TATA CAPITAL WEALTH

RBI MONETARY POLICY

August 2026

RBI keeps repo rate unchanged; revises inflation & growth outlook amid West Asia war

RBI keeps repo rate unchanged at 5.25% and maintains "neutral" stance

RBI Stance → **Neutral**

Key Highlights:

- Repo rate maintained at 5.25%.
- Stance remains 'Neutral'.
- FY27 growth forecast hiked to 6.7% from 6.6% earlier.
- SDF & MSF stood at 5.00% and 5.50%, respectively.
- India's CPI inflation projections for FY27 cut to 5.0% from 5.1% earlier.
- India's growth remains resilient, supported by strong domestic demand, expanding manufacturing and services activity, and robust export performance.

Policy Rates / Reserve Ratio	05 Jun '26	05 Aug '26	Status
Repo Rate	5.25%	5.25%	⟷
Standing Deposit Facility Rate (SDF)	5.00%	5.00%	⟷
Marginal Standing Facility Rate (MSF)	5.50%	5.50%	⟷
Bank rate	5.50%	5.50%	⟷
Fixed Reverse Repo Rate	3.35%	3.35%	⟷
Cash Reserve Ratio (CRR)	3.00%	3.00%	⟷
Statutory Liquidity Ratio (SLR)	18.00%	18.00%	⟷

Growth Outlook:

- Domestic economic activity remained resilient in Q1FY27, supported by strong consumption and investment trends. **Manufacturing PMI remained in expansionary territory at 54.6, while Services PMI improved to 58.7.**

- Merchandise exports recorded a strong recovery, while services exports continued to maintain momentum. Merchandise **exports grew 15.9% YoY,** while services exports increased 9.6% YoY during Q1FY27.

- **Private consumption remained healthy** with two-wheeler sales rising 15.1%, tractor sales 21.4%, and passenger vehicle sales 21.0% YoY.

- **Investment activity continued to be supported by government infrastructure spending,** with steel consumption growing 8.3% and cement production increasing 8.8% in Q1FY27.

- Risks to growth stem from renewed West Asia tensions, global financial market volatility and weather-related disruptions.

- Taking these factors into account, RBI projects FY27 real GDP growth at 6.7%, with quarterly projections of Q1: 7.0%, Q2: 6.4%, Q3: 6.5%, Q4: 6.8% and Q1 FY28: 7.3%.

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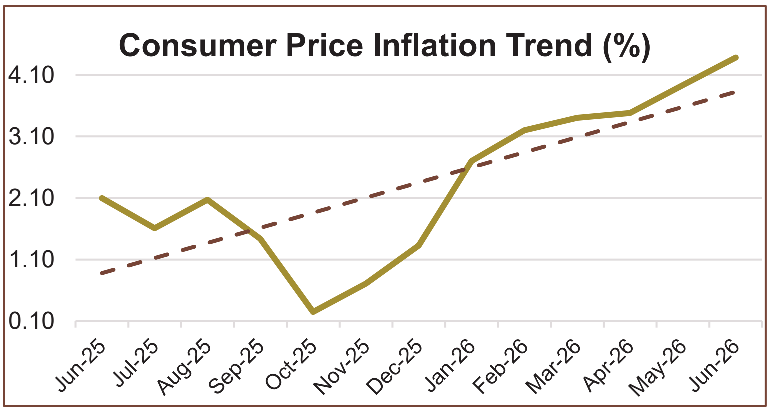
Inflation Outlook:

- **CPI inflation increased to 4.4% in June 2026,** primarily due to higher food and fuel prices. RBI projects FY27 CPI inflation at 5.0%.
- **Core inflation (inflation excluding food and energy) is projected at 4.3%** for 2026-27.



	Date	FY27	Q2FY27	Q3FY27	Q4FY27	Q1FY28
CPI Inflation Projections	05-Aug-26	5.0%	4.7%	5.9%	5.5%	5.3%
	05-Jun-26	5.1%	5.1%	5.9%	5.4%	-

Liquidity Measures:

Bank credit growth remained robust at 17.7% YoY as of 15 July 2026, compared to 9.9% a year ago. RBI did not announce any major liquidity infusion measures. The central bank reiterated that it would continue to undertake two-way liquidity operations to maintain adequate system liquidity and closely align short-term rates with the policy repo rate.

External Sector:

- The **India's current account deficit** remained contained at **0.6% of GDP in** FY26 (US$25.4 billion).
- During April-May 2026, the current account recorded a surplus of US$2.8 billion, supported by a services trade surplus of US$34.3 billion and remittances of US$29.6 billion.
- Gross FDI inflows stood at US$30.7 billion during April-June 2026, while net FDI inflows increased to US$7.9 billion from US$4.8 billion a year ago.
- **Foreign exchange reserves remained comfortable at US$692.9 billion** as on 31 July 2026, providing import cover of more than 10 months.

Source: RBI Governor's Policy Statement 05 August 2026. News articles

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Summary:

In line with market expectations, the RBI kept the repo rate unchanged at 5.25% and retained its neutral stance, citing elevated uncertainty from the ongoing West Asia conflict, volatile crude oil prices, global trade disruptions, and weather-related risks. While headline inflation is expected to rise in the near term due to food and fuel pressures, the RBI noted that core inflation remains benign and price pressures have not become broad-based, warranting a pause in policy action.

On the growth front, the RBI highlighted the resilience of the Indian economy, supported by strong domestic demand, healthy manufacturing and services activity, robust credit growth, and improving exports. Despite external headwinds and geopolitical uncertainties, the central bank projects FY27 GDP growth at 6.7% and inflation at 5.0%, while reiterating its commitment to maintaining macroeconomic stability and responding appropriately to evolving growth and inflation dynamics.

Source: RBI Governor's Policy Statement 05 August 2026. News articles

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