India: MPC Likely to Maintain Status Quo; stable price trends, especially core to offer breathing space to RBI despite elevated geopolitical uncertainty

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The Monetary Policy Committee meets on 3-5 August against arguably the most complicated external backdrop of the current cycle, even as India's own growth-inflation engine continues to remain in balance. We expect the MPC to hold the repo rate unchanged at 5.25%, with a neutral stance, extending a stretch of policy stability. Since the last policy meeting in June, the Indian economy has demonstrated considerable resilience, with industrial activity strengthening—IIP growth rose to 5.7% y/y in April-June 2026 from 3.8% y/y in January-March 2026—alongside contained core inflation, a current account surplus and double-digit credit growth. Growth is stronger than expected, inflation is tracking a shade lower, and FCNR(B) inflows provide a semblance of stability to an otherwise volatile external sector. In an uncertain global environment, the RBI is likely to maintain balanced, data-dependent guidance.

What the accompanying statement says about the rate itself, however, may matter less than what it signals about the RBI's management of four crosscurrents now converging at once: a conflict-driven oil shock that has pushed Brent averages above the RBI's comfort zone, a rupee experiencing sharp two-way volatility against a record short forward book, a banking system flush with FCNR(B)-driven surplus liquidity, and a capital-inflow programme. Global policy expectations have also shifted decisively from rate cuts toward a higher-for-longer stance, as persistent inflation and elevated energy prices have reduced the scope for easing. Before the US-Iran war, markets were positioned for Fed rate cuts; they are now pricing around 35 bps of tightening by December 2026 and nearly 50 bps by mid-2027, reflecting renewed concerns over energy-driven inflation. Growth momentum remains intact for now, but the balance of risks to the growth forecast is tilting to the downside amid persistent supply shocks. A sustained rise in crude above USD 95 a barrel would, in our view, be the single most likely trigger for the RBI to reconsider its currently balanced stance in the second half of FY27

We expect the RBI to keep rates unchanged, while maintaining balanced, data-dependent guidance amid rising external risks.

1. Policy Outlook: Status Quo, With a Conditional Bias

India's growth remains resilient against a tougher global environment. Industrial output is positive and private consumption has held steady, supported by GST rationalisation and stable employment conditions, even as a south-west monsoon running roughly 14% below the Long Period Average, has weighed on agricultural activity and rural demand a shortfall that appears, so far, spatially manageable rather than broad-based. Manufacturing capacity utilisation stood at 75.2% in Q4 FY26, above the long-term average of 74.0%, credit growth remains strong, and government capital expenditure continues to underpin investment. Against this setting, and despite the headwinds of global supply shocks and rising input costs for industry, domestic pricing pressures remain comparatively contained, helped by a diversified import basket.

We expect the MPC to hold the repo rate unchanged at 5.25% at this, the third policy review of FY27. The meeting falls at a point where geopolitical conditions are more complex than domestic ones: India's own growth-inflation mix is comfortably resolved, but war-related supply shocks add a layer of stress to the RBI's medium-term price-stability objective. Our base case is a balanced, status-quo policy, though we would flag that this balance is conditional on oil: a sustained move above USD 95/bbl. into the second half of FY27 is the scenario most likely to witness upside risks to India's inflation prints.

RBI MPC vs UBI Research: FY27 Growth and Inflation Projections (Table1)

UBI vs RBI MPC Projection Comparison

% YoY	GDP		CPI		Core CPI (FY 26-27)	
	June'26 MPC	UBI Proj.	June'26 MPC	UBI Proj.	June'26 MPC	UBI Proj.
Q1	6.6	7.2	3.9		4.7	4.3
Q2	6.3	6.9	5.1	4.8		
Q3	6.5	6.3	5.9	5.8		
Q4	6.8	6.1	5.4	5.5		
FY27	6.6	6.6	5.1	5.0		

Source: RBI & UBI research *Q1 CPI actual numbers

2. Growth-Inflation Balance: Comfortable for Now, but Not Without Risk

Retail inflation ticked up to 4.4% in June 2026, driven mainly by food-price spikes, yet the broader Q1 FY27 print of 3.9% came in below the RBI's June projection of 4.2%. Core inflation for the quarter was similarly contained at 3.8% against a full-year projection of 4.7%, and once precious metals are excluded, underlying price pressures appear softer still, suggesting that demand-side pressures remain limited. Kharif sowing is tracking 3% below last year, raising concerns over food supply in the coming quarters. The path ahead will depend heavily on the spatial distribution of the south-west monsoon and its impact on food prices, while prolonged supply-chain disruptions and elevated energy costs remain the more likely sources of upside risk to the inflation trajectory. Core inflation, however, continues to remain subdued, indicating that the recent rise in headline inflation is largely supply-driven rather than demand-led. Our FY27 CPI projection is tracking at around 5%, compared with the MPC's projection of 5.1%, and is subject to upside risks emanating from strong EL-Nino impact and global supply shocks.

Mobilisation under RBI's Foreign-Currency Swap Facilities (Table2)

Instrument	As of 17 July, 2026 ($Bn)	1 August 2026 ($Bn)	Growth (%)
FCNR(B) deposits	17.41	36.70	111
ECB's	1.34	1.50	12
OFCB's	1.97	2.57	31
Total mobilisation	20.72	40.81	97.0

Mobilisation has nearly doubled in two weeks to USD 40.81 billion, led overwhelmingly by FCNR(B) deposits.

High-frequency indicators of manufacturing and services activity continue to point to buoyant growth, but global supply constraints are already generating adverse spill-overs to economic activity over the medium term. Corporate earnings announced so far also indicate towards a robust quarter in terms of higher sales and double-digit operating profit growth even though the margins may shrink. Our projection for Q1FY27 is tracking above 7% vs. MPC projection of 6.6%. For FY27, our GDP projection is tracking in line with MPC projection of 6.6% and runs a downside risk arising from global trade protectionism, lingering geopolitical uncertainties and monsoon deficit.

3. India's macro fundamentals reflect resilience

Firm domestic demand, resilient industrial activity and sustained capex support growth, although a wider trade deficit and global uncertainty remain key risks.

Domestic demand indicators were broadly firm through June. E-way bill generation continued to post double-digit growth, GST revenue growth picked up on the back of a sharp rise in import-related tax collections, and petrol and diesel consumption gained strength despite an upward price revision. Electricity demand posted double-digit growth, aided by warm conditions and a delayed monsoon onset, while rural demand saw a sharp pick-up as tractor sales accelerated with the start of kharif sowing and two-wheeler sales recorded robust growth on strong entry-level demand, normalising supply chains and rising EV adoption. The all-India unemployment rate was stable in June, with a decline in rural unemployment offsetting a modest uptick in the urban rate. Industrial production grew 5.7% in Q1 FY27, up sharply from 3.5% a year earlier, with mining, manufacturing, and electricity and water management all showing optimism in June though a low base effect is still at work. Sustained government capex remains a positive for infrastructure and capital goods. On the external side, merchandise exports recovered in Q1 FY27 from a year-earlier contraction and imports grew in double digits, though the merchandise trade deficit widened on faster growth in electronics, petroleum and gold imports. Trade agreements with the UK and other partners should support manufacturing output, particularly in textiles and chemicals, adding to industrial growth in the months ahead despite global uncertainty.

4. Oil: The Key External Risk

Elevated crude remains the key external risk, with sustained prices above USD 95/bbl likely to add pricing pressure in the second half of FY27

Higher crude prices represent a simultaneous inflation and growth shock for India and remain, in our view, the most important external risk to the policy outlook. Brent has averaged around USD 95/bbl since the conflict began, versus a calendar year-to-date average of USD 87/bbl. The RBI's latest MPC projections are based on an underlying crude-oil assumption of USD 95/bbl., implying that the central bank has already incorporated a substantial oil-price shock into its inflation baseline. Our base case remains a normalisation toward the USD 80–85/bbl. range, a level at which most central banks, including the RBI, would be considerably more comfortable from an inflation-management standpoint. Recent price action has also shown how quickly the downside can materialise: following the announcement of a US–Iran ceasefire, oil prices fell sharply as supply recovered to nearly 80% of pre-war levels within days. That said, the risks remain two-sided, and sustained crude prices above USD 95/bbl. could add upside risks to India's inflation trajectory in the second half of FY27.

5. External Sector and Rupee Management

Stronger external accounts and sizeable FCNR(B)-led inflows provide a buffer, though oil-related dollar demand and the durability of capital flows remain key risks for the rupee

India's external accounts have strengthened meaningfully. The current account posted a cumulative surplus of approximately USD 2.8 Bn in April-May 2026, a sharp turnaround from a USD 4.1 Bn deficit in the same period a year earlier, supported by services exports and remittance inflows. Even so, given global supply shocks and pricing pressures, we expect the current account deficit to widen to around 1.1% of GDP for FY27 as a whole, contingent on crude averaging USD 85-90/bbl. On our roadmap estimates, these inflows should be sufficient to push the FY27 balance of payments into a surplus of roughly USD 25 Bn.

Rupee management and external-sector stability will remain a key area of market focus at this policy. Since the June MPC, the rupee has seen significant two-way volatility, strengthening to around ₹94.33/USD in mid-June. The RBI's foreign exchange reserves rose by USD 6.1 Bn in the week ended 24 July 2026 to USD 682.35 Bn. Data suggests RBI is using some of these FCNR proceeds to mature its near term forward short positions. The RBI's short-dollar forward book shrank $3.3 billion month-over-month by the end of June, driven by a nearly $13 billion reduction in forward dollar sales of up to three-month maturities. The fall in near-tenor liabilities was offset by an over $6 billion dollar rise in liabilities beyond one year. Portfolio flows have been mixed, with heavy equity outflows in June giving way to a recovery in July alongside continued interest in Indian debt. The market will be looking for the RBI's assessment of whether FCNR(B), FPI and debt inflows are durable enough to absorb oil-related dollar demand, ease pressure on the forward book, and reduce the need for sustained spot-market intervention.

6. Liquidity Guidance will also Be a Key Focus of This MPC

Rising FCNR(B)-led inflows will keep liquidity guidance in focus, with the RBI likely to balance surplus absorption against pressure on bond yields and reserves

The RBI has always actively managed liquidity, as liquidity conditions are a key determinant of interest rates across tenures. At the beginning of the last monetary policy (5 June 2026), system liquidity was in surplus by around ₹1.86 lakh crore. This surplus gradually declined to near-neutral levels of ₹0.03 lakh crore by 22 July 2026, mainly due to tax-related outflows, an increase in the Government's cash balances with the RBI, and RBI's sale of US dollars to contain to support Rupee decline. Since then, liquidity has again increased to around ₹1.30 lakh crore as of 30 July 2026, largely driven by rupee liquidity generated through FCNR(B) and other foreign currency inflows. The RBI is generally comfortable with liquidity surplus of around 1% of Net Demand and Time Liabilities (NDTL), which is approximately ₹2.70 lakh crore. With expectations of nearly USD 90 billion of foreign currency inflows the RBI may face the challenge of preventing liquidity from becoming excessively surplus.

Though RBI will deploy several tools to absorb liquidity above its comfort level, every tool has its own limitations.

Temporary liquidity absorption

Variable Rate Reverse Repo (VRRR) / Standing Deposit Facility (SDF): Absorbs surplus liquidity. However, the absorption is temporary, requiring repeated operations to maintain the desired liquidity level.

Durable liquidity absorption

FX sell/buy swaps: Withdraw liquidity for the life of the swap, but liquidity returns at maturity unless the swap is rolled over.

Spot FX sales: Absorb rupee liquidity while supporting the currency, but reduces foreign-exchange reserves.

Market stabilization scheme: Durable liquidity absorption tool, interest bearing fall on exchequer

OMO sales: Permanently withdraw rupee liquidity, but large sales can push up G-sec yields and government borrowing costs. In our view it is less probable option.

CRR hike: Immediately and durably absorbs system liquidity by increasing banks' reserve requirements. However, in our view, this remains a highly unlikely option, as fresh FCNR(B) deposits mobilised under the current RBI scheme are exempt from CRR, limiting its effectiveness as a liquidity absorption tool.

Overall, the RBI is likely to use a combination of these instruments to maintain liquidity close to its comfort level while ensuring that short-term interest rates remain aligned with the policy rate.

7. FCNR(B) Inflows: Anchoring the Capital Account

The RBI's package of measures to attract foreign capital comprising a zero-cost swap facility for fresh FCNR(B) deposits and concessional swap terms for ECB and OFCB inflows had mobilised USD 40.81 billion as of 31 July 2026, nearly double the level recorded around two weeks earlier. The mobilisation has already exceeded the roughly USD 34 billion raised under the comparable FCNR(B) and overseas-borrowing swap windows in 2013. The bulk of the current inflows has come through FCNR(B) deposits, with USD 36.7 billion mobilised so far, while ECB and OFCB inflows stood at USD 1.5 billion and USD 2.57 billion, respectively. With the FCNR(B) window open until 30 September and the ECB/OFCB facilities available until year-end, market estimates point to total mobilisation of around USD 80–90 billion across the three schemes. Given the pace of inflows, the eventual mobilisation could exceed current expectations.

We expect the MPC to hold the repo rate, supported by resilient growth and a comfortable inflation outlook

Conclusion:

Taken together, the pieces of this policy point in a consistent direction. India's domestic growth-inflation mix is comfortable enough that the MPC does not need to move on the repo rate, and we expect it to hold at 5.25% on 5 August. The real story of this policy, though, is how the RBI is quietly building buffers against an external shock it cannot control: an FCNR(B)-led capital inflow programme filling the banking system with surplus liquidity, easing pressure on a rupee that has swung sharply on both sides and giving the central bank room to unwind part of a record short forward book without leaning as hard on spot intervention.

The key signals will come from the RBI's guidance on liquidity management and rupee volatility, while crude prices, rainfall and global risks will determine whether policy turns hawkish later in FY27

RBI in line with other Central Banks has been taking steps to build forex reserves when it expects the shock in this case, oil averaging well above its comfort zone since the conflict began to persist for a while longer even as it hopes, and its base case assumes, that prices normalise toward USD 80-85/bbl. The read-through for markets is that the policy statement itself may sound unremarkable, but the liquidity and forward-book commentary embedded in it will do the real work of signalling how much oil-price risk. Going forward, strong impact El-Nino, geopolitical tensions in West Asia, volatility in crude oil prices, possible retail fuel price revisions, remain the principal upside risks to inflation. Nevertheless, **we see prolonged pause on rates by the RBI given the stable core inflation, subject to incoming data.**

Fig. 1 CPI (%): MPC vs. UBI projections slightly vary * Q1 actual numbers

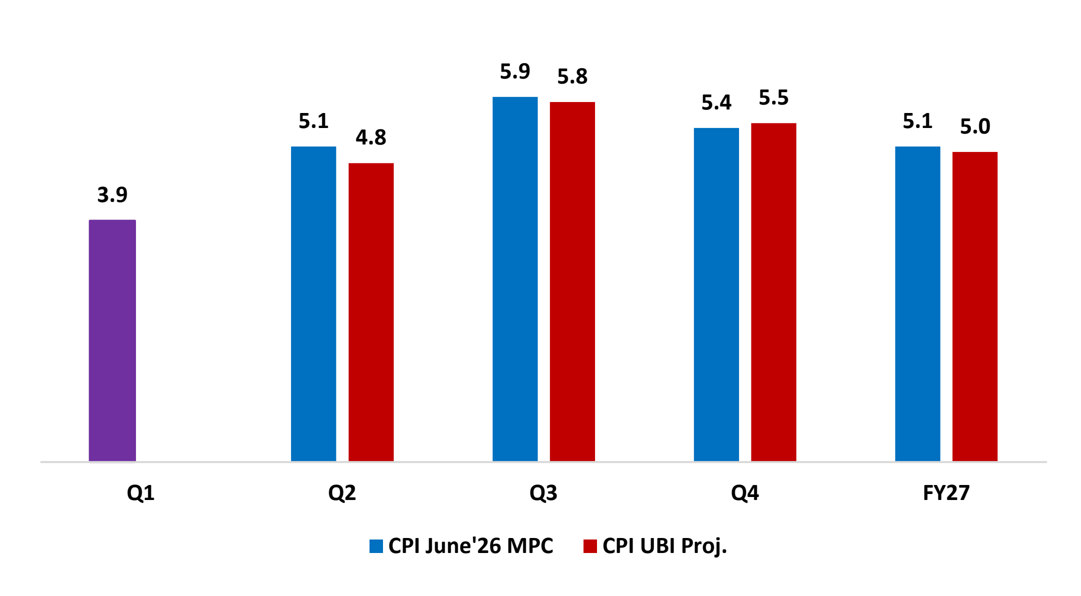


Fig. 2 MPC vs. UBI Growth projections tend to converge on the same line

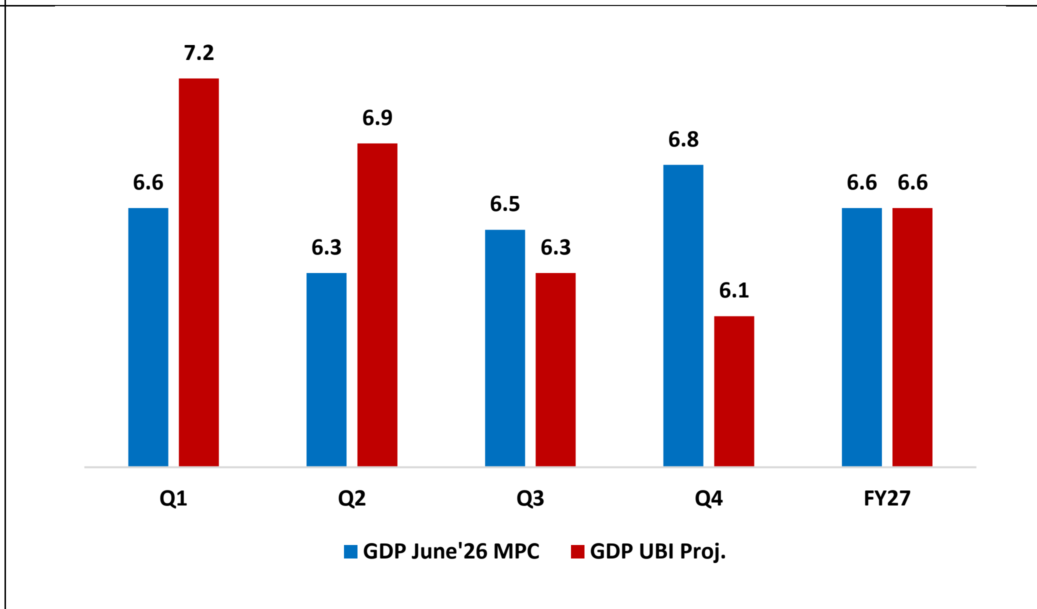


Fig 3. Markets have shifted from expected cuts to tightening by the Fed, ECB and BoE, while the BoJ remains on a more gradual tightening path

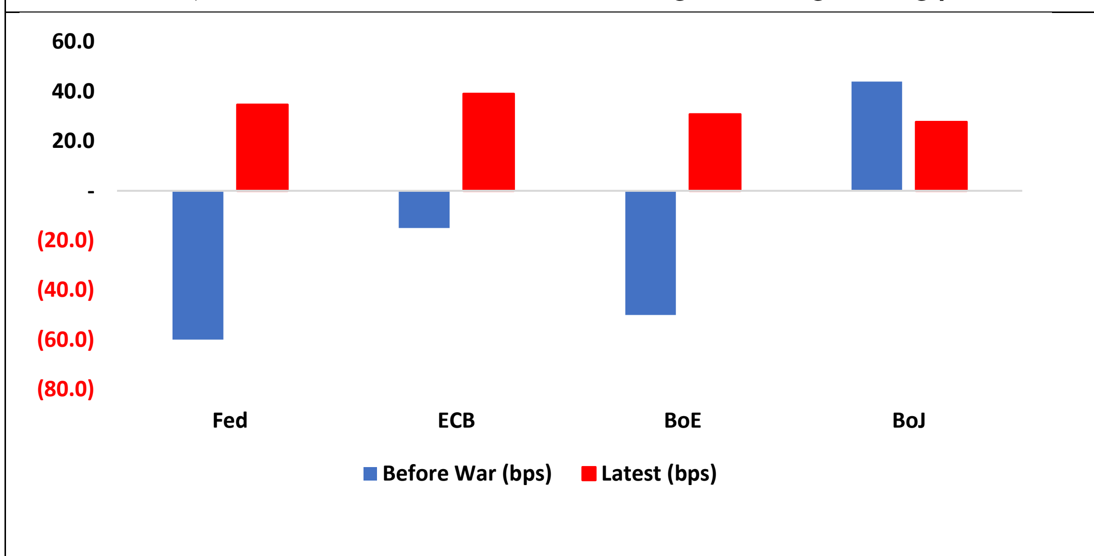


Fig.4 Oil prices continues to move higher on renewed US-Iran conflict

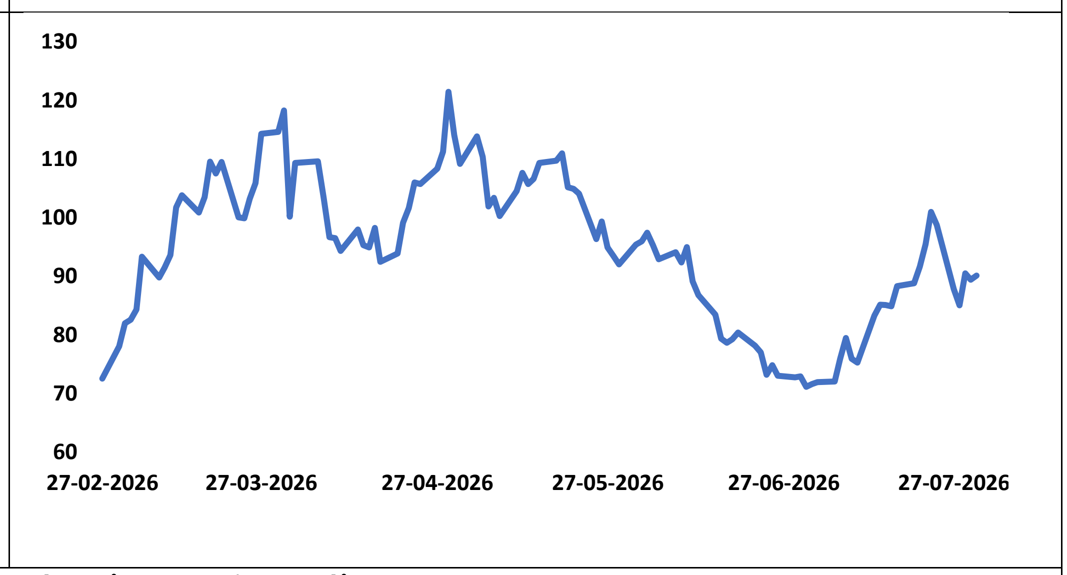
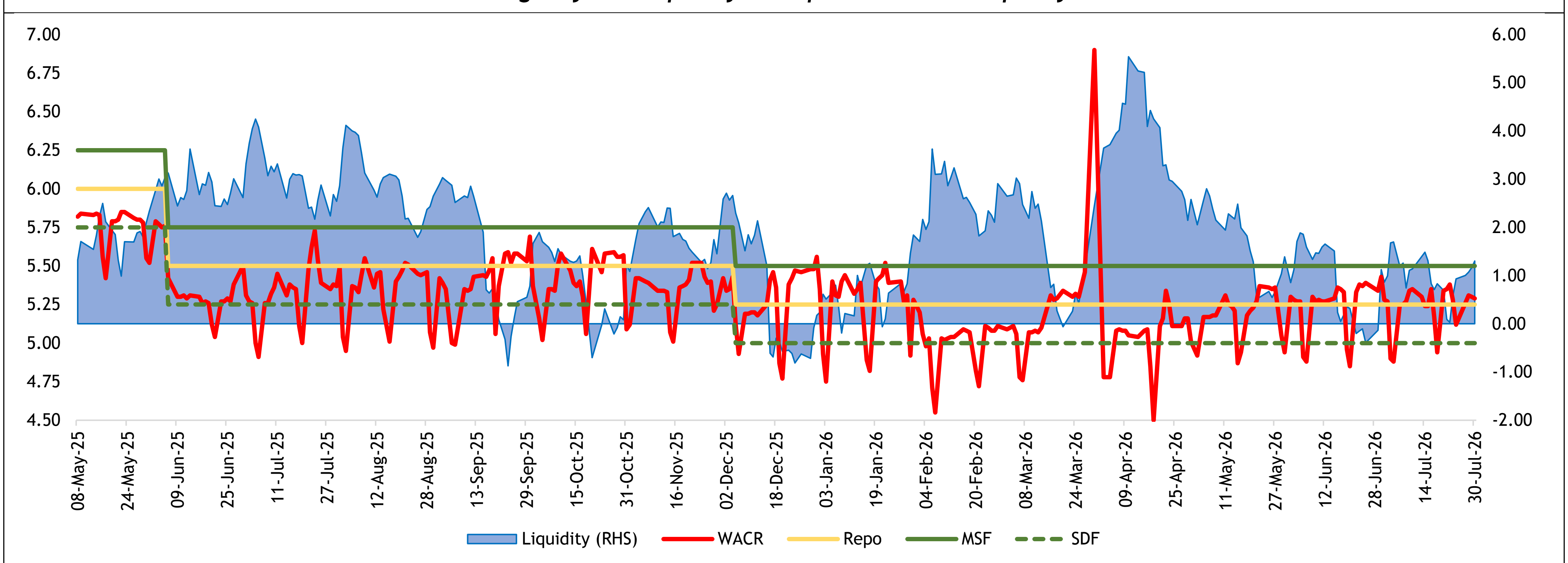


Fig.5 System liquidity in surplus since Jun'26 policy



RBI Governor: Interaction and inferences

HAWKISH | DOVISH | NEUTRAL | CAUTIOUS / WATCHFUL

Metric	June Policy 05.06.2026	Media interview on 24.06.2026	Media interview on 17.07.2026	Media interview on 27.07.2026	Tone
RATE TRAJECTORY	No forward guidance; neutral stance	Neutral stance, flexible to upcoming data signals	No comment	Waiting for the MPC to decide	**NEUTRAL** *Consistently non-committal, data-dependent*
GROWTH TRENDS	FY27 GDP projected ~6.6%, backed by domestic demand, investment, healthy balance sheets; flagged global downside risks	Economic activity resilient; first advance estimates show domestic-led momentum; outlook favourable	Strong macro fundamentals; growth above 7% previously, RBI estimate of 6.6% despite uncertainty	Growth-inflation dynamics closely watched to balance price stability with growth support	**DOVISH-TILT** *Upbeat on growth, no urgency to tighten*
INFLATION (headline & core)	Inflation remains primary objective; disinflation progressing but food/commodity risks warrant vigilance	Headline inflation below tolerance band in Nov-Dec; Q1/Q2 forecasts revised up slightly to 4.0%/4.2% on precious metals; underlying inflation low	Price stability is primary mandate, growth secondary; composition of inflation (supply vs demand) matters	Policy action needed only if inflation turns generalised/de-anchored — signs still modest	**DOVISH** *Comfortable with inflation trajectory; high bar for tightening*
RUPEE	Rupee's performance “relatively normal” vs peers amid dollar strength; confident on external-sector fundamentals	Not commented; market forces to determine	RBI to remain vigilant against excessive volatility while allowing orderly adjustment	Depreciation not a macro-fundamentals issue, but expectation-driven; most Asian currencies under pressure since West Asia conflict — Rupee no outlier	**NEUTRAL** *No intervention bias; orderly-adjustment framing*
FCNR & SWAP WINDOW FLOWS	Policy announced	Only positive flows expected	Not commented	$32bn mobilised via FCNR(B) deposits till 25.07.2026; $7bn inflow into G-secs since FAR route opened last policy	**ACCOMMODATIVE** *Actively facilitating forex inflows*
WEST ASIA CONFLICT IMPACT	India resilient despite geopolitical/external uncertainty; repeated “wait-and-watch” on West Asia, inflation, global disruptions	Not discussed beyond positive impact of trade agreements	BoP and external position expected to stay strong near/medium/long term on services, remittances, exports, capital flows	Impact seen on inflationary pressure, currency depreciation, supply shocks, crude price volatility	**CAUTIOUS** *Wait-and-watch; risk acknowledged but not alarmed*

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