05th Aug 2026

MPC maintains status quo; policy guidance balanced with dovish undertone

The Monetary Policy Committee (MPC) unanimously decided to keep the policy repo rate unchanged at 5.25%, while retaining the neutral stance. The decision was largely in line with our and market expectations. While the policy remains largely 'non-event', it emphasised on the need for greater clarity regarding the path and composition of inflation before taking any future policy action. The policy guidance was balanced, in our view, with a dovish tilt, reflecting greater confidence that inflation pressures are not becoming generalised. This was reinforced by the sharp downward revision to the core inflation forecast, even as the MPC remains watchful of potential second-round inflation effects.We see pause on rates in the calendar year though the MPC likely to closely track Fed, oil, El-Nino trends.

Core inflation getting more attention; sharp downward revision in FY27 forecast a dovish move

In line with consensus expectations, the Monetary Policy Committee (MPC) left the policy repo rate unchanged while retaining the neutral stance. The RBI's policy communication reflects a measured and cautious approach acknowledging that while headline inflation is expected to remain elevated in the near term, the increase is largely driven by food and fuel prices and the underlying price pressures are still contained. The MPC revised its FY27 CPI inflation forecast lower to 5.0% (same as UBI projections) from 5.1% projected in June, risks being evenly balanced. The higher inflation is mostly on account of food and fuel inflation with little sign of generalisation so far. The downward revision in core inflation forecast from 4.7% to 4.3% is reassuring of the benign underlying price pressures even as the RBI Governor asserted that core inflation excluding precious metals (2.9% in June vs 4.2% core inflation) which has been benign so far is likely to align with core inflation towards the end of the year. The rise in inflation has been supply-side driven, not broad-based, and is expected to moderate after the Q3 peak. Risks on second round impact of inflation induced by El Niño driven deficient monsoon, volatile crude oil and the risk of "second-round" pass-through price pressures are a few critical factors to watch out for.

On the growth front, RBI continues to view the economy as resilient, supported by strong domestic demand, robust manufacturing, continued government infrastructure push, trade agreements and services activity. The FY27 GDP growth projection has been revised upwards by 10 bps to 6.7% (UBI forecast: 6.6%) from 6.6% projected in June, with risks evenly balanced. The growth profile is however front-loaded: 7.0% in Q1, tapering to 6.4–6.5% in Q2-Q3 before recovering to 6.8% in Q4 as West Asia crisis and monsoon underperformance are expected to bite the hardest mid-year before government spending lifts the growth in Q4In the post-policy media interaction, the Governor expressed confidence that if the monsoon revives, reservoir levels improve and rural demand strengthens, growth could edge closer to 7%

Surprisingly, the policy statement is silent about the crude oil levels at which the projections are based vs 95$/bbl average crude oil level flagged in the June policy.

Fig 1: Macro projections, Aug'26 vs Jun'26 MPC

RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Jun'26	Aug'26	Jun'26	Aug'26
Q1	6.6	**7.0**	3.9	
Q2	6.3	**6.4**	5.1	4.7
Q3	6.5	**6.5**	5.9	5.9
Q4	6.8	**6.8**	5.4	5.5
FY27	6.6	**6.7**	5.1	**5.0**
Q1FY 28	-	**7.3**	-	**5.3**

Source: CEIC, RBI, UBI Research

Fig 2 Macro projections, MPC vs UBI

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q1	**7.0**	7.2	3.9	
Q2	**6.4**	6.9	4.7	4.8
Q3	**6.5**	6.3	5.9	5.8
Q4	**6.8**	6.1	5.5	5.5
FY27	**6.7**	**6.6**	**5.0**	**5.0**
Q1FY 28	**7.3**	**-**	**5.3**	**-**

Source: CEIC, RBI, UBI Research

Fig 3: FCNR (B), ECB and OFCB inflows ($ Bn)

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**

Source: RBI, UBI Research

RBI aims to provide sufficient liquidity; we will watch out for policy tools to absorb Fx flow impact

The RBI Governor did not express any concern over the incremental liquidity surplus on account of capital flows from FCNR(B)/ECB swap facilities with the amount likely to total USD 80-100bn (RS 8-10 lac Cr.) in our view by end Sept'26. He believes that a part of the excess liquidity to be naturally absorbed through the seasonal increase in currency in circulation and the maturity of the RBI's forward positions. The central bank further indicated that the liquidity injected through FCNR(B) inflows would also be absorbed over the medium term.

However, our analysis shows that the current system liquidity has risen from near-neutral levels in the third week of June to ₹3.33 lakh crore as of 4 August 2026, already exceeding 1% of Net Demand and Time Liabilities (NDTL). In our view if the system gets $80-100bn of flows by end Dec'26, core liquidity may rise from Rs 5.36 lac Cr. as of 15th of July to double-digits in H2-FY27. We believe RBI is likely to use market neutral tools like VRRR (long/short term), forward maturities and reverse FX swaps rather than using market sensitive tools like OMO sales, CRR hike etc.

While the RBI Governor did not show much concern on liquidity management of FCNR(B)/ECB flows, we firmly believe that proactive policy approach may be require as persistent liquidity surplus of more than 1.5% of NDTL could be inflationary. As per RBI report on currency and finance, one percentage point exogenous increase in liquidity surplus above this threshold value could push up inflation by 60 bps on an average in a year.

Fig 4: Expected core liquidity position on account of Fx inflows

From	To	Core Liquidity (From date)	FX Impact	CIC	CRR	Core Liquidity (To date)
31-05-26	15-07-26	4.86	0.47	0.04	-0.01	5.36
15-07-26	30-09-26	5.36	7.78#	0.48	-0.16	13.45
15-07-26	31-12-26	5.36	9.23#	-1.00	-0.41	13.18*

**It does not include any impact of RBI's forward maturities and Fx spot Interventions; # assumes $ 85 Bn received till end-Sep, and $ 100 Bn by end-Dec under swap facilities. Source: CEIC, RBI, UBI Research*

Fig 5: Fx reserves and forward book position

Fx reserves and forward book position			
FX Reserves	Amt ($ Bn)	RBI Outstanding Forward Book Maturity of near term	Amt ($ Bn)
29 May 2026	682.32	June 2026 (as of 31.05.26)	-19.82
31 July 2026	692.90	July 2026 (as of 30.06.26)	-8.97
-		Aug'26 to Oct'26 (as of 30.06.26)	-5.73

Source: CEIC, RBI, UBI Research

Fig 6: RBI's FX FWD maturity profile

Period	**Fwd Maturity profile at the end of**	
	Jun-26	May-26
Up to 1 month	-8.97	-19.82
1-3 Months	-5.73	-8.86
3 months- 1 year	-24.42	-21.9
More than 1 year	-64.21	-56.07
Total	-103.33	-106.65
		Values in USD Bn.

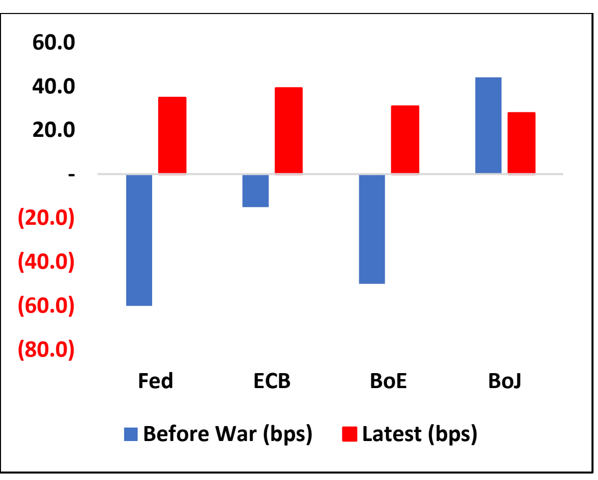
Source: RBI, UBI Research

Fig 7: Liquidity absorption tools with RBI

Market Neutral	Market Negative
VRRR / Long Term VRRR	OMO Sales
FX Sell-Buy swaps	CRR Rate Increase
Fx short FWD maturities/ Spot dollar sales	

Source: RBI, UBI Research

Fig. 8 Markets have shifted from expected cuts to tightening



Source: Bloomberg, UBI Research

RBI FX Strategy: To contain excessive volatility and the built-up of self-fulfilling expectations that pressures exchange rate

Fresh FCNR deposits, ECBs and OFCBs incentives announced by RBI in June'26 have supported dollar inflows, as a result, the balance of payments is expected to register a healthy Balance of Payment surplus this year. However, RBI noted that surge on energy prices, moderation in global growth and persistent trade policies uncertainties pose upside risks to Current Account deficit. However, going forward, as more FCNR flows will come and they will get swapped with RBI, we might see increase in system liquidity in the near term with the impact to be pro-actively managed by RBI.

Conclusion: ***Pause for now close watch on inflation risk to decide future rate path.***

With uncertainty around the monsoon and geo-political issues, the MPC has preferred to preserve policy flexibility until there is greater clarity on the inflation trajectory and evolving growth-inflation dynamics. The policy shows continued commitment to safeguard price stability, financial stability and sustainable growth through a calibrated, data dependent policy approach. MPC has underlined the need for greater clarity to emerge, especially regarding inflation, its path and composition before taking any policy action. We see another 40-50bps upside risk to our inflation projection of 5.0% in case of a strong El Nino. Evolving trends in core inflation excluding precious metals trajectory will be a key factor to watch out for. Cross-asset pricing suggests that the Fed retains a hawkish bias: **the next decision is most likely to be a hold, but risks remain tilted toward a later hike rather, likely to keep the RBI cautious even as we firmly expect pause on rates in this calendar year**.

It needs to be noted that the policy statement also asserted that need for recalibration of policy rates would emerge, in line with the evolving growth-inflation dynamics, especially the normalisation of the underlying inflation from its benign levels as seen till now. Therefore, focus of MPC remains continuously watchful of the price scenario in the economy, while it receives positive signals from growth.

Fig 9: Global macro and market metrics as per RBI MPC dates:

Indicator	8'April MPC	5'June MPC	5'August MPC
Fed funds range	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%
Fed cuts/hikes priced by year-end	2 bps Hike	25bps Hike	20bps Hike
First fully priced Fed move	Mar'27	Dec'26	Dec'26
US 2-year yield	3.79%	4.15%	4.2%
US 10-year yield	4.29	4.53	4.6
DXY	98.95	99.43	99.87
USD/INR	92.58	94.95	95.22
India 10Y	7.05%	6.94	6.78
Brent crude ($/bbl)	96.6	110.4	80.4
RBI repo rate/stance	Neutral	Neutral	Neutral

** Source: Bloomberg, UBI Research*

Fig 10: RBI regulatory developments:

Category	Specific Policy Action	Core Objective & Market Impact
Licensing of Urban Co-operative Banks (UCBs))	RBI has decided to resume licensing of UCBs on 'on tap' basis	Ensure timely licencing of UCBs and removing the two-decade pause on issuance of fresh licenses.
Concentration Risk Management - Rural Co-operative Banks	RBI has decided to review Prudential norms on Concentration Risk Management of Rural Co-operative Banks (RCBs)	This measure aims at developing a vibrant co-operative sector while addressing the prudential concerns arising from concentrated lending.
RBI proposed to rationalise the regulatory framework on interest rates on advances on all Regulated Entities (REs)	RBI aims to harmonise the guidelines while maintaining proportionality; address certain operational aspects of the current framework on MCLR and EBLR; and standardise certain divergent market practices concerning interest charging, including day count convention and benchmark reset dates.	This measure is aimed at enhancing the effectiveness of monetary policy transmission, so that policy rate changes are reflected more efficiently in lending rates. This needs close watch given the significant impact on Bank NIMs of this measure.

RBI's Policy Decision: Comparison of policy statements, Aug'2026 *(paraphrased)*

Policy Decision	April 2026	June 2026	Aug'26
Repo rate	**5.25%**	**5.25%**	**5.25%**
Stance	**Neutral**	**Neutral**	**Neutral**
Growth Projection	▪ The real GDP growth for FY26 is expected at 7.6% (from 7.4% earlier), in line with 2nd advance estimates (SAE) of the new GDP series. FY27 GDP growth is seen at 6.9% with Q1 at 6.8% (from 6.9% earlier), Q2 at 6.7% (from 7.0% earlier), Q3 at 7.0% and Q4 at 7.2%. ▪ However, *further escalation of the conflict, its continuation over a wider geographical spread and uncertainty regarding the damage to the energy infrastructure, apart from weather related events, pose downside risks to the domestic growth outlook.*	▪ The real GDP growth for FY27 GDP growth is seen at 6.6% (from 6.9% earlier) with Q1 at 6.6% (from 6.8% earlier), Q2 at 6.3% (from 6.7% earlier), Q3 at 6.5% (from 7.0% earlier) and Q4 at 6.8% (from 7.2% earlier). ▪ *Prolonged global supply chain disruptions, heightened volatility in global financial markets and weather-related shocks continue to pose downside risks to the domestic growth outlook.*	▪ The real GDP growth for FY27 GDP growth is revised upwards by 10 bps to 6.7% (from 6.6% earlier) with Q1 revised to 7.0% (from 6.6% earlier). GDP growth is projected for Q2 at 6.4% (from 6.3% earlier), Q3 at 6.5% (same as earlier), Q4 at 6.8% (same as earlier) and Q1FY28 at 7.3%. ▪ High frequency indicators are resilient, though monsoon, EL Nino and global trade disruptions are key risks on watch.
Inflation Projection	▪ FY27 inflation projection is seen at 4.6% with Q1 at 4.0% (same as earlier), Q2 at 4.4% (from 4.2% earlier), Q3 at 5.2% and Q4 at 4.7%. Oil price is assumed at $85 for FY27. ▪ Core inflation is projected at 4.4% for FY27 and, excluding precious metals, it is even lower indicating that underlying inflation pressures are expected to remain contained. ▪ Persistently elevated energy prices due to the West Asia conflict and possible El Niño conditions (which could have a negative impact on southwest monsoon) pose upside risks to inflation.	▪ FY27 inflation projection is seen at 5.1% (from 4.6% earlier) with Q1 at 4.2% (from 4.0% earlier), Q2 at 5.1% (from 4.4% earlier), Q3 at 5.9% (from 5.2% earlier) and Q4 at 5.4% (from 4.7% earlier). ▪ Core inflation is projected at 4.7 (from 4.4% earlier) for FY27. *Excluding precious metals, core inflation is projected to be lower, suggesting the demand pressures remain contained.* ▪ *These forecasts are subject to upside risks due to global supply chain disruptions and uncertainty about the spatial and temporal distribution of monsoon. However, adequate stock of food grains and satisfactory reservoir levels provide some comfort.*	▪ FY27 inflation projection is revised downward by 10 bps to 5.0% (from 5.1% earlier) as Q1 numbers clocked 3.9% 30 bps lower than 4.2% projected in June MPC. ▪ Inflation is projected for Q2FY27 at 4.7% (from 5.1% earlier), Q3 at 5.9% (same as earlier), Q4 at 5.5% (from 5.4% earlier) and Q1FY28 at 5.3% (details in table). ▪ Core inflation is projected at 4.3% (from 4.7% earlier) for FY27. ▪ Inflation led by supply side disruptions in food and fuel. **No signs yet of generalisation of inflation pressures,** core inflation excluding auto fuels & gold and silver is benign. Risks on second round impact of inflation will be on close watch
Liquidity	▪ To ensure sufficient liquidity in the banking system, the RBI proactively undertook durable and transient liquidity measures. ▪ Going ahead, the RBI will continue to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy.	▪ To ensure appropriate liquidity in the banking system to meet the productive requirements of the economy and facilitate monetary policy transmission. ▪ Going ahead, the usual drawdown of govt cash balances after the RBI's surplus transfer and the return of currency during the monsoon season will aid banking system liquidity in the near-term.	▪ System liquidity stood at an average daily surplus of ₹1.0 lakh crore since the last MPC meeting. System level liquidity to aid further with drawdown of government cash balances, usual return of currency during monsoon season and RBI special measures to attract capital inflows. WACR traded within policy corridor at 5.31%. ▪ G-Sec yields eased across maturities helped by recent measures of RBI and the Government.
Policy guidance	▪ The policy guidance was broadly balanced as MPC acknowledged downside risks to growth (FY27 projection: 6.9%) & upside risks to inflation (FY27 projection:4.6%). *The economy is confronted with a supply shock. It is prudent to wait and watch the changing circumstances and the evolving growth-inflation outlook.*	▪ The policy guidance was broadly balanced as MPC acknowledged downside risks to growth (FY27 projection at 6.6%) & upside risks to inflation (FY27 projection at 5.1%). *There are considerable risks to the baseline assessment of inflation and growth due to the uncertainty about the duration and intensity of the conflict, magnitude of its spillover effects and the pace of restoration of supply chains.*	▪ Policy guidance was largely balanced. The growth outlook continues to be constructive despite a less favourable global backdrop. The downward revision in inflation projections is the highlight of the policy statement even as the risks from EL Nino's impact on temporal and spatial distribution of rainfall remain. MPC expects both headline and core inflation to peak in Q3 FY27 and a convergence between the two by end of the financial year.

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