

Implications of August-2026 MPC

The Monetary Policy Committee (MPC), at its Aug-2026 meeting, **maintained status quo on policy rates, keeping the repo rate unchanged at 5.25% and retaining a ‘neutral’ policy stance.** 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.

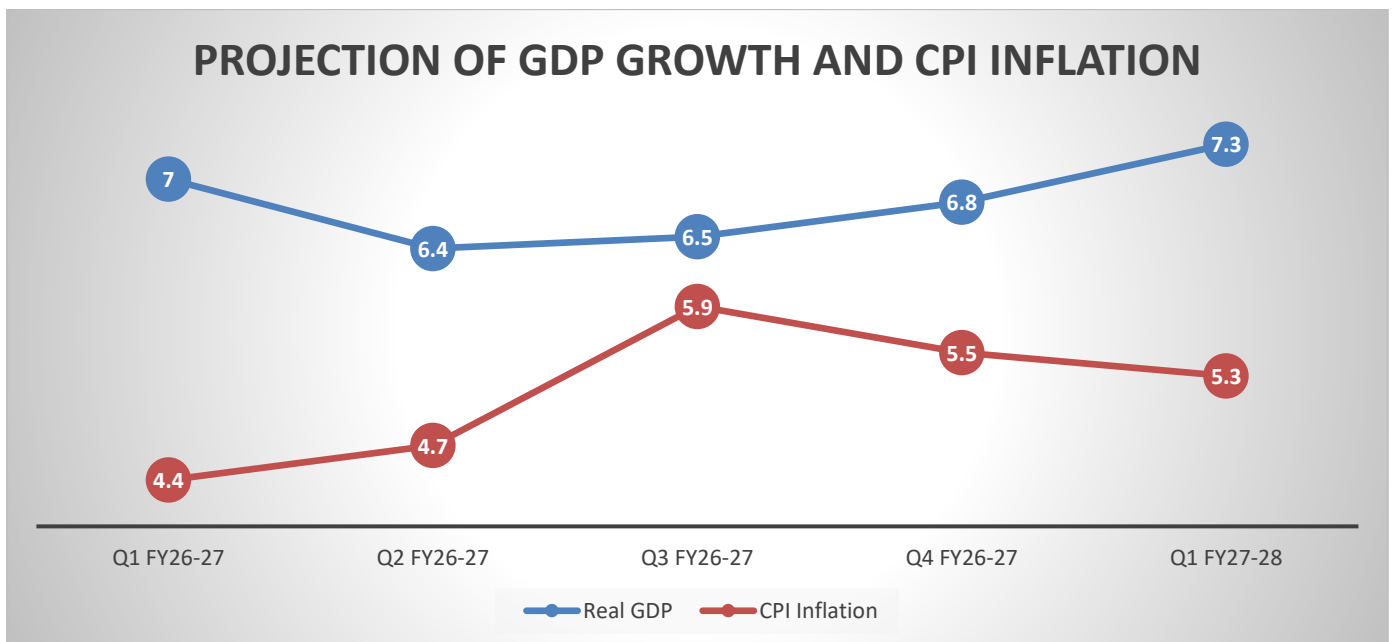
The combination of 5% retail inflation (CPI) and 6.7% real GDP growth projection for FY 2026-27 is in line with expectations. Core inflation is projected at 4.3 per cent for 2026-27.

With CPI inflation forecast of 5% and repo rate is kept unchanged at 5.25%, real interest rate would be 25 bps which is very low and if inflation surprises on the upside real interest rate could turn negative. Reiteration of commitment to maintain orderly liquidity conditions will facilitate weighted average call rate to remain within the SDF-MSF corridor.

FY 2026-27 Growth forecasts & CPI Inflation

	FY26-27	Q1 FY26-27	Q2 FY26-27	Q3 FY26-27	Q4 FY26-27	Q1 FY27-28
Real GDP	6.7	7	6.4	6.5	6.8	7.3
CPI Inflation	5	4.4*	4.7	5.9	5.5	5.3

*Actual CPI Inflation



Growth and Inflation Outlook

India's economic outlook remains resilient despite an uncertain global environment. Strong domestic demand, supported by robust private consumption, resilient investment, healthy bank credit growth, and continued government infrastructure spending, is expected to sustain economic activity during FY2026-27.

Services exports remain a key growth driver, while merchandise exports are likely to benefit from recent trade agreements and export diversification initiatives. However, elevated global energy prices, supply chain disruptions, and geopolitical uncertainties continue to pose downside risks. In addition, deficient

and uneven south-west monsoon conditions associated with El Niño may affect agricultural output and rural demand, although government measures such as climate-resilient crops, crop diversification, and water conservation are expected to mitigate these risks.

On the inflation front, price pressures have increased due to higher food and fuel costs, while underlying demand-driven inflation remains contained. Core inflation, particularly excluding precious metals, continues to indicate moderate domestic demand conditions. Going forward, inflation will be influenced by weather conditions, global commodity prices, and geopolitical developments. Overall, both growth and inflation are expected to remain broadly balanced, with risks evenly distributed around the baseline projections.

Statement on Developmental and Regulatory Policies

- RBI has decided to restart the licensing of new Urban Co-operative Banks on an '**on-tap**' basis after nearly 20 years. Draft guidelines will be issued soon for public consultation, aiming to strengthen and expand the co-operative banking sector.
- RBI will revise the **2008 Credit Monitoring Arrangement (CMA)** guidelines to reflect the changing size and structure of Rural Co-operative Banks. The review aims to support sector growth while improving prudential safeguards against excessive lending concentration.
- RBI will introduce a **principle-based framework** to harmonise loan interest rate regulations across all regulated entities. The proposed changes will improve transparency, standardise lending practices, strengthen monetary policy transmission, and enhance consumer protection through clearer loan pricing norms.

Implications on the Indian Rupee

The RBI's decision to keep the **repo rate unchanged at 5.25%** implies that **domestic financial markets have no surprises in the policy**.

However, the rupee will continue to be influenced by global factors such as U.S. interest rates, crude oil prices, capital flows, and the deferment of India's inclusion in the Bloomberg Global Aggregate Index. Rising bond yields in advanced economies could exert downward pressure on Rupee through capital outflows.

Impact of Previous MPC announcements

RBI Has taken important measures in June MPC to support the economy and stabilise financial markets. This includes dispensation to FAR category bonds, FCNR(B) Deposit scheme, External Commercial Borrowings (ECBs) and Overseas Foreign Currency Borrowings (OFCBs) under subsidised route

The mobilisations are as below:

Monthly FAR Net Investments (Calendar Year - 2026) USD Million		
Calendar Year	Debt-FAR	
January		1461
February		949
March		-1246
April		-14
May		462
June		2273
July		322
August **		56
Total - 2026		4263
Source: NSDL As on 4-Aug-2026		

Deposit Mobilised after RBI SWAP Facility	
Type	Amount (USD million)
FCNR(B) Deposits	36725
OFCBs	2575
ECBs	1516
Total	40816

Source: RBI

As On 01-Aug-2026

- The RBI's swap facility enabled banks to mobilise **USD 36.7 billion** in foreign currency resources, significantly improving foreign currency liquidity.
- Strong mobilisation of FCNR(B) deposits (around 90% of total inflows) reflects increased confidence among NRIs and overseas investors along with higher rates.
- The additional foreign currency resources reduced funding costs and strengthened banks' capacity to finance trade and foreign currency lending.
- Improved liquidity and diversified funding sources enhanced banks' balance sheet resilience and treasury operations. Liquidity position became more comfortable

Overall Implications of the policy

- Upward revision to GDP growth could imply strong credit growth in FY27. Despite being seasonally a lean quarter bank credit grew 15-16% in April-June of the current fiscal. As geo political tensions abate and rates are on hold both consumption and investment is expected to maintain the momentum. A nominal GDP growth rate of 11-12% will easily lead to bank credit growth of 15-16%.
- Bond yields softened post the policy. Crude falling below \$80 per barrel will provide big comfort to the bond markets. However, policies pursued by developed country central banks will also determine domestic bond yields. If the Federal Reserve hikes Fed fund rate, domestic bond yields could harden notwithstanding other enablers. However, if bond yields harden corporates could flock towards banks to meet their funding requirements.
- The policy tone is dovish judging by inflation projections. However, a neutral stance provides flexibility on rate trajectory by basing the decision data dependent. If geo political conflict worsens or monsoon turns out to be much below expectations a rate hike can come as early as October.



- RBI has stated its endeavour to maintain orderly liquidity conditions. But persistent wedge between credit growth and deposit growth could act as a constraint. Liquidity surplus has not touched the optimum level of 1% of NDTL that works out to Rs 2.7 lakh crore. Once the FCNR (B) scheme stops RBI might have to resort to its usual fine-tuning operations to maintain comfortable liquidity.

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Economic Research Vertical
