RBI MPC keeps repo rate steady at 5.5% amid tariff threats

RBI's Stance	→	Neutral

Key Highlights:

- **Repo rate unchanged at 5.5%.**
- **Monetary policy stance remains 'Neutral'.**
- **SDF & MSF stood at 5.25% and 5.75%, respectively.**
- **For FY26, MPC has now projected inflation at 3.1% as against 3.7% forecasted in June.**
- **The RBI stated the global environment continues to be challenging and that trade negotiation and market volatility continue to linger. For FY26, Real GDP growth projection unchanged at 6.5%.**

Policy Rates / Reserve Ratio	06 Jun '25	06 Aug '25	Status
Cash Reserve Ratio (CRR)	3.00%	3.00%	⟷
Statutory Liquidity Ratio (SLR)	18.00%	18.00%	⟷
Standing Deposit Facility Rate (SDF)	5.25%	5.25%	⟷
Repo Rate	5.50%	5.50%	⟷
Marginal Standing Facility Rate (MSF)	5.75%	5.75%	⟷
Bank rate	5.75%	5.75%	⟷
Fixed Reverse Repo Rate	3.35%	3.35%	⟷

The RBI's retention of the growth forecast for the current year comes days after the International Monetary Fund (IMF) raised its own forecast for India to 6.4% for both FY26 & FY27 on account of easing global trade tensions. However, U.S. President Donald Trump announced a 25% tariff in India- along with an additional but unspecified 'penalty' for its defence and energy imports from Russia. Since then, the U.S. President has threatened to raise the tariff on Indian goods substantially.

Growth Outlook:

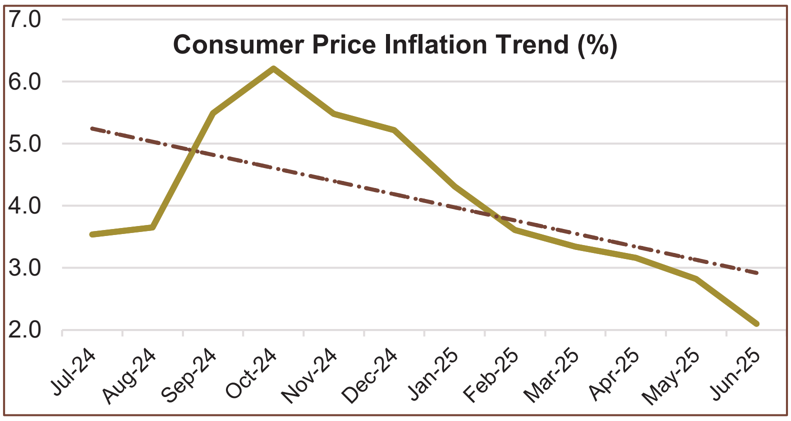
- Domestic growth remains resilient and is broadly evolving along the lines of MPC's assessment. **Private consumption, aided by rural demand, and fixed investment, which is supported by large government capex, continues to boost the Indian economic activity.**
- On the supply side, **a steady south-west monsoon is supporting kharif sowing, replenishing reservoir levels and boosting agricultural activity. Services sector and construction activity remain robust. However, growth in industrial sector remained subdued and uneven across segments, pulled down by electricity and mining.**
- Prospects of external demand remain uncertain amidst ongoing tariff and trade negotiations. **Headwinds such as geopolitical tensions, persisting global uncertainties, and volatility in global financial markets pose risks to the growth outlook.**
- Considering all these factors, **Real GDP growth for FY26 has been retained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6% and Q4 at 6.3%.**

	Date	FY26	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Growth Projections	06-Aug-25	6.5%	6.5%	6.7%	6.6%	6.3%	6.6%
	06-Jun-25	6.5%	6.5%	6.7%	6.6%	6.3%	--

Source: RBI Governor's Statement 6 August 2025. News articles

Inflation Outlook:

- **CPI headline inflation declined for the eight consecutive month to a 77-month low of 2.1% in June 2025.** This was driven primarily by a sharp decline in food inflation led by improved agricultural activity.
- **Core inflation, which remained within a narrow range of 4.1%-4.2% during February-May, increased to 4.4% in June, driven partly by a continued increase in gold prices.**
- Assuming a normal monsoon, **CPI inflation for FY26 is now projected at 3.1%.**



Source: RBI - DBIE

	Date	FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
CPI Inflation Projections	06-Aug-25	3.1%	2.1%	3.1%	4.4%	4.9%
	06-Jun-25	3.7%	3.4%	3.9%	4.4%	--

Source: RBI Governor's Statement 6 August 2025. News articles

Other Update:

The RBI also announced that it will expand the functionality of its retail direct platform to enable retail investors to invest in treasury bills (T-Bills) through the SIP route. The upgrade is aimed at simplifying government securities (G-Secs) investment for individual investors.

Summary:

After delivering a cumulative 100 bps of rate cuts already this year, the RBI's decision to hold the repo rate steady is a case of "wait-and-watch" approach.

The RBI governor said that the committee did not revise the GDP forecast as the previous change had already factored in some of the global uncertainties. The MPC believes that the growth is expected to see some pick-up in the coming festive season. On the other hand, the central bank has lowered its full year inflation outlook further to 3.1 percent from 3.7% earlier, and also for Q2 and Q3FY26, driven mainly by lower food inflation that entered deflationary territory in June. However, it believes the CPI inflation is likely to edge up above the 4% target from Q4 onwards.

While, market participants believe a 25% tariff rate on India, which is higher than many of its Asian rivals, could impact the growth by as much as 30 bps.

06 August 2025

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