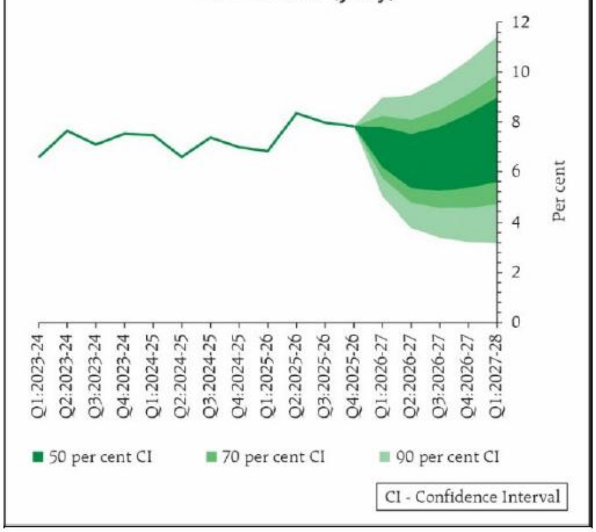
5th AUGUST 2026

RBI Monetary Policy Update: August 2026

The Monetary Policy Committee kept the policy repo rate unchanged at 5.25% at its August meeting and retained the neutral stance, with the decision taken unanimously. The standing deposit facility rate remains at 5.00% while the marginal standing facility rate and the Bank Rate remain at 5.50%. More notable than the rate decision was the direction of the projection revisions. After two consecutive meetings of growth downgrades and inflation upgrades, the RBI nudged its FY27 growth forecast higher and its inflation forecast lower, marking the first improvement in the forecast mix this cycle.

Growth Forecast Edges Higher

Chart 1: Quarterly Projection of Real GDP Growth (y-o-y)

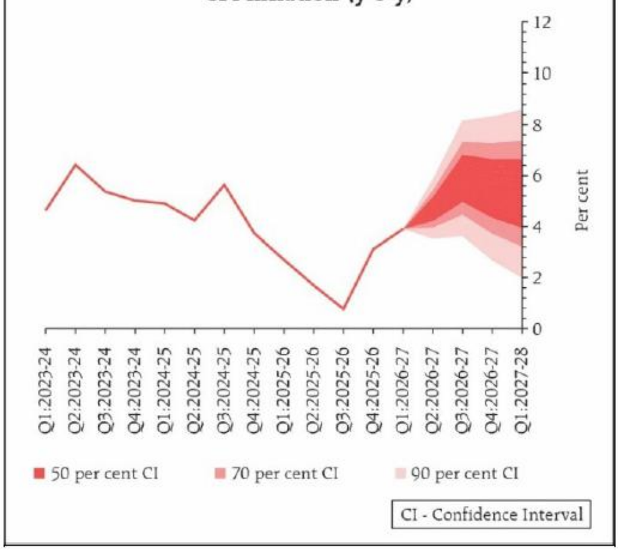


Source: RBI Press Release

Real GDP growth for FY27 is now projected at 6.7%, up from 6.6% in the June policy, with risks assessed as evenly balanced. The quarterly path is 7.0% in Q1, 6.4% in Q2, 6.5% in Q3 and 6.8% in Q4, with Q1 FY28 projected at 7.3%. High frequency indicators point to steady domestic demand in Q1 FY27, with private consumption robust and investment activity resilient across construction, capital goods and bank credit. External demand also held up as healthy growth in services exports was accompanied by a rebound in merchandise exports. Looking ahead, sustained services momentum, the continuing impact of GST rationalisation, strong capacity utilisation and the government's infrastructure thrust are expected to support activity, while recent trade agreements should aid merchandise exports. The principal domestic risk flagged was a deficient and uneven southwest monsoon amid El Niño conditions, which poses risks to the agriculture outlook and rural demand.

CPI inflation for FY27 is projected at 5.0%, marginally lower than the 5.1% projected in June. The quarterly path runs 4.7% in Q2, 5.9% in Q3 and 5.5% in Q4, with Q1 FY28 at 5.3%. Headline inflation rose to 4.4% in June 2026, the first print above target after 16 consecutive months below it, though realised Q1 inflation came in 30 bps below the RBI's own projection, reflecting limited pass through of cost pressures. The increase was driven by food and fuel, with fuel inflation rising on retail price revisions following the spike in international energy prices. Core inflation held unchanged at 3.9% through May and June, and excluding precious metals stood at just 2.3% to 2.5%, indicating that demand side pressures remain contained. Core inflation for FY27 is projected at 4.3%. Inflation is still expected to peak in Q3 FY27 at 5.9%, unchanged from the June projection.

Chart 2: Quarterly Projection of CPI Inflation (y-o-y)



Source: RBI Press Release

The Bar for Policy Action Has Risen

The statement was explicit that greater clarity is needed on the inflation path and its composition before any policy action is taken. Significantly, the RBI added that any such action would need to account for the recalibration of policy rates in line with evolving growth and inflation dynamics, specifically the normalisation of underlying inflation from the benign levels seen so far. Read alongside a unanimous hold and an upgraded growth forecast, this language suggests the case for further easing has weakened.

Outlook

The August policy delivered no change in rates but a meaningful change in tone. The deterioration in the macro forecast mix seen over the previous two meetings has paused, even as headline inflation moves above target on food and fuel. With core inflation benign and the projected peak still three months out, the RBI has bought itself time. Progress of the monsoon, the trajectory of global energy prices and the extent to which food and fuel pressures generalise into core will determine the next move.

What This Means for Indian Equities

The improvement in the forecast mix removes the sense that policy support is being steadily withdrawn, though the reference to normalising underlying inflation sets a higher bar for cuts than the market is positioned for. With headline pressure sitting in food and fuel rather than core, the case for equities rests on earnings and pricing power rather than on a rate view, and the monsoon and the Q3 inflation peak remain the two variables to watch into October.

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