RBI Keeps Repo Rate Unchanged at 5.25%; Retains Neutral Policy Stance

Monetary Policy Decision

- The **Monetary Policy Committee (MPC)** held its **62nd meeting** during **3–5 August 2026** under RBI Governor **Sanjay Malhotra**.
- The MPC **unanimously decided** to:
    - Keep the **repo rate unchanged at 5.25%**.
    - Retain the **neutral monetary policy stance**.
- Consequently:
    - **Standing Deposit Facility (SDF) Rate: 5.00%**
    - **Marginal Standing Facility (MSF) Rate: 5.50%**
    - **Bank Rate: 5.50%**

Global Economic Outlook

- The global economy continues to face:
    - Volatile financial markets.
    - Persistent inflationary pressures.
    - Shifting monetary policy expectations.
    - Renewed conflict in **West Asia** following the breakdown of the temporary ceasefire.
- Several central banks have raised interest rates, while others remain cautious.
- The **US dollar strengthened** amid higher bond yields, a hawkish Federal Reserve and AI-driven productivity gains.
- Key global risks include:
    - Geopolitical tensions.
    - Volatile crude oil prices.
    - Sticky inflation.
    - Weak public finances in major economies.

Domestic Economic Outlook

- The Indian economy remains **resilient** despite global uncertainties.
- Major growth drivers include:

  - Strong private consumption.
  - Resilient investment.
  - Healthy construction and capital goods activity.
  - Robust bank credit growth.
  - Strong services exports.
  - Recovery in merchandise exports.
- Risks to growth include:
  - Elevated energy prices.
  - Supply chain disruptions.
  - Deficient and uneven southwest monsoon due to **El Niño**.
- Government initiatives on:
  - Climate-resilient crops.
  - Crop diversification.
  - Water conservation.

    are expected to mitigate agricultural risks.
- Continued momentum in services, GST rationalisation, stable employment and infrastructure spending are expected to support growth.

GDP Growth Projections

- **Real GDP growth for 2026–27: 6.7%**
  - **Q1:** 7.0%
  - **Q2:** 6.4%
  - **Q3:** 6.5%
  - **Q4:** 6.8%
- **Q1 2027–28: 7.3%**
- Risks to growth are assessed as **evenly balanced**.

Inflation Outlook

- **CPI inflation** increased to **4.4% in June 2026**, after remaining below the target for **16 consecutive months**.
- The increase was mainly driven by:

    - Higher food prices.
    - Higher fuel prices following increases in international energy prices.
- **Core inflation** (excluding food and fuel) remained stable at **3.9%**.
- Core inflation excluding precious metals remained even lower at **2.3–2.5%**, indicating limited demand-side inflationary pressures.

Inflation Projections

- **CPI inflation for 2026–27: 5.0%**
    - **Q2:** 4.7%
    - **Q3:** 5.9%
    - **Q4:** 5.5%
- **Q1 2027–28: 5.3%**
- **Core inflation: 4.3%** for 2026–27.
- Inflation risks remain evenly balanced.

Rationale for Keeping Rates Unchanged

- The MPC noted that:
    - Inflation has risen mainly because of **food and fuel supply-side shocks**.
    - Price pressures have **not become broad-based**.
    - Core inflation remains moderate.
    - Growth remains resilient but is expected to moderate during 2026–27.
- Significant uncertainties remain regarding:
    - Southwest monsoon performance.
    - El Niño conditions.
    - Geopolitical tensions.
    - Global trade policies.
- The MPC decided to await greater clarity on inflation and growth dynamics before considering any policy action.

Policy Outlook

- The MPC reaffirmed its commitment to:

    - Maintaining price stability.
    - Supporting sustainable economic growth.
    - Closely monitoring inflation and macroeconomic developments.
- The **minutes** of the MPC meeting will be released on **19 August 2026**.
- The **next MPC meeting** is scheduled for **5–7 October 2026**.

<Governor’s Statement>

[ABS News Service/06.08.2026]

Monetary Policy Statement, 2026-27 Resolution of the Monetary Policy Committee August 3 to 5, 2026

Monetary Policy Decisions

The Monetary Policy Committee (MPC) held its 62nd meeting from August 3 to 5, 2026, under the chairmanship of Sanjay Malhotra, Governor, Reserve Bank of India. The MPC members Dr. Nagesh Kumar, Saugata Bhattacharya, Prof. Ram Singh, Dr. Poonam Gupta and Indranil Bhattacharyya attended the meeting.

2. After a detailed assessment of the evolving macroeconomic and financial developments and the outlook, the MPC voted unanimously to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.25 per cent. Consequently, the standing deposit facility (SDF) rate remains at 5.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate remain at 5.50 per cent. The MPC also decided to continue with the neutral stance.

Growth and Inflation Outlook

Global Outlook

3. The global economic outlook in 2026 so far has been characterised by sharp and frequent market swings, persisting inflation concerns and shifting policy expectations. Relief from the temporary ceasefire in West Asia has quickly dissipated amidst resumption of conflict in July. Persistent inflation has prompted several central banks to raise rates while others remain vigilant. The US dollar appreciated, supported by elevated yields, a hawkish Federal Reserve tone, and a relatively buoyant US economy riding on AI driven productivity gains. The global equity market remained volatile as investors repriced their exposure to AI-related stocks. Conflict in West Asia, volatile oil prices, sticky inflation expectations, and fragile public finances in systemic economies pose significant downside risks to the outlook.

Domestic Outlook

4. The Indian economy has remained resilient amidst persisting global headwinds. High frequency indicators available so far point towards steady domestic demand in Q1:2026-27. Private consumption remained robust. Investment continues to be resilient, as suggested by various indicators related to construction, capital goods and bank credit. External demand also sustained, as healthy expansion in services exports was complemented by a rebound in merchandise exports.

5. Looking ahead, the turbulent global economic environment is likely to have some bearing on domestic economic activity. Energy prices and supply chain pressures remain elevated and uncertain. The adverse impact is being contained with various supply side measures. Even though the situation is still evolving, deficient and uneven south-west monsoon amidst El Niño conditions poses some risks to agriculture sector's outlook and rural demand. Nevertheless, government's initiatives pertaining to crop diversification including short duration as well as climate-resilient crops, and water harvesting and conservation, among others, are expected to mitigate the impact. Furthermore, sustained momentum in services, continuing impact of GST rationalisation, and broadly stable employment conditions should continue to support urban demand. Strong capacity utilisation, robust credit flow and the government's continued thrust on infrastructure are expected to sustain investment activity. While services exports are expected to sustain, merchandise exports will be supported by the recent trade agreements and thrust on diversification.

6. Taking all these factors into consideration, real GDP growth for 2026-27 is projected at 6.7 per cent, with Q1 at 7.0 per cent; Q2 at 6.4 per cent; Q3 at 6.5 per cent; and Q4 at 6.8 per cent. Real GDP growth for Q1:2027-28 is projected at 7.3 per cent (Chart 1). The risks are evenly balanced.

7. While CPI inflation increased to 4.4 per cent in June 2026 after remaining below the target for 16 consecutive months, it turned out to be lower by 30 basis points (bps) than what was earlier projected for Q1:2026-27. The increase in June was primarily due to higher food and fuel inflation. The increase in food inflation was broad-based with most constituents witnessing price pressures during May-June. Fuel inflation also rose, driven by revision in retail prices, following the sharp spike in international energy prices. It also led to higher inflation in select categories such as restaurant charges. Despite the pressure from higher input costs, core (CPI excluding food and fuel) inflation remained unchanged at 3.9 per cent during May-June. Excluding precious metals, core inflation remained even lower at 2.3-2.5 per cent during this period.

8. Going forward, El Niño's impact on temporal and spatial rainfall distribution continues to remain a risk, although proactive supply management and adequate stocks of foodgrains

could provide buffers. Global oil prices have remained volatile with sharp two-way movements triggered by geopolitical developments, blurring the near-term outlook. Although generalised inflation pressures continue to remain modest so far, the risks of higher food, fuel and other input prices translating into a broad-based increase in inflation persist.

9. Considering all these factors, CPI inflation for 2026-27 is projected to be 5.0 per cent with Q2 at 4.7 per cent; Q3 at 5.9 per cent; and Q4 at 5.5 per cent. Inflation for Q1:2027-28 is projected at 5.3 per cent with risks being evenly balanced (Chart 2). Core inflation is projected at 4.3 per cent for 2026-27. Core inflation, excluding precious metals, is expected to be lower in the near term, suggesting that demand pressures remain contained.

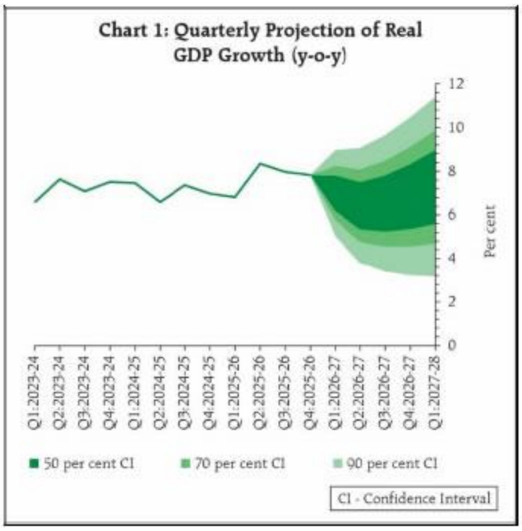

Chart 1: Quarterly Projection of Real GDP Growth (y-o-y)

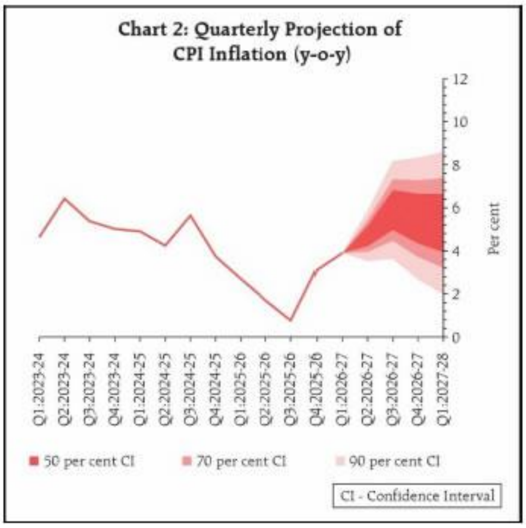

Chart 2: Quarterly Projection of CPI Inflation (y-o-y)

Rationale for Monetary Policy Decisions

10. Headline CPI inflation edged up above the target, as expected. The realised inflation for Q1, however, remained marginally lower than projections reflecting limited pass-through of cost pressures. The higher inflation is mostly on account of fuel and food with little signs of generalisation of price pressures so far. Core inflation excluding precious metals continues to be benign. As projected earlier, headline inflation is expected to rise further in the near term and peak in Q3:2026-27, primarily due to food and fuel, before moderating thereafter. The underlying inflation, reflected by core inflation excluding precious metals, which has been benign for some time, is likely to align with core inflation towards the end of the financial year.

11. Growth continues to be supported by resilient domestic demand, sustained expansion in manufacturing and services activity, and robust exports, reaffirming India's position as the world's fastest-growing major economy.

12. To sum up, even though headline inflation is projected to increase, it is primarily on account of supply side pressures caused by food and fuel; it is not getting broad-based; core

inflation remains moderate and is expected to decline after peaking in Q3. Growth, albeit resilient, is expected to be lower in 2026-27. The outlook, however, is hazy because of the uncertainties regarding south-west monsoon, El Niño, geopolitics and global trade policy. There is a need for greater clarity to emerge, especially regarding inflation, its path and composition before taking any policy action. Any such action would also have to consider the need for recalibration of policy rates in line with the evolving growth-inflation dynamics, especially the normalisation of the underlying inflation from its benign levels seen hitherto.

13. Considering all these factors, the MPC voted to keep the policy rate unchanged. The MPC also decided to retain the neutral stance to respond appropriately to macroeconomic developments. The MPC underscored that it will maintain a close vigil and remain resolute in its commitment to align inflation with the target.

14. The minutes of the MPC's meeting will be published on August 19, 2026.

15. The next meeting of the MPC is scheduled for October 5 to 7, 2026.