Choice
Institutional Equities

RBI Monetary Policy Review, August 2026

August 05, 2026

institutional.equities@choiceindia.com

RBI Monetary Policy Review - August 2026

Key Policy Rates		
	Rate	**Change**
Repo Rate	5.25%	0 bps
Reverse Repo	3.35%	0 bps
Bank Rate	5.50%	0 bps
MSF Rate	5.50%	0 bps
SDF Rate	5.00%	0 bps
SLR	18.00%	0 bps
CRR	3.00%	0 bps

RBI GDP Forecast		
Period	**GDP Growth**	**Change**
FY27E	**6.7%**	**+10 bps**
Q1 FY27E	7.0%	+30 bps
Q2 FY27E	6.4%	+10 bps
Q3 FY27E	6.5%	0 bps
Q4 FY27E	6.8%	0 bps

RBI Inflation Forecast		
Period	**Inflation**	**Change**
FY27E	**5.0%**	-10 bps
Q2 FY27E	4.7%	-40 bps
Q3 FY27E	5.9%	0 bps
Q4 FY27E	5.5%	+10 bps

Source: RBI, Choice Institutional Equities

CIE View & Forecast

RBI's MPC unanimously voted to keep the repo rate unchanged, while reiterating its neutral stance in line with our expectation. GDP forecast for FY27E increased by 10 bps to 6.7%.

Despite the high-frequency indicators suggesting continuation of strong economic momentum, we expect growth in FY27E at 6.5%. Growth would be affected by supply-chain disruption, impacting external and domestic demand on account of higher input costs and shipping costs. Inflation is expected to remain higher than the RBI's projections of 5% as second-round effects are yet to pan out. Given the weakening growth impulses and a rising inflationary trend coupled with rising interest rates globally, we expect the RBI to hike the policy repo rate by 25 bps towards FY27 end.

Repo Rate Maintained with a Neutral Stance: Upside Risk to CPI Inflation

- As expected, the RBI MPC unanimously voted to keep the policy repo rate unchanged at 5.25% and further maintained a neutral stance.
- This decision was guided by an underlying supportive growth scenario, resilient domestic demand and manufacturing, and inflation that remains anchored.
- Additionally, the RBI highlights that the growth and inflation outlook is hazy due to uncertainties regarding the south-west monsoon, El Niño, geopolitics, and global trade policy. It appears that the RBI would need greater clarity on the inflationary trend and its composition before recalibrating rates.

Inflation Outlook & Assessment: Fragile Peak, Underplayed Second-Round Risks OR Inflation Outlook – Peak Contingent, Risks Understated

The RBI's inflation framework rests on a single organising claim: the current pickup is supply-side, narrow, and temporary, and underlying price pressures remain benign. The Committee's read is that food and fuel are doing the damage while the underlying economy stays quiet.

- **Peak is dependent on inputs already moving the wrong way -** The moderation post 3Q assumes crude stabilises and the monsoon recovers. Yet the Indian crude basket is up 32.5% since end-June, and cumulative rainfall is running 11.9% below normal with El Niño forecast to strengthen. A 5.9% peak built on those assumptions is fragile; if either input worsens, the peak shifts higher and later, and the full-year 5.0% forecast loses its anchor.
- **"No generalisation" claim is already being contradicted at the margin -** The RBI leans heavily on core-ex-precious-metals at 2.3–2.5% to argue pressures are not broadening. But the same statement records food and beverages inflation turning broad-based and restaurant and accommodation services inflation jumping to 6.9%, explicitly attributed to fuel pass-through. Services inflation feeding off fuel is precisely the second-round, generalising mechanism the RBI claims is absent. The Committee acknowledges the second-round risk in one paragraph and then discounts it in its central forecast. Additionally, high base effect is also leading to a benign Core ex precious metals inflation which camouflages the actual underlying trends.

RBI's 5.9% peak and 5.0% full-year forecast hinges on crude stabilisation and monsoon recovery, yet rising oil prices, deficient rainfall, broadening food inflation, and fuel-driven services inflation challenges the "temporary and narrow" narrative.

The inflation outlook is presented with more confidence than the underlying data supports. The central projection is not implausible, but it is a benign-case scenario dressed as a base case, contingent on a stacked set of favourable assumptions: de-escalation in West Asia, crude reversal, monsoon recovery, and contained second-round effects, several of which the RBI's own footnotes actively question.

Source: CMIE, RBI, Choice Institutional Equities

Purvi Mundhra
Email: purvi.mundhra@choiceindia.com
Ph.: +91 22 6707 9241

RBI's Upbeat Growth View: Balanced Risks or Wishful Thinking?

We believe we are at the end of rate cut cycle and expect a rate hike in FY27 end

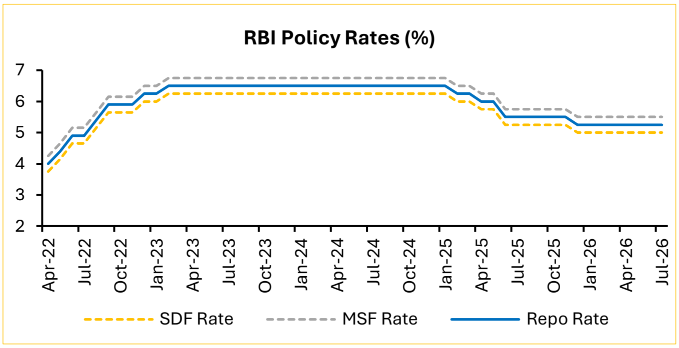
The RBI projects real GDP growth of 6.7% for FY27 (+10bps higher compared to its previous forecast) with risks "evenly balanced," and reaffirms India as the world's fastest-growing major economy. Supporting data include Q1 listed-manufacturer net sales up 21.9%, manufacturing PMI at 54.6, services PMI at 58.7, non-food credit growth of 17.4%, and double-digit merchandise export growth.

Yet the outlook rests on the same de-escalation and recovery assumptions that underpin the inflation forecast. If those fail to materialise, the annual number erodes.

- **Consumption relies on offsets that may not fully compensate -** The RBI acknowledges a weak-monsoon hit to rural demand, expecting partial relief from allied-sector activity and government schemes, with urban spending covering the rest. Rainfall is already 11.9% below normal, reservoirs stand at 44.4% versus 69.3% a year ago, and 15 of 36 sub-divisions are in deficit. This is no marginal shortfall. Rural demand accounts for roughly half of consumption; "partly offset" is an admission, not a solution. Urban discretionary spending faces the same crude-price pressure.
- **Investment resilience is increasingly government dependent -** Heavy government capex signals still-elusive private investment and ties growth to fiscal space just as a crude-driven current-account deficit and subsidy risks could constrain it.
- **External buffer thinner than the headline suggests -** The external contribution looks thinner than the 15.9% merchandise-export rise suggests. Higher oil prices and elevated petroleum margins inflate the export line while imports rose faster (19.9%), widening the trade deficit to USD 86.6 Bn from USD 68.7 Bn. The RBI itself flags moderating global trade as an upside risk to the current account. Net external demand is being asked to lean on bilateral deals whose impact will take time.

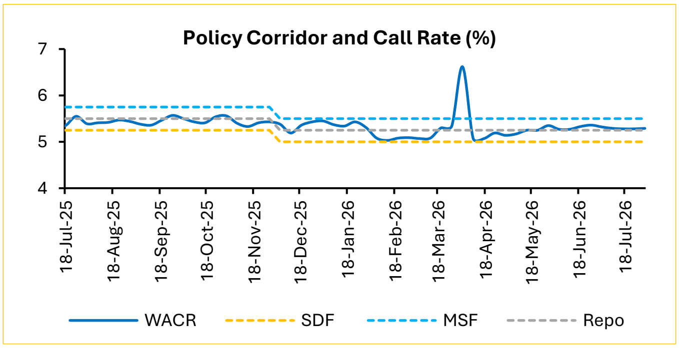
It appears that the risks are skewed to the downside and not balanced. The base case survives only if the same benign assumptions that support the inflation forecast hold.

Status Quo on repo rate for 20 straight months



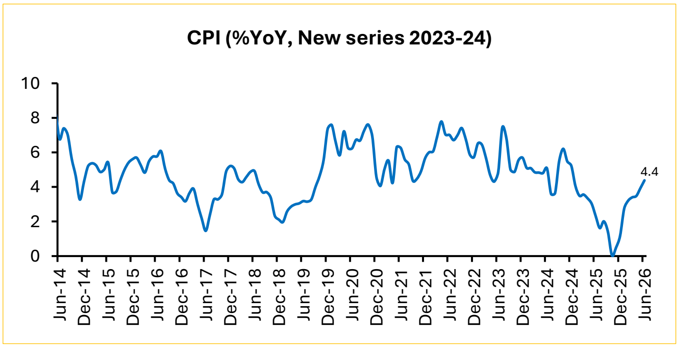
Source: CMIE, Choice Institutional Equities

WACR remains closer to the upper end of the policy corridor since May 2026



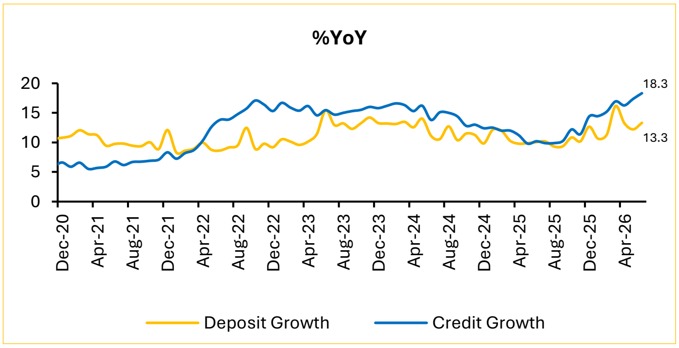
Source: CMIE, Choice Institutional Equities

CPI edges up as food and imported inflation surges



Source: CMIE, Choice Institutional Equities

Credit growth persistently remain higher than the deposit growth



Source: CMIE, Choice Institutional Equities

Managed Comfort: The Limits of RBI's Liquidity Buffer

The RBI paints a comfortable liquidity picture: average daily surplus of INR 1.0 Tn since June, the weighted average call rate (WACR) at 5.31% within the corridor, moderating short-term CP and CD rates in July, and easing G-sec yields across maturities.

- **Surplus is real but shallow and drifting, not a structural cushion -** Net LAF absorption fell from INR 1.7 Tn in May to INR 0.9 Tn in June before recovering modestly to INR 1.1 Tn in July, it is thinning and volatile rather than a stable buffer. The RBI itself lists expected supports: seasonal monsoon currency return, drawdown of government cash balances, and "special measures to attract capital inflows." A genuinely durable surplus would not require three scheduled tailwinds; two of these are policy- and flow-dependent rather than organic.
- **WACR trading above the repo rate further undercuts the surplus narrative -** With INR 1 Tn of surplus, the overnight rate should gravitate toward the SDF floor of 5.0%, not sit 6 bps above the 5.25% repo. This points to tighter liquidity and an uneven distribution across banks rather than aggregate abundance.
- **Short-end moderation and long-end rally appear engineered -** Both are attributed to coordinated government-RBI measures to draw foreign capital, a manufactured demand whose durability hinges on continued inflows, themselves vulnerable to global risk sentiment and rupee pressure amplified by the crude shock.

RBI's "wait-and-watch" comfort is partly borrowed from a global backdrop it assumes cooperates. A synchronised global tightening removes that cushion, tilting the RBI toward hiking rates, purely to defend the currency and capital account.

When the World Tightens, RBI's Hold Gets Harder

A world where major central banks are tightening, and some hiking, complicates the RBI's pause in three ways.

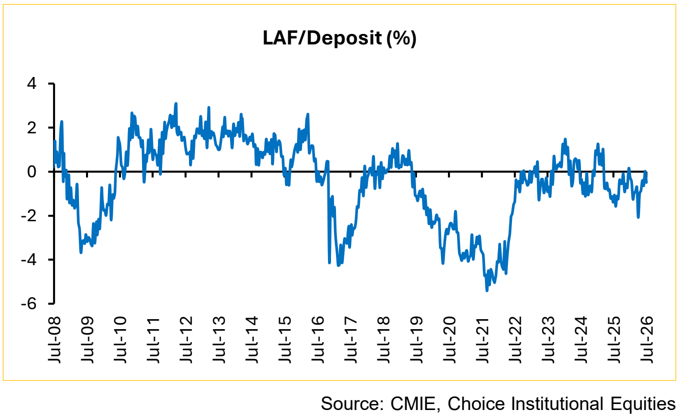
First, policy divergence pressures the rupee. If global rates rise while the RBI holds at 5.25%, the interest-rate differential narrows, weakening the case for carry into Indian assets and pressuring the currency. A softer rupee imports inflation, feeding the food-and-fuel pressures the RBI calls transient.

Second, it threatens the flow-engineered bond rally. The yield compression rests on FPI debt inflows drawn in by FAR liberalisation and tax exemptions. Rising global yields make those same inflows harder to retain; capital could reverse just as the Q3 inflation peak argues for higher domestic yields.

Third, it constrains the RBI's optionality. Having reached the terminal rate, the RBI has little room to ease without widening the differential further, effectively importing a tightening bias it did not choose.

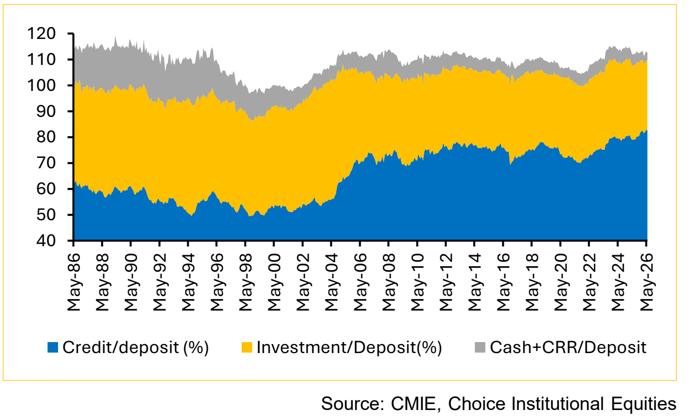
Overall, RBI's "wait-and-watch" comfort is partly borrowed from a global backdrop it assumes cooperates. A synchronised global tightening removes that cushion, tilting the RBI toward hiking rates going forward, purely to defend the currency and capital account.

Systematic Liquidity remains in surplus but highly volatile



Source: CMIE, Choice Institutional Equities

CD Ratio continues to edge upwards as credit growth remains persistently higher than the deposit growth



Source: CMIE, Choice Institutional Equities

Institutional Research Team			
Utsav Verma, CFA	Head of Institutional Research, India Equity Strategy and SMIDs	utsav.verma@choiceindia.com	+91 22 6707 9440
Purvi Mundhra	Economist	purvi.mundhra@choiceindia.com	+91 22 6707 9241
Ambrish Shah	Analyst - Power	ambrish.shah@choiceindia.com	+91 22 6707 9251
Ashutosh Murarka	Analyst – Building Materials	ashutosh.murarka@choiceindia.com	+91 22 6707 9521
Bhavik Shah, CFA	Analyst – Metals & Mining	Bhavik.shah@choiceindia.com	+91 22 6707 9521
Deepika Murarka	Analyst – Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Dhaval Popat	Analyst – Energy	dhaval.popat@choiceindia.com	+91 22 6707 9949
Fenil Brahmbhatt	Analyst – Realty & Building Materials	fenil.brahmbhatt@choiceindia.com	+91 22 6707 9930
Ishank Gupta	Analyst – NBFCs	ishank.gupta@choiceindia.com	+91 22 6707 9867
Karan Kamdar	Analyst – Consumer Discretionary, SMIDs	karan.kamdar@choiceindia.com	+91 22 6707 9451
Kunal Bajaj	Analyst – Technology	kunal.bajaj@choiceindia.com	+91 22 6707 9901
Maitri Sheth	Analyst – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9511
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Preeyam Tolia	Analyst – FMCG & Retail	preeyam.tolia@choiceindia.com	+91 22 6707 9987
Vijiya Rao	Analyst – AMC & Insurance	vijiya.rao@choiceindia.com	+91 22 6707 9531
Aayush Saboo	Sr. Associate– Realty	aayush.saboo@choiceindia.com	+91 22 6707 9930
Avi Jhaveri	Sr. Associate – Technology	avi.jhaveri@choiceindia.com	+91 22 6707 9901
Bharat Kumar Kudikyala	Sr. Associate – Building Materials	bharat.kudikyala@choiceindia.com	+91 22 6707 9930
Samarth Goel	Sr. Associate– Small and Midcaps	samarth.goel@choiceindia.com	+91 22 6707 9451
Subhash Gate	Sr. Associate – Autos	subhash.gate@choiceindia.com	+91 22 6707 9233
Heer Gogri	Associate – Small and Midcaps	heer.gogri@choiceindia.com	+91 22 6707 9433
Heet Chheda	Associate – Autos	heet.chheda@choiceindia.com	+91 22 6707 9233
Rushil Katiyar	Associate – Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9901
Shreya Mehra	Associate – Technology	shreya.mehra@choiceindia.com	+91 22 6707 9535
Stuti Bagadia	Associate – Pharmaceuticals	stuti.bagadia@choiceindia.com	+91 22 6707 9511
Vinay Rawal	Associate – Small and Midcaps	vinay.rawal@choiceindia.com	+91 22 6707 9433

CHOICE RATING DISTRIBUTION & METHODOLOGY	
Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

***Large Cap: More Than INR 20,000 Cr Market Cap**
***Mid & Small Cap: Less Than INR 20,000 Cr Market Cap**

Disclaimer & Disclosure

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Choice Equity Broking Private Limited is a registered Research Analyst Entity (Reg. No. INH000000222) CIN. NO.: U65999MH2010PTC198714. Reg. Add.: Sunil Patodia Tower, J B Nagar, Andheri (East), Mumbai 400099. Tel. No. 022-6707 9999 . Compliance Officer-Prashant Salian. Tel. 022-6707 9999-Ext. 896. Email-Compliance@choiceindia.com. Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834.

Email- ig@choiceindia.com

The Company uses artificial intelligence tools as part of its research process, including data analysis and content generation. Notwithstanding the foregoing, all analysis, views, and recommendations are independently formulated and duly reviewed by qualified research analysts prior to issuance.

General Disclaimer:

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

This report ("Report") is prepared by Choice Equity Broking Private Limited as a Research Entity (hereinafter referred as "CEBPL") in its capacity as a SEBI-registered Research Analyst and is intended solely for informational and educational purposes. This Report is meant exclusively for the recipient and shall not be circulated, reproduced, or distributed, in whole or in part.

This Report does not take into account the specific investment objectives, financial situation, risk profile, or particular needs of any individual or class of investors and does not constitute a personal recommendation or investment advice. Any views, opinions, or recommendations expressed herein are based on publicly available information and internal analysis and are subject to change without notice.

Nothing contained in this Report shall be construed as an offer, solicitation, or inducement to buy, sell, or subscribe to any securities, derivatives, or other financial instruments, nor shall it be considered as investment, legal, accounting, or tax advice. Recipients are advised to conduct their own independent analysis and are encouraged to seek independent professional advice before making any investment or trading decisions.

The information contained in this Report has been compiled from sources believed to be reliable; however, CEBPL does not represent or warrant the accuracy, completeness, or reliability of such information. CEBPL, its directors, employees, or associates shall not be liable for any losses, damages, or expenses arising directly or indirectly from the use of or reliance upon this Report.

Investments in securities are subject to market risks. The price and value of investments and the income from them may fluctuate, and investors may incur losses. Past performance is not indicative of future results. Opinions expressed herein are as of the date of this Report and may differ from views expressed in other research reports due to differences in methodology, assumptions, or time horizons.

Disclaimers in respect of Jurisdiction:

This Report is not intended for distribution to, or use by, any person or entity who is a citizen or resident of, or located in, any jurisdiction where such distribution, publication, or use would be contrary to applicable laws or regulations, or would subject CEBPL to any registration or licensing requirements in such jurisdiction.

No action has been taken or will be taken by CEBPL in any jurisdiction outside India where such action would be required for distribution of this Report. Accordingly, this Report shall not be directly or indirectly distributed, published, or circulated in any such jurisdiction except in compliance with applicable laws and regulations.

Recipients of this Report are required to inform themselves of, and comply with, all applicable legal and regulatory restrictions at their own expense and without any liability to CEBPL. Any dispute arising out of or in connection with this Report shall be subject to the exclusive jurisdiction of the competent courts in Mumbai, India.

Disclosure on Ownership and Material Conflicts of Interest:

- "CEBPL", its Research Analyst(s), their associates and relatives may have any financial interest in the subject company covered in this Research Report.
- "CEBPL", its Research Analyst(s), their associates and relatives may have actual or beneficial ownership of one percent (1%) or more of the securities of the subject company, as on the last day of the month immediately preceding the date of publication of this Research Report.
- "CEBPL", its Research Analyst(s), their associates and relatives may have any other material conflict of interest at the time of publication of this Research Report.

Disclosure on Receipt of Compensation:

- "CEBPL" or its associates may have received compensation from the subject company during the past twelve months.
- "CEBPL" or its associates may have managed or co-managed public offerings of securities for the subject company during the past twelve months.
- "CEBPL" or its associates may have received compensation from the subject company during the past twelve months for investment banking, merchant banking or brokerage services.
- "CEBPL" or its associates may have received compensation from the subject company during the past twelve months for products or services other than investment banking, merchant banking or brokerage services.
- "CEBPL" or its associates have not received any compensation or other benefits from the subject company or any third party in connection with the preparation or publication of this Research Report.
- Research Analyst may have served as an officer, director or employee of the subject company covered in this Research Report.
- "CEBPL" and Research analyst may engage in market-making activity in the securities of the subject company.

Details of Associates of CEBPL and Brief History of Disciplinary action by regulatory authorities are available on our website i.e. www. https://choiceindia.com/research-listing

PURVI MUNDHRA

Digitally signed by PURVI MUNDHRA
Date: 2026.08.05 14:56:52 +05'30'