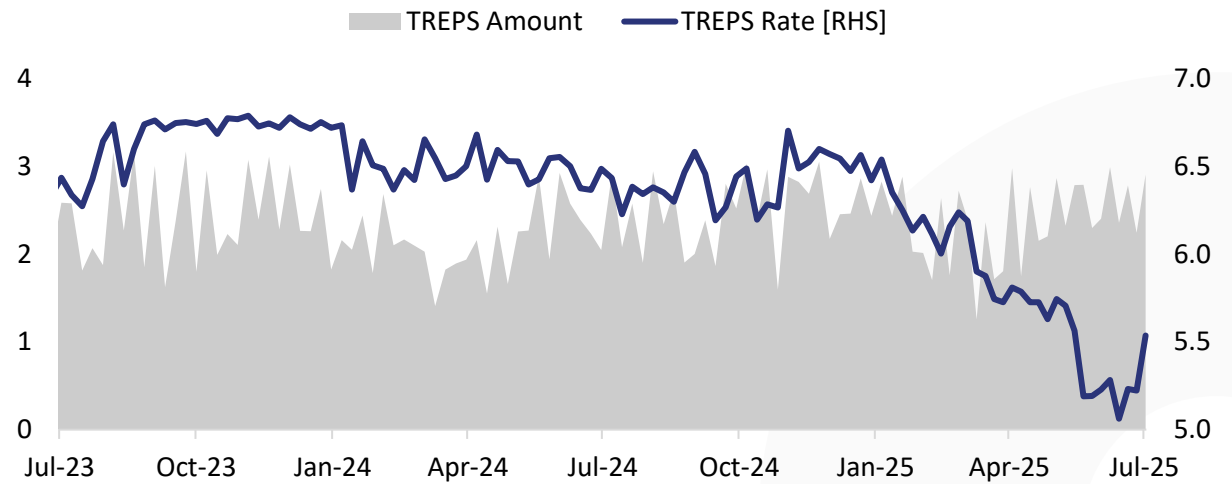
91-DAY T-BILL YIELD VS. BANKING LIQUIDITY*



T-BILL SECONDARY YIELDS VS. REPO



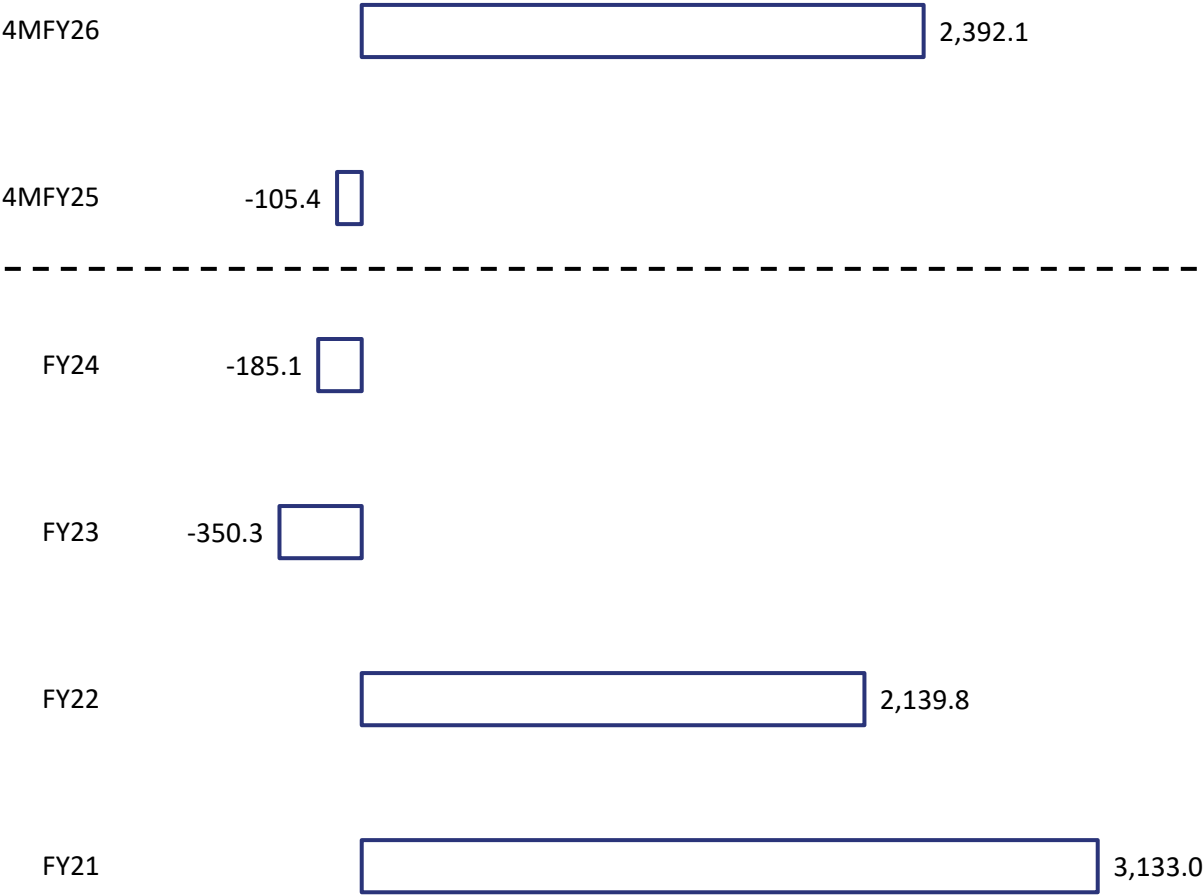
TREPS DAILY AVG VOLUME (Rs. trn) AND RATE (%)



- Liquidity surplus extended to Rs. 4 trn in Jul'25, its highest in 3 years, driven by copious Union spending, keeping money market rates below repo rate, with TREPS rate falling even below SDF rate
- Moving forward, reversal of series of forex swaps is set to drain liquidity in Q2FY26, with reversal of USD 5 bn worth of swap issued in Feb'25 potentially draining Rs. 450 bn in Aug'25.

RBI LIMITS OMO PURCHASES POST MAY'25

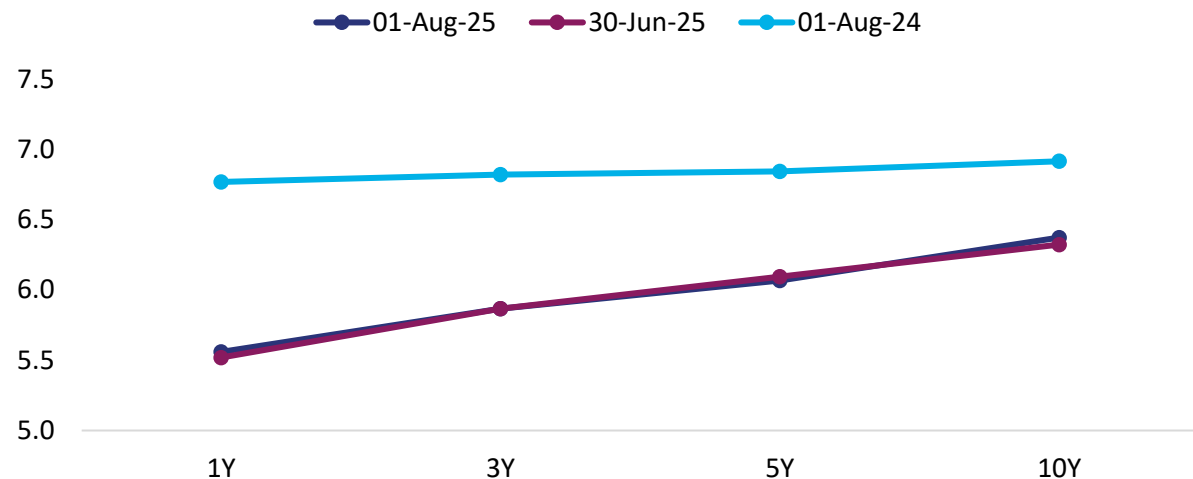
CUMULATIVE NET OMO PURCHASES (Rs. bn)



- RBI used OMO purchases to induce systemic liquidity but has refrained from doing so since Jun'25, since liquidity turned plush
- Buyback auctions are garnering lower demand, with offered amount substantially lower than notified for the first time in a year, across 8 auctions.
- Working Group of the RBI has recommended continuation of WACR as operating target. It has also suggested keep VRR and VRRR of various tenors as key instruments to reach this target

UNION G-SEC YIELDS REMAIN RANGEBOUND

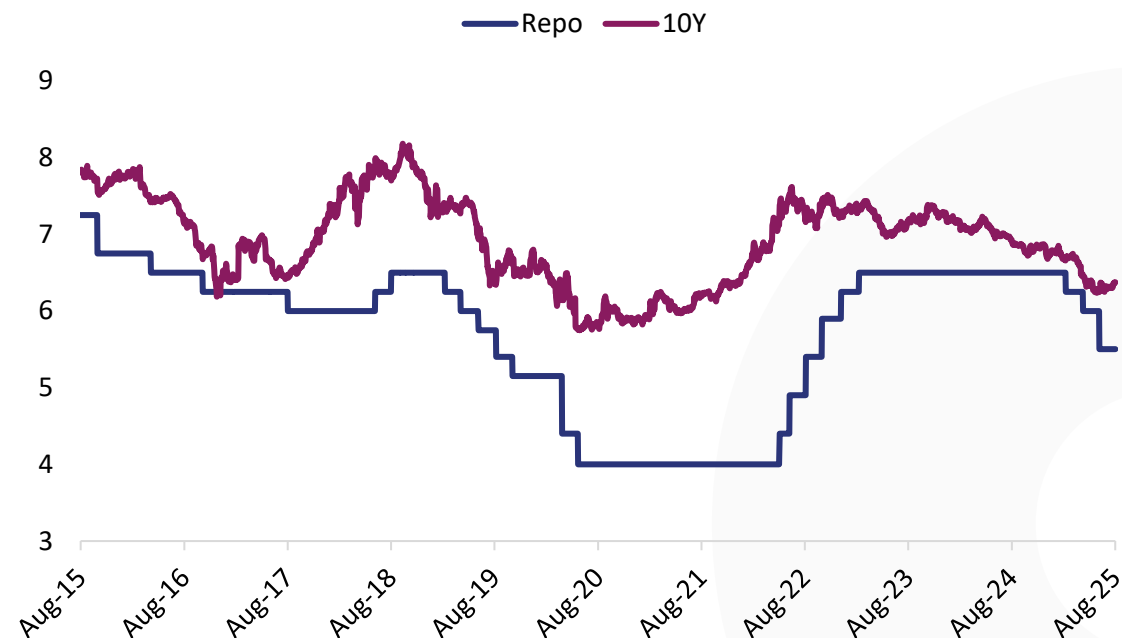
YIELD CURVE (%)



G-SEC YIELD (5 YEARS) (%)



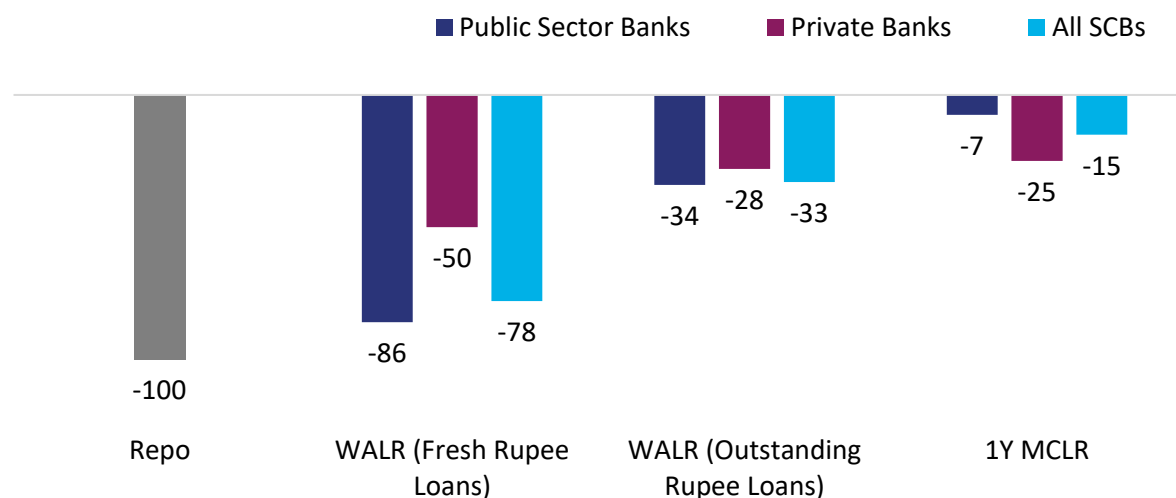
UNION G-SEC YIELD (10 YEARS) VS REPO (%)



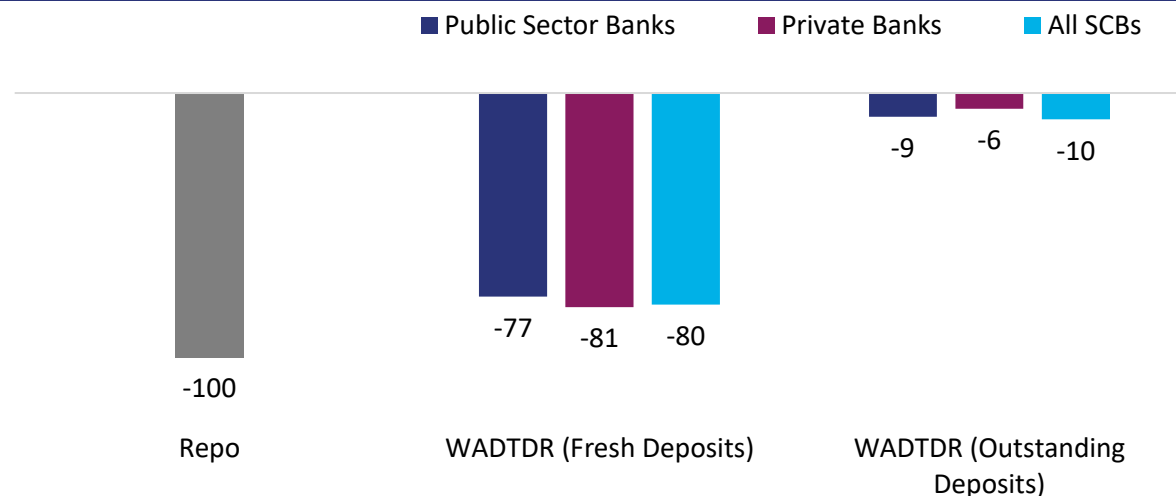
- Benchmark Union G-sec yields have remained rangebound ~6.3% in FY26, influenced by external factors with tariff announcements leading to higher long-term yields. Surfeit liquidity keeps short rates grounded, hence yield curve has steepened in the process.
- In the aftermath of the policy, 10Y yield was up ~5bps as markets perceived the Governor's language as indicating little chance of a rate cut
- *Broader outlook remains sensitive to currency volatility and the RBI's operations. We expect 10Y Union G-sec to remain at 6.25%±0.25%*

TRANSMISSION TO BANK RATES ALMOST COMPLETE

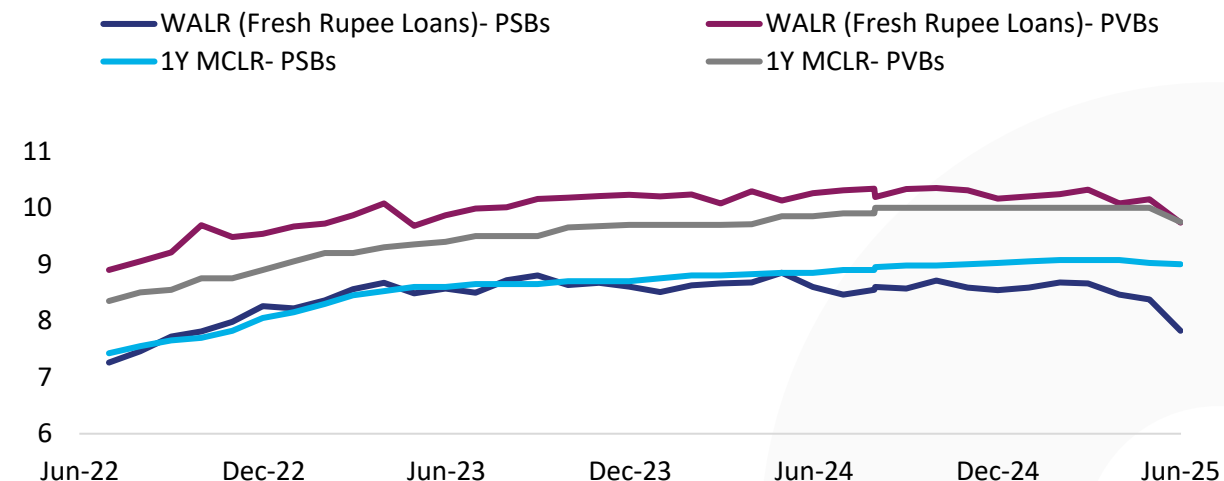
TRANSMISSION TO LENDING RATES (FEB'25 – JUN'25)



TRANSMISSION TO DEPOSIT RATES (FEB'25 – JUN'25)



TREPS DAILY AVG VOLUME (Rs. trn) AND RATE (%)



- Transmission to lending rates has undertaken a serious pace vs previous cycles, with changing loan book texture in terms of benchmark rates, as banks look to spur credit demand. Notably, lending rates were cut at ~3x the pace of previous cycle as of Jun'25 (29 bps in fresh WALR in Jun'19 vs ~80 bps in Jun'25)
- Transmission to deposit rates has been even quicker, with several banks slashing FD rates to improve profitability, as moderate credit growth enables freedom in resource raising. Notably, spreads have widened for PSBs vs PVBs due to sharper fall in WADTDR O/S, despite faster reduction in WALR O/S
- MCLR is being cut at a steeper rate by PVBs vs PSBs, as faster deposit rate cuts get transmitted to benchmark lending rates, reflective of intent to boost credit offtake

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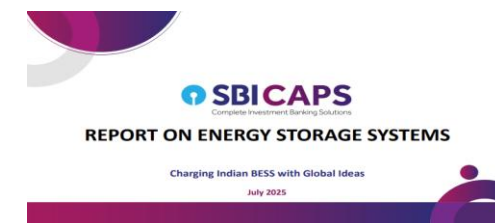


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