

Fig 1: Macro projections, Aug'25 vs Jun'25 MPC

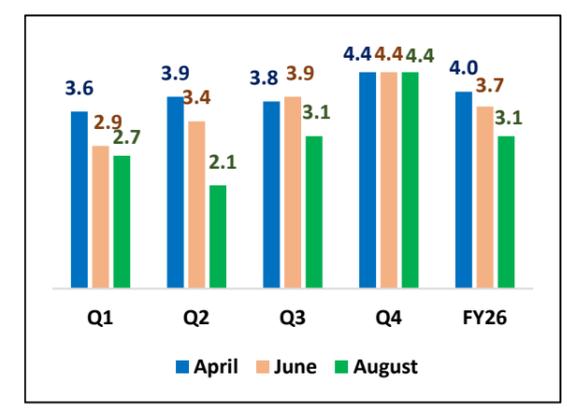
RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Jun'25	Aug'25	Jun'25	Aug'25
Q1	6.5	6.5	2.9	2.7 (actual)
Q2	6.7	6.7	3.4	2.1
Q3	6.6	6.6	3.9	3.1
Q4	6.3	6.3	4.4	4.4
FY26	6.5	6.5	3.7	3.1
Q1FY27	-	6.6	-	4.9

Fig 2: UBI vs MPC Macro projections

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q1	6.5	6.7	2.7 (actual)	2.7 (actual)
Q2	6.7	6.7	2.1	2.3
Q3	6.6	6.0	3.1	3.0
Q4	6.3	6.0	4.4	3.8
FY26	6.5	6.3	3.1	3.0
Q1FY27	-	-	4.9	-4.5

Source: RBI, UBI Research

Fig 3: Sharp downward revision in MPC's FY26 inflation projections in recent meetings



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The August MPC statement was in alignment with [our view](#) of a status quo on rates and stance with a unanimous vote. The monetary policy stays data dependent as transmission of the frontloaded easing measures as they flow through the economy. As expected, despite the sharp downward revision in near term CPI projections (by 80-130bps), the concerns remain on 12-month forward looking inflation numbers. Q1-FY27 forecast was pegged sharply higher at 4.9%, thereby curbing space for policy easing. Also, in line with our view, the MPC did not change its FY26 growth forecast of 6.5%, given the overall macro situation remains uncertain with growth trends on watch before considering forecast revisions. The overall guidance was balanced or rather, in our view, with hawkish streaks. *We believe the decision was prudent given the ardent need to preserve policy ammunition amidst heightened global uncertainty.*

What is interesting to note is that going into this policy, the market was divided on the policy decision, with the rate cut camp ‘disappointed’. While our view was of a pause in this policy, we expect another 25-50bps rate cut in H2-FY26. Even as the Governor signalled ‘we have done whatever is needed for now’, we are holding onto our view of a final leg of rate cut cycle in H2-FY26. This is premised on following factors: (i) our inflation projections for next four quarters are trailing behind the MPC by another 40-100bps raising possibility of another round of sharp downward revision in October (for third consecutive meeting); (ii) growth has not yet shown fault lines on tariff impact yet a combination of weakening US growth, delayed capex decisions by corporates (by 6-12 months) and lagging capital flows may show up in growth in H2-FY26 and (iii) Fed is also likely to start the second leg of rate cutting cycle from Sep’25 on growth worries even as quantum remains uncertain given lack of clarity on tariff hike impact on US inflation.

*That said, the exact timing for next rate cut is ‘too early to call’ for in an uncertain world we are living in.*

➤ **Inflation forecasts revised down for the second consecutive meeting**

Given the inflation surprise in last two months, the MPC, in line with our and consensus expectations, revised down its FY26 inflation forecast to 3.1% from 3.7%. The revision was sharper for near term with Q2, Q3 FY26 inflation now seen at 2.1% and 3.1% from 3.4% and 3.9% previously, while Q4-FY26 and Q1-FY27 CPI is projected at 4.4% and 4.9%. With respect to the latter, if we compare with UBI’s CPI forecasts, we think there is scope for another downward revision of 40-60bps (Fig 1). Hence, the data dependent MPC, may have some more scope of getting surprised on the inflation front, in our view, unless risks materialise in terms of climate shocks, geopolitics led commodity prices shocks etc even as direct impact of tariff hikes on inflation was seen as limited by Deputy Governor Poonam Gupta in the post policy press conference.

➤ **Growth numbers kept unchanged, for now**

In line with our view, the FY26 growth forecast was kept unchanged at 6.5% given lack of clarity in an uncertain and volatile world. While the Governor mentioned that “*geopolitical uncertainties have somewhat abated, even though global trade challenges continue to linger*” we believe the MPC is in a watch and watch mode to assess the final outcome of the US-India trade deal before revising growth numbers.

Growth numbers are still chugging along and have not seen sharp moderation. As of now, growth number for Q1 FY26 (due for release in end-August) also tracking c.7%, way above MPC’s forecast of 6.5%. With Trump’s 25% tariffs on India, we estimate the impact of ~30bps on India’s GDP growth with absolute impact seen at ~10-12bn via exports channel. Overall, the situation remains fluid making us also keep our FY26 growth forecast unchanged at 6.3%, with a close watch on trends in high frequency growth indicators. With high-frequency lead indicators not yet showing fault lines, we still see FY26 as a ‘year of two halves’ with respect to growth trends.

➤ **Minor tinkering done in liquidity management framework; public comments sought**

With respect to the liquidity management framework, the Governor indicated that the RBI has decided to continue with WACR (Weighted average Call Rate) as operating target for monetary policy with use of variable rate finetuning operations. This was aligned with our view even as some market participants were stressing on a possible shift to SORR (Secured Overnight Rupee Rate, a blend of Triparty Repo Dealing System, TREPS & basket repo, with together ~95% share in market volumes). Interestingly, [the detailed RBI Working Group report](#) also indicated "minor tinkering" with the only change is the shift in tenor of VRR, VRRR to 7-day from 14-day in earlier framework, which is aligned with recent liquidity actions and attributed to recent high volatility in liquidity making banks difficult to forecast and hence partake with liquidity for a 14-day period. Other market "asks" viz. provision of a fixed rate daily liquidity window & lowering of CRR daily maintenance requirement from 90% currently, have not been adhered to in the Report, put forth for public consultation.

➤ **MPC waiting for further transmission of rate cut(s) to flow through the economy**

The Governor sounded positive on the pace of transmission of the policy repo rate cuts to the money, bond and credit markets during the current easing cycle on comfortable banking system liquidity. He stressed that even though growth rate of bank credit slowed last year, the overall flow of financial resources to the commercial sector increased from Rs 33.9 lakh Cr in FY24 to Rs 34.8 lakh Cr in FY25. This trend continued during the current financial year as well despite sharp decline in incremental bank credit (almost halved in Q1FY26 vs Q1-FY25) as the total resource flow including capital markets (viz. commercial papers, corporate bonds etc with faster rate transmission) in Q1-FY26 has been similar to Q1-FY25. This is aligned with our view (explained in detail in our [pre-MPC note](#))

➤ **Highlights of the Internal Working Group's report on Liquidity Management Framework**

The IWG's recommendations reaffirm the RBI's current liquidity management framework with minor refinements to improve operational flexibility, market predictability, and transmission efficiency. By retaining WACR as the operating target and simplifying repo operations (favouring shorter tenors and variable rate auctions), the RBI aims to fine-tune its response to evolving liquidity conditions while preserving systemic stability.

- **WACR to Remain the Operating Target:** The overnight Weighted Average Call Rate (WACR) should continue as the operating target of monetary policy. RBI should monitor other overnight money market rates to ensure orderly transmission.
- **Maintain Existing Corridor System**

Retain the symmetric interest rate corridor with:

- (i) Standing Deposit Facility (SDF): 25 bps below the repo rate
- (ii) Marginal Standing Facility (MSF): 25 bps above the repo rate

The policy repo rate remains at the center of the corridor.

- **Streamline Liquidity Operations:** Discontinue 14-day VRR/VRRR as the main tool. Manage transient liquidity through 7-day or shorter/variable tenor operations (overnight to 14 days) based on system needs.
- **Advance Notice for Operations:** RBI should generally provide at least one day's notice before conducting repo/reverse repo operations to improve market predictability.
- **Same-Day Operations in Exceptional Cases:** RBI may conduct same-day liquidity operations if warranted by evolving liquidity conditions.
- **Continue Variable Rate Auctions:** Variable rate auction mechanism to remain the standard for both repo and reverse repo operations under the Liquidity Adjustment Facility (LAF).
- **Use Longer-Tenor Operations if Needed:** RBI may conduct longer-term repo/reverse repo operations through variable rate auctions to address structural or seasonal mismatches.
- **No Change to Durable Liquidity Tools:** The current liquidity management instruments are deemed sufficient; no changes recommended at this stage.
- **Maintain CRR Compliance Norms:** Continue with the existing requirement of maintaining 90% of prescribed CRR on a daily average basis.

# RBI's Policy Decision

Policy Decision	April 2025	June 2025	August 2025
<b>Repo rate</b>	<b>6.0%</b>	<b>5.50%</b>	<b>5.50%</b>
<b>Stance</b>	<b>Accommodative</b>	<b>Neutral</b>	<b>Neutral</b>
<b>Growth Projection</b>	FY26 real GDP projection is revised lower at 6.5% (6.7% projected earlier), with Q1 at 6.5% (6.7%), Q2 at 6.7% (7.0%), Q3 at 6.6% (6.5%) and Q4 growth seen at 6.3% (6.5%) respectively. Risks are evenly balanced.	FY26 real GDP projection is retained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6% and Q4 growth seen at 6.3% respectively. Risks are evenly balanced. Spill overs emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth.	FY26 real GDP projection is retained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6% and Q4 growth seen at 6.3% respectively. Real GDP growth for Q1FY27 is projected at 6.6%. Risks are evenly balanced. Above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. Services sector is expected to remain buoyant in the coming months. Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations.
<b>Inflation Projection</b>	FY26 projection revised downward from 4.2% earlier to 4.0% with Q1 at 3.6% (4.5% earlier), Q2 at 3.9% (4.0%), Q3 at 3.8% (3.8%) and Q4 at 4.4% (4.2%). Risks are evenly balanced.	FY26 CPI projection was revised downward from 4.0% earlier to 3.7% with Q1 at 2.9% (3.6% earlier), Q2 at 3.4% (3.9%), Q3 at 3.9% (3.8%) and Q4 at 4.4% (same as earlier). Risks are evenly balanced. Weather-related uncertainties and still evolving tariff related concerns with their attendant impact on global commodity prices are upside risks.	FY26 CPI projection was revised downward from 3.7% earlier to 3.1% with Q2 at 2.1% (3.4%), Q3 at 3.1% (3.9%) and Q4 at 4.4% (same as earlier). CPI inflation for Q1FY27 is projected at 4.9%. Large favourable base effects combined with steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of food grains have contributed moderation in inflation. CPI inflation, however, is likely to edge up above 4% by Q4 FY26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play.
<b>Liquidity</b>	The RBI remains committed to keep liquidity sufficiently in surplus with an aim to keep surplus at close to 1% of NDTL. Transmission usually happens with a lag.	CRR reduced by 100 bps to 3.0% of NDTL, in a staggered manner. The reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning 6 <sup>th</sup> September, 4 <sup>th</sup> October, 1 <sup>st</sup> November and 29 <sup>th</sup> November, 2025. The cut in CRR would release primary liquidity of about Rs 2.5 lakh Cr to the banking system by Dec'25.	The Governor sounded positive on the pace of transmission of the policy repo rate cuts to the money, bond and credit markets during the current easing cycle on comfortable banking system liquidity. The RBI will continue to be nimble and flexible in its liquidity management.  An internal Working Group for revisions in the liquidity management framework has recommended the continuation of overnight weighted average call rate (WACR) as the operating target of monetary policy and variable rate finetuning operations. The detailed report will be placed on the RBI website shortly for public consultation.
<b>Policy guidance</b>	The RBI Governor asserted “ <i>the domestic growth-inflation trajectory demands monetary policy to be growth supportive, while being watchful on the inflation front...aiming for a non-inflationary growth</i> ”.	The RBI Governor mentioned that given the current circumstances, monetary policy is left with very limited space to support growth. Going forward, 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.	While headline inflation is much lower than projected earlier, it is mainly due to volatile food prices, especially of vegetables. Inflation is projected to go up from the last quarter of this financial year. Growth has held up well with some pick-up expected in the coming festive season while uncertainties of tariffs are still evolving. MPC will wait for further transmission of the front-loaded rate cuts to the credit markets and the broader economy while staying on close vigil.

## Other Regulatory Measures Proposed

- Standardising the procedure for settlement of claims in respect of bank accounts, and articles kept in safe custody or safe deposit lockers of deceased bank customers. This is expected to make settlement more convenient and simpler.
- To enable investors to systematically plan their investments, an auto-bidding facility for Treasury bills (T-bills), covering both investment and re-investment options, has been enabled in Retail Direct. This will enable retail investors to invest in treasury bills through systematic investment plans.
- As Jan-Dhan Scheme completes 10 years, a large number of accounts have fallen due for re-KYC. The banks are organising camps at Panchayat level from 1<sup>st</sup> July to 30<sup>th</sup> September, in an endeavour to provide services at customer doorsteps. Apart from opening new bank accounts and re-KYC, the camps will focus on micro insurance and pension schemes for financial inclusion and customer grievance redress.

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