

RBI Monetary Policy Committee (MPC) Announcement (What We Can Infer ?)



भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

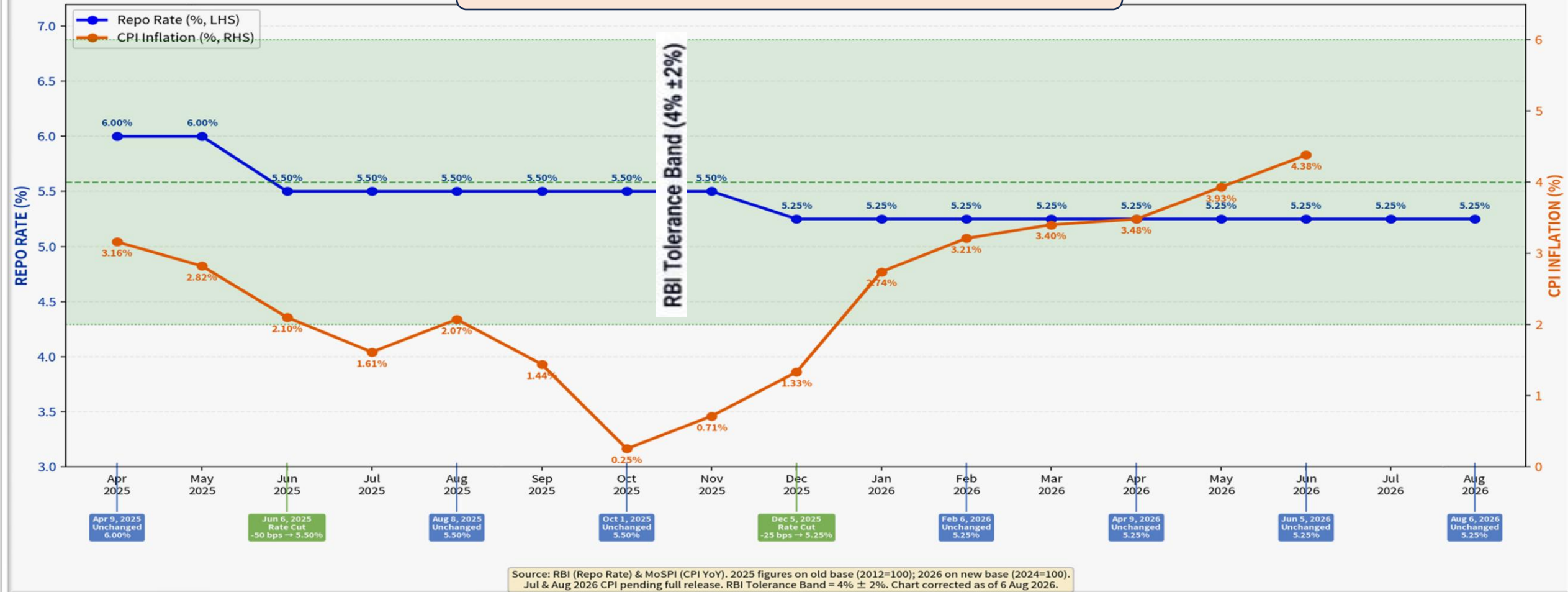


CANARA BANK | ECONOMIC RESEARCH VERTICAL | HEAD OFFICE
07.08.2026

Why Policy Rate Pause ?

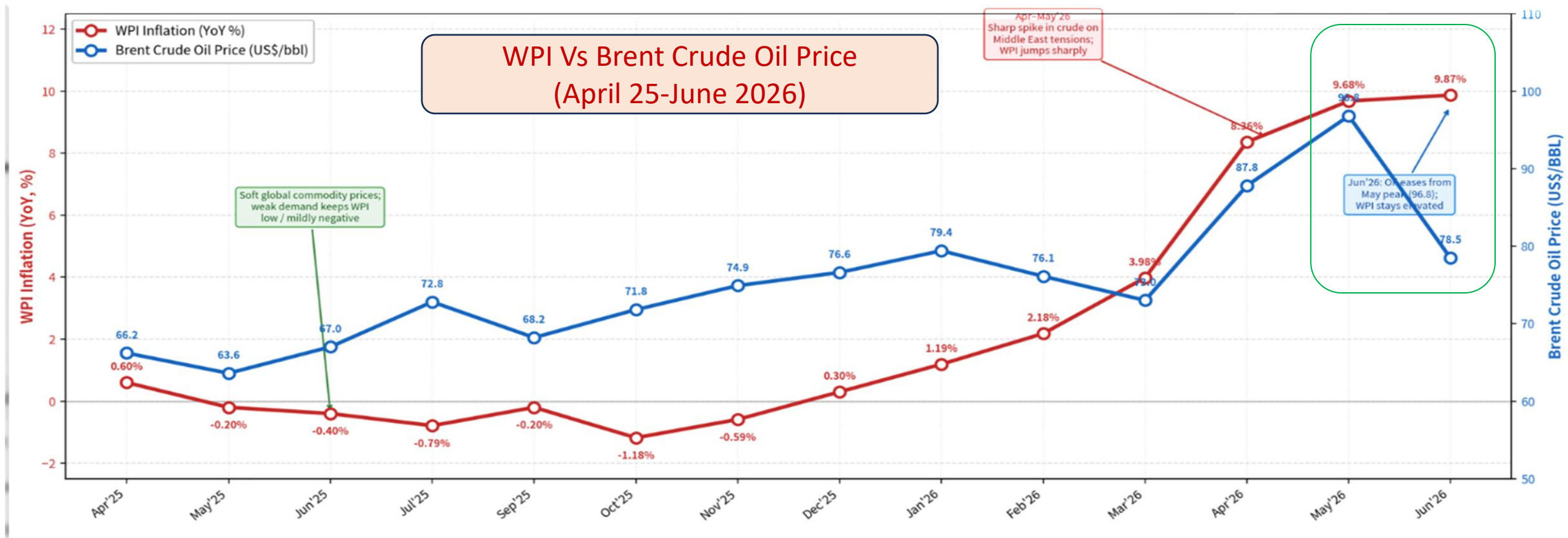
Why Despite Rising CPI , Policy Rate has been kept on Hold !

Repo Rate Vs CPI (April 2025 to July 2026)

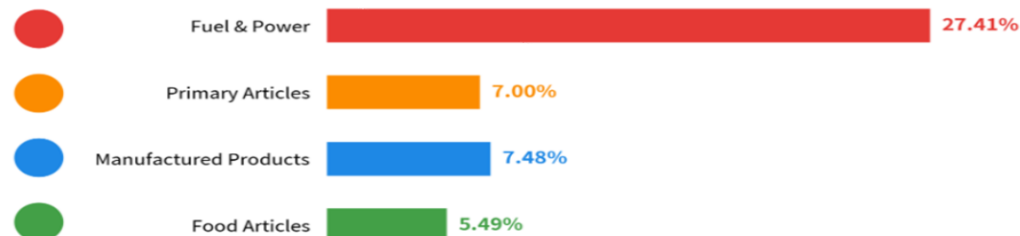


Because ... CPI is Still Well Within the RBI Tolerance Limit !

WPI Vs Crude Oil Price Movement Suggests Supply Shock : It Justifies Policy Rate Pause



WPI COMPOSITION – JUNE 2026 (YoY % CHANGE)



Fuel & Power is the largest contributor to WPI inflation in June 2026

- ❑ Price Rise is only Temporal due to Supply Shock of increased crude Oil Price
- ❑ Policy Choice of Economic Growth Over Temporal Price Rise.

How Much Oil Price Rise has Impacted India's Price Since April 2025 ?

Oil Price Rise Addition to CPI	
Parameter	Value
Oil price (April 2025)	\$60/bbl
Oil price (July 2026)	\$85/bbl
Absolute rise	\$25/bbl
% Increase	41.67%
Estimated impact on Headline CPI	+0.83 percentage points
Impact in basis points	83 bps

As per RBI elasticity (July 2025 Bulletin – Kundu, Tewari & Bhattacharyya) :

A 10% rise in global crude oil prices raises headline CPI by ≈ 20 basis points. → Elasticity ≈ 2 bps per 1% oil price rise.



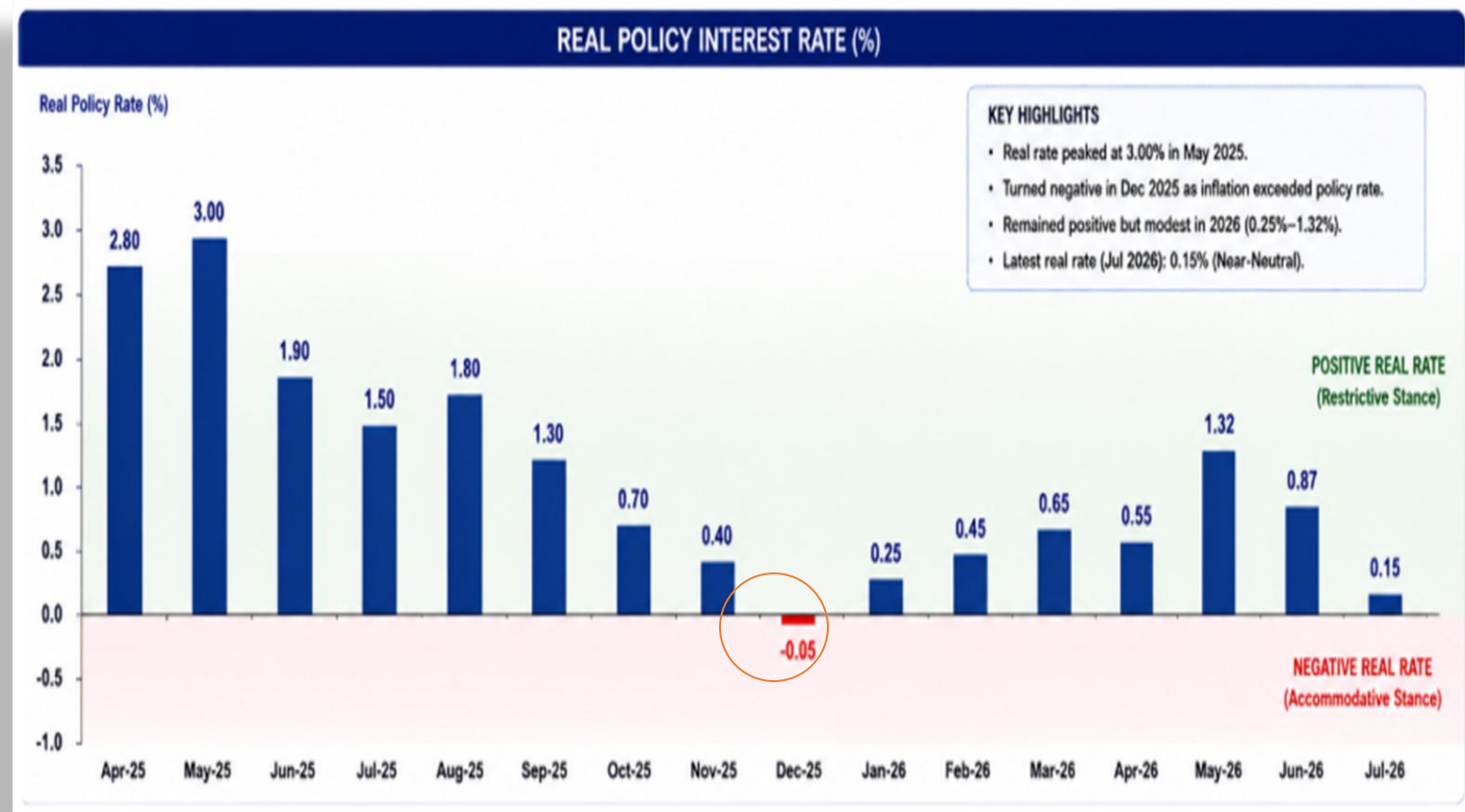
Actual CPI Data Released		
Month	April 2025	June 2026
Headline CPI Inflation (YoY)	3.16%	4.38 %

Calculation of Impact of OIL PRICE Rise on CPI	
Month	Calculation
a. CPI (April 2025)	3.16 %
b. Price Rise burden on CPI	+ 0.83%
c. CPI Including Oil Inflation (a+b)	3.99%
d. Food Inflation +Other Inflation	+0.39%
e. June 2026(e=c+d) (latest available)	4.38%

Whether Goldilocks Period is Over ?

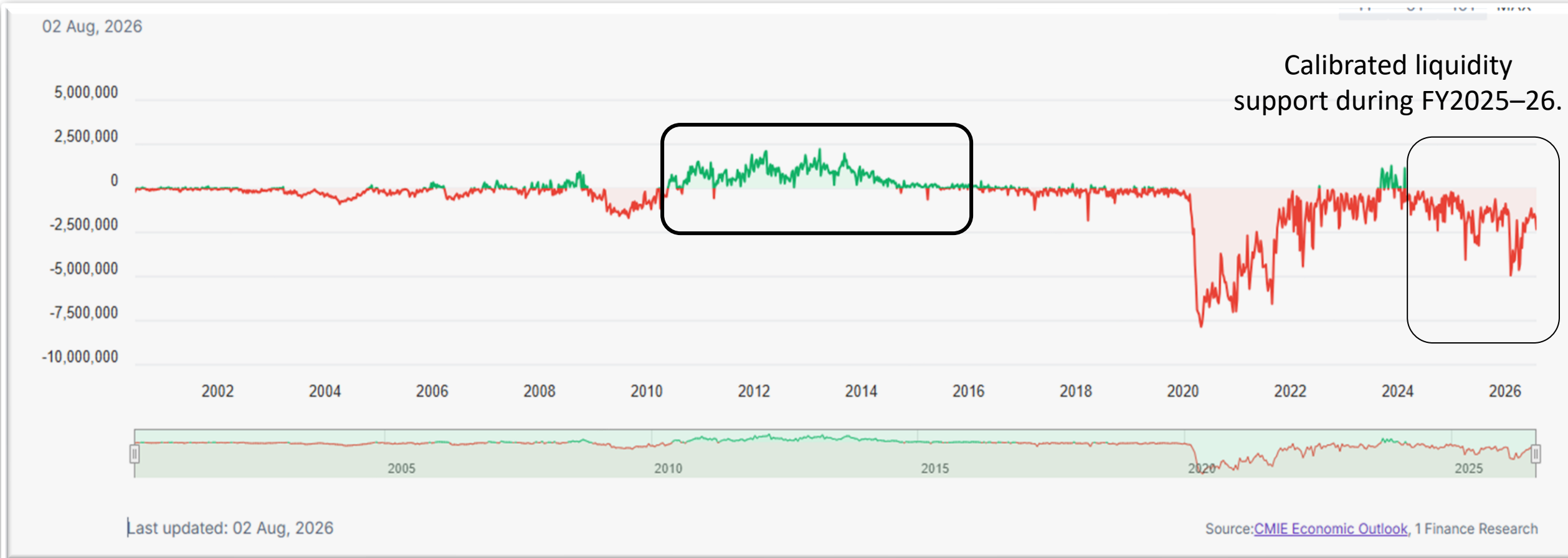
Month	Repo Rate (%)	CPI Inflation (%)	Real Policy Rate (%)
Apr-25	6.00	3.20	2.80
May-25	6.00	3.00	3.00
Jun-25	5.50	3.60	1.90
Jul-25	5.50	4.00	1.50
Aug-25	5.50	3.70	1.80
Sep-25	5.50	4.20	1.30
Oct-25	5.50	4.80	0.70
Nov-25	5.50	5.10	0.40
Dec-25	5.25	5.30	-0.05
Jan-26	5.25	5.00	0.25
Feb-26	5.25	4.80	0.45
Mar-26	5.25	4.60	0.65
Apr-26	5.25	4.70	0.55
May-26	5.25	3.93	1.32
Jun-26	5.25	4.38	0.87
Jul-26* (Estimated)	5.25	5.10	0.15

Narrowing Gap



Yes ...Real Policy Rate is sometimes Negative or Almost Zero .So Deposit Mobilization become more challenging as real returns compress.

Liquidity Over The Years ... Why Selective Approach in Recent Years ?



RBI's Approach

- ❑ The goal is to ensure sufficient (not excessively loose or tight) liquidity so that WACR stays aligned with the repo rate
- ❑ Recent surplus (partly linked to FCNR(B) inflows and other measures) is expected to be temporary — it may peak around September 2026 (Q2 FY27) and then get absorbed through normal economic needs (rise in currency in circulation, higher reserve requirements with deposit growth, and maturing forex forwards).
- ❑ The impact is seen as marginal rather than substantial.

WACR Vs Repo Rate : How has been the Liquidity Management of The RBI so far ?

Month / Period	WACR Average (%)	Repo Rate (%)	SDF Rate (%)	MSF Rate (%)	Spread (WACR - Repo)	Remarks
	(A)	(B)	(C)	(D)	(E =B-A)	
April 2025	5.94	6.00 (from 9 Apr)	5.75	6.25	Mostly negative	Near or below repo
May 2025	5.82	6.00	5.75	6.25	Negative	—
June 2025	5.38	5.50 (from 6 Jun)	5.25	5.75	Negative to near	—
July 2025	5.38	5.50	5.25	5.75	Negative	—
Later 2025 (post cuts)	Declining 5.3–5.5	Falling to 5.25	Falling to 5.00	Falling to 5.50	Varied	Corridor contained
June–July 2026 (since June MPC)	5.31	5.25	5.00	5.50	+6 bps	Official average from Aug 2026 MPC
July 2026	5.28	5.25	5.00	5.50	+3 bps	DBIE / WSS snapshot
Early August 2026 (latest)	5.05	5.25	5.00	5.50	–20 bps	Close to SDF due to large surplus

The Mechanism :

☐ WACR close to the repo rate → Ideal alignment (good transmission).

☐ WACR near or below the SDF → System is flush with surplus liquidity.

☐ WACR near or above the MSF → System is facing tight/deficit liquidity.

RBI’s objective remains aligning WACR with the policy repo rate for Better Liquidity Management

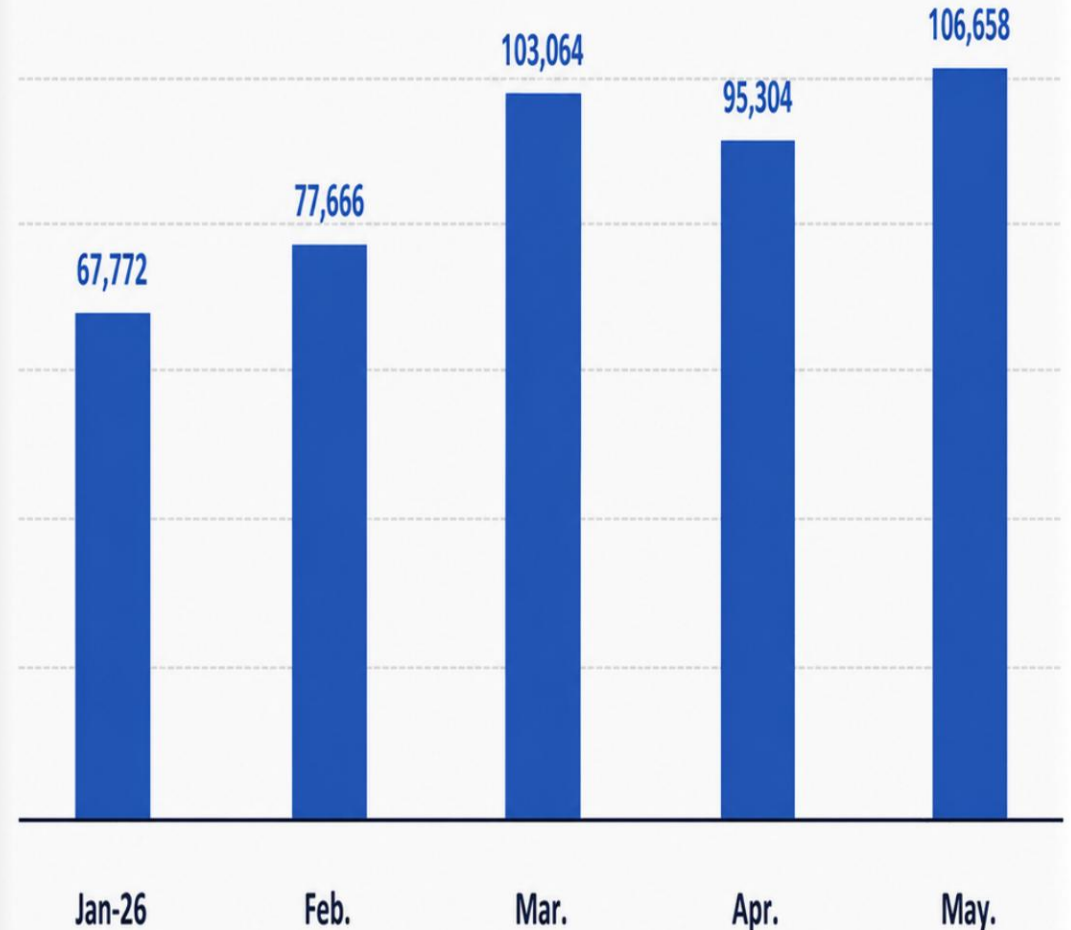
Source : <https://en.macromicro.me/series/6980/india-weighted-average-call-money-rate>

Maturity Breakdown (by Residual Maturity) of Outstanding Forwards of RBI (US \$ Million)

Item	As on May 31, 2026		
	Long (+)	Short (-)	Net (1-2)
	1	2	3
1. Upto 1 month	0	19823	-19823
2. More than 1 month and upto 3 months	0	8860	-8860
3. More than 3 months and upto 1 year	0	21903	-21903
4. More than 1 year	0	56072	-56072
Total (1+2+3+4)	0	106658	-106658

- ❑ The net short forward position has been increasing over time reaching \$106 bn in May 2026
- ❑ This implies obligation to sell dollars forward. This might strain the quality of reserves unless replenished.
- ❑ Almost \$30bn of outstanding forwards are maturing in 1 yr (8.8bn +21.9bn) which might keep liquidity under pressure

OUTSTANDING NET FORWARD SALES (US \$ MILLION)



- ❑ Surplus liquidity in the range of 0.6 to 1.1 per cent of NDTL is likely to keep the spread between 5 to 10 bps below the repo rate, while liquidity deficit in the range of 0.4 to 0.7 per cent of NDTL is likely to keep the WACR above the repo rate between 5 to 10 bps.
- ❑ keeping the WACR aligned to the repo rate entails different levels of liquidity in deficit and surplus conditions

Calculation as on 31.07.2026

- ❑ NDTL = 284.26 Lakh Cr.
- ❑ Optimal Level of Liquidity Surplus = 3.12 Lakh Cr.
- ❑ Optimal Level of Liquidity Deficit = 1.98 Lakh Cr.

Will FCNR flows lead to surplus liquidity by October?

	Injections	Rs.lakh Cr
1	FCNR+ECB/OFCB-\$65bn	6.65
2	Deposit growth @1% monthly less CRR	6.42
3	Less advance tax	-3.00
4	Less LIC OFS/NSE/Jio	-0.66
5	Less outflows due to currency in circulation	-1.00
6	Less credit growth	-6.84
7	Short forward maturity upto 3M	-0.85
	Net liquidity position by Oct'26	+0.27
	Liquidity as % of NDTL	0.1%

- ☐ Liquidity surplus expected to be marginal in October despite FCNR flows
- ☐ Tax outflows, lagging deposit growth and outflows due to IPOs to weigh

Gold Reserve Status : Any Change in Reserve ?

Period	Gold Holdings (Tonnes)	Value (US\$ bn)	Value (₹ lakh crore)*	Gold Share in Forex Reserves
Apr-2025	879.6	79.8	6.78	11.8%
May-2025	880.0	81.8	6.91	12.0%
Jun-2025	880.5	84.5	7.18	12.1%
Jul-2025	880.5	87.3	7.44	12.1%
Aug-2025	880.2	89.6	7.71	12.5%
Sep-2025	880.2	92.3	8.02	13.9%
Oct-2025	880.2	95.4	8.39	14.5%
Nov-2025	880.2	98.6	8.74	15.0%
Dec-2025	880.2	103.8	9.25	15.6%
Jan-2026	880.5	108.7	9.79	16.1%
Feb-2026	880.5	112.3	10.22	16.5%
Mar-2026	880.52	120.2	11.25	16.7%
Apr-2026	880.52	121.3	11.25	17.0%
May-2026	880.52	112.6	10.55	16.8%



It Reflects India's stronger reserve position.

KEY MACRO INDICATORS OVER TIME

Brent Crude Oil (USD/BBL) | 10Y G-Sec Yield (%) | USD/INR Exchange Rate

PERIOD COVERED
Apr 2025 – Jul 2026



BRENT CRUDE OIL (USD/BBL)

Latest (01-Jul-2026)
90.12

Period High
114.01
(01-Apr-2026)

Period Low
60.49
(01-Dec-2025)



10Y G-SEC YIELD (%)

Latest (01-Jul-2026)
6.833%

Period High
7.018%
(01-Apr-2026)

Period Low
6.210%
(01-May-2025)

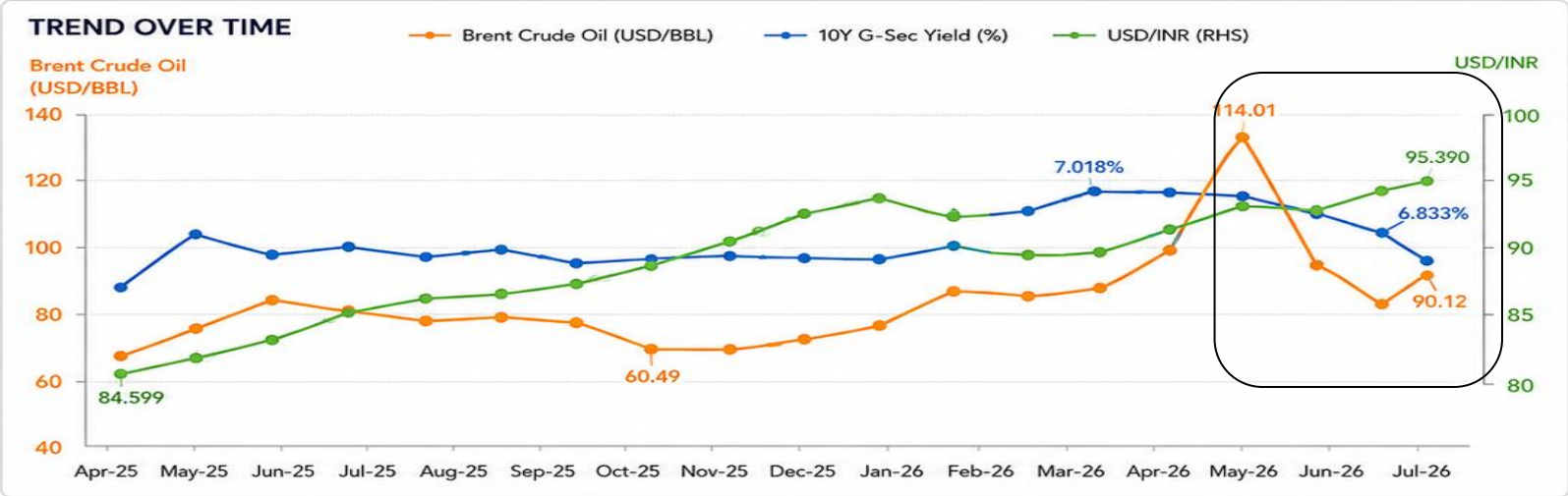


USD/INR EXCHANGE RATE

Latest (01-Jul-2026)
95.390

Period High
95.390
(01-Jul-2026)

Period Low
84.599
(01-Apr-2025)



MONTHLY DATA

Date	Brent Crude Oil (USD/BBL)	10Y G-Sec Yield (%)	USD/INR
01-Jul-2026	90.12	6.833	95.390
01-Jun-2026	72.92	6.753	94.665
01-May-2026	92.05	7.003	95.010
01-Apr-2026	114.01	7.018	94.910
01-Mar-2026	103.97	6.961	93.485
01-Feb-2026	72.87	6.661	91.076
01-Jan-2026	70.69	6.695	91.694
01-Dec-2025	60.49	6.588	89.871
01-Nov-2025	62.38	6.528	89.357
01-Oct-2025	64.77	6.529	88.769
01-Sep-2025	67.02	6.571	88.841
01-Aug-2025	68.12	6.588	88.174
01-Jul-2025	71.70	6.376	87.524
01-Jun-2025	67.61	6.316	85.700
01-May-2025	63.90	6.210	85.525
01-Apr-2025	63.12	6.352	84.599



KEY INSIGHTS

- Brent crude oil peaked at 114.01 USD/BBL in Apr 2026, supported by geopolitical tension and supply constraints.
- 10Y G-Sec yield remained range-bound between 6.21% and 7.02% during the period.
- USD/INR strengthened from 84.60 in Apr 2025 to a high of 95.39 in Jul 2026, reflecting broad USD strength.

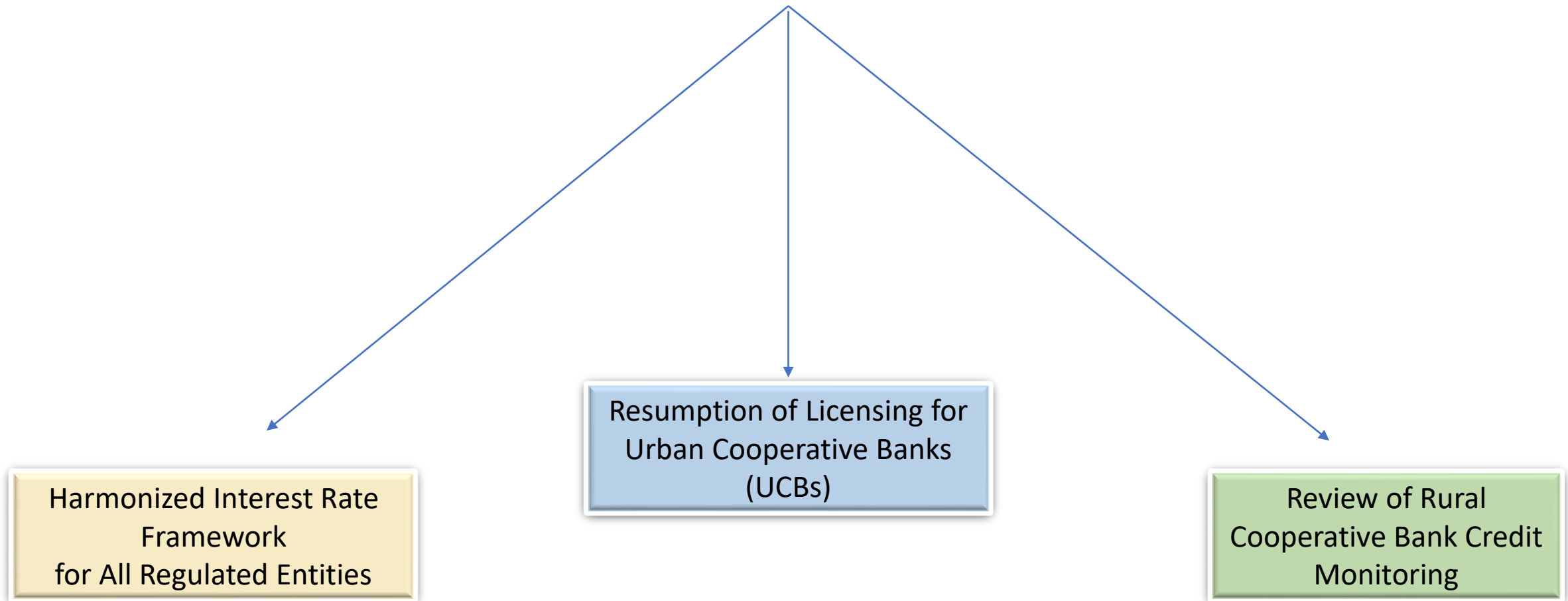
Source: Bloomberg | RBI | Investing.com

Note: G-Sec Yield = 10 Year Government Security Yield

Since April 2025 , G Sec Yield has not responded proportionately to the Decrease in the Price of Crude Oil .

Despite fall in the price on crude oil, Rupee remained weak and yield on higher side.

Next Policy Move to be Taken By RBI



Initiative

Harmonized Interest Rate
Framework
for All Regulated Entities

Resumption of Licensing for
Urban Cooperative Banks
(UCBs)

Review of Rural
Cooperative Bank Credit
Monitoring

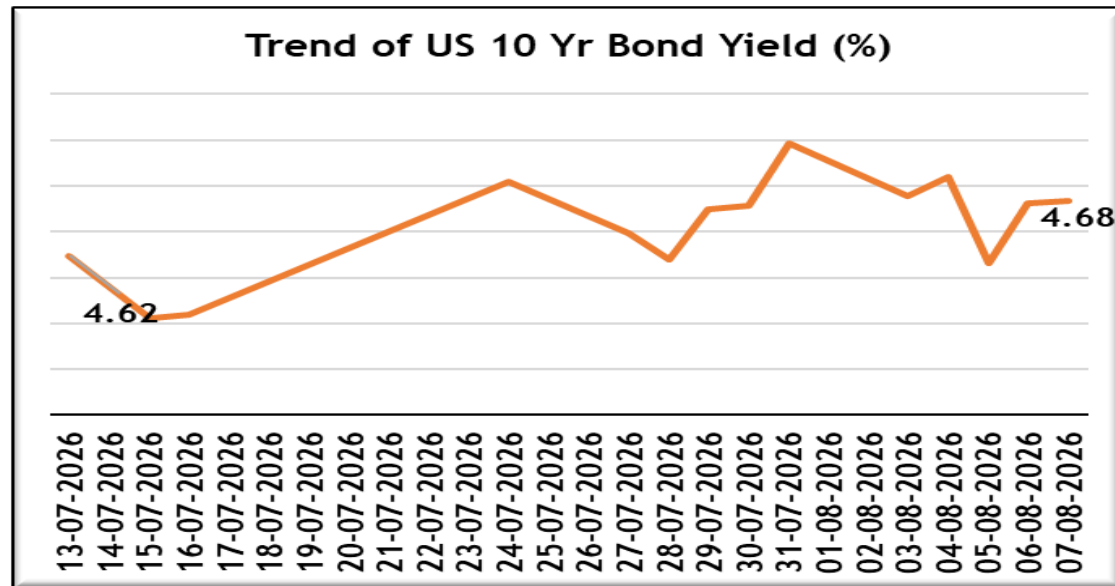
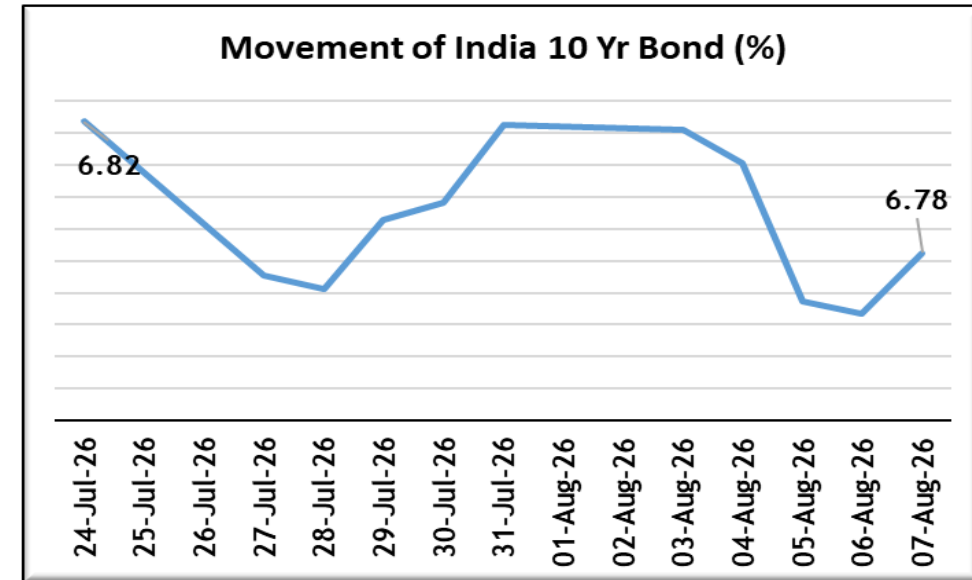
Implications for FIs

- ❑ Possible changes to internal pricing frameworks.
- ❑ Review of EBLR, MCLR and other benchmark-linked loan products.
- ❑ Enhanced governance over loan pricing and transmission

- ❑ Greater competition in semi-urban and urban retail markets.
- ❑ Opportunity for partnerships and correspondent banking.

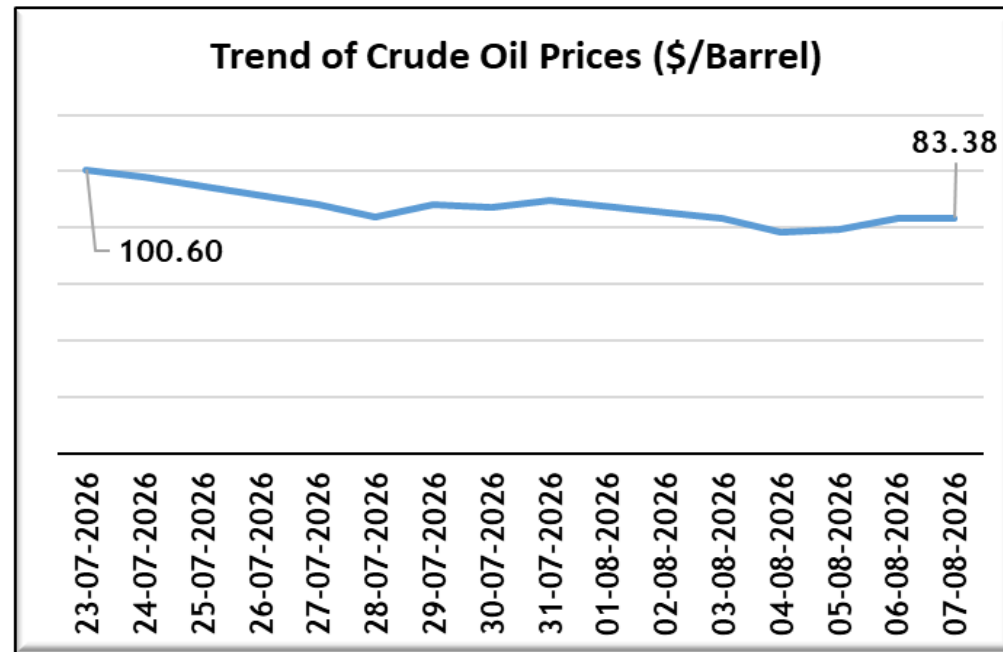
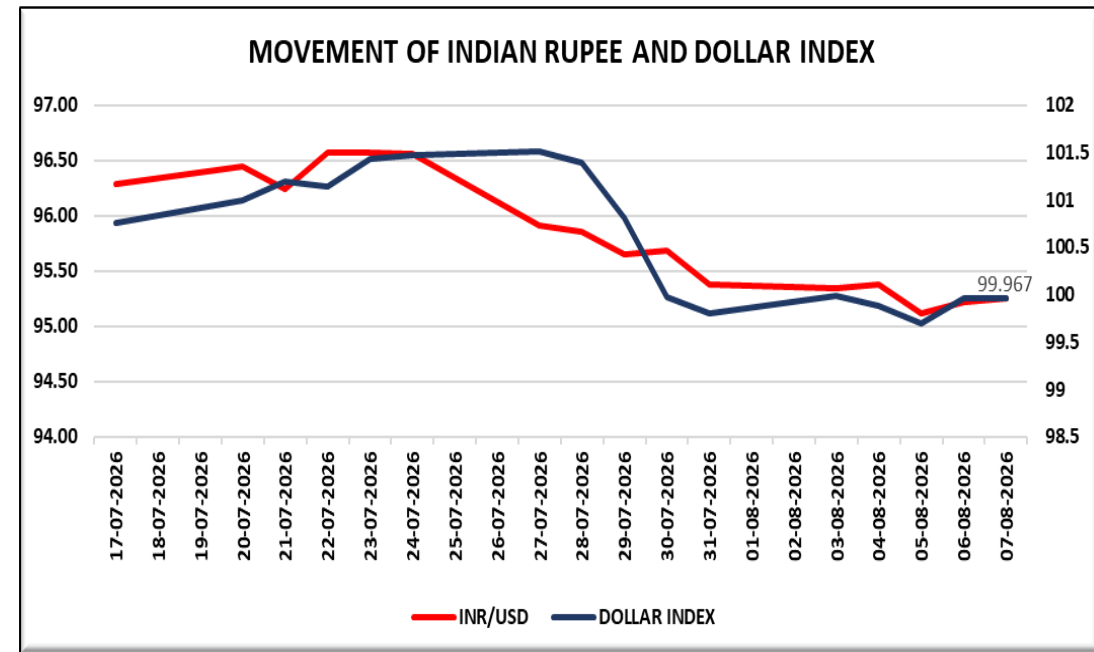
- ❑ Better financial stability within the cooperative banking ecosystem.
- ❑ Reduced systemic contagion

- ❑ **Last day (06th August):** Indian government bond yield closed flat Investors remain cautious, however, as New Delhi prepares for a significant bond auction on Friday. This auction will test market demand and the sustainability of the recent bond price gains.
- ❑ Today 10 yr benchmark bond yield is trading at 6.78%.

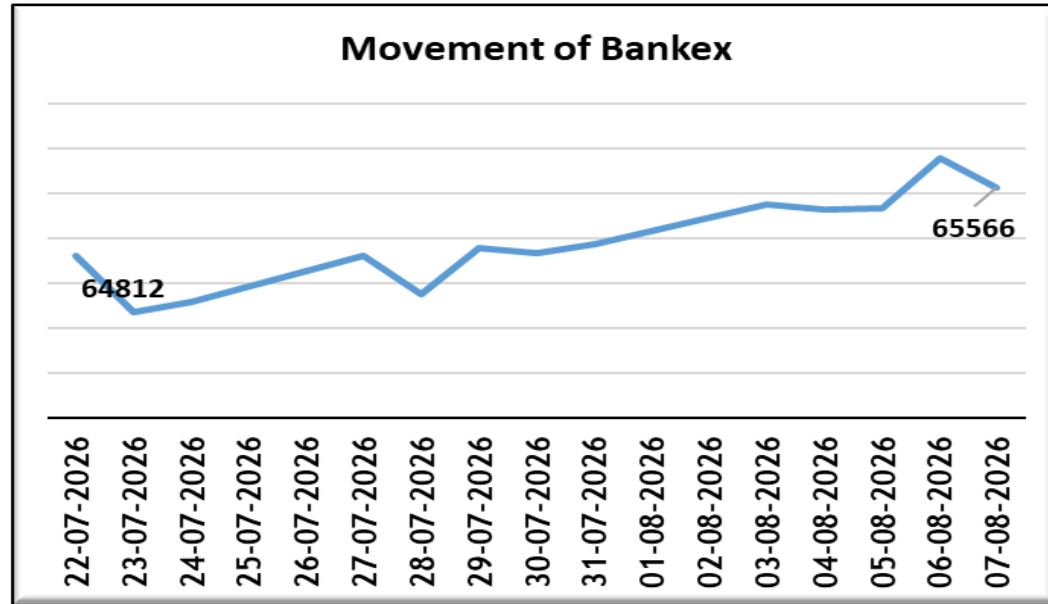
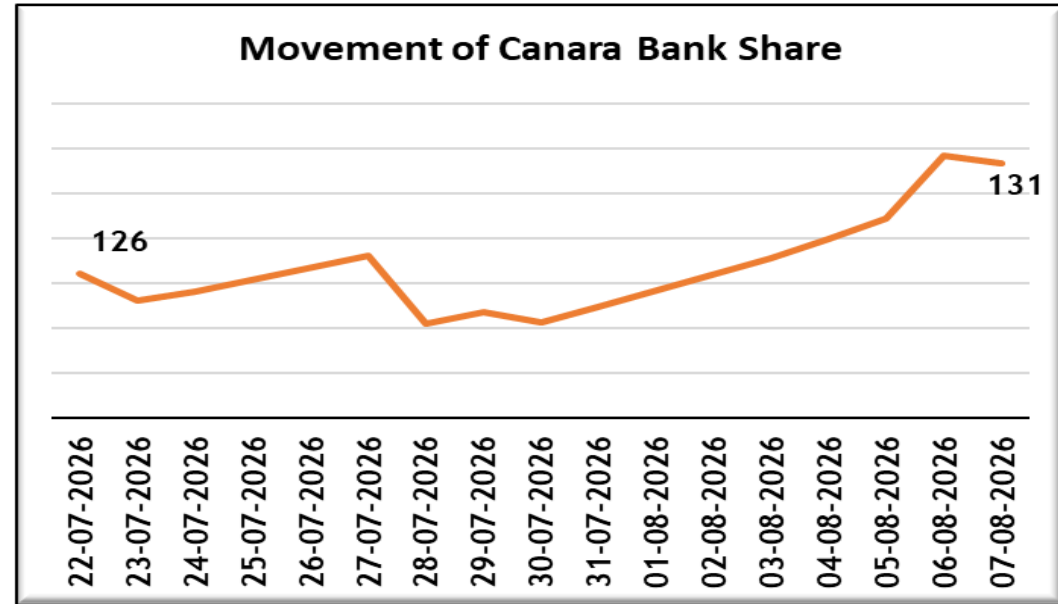


- ❑ Today Gold per Troy Ounce (USD)- 4263.07
- ❑ Today Silver per Troy Ounce (USD)- 62.28

- ❑ **Last day (06th August) :** The Indian rupee marginally depreciated against the dollar, pressured by a slight recovery in the U.S. dollar index and foreign fund outflows, even as lower crude oil prices provided some underlying support.
- ❑ Today rupee is trading at **95.26\$**.



- Depreciation bias for INR expected and INR outlook depends on
 - ❑ US rates and dollar Index, India's GDP outlook, RBI intervention, Year end dollar demand by importers



- ❑ **Last day (06th August):** Indian equity market closed positive, support from the moderation in crude oil prices, aided by intensified diplomatic efforts to restore regional stability and normalize shipping activity through the Strait of Hormuz. The positive sentiment was further reinforced by the RBI's steady policy stance and constructive growth outlook, prompting selective buying in heavyweights, banking and energy stocks.
- ❑ Bankex closed at 65,893 Canara Bank closed at 131.70.
- ❑ Today Bankex is trading at 65,566 and Canara Bank share is trading at 131.35.

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Economic Research Vertical

Madhavankutty G (Chief Economist)

Samir Kumar (Senior Manager)

For Suggestions and views please contact, Economic Research Vertical

 080-2222 3169 (Chief Economist)
080-2227 3275 (Section)

 chiefeconomist@canarabank.com
hoersection@canarabank.com