

RBI Monetary Policy – August 2025

9th AUGUST 2025

The Monetary Policy Committee (MPC) held its 56th meeting from August 4 to 6, 2025, under the chairmanship of Governor Sanjay Malhotra. After a comprehensive assessment of the evolving macroeconomic situation, the MPC announced its decision to keep the policy repo rate unchanged at 5.50%. This decision follows the significant 50 basis points cut implemented in the June 2025 meeting, bringing the cumulative rate reduction to 100 basis points since February 2025. The committee also maintained its 'neutral' stance, providing flexibility to respond to evolving domestic and global economic conditions.

External Challenges: U.S. Tariffs Imposition

The MPC acknowledged significant external headwinds, particularly the US tariff impositions on Indian exports. The US implemented a 25% tariff on Indian goods effective August 7, 2025, with threats of additional tariffs bringing the total to 50%. However, Governor Malhotra had previously stated that the RBI "doesn't see a major impact of US tariffs on India's economy"

August 6, 2025 — President signed a second Executive Order that imposes an additional ad-valorem duty of 25% on imports from India. That additional duty is effective 21 days after the order (around Aug 27, 2025). The order says this extra 25% is in addition to the reciprocal duties; this effectively brings the total tariff to 50%.

Inflation outlook/expectations lowered

In a significant revision, the RBI slashed its inflation forecast for FY26 to 3.1%, down from 3.7% projected just two months earlier. This dramatic downward adjustment reflects the sustained decline in price pressures, with retail inflation hitting a remarkable six-year low of 2.1% in June 2025, which is well below the RBI's medium-term target of 4%. Food inflation contracted by 1.06% in June, driving this benign environment. Quarterly inflation projections were also revised downward:

Q2FY26: 2.1% (down from 3.4%), Q3FY26: 3.1% (down from 3.9%) and Q4FY26: 4.4% (unchanged)

Growth projections maintained

Governor Malhotra emphasized above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. Additionally, the supportive monetary, regulatory and fiscal policies including robust government capital expenditure should also boost demand. Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations. The headwinds emanating from prolonged geopolitical tensions, persisting global uncertainties, and volatility in global financial markets pose risks to the growth outlook.

Taking all these factors into account, RBI retained its projection for real GDP growth for 2025-26 at 6.5%, with Q1FY26 at 6.5%, Q2FY26 at 6.7%, Q3FY26 at 6.6%, and Q4FY26 at 6.3%.

CRR Implementation Timeline

The RBI confirmed the phased implementation of its historic 100 basis points CRR reduction, bringing the ratio down from 4% to 3% in four tranches starting September 6, 2025. This measure will inject ₹2.5 lakh crore into the banking system. The phased implementation schedule is:

- September 6, 2025: CRR reduced to 3.75%
- October 4, 2025: Further reduced to 3.50%
- November 1, 2025: Reduced to 3.25%
- November 29, 2025: Final reduction to 3.00%

Forward Guidance by RBI

The neutral stance provides maximum flexibility for future policy actions. With inflation well below target and growth remaining robust, the RBI has positioned itself to respond appropriately to evolving economic conditions, whether through further easing if growth falters or tightening if inflation resurges.

The August 2025 monetary policy represents a strategic pause after front-loading significant easing measures, allowing the central bank to assess the full impact of its actions while maintaining readiness to act as economic conditions evolve.