

## MNI RBI Preview – August 2025.

**Meeting Date:** Wednesday, August 6, 2025

**Link To Prior Statement:** [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=60604](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=60604)

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### MNI POV (Point of View): RBI On Hold with One Eye on Tariff Discussions.

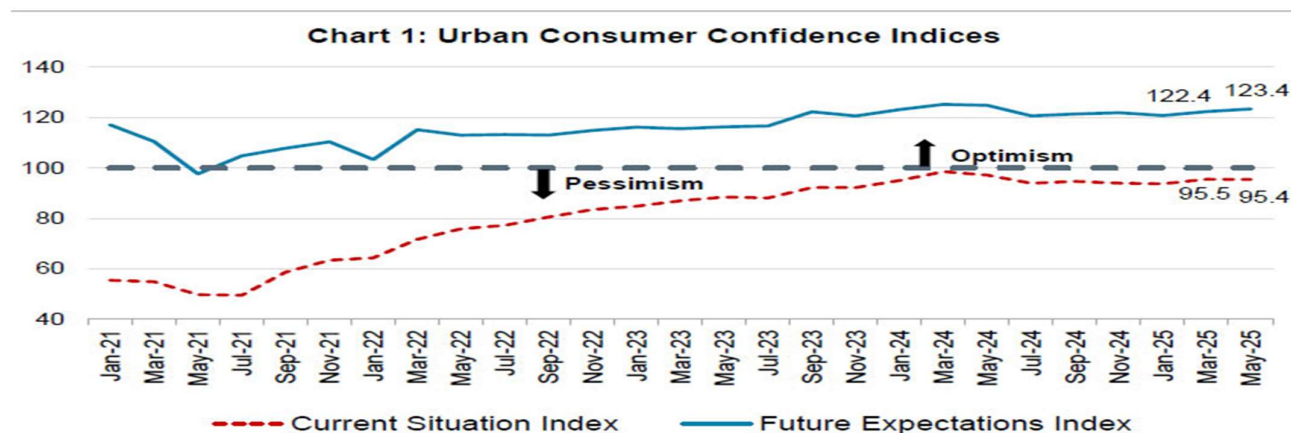
The June Monetary Policy Decision to cut rates by 50bps and RBI lower the cash reserve ratio (CRR) by 100bp to 3% in four tranches from September to November caught the market by surprise. The accompanying statement spoke clearly as to the moderation of inflation creating the environment to cut with an expectation that headline inflation will undershoot this year. Against a 4% target, CPI has weakened for eight successive months, a decline of over 4% exceeding the decline during the COVID period. The rationale for the cut in rates (in the context of inflation) was to continue to stimulate domestic private consumption and investment through policy levers to step up the growth momentum. The MPC opted for a frontloaded rate cut and having already reduced rates by 100 bps since February 2025, has now shifted its stance from accommodative to neutral with a focus on global developments to strike the right balance between growth and inflation.

Starting with investments, India's first report on private sector CAPEX trends shows a 66 percent surge in private firm investments in FY 2024–25 compared to FY 2021–22. Although spending is expected to dip in FY 2025–26, it is still projected to surpass pre-2023 levels, reflecting sustained progress in infrastructure growth and business development. India's Ministry of Statistics and Programme Implementation has released a report titled the "**Forward-Looking Survey on Private Sector CAPEX Investment Intentions.**" The report indicates that private sector capital expenditure likely reached its peak in the financial year 2024–25, with investments rising by 66 percent to INR 6.56 trillion (US\$77.54 billion) from FY 2021–22 figures of US\$46.69 billion. Although private CAPEX is projected to decline to INR 4.89 trillion (US\$57.8 billion) in FY 2025-26, it is still expected to exceed the levels recorded during FY 2021-22 and FY 2022-23. Government expenditure has been on the increase also with the release of the April to June fiscal deficit showing a 63% increase in the April to June quarter, relative to the prior quarter.

With regards to the consumer, the latest Urban Consumer confidence RBI survey was conducted during May covering 6,090 respondents. Despite improvements in employment and price conditions, consumer confidence for the current period remained broadly stable due to an offsetting decline in sentiment across the other survey parameters. Consumer confidence for the year ahead has improved owing to improved optimism in all survey parameters, with the future Expectations Index rising by 1 point. Households remain firmly optimistic on future earnings even though their sentiment on current earnings remained around its March 2025 level. Whilst only 36% of the Indian population are classified as Urban, and due to the size of the

country and the challenges that come from such a large population, the RBI does not undertake the equivalent Rural Consumer survey.

Figure 1: Reserve Bank of India Urbank Consumer Survey Result



source: Reserve Bank of India

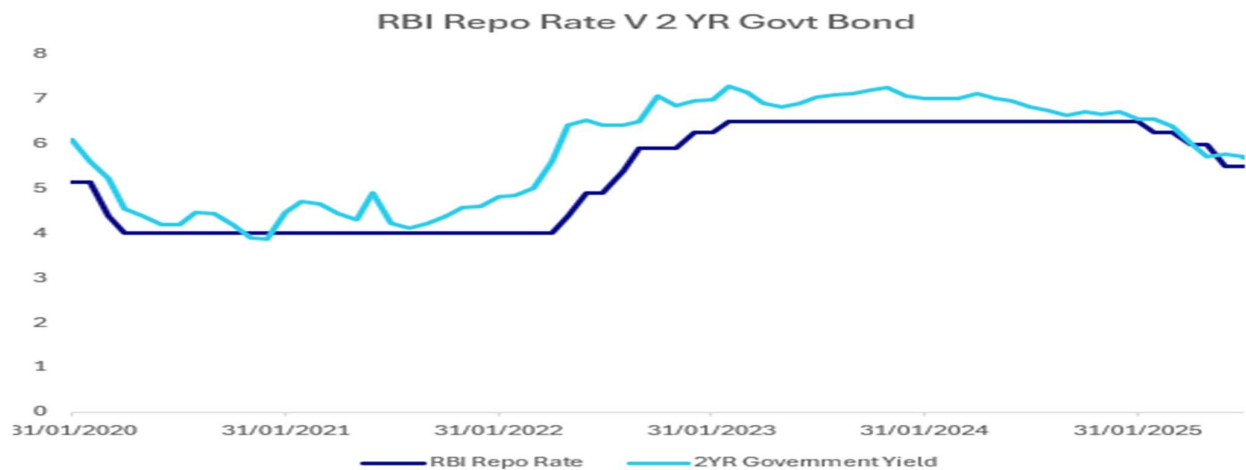
Imports as a measure for the consumer have continued to be volatile. Following the US President Donald Trump's tariff announcement, the government has kicked off an exercise to thrash out concessions across sectors that can be offered in the tariff negotiations later this month. Key economic ministries have been asked to see what they can still afford to offer to sweeten New Delhi's deal when the US team is in the country on August 25. All of this creates ongoing domestic uncertainty and potentially plays on consumer confidence.

Figure 1: India Imports Year-On-Year



Despite uncertainty emanating from the US trade policy, the outlook for India's economy in fiscal year 2025-26 remains encouraging, and ahead of regional peers. The RBI forecasts real GDP to grow 6.5% in FY 2025-26, the same rate as in FY 2024-25, underpinned by domestic demand and government capital expenditures. The agricultural sector is expected to produce better than expected output given higher than expected southwest monsoons, which in turn shall be a healthy boost for domestic consumption.

Under Sanjay Malhotra, the RBI appears far more market aware. The RBI is heavily focused on interbank liquidity, conducting regular reverse repo auctions to manage liquidity and last week swapped existing government securities for new to increase duration. The RBI has stated that its intent is to improve the transfer mechanism for interest rates to make them more effective. The market expectations have been managed, and the market expects very little in terms of cuts at this week's meeting. Bloomberg's MIPR function has -15bps of cuts priced in over the next three months and just -17bps over the next year. MNI's swaps model has only -8bps of cuts priced in for this current meeting and a modest increase of 4bps over the next twelve months. The 2-year government bond is trading in line with the repo rate suggesting that the market now may be comfortable with a pause at this week's meeting. The Bloomberg market survey of economists has only seven of 27 respondents forecasting a further 25bps cut.



source: Bloomberg Finance LP / MNI

We are of the view that the full extent of the 50bp cut will take some time to flow through to the broader economy and the reduction in the cash reserve ratio begins in September. Despite this, the imposition of tariffs by the US last week may have turned this meeting live and pouring back over the comments from the Governor over the last few weeks leads us to a cautious approach. As such we see in a close call the RBI to maintain its current position, whilst leaving open the possibility of further cuts as the tariff situation evolves.

## **Monetary Policy Statement, 2025-26 Resolution of the Monetary Policy Committee June 4 to 6, 2025**

### **Monetary Policy Decisions**

The Monetary Policy Committee (MPC) held its 55th meeting from June 4 to 6, 2025 under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank of India. The MPC members Dr. Nagesh Kumar, Shri Saugata Bhattacharya, Prof. Ram Singh, Dr. Poonam Gupta and Dr. Rajiv Ranjan attended the meeting.

2. After assessing the current and evolving macroeconomic situation, the MPC voted to reduce the policy repo rate by 50 basis points (bps) to 5.50 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) shall stand adjusted to 5.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.75 per cent. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

### **Growth and Inflation Outlook**

3. The uncertainty around the global economic outlook has ebbed somewhat since the MPC met in April in the wake of temporary tariff reprieve and optimism around trade negotiations. However, it continues to remain elevated to weaken sentiments and lower global growth prospects. Accordingly, global growth and trade projections have been revised downwards by multilateral agencies. Market volatility has eased in the recent period with equity markets staging a recovery, dollar index and crude oil softening though gold prices remain high.

4. According to the provisional estimates released by the National Statistical Office (NSO) on May 30, 2025, real GDP growth in Q4:2024-25 stood at 7.4 per cent as against 6.4 per cent in Q3. On the supply side, real gross value added (GVA) rose by 6.8 per cent in Q4:2024-25. For 2024-25, real GDP growth was placed at 6.5 per cent, while real GVA recorded a growth of 6.4 per cent.

5. Going forward, economic activity continues to maintain the momentum in 2025-26, supported by private consumption and traction in fixed capital formation. The sustained rural economic activity bodes well for rural demand, while continued expansion in services sector is expected to support the revival in urban demand. Investment activity is expected to improve in light of higher capacity utilization, improving balance sheets of financial and non-financial corporates, and government's capital expenditure push. Trade policy uncertainty continues to weigh on merchandise exports prospects, while the conclusion of free trade agreement (FTA) with the United Kingdom and progress with other countries is supportive of trade activity. On the supply side, agriculture prospects remain bright on the back of an above normal south-west monsoon forecast and resilient allied activities. Services sector is expected to maintain its momentum. However, spillovers emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth. Taking all these factors into account, real GDP growth for 2025-26 is projected at 6.5 per cent, with Q1 at 6.5 per cent, Q2 at 6.7 per cent, Q3 at 6.6 per cent, and Q4 at 6.3 per cent (Chart 1). The risks are evenly balanced.

6. CPI headline inflation continued its declining trajectory in March and April, with headline CPI inflation moderating to a nearly six-year low of 3.2 per cent (year-on-year) in April 2025. This was led mainly by food inflation which recorded the sixth consecutive monthly decline. Fuel group witnessed a reversal of deflationary conditions and recorded positive inflation prints during March and April, partly reflecting the hike in LPG prices. Core inflation remained largely steady and contained during March-April, despite increase in gold prices exerting upward pressure.



7. The outlook for inflation points towards benign prices across major constituents. The record wheat production and higher production of key pulses in the Rabi crop season should ensure adequate supply of key food items. Going forward, the likely above normal monsoon along with its early onset augurs well for Kharif crop prospects. Reflecting this, inflation expectations are showing a moderating trend, more so for the rural households. Most projections point towards continued moderation in the prices of key commodities, including crude oil. Notwithstanding these favourable prognoses, we need to remain watchful of weather-related uncertainties and still evolving tariff related concerns with their attendant impact on global commodity prices. Taking all these factors into consideration, and assuming a normal monsoon, CPI inflation for the financial year 2025-26 is now projected at 3.7 per cent, with Q1 at 2.9 per cent; Q2 at 3.4 per cent; Q3 at 3.9 per cent; and Q4 at 4.4 per cent (Chart 2). The risks are evenly balanced.

#### Rationale for Monetary Policy Decisions

8. Inflation has softened significantly over the last six months from above the tolerance band in October 2024 to well below the target with signs of a broad-based moderation. The near-term and medium-term outlook now gives us the confidence of not only a durable alignment of headline inflation with the target of 4 per cent, as exuded in the last meeting but also the belief that during the year, it is likely to undershoot the target at the margin. While food inflation outlook remains soft, core inflation is expected to remain benign with easing of international commodity prices in line with the anticipated global growth slowdown. The inflation outlook for the year is being revised downwards from the earlier forecast of 4.0 per cent to 3.7 per cent. Growth, on the other hand, remains lower than our aspirations amidst challenging global environment and heightened uncertainty.

9. Thus, it is imperative to continue to stimulate domestic private consumption and investment through policy levers to step up the growth momentum. This changed growth-inflation dynamics calls for not only continuing with the policy easing but also frontloading the rate cuts to support growth. Accordingly, the MPC voted to reduce the policy repo rate by 50 bps to 5.50 per cent. Dr. Nagesh Kumar, Prof. Ram Singh, Dr. Rajiv Ranjan, Dr. Poonam Gupta and Shri Sanjay Malhotra, voted to decrease the policy repo rate by 50 bps. Shri Saugata Bhattacharya voted for a 25 bps cut in repo rate.

10. After having reduced the policy repo rate by 100 bps in quick succession since February 2025, under the current circumstances, monetary policy is left with very limited space to support growth. Hence, the MPC also decided to change the stance from accommodative to neutral. From here onwards, the MPC will be carefully assessing the incoming data and the evolving outlook to chart out the future course of monetary policy in order to strike the right growth-inflation balance. The fast-changing global economic situation too necessitates continuous monitoring and assessment of the evolving macroeconomic outlook.

## Sell-Side Analyst Views

**BofA (Hold):** “MPC likely to see another split vote but stay on hold. We expect the August MPC to see a split vote, with two of the three external members likely voting for a cut, and one member voting for a hold. This would mean the ultimate decision will rest with RBI and especially Governor Malhotra, who in his recent communication has emphasized forward looking decision making, tilting the decision in favour of a hold, rather than a cut. Still, we believe risks of a rate cut of 25bp look non-negligible, while retaining the stance to neutral. We maintain our view of a hold at 5.50% in August, expecting RBI to eventually lean in favour of strategic patience, to observe transmission of existing cuts and measures, before choosing the future course of action.”

**COMMERZ (Hold):** “The Reserve Bank of India (RBI) surprised with a larger-than-expected cut in the policy repo rate by 50bp to 5.50%, instead of the market consensus of 25bp. The monetary policy committee voted 5-1, with the single dissent preferring a 25bp cut. RBI added that it will lower the cash reserve ratio (CRR) by 100bp to 3% in four tranches from September to November. This was last seen in 2020 and 2021, during the pandemic. This move is expected to release INR2.5tn into the banking system by December 2025. The aggressive move signals that RBI is front-loading monetary easing to support the economy. The hope is that this will speed up policy transmission, lead to lower cost of credit, and support consumption and investment. Given that headline CPI inflation stood at 3.2% yoy in April, this implies the RBI's real policy rate is around 1.3%. This is at the lower end of the RBI's estimated neutral range of 1.4-1.9%. At the same time, the RBI switched its policy stance “from accommodative to neutral” and said there “is left with very limited space to support growth”. RBI's statement also stressed the need “to stimulate domestic private consumption and investment through policy levers”. In other words, we are unlikely to see aggressive follow-up interest rate cuts. Instead, RBI may take a step back and take a measured approach. We still expect them to cut the policy rate by another 50bp by year-end. “

**DBS (Cut):** “The RBI monetary policy committee (MPC) is expected to provide clarity on the rate guidance this week. Market participants have pared bets on further cuts after a bigger 50bp rate reduction in June was accompanied by a stance change from accommodative to neutral, besides a phased reduction in the cash reserve ratio (bet Sep to Nov 2025). We have a rate cut call for the August meeting but note that recent official commentary has been cautious. Governor Malhotra said that there was room to lower rates if growth disappoints and inflation undershoots expectations but expects policy transmission to take precedence in the near-term. Inflation decelerated sharply in June (and is likely to slip below 1.5%yoy in July), which will necessitate a 40-50bp downward revision in the official CPI forecast (see note). There have also been additional headwinds from the high tariff announcement. Nonetheless, we acknowledge the risk that the cut might be deferred to the September meeting.

**GOLDMAN SACHS (Hold):** “At the August meeting, we expect the RBI to remain on hold, after a front-loaded 50bp cut in the June meeting, which brought the total quantum of policy rate easing in the current cycle to 100bp. The June meeting also saw the RBI shift its monetary policy stance from “accommodative” to “neutral,” signalling the likely end of the easing cycle. This was the third rate cut in 2025, with previous cuts occurring in February and April. The June decision also included a 1% reduction in the Cash Reserve Ratio (CRR), phased over four tranches starting September 2025, to inject approximately 1% of net demand and time liabilities (NDTL) into the banking system to boost liquidity”

**MUFG (Hold):** “The key event for markets in that context is RBI's policy meeting next week on 6 August. We expect RBI to remain on hold in the August meeting and keep its communication of a neutral policy stance and data dependent mode unchanged. Nonetheless, we think the tone of the RBI will likely also be one that communicates

and acknowledges good progress on inflation while also uneven albeit steady developments in growth, together with a nod to the risks from tariff negotiations.”

**SCOTIABANK (Hold):** “A small minority expects the Reserve Bank of India to cut its repurchase rate on Wednesday. Most expect a hold at 5.5%. Part of the reason for a hold is based on guidance provided at the June meeting. That statement said the Monetary Policy Committee “decided to change the stance from accommodative to neutral. From here onwards, the MPC will be carefully assessing the income data and the evolving outlook.” That was a change to the previous change in May when the statement read that the MPS “decided to change the stance from neutral to accommodative.” Recall that this shift was a neutral-hawkish bias on the larger than expected 50bps cut. Even the most untalented pattern spotter might conclude that this meeting could shift back to an accommodative stance. Jest aside, a limiting factor against further easing is renewed depreciation of the rupee given trade tensions with the Trump administration. The currency is back to previous weakness against the USD earlier in the year and presents upside risk to import prices passed into inflation. Hot money flows may already find the tight 100bps RBI spread over the Federal Reserve to be unappealing even without tariff risks. On that count, watch the RBI’s updated inflation forecasts particularly closely while it attempts to navigate through assumptions on volatile US-India trade policy.”

**SOCGEN (cut):** “Following a cumulative 100 basis points rate cut over three consecutive meetings and the assurance of ample liquidity in the banking system, we initially anticipated the RBI to maintain a steady stance in the August meeting. This expectation was also shaped by the weak monetary policy transmission observed so far, with only modest reductions in bank lending rates despite significant policy rate cuts. However, we have now advanced our rate cut forecast from 4Q25 to the August meeting, prompted by the unexpected imposition of a 25% tariff on India (subject to further negotiation) alongside penalties (unknown as yet) for doing business with Russia. Given the likely adverse impact of these tariffs on India’s growth prospects—potentially causing FY26 real GDP growth to fall below the RBI’s 6.5%yoy forecast—we expect the central bank to announce a 25 basis points cut in the policy rate to 5.25% from 5.50%. Moreover, our inflation tracking model indicates that July’s headline inflation will drop significantly below the lower bound of RBI’s target band of (2.0%-6.0%), reinforcing the case for a rate cut, especially as FY26 inflation too is now expected to come in below the RBI’s forecast.”

**UOB (cut) ;** “According to poll by Bloomberg (as of 1 Aug), the majority (12 of 15) expect RBI to keep its repurchase rate unchanged at 5.5% while the remaining three analysts (including UOB economist Jester Koh) expects a 25-bps rate cut to 5.25%. High-frequency daily prices indicate a weaker-than-seasonal rise in Jul food prices. Consequently, we expect overall inflation to ease to between 1.1% and 1.5% (mid: 1.3%) in Jul, despite supportive base effects. At the upcoming Aug MPC meeting, RBI is likely to revise its FY26 inflation forecast downwards from the 3.7% projected during the Jun MPC (UOB FY26 inflation est: 3.2%). High frequency indicators suggest a slower growth reading for 1QFY26 while concerns over US tariffs may further dampen growth prospects. In our view, preference to align the call rate to the policy repo rate is supportive of another 25bps policy repo rate cut in Aug.