

RBI hits pause on rate cuts, citing uncertainties

FY26 inflation forecast slashed to 3.1% from 3.7%

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Mumbai, 6 August

Amid uncertainties over US tariffs on Indian goods exports and volatile food prices, the six-member rate setting panel of the Reserve Bank of India (RBI) unanimously decided to keep the policy repo rate unchanged at 5.5 per cent while maintaining a neutral monetary stance.

'Dead economy' jibe: RBI gov fact-checks Trump

“WE ARE CONTRIBUTING ABOUT 18% (TO GLOBAL GROWTH), WHICH IS MORE THAN THE US WHERE THE CONTRIBUTION IS EXPECTED TO BE MUCH LESS — ABOUT 11% OR SOMETHING”

Sanjay Malhotra
Governor, RBI



The central bank also cut the inflation outlook for the current financial year by 60 basis points (bps) to 3.1 per cent which is significantly below its mandated target of 4 per cent. However, headline inflation for the April-June quarter (Q1) of the next financial year 2026-27 (FY27) is projected at 4.9 per cent. The FY26 GDP growth projection was left unchanged at 6.5 per cent, with Q1 FY27 growth pegged at 6.6 per cent.

“...Headline inflation is much lower than projected earlier, it is mainly due to volatile food prices, especially of vegetables,” RBI governor Sanjay Malhotra said while announcing the decision of the monetary policy committee (MPC).

“Core inflation, on the other hand, has remained steady around the 4 per cent mark, as anticipated. Inflation is projected to go up from the last quarter of this financial year. Growth is robust and as per earlier projections though below our aspirations. The uncertainties of tariffs are still evolving. Monetary policy transmission is continuing. The impact of the 100 bps rate cut since February 2025 on the economy is still unfolding,” he said.

The RBI hinted that further rate cuts could depend on incoming growth, inflation data. “The MPC further resolved to maintain a close vigil on the incoming data and the evolving domestic growth-inflation dynamics to chart out the appropriate monetary policy path,” Malhotra said.

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tinues to avoid penalties due to its control over critical materials such as gallium, germanium, rare earths, and graphite — resources deemed vital to US defence and tech-

nology sectors. “In 2024, China bought \$62.6 billion of Russian oil, more than India’s \$52.7 billion, yet faces no such penalties,” it said.

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The yield on the benchmark 10 year bond surged 8 bps post the policy decision as the market perceived the monetary policy’s tone as hawkish. The Q1FY27 inflation forecast of 4.9 per cent also surprised the market.

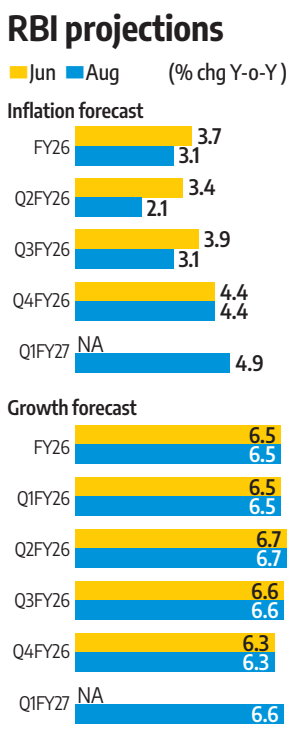
“On surface, today’s policy may have sounded a shade hawkish,” economists at HSBC said in a note while adding if subsequent growth data comes out weaker, the RBI could well lower its FY26 growth forecast and deliver a cut.

Malhotra said headwinds from persisting global uncertainties, prolonged geopolitical tensions, and volatility in global financial markets pose risks to the growth outlook. “Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations,” he said.

According to Malhotra, domestic growth is holding up even though some high-frequency indicators showed mixed signals in May-June and a recovery in urban discretionary demand is still insipid.

“Domestic growth is holding up and is broadly evolving along the lines of our assessment even though some high-frequency indicators showed mixed signals in May-June. Rural consumption remains resilient while urban consumption revival, especially discretionary spending, is tepid. Fixed investment supported by buoyant government capex continues to support economic activity,” he said.

While noting that the inflation outlook for FY26 has become more benign as compared to the previous MPC meeting in June, Malhotra said CPI inflation is likely to edge up above 4 per cent in Q4FY26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play.



On liquidity, Malhotra reiterated that the central bank will keep sufficient liquidity in the banking system so that the productive requirements of the economy are met, and transmission to money markets and credit markets remains smooth.

Going forward, economists said a further rate cut would come if growth projections are cut.

“We think economic activity moderated in Q1 FY25-26 and see downside risks to the Q1 GDP forecast at 6.5 per cent (data due on 30 August). This will be a key metric to watch for as a trigger for a likely rate cut in October, in our view,” Barclays economists said in a note.

At the same time, there is a view that given the inflation forecast, the current repo rate of 5.5 per cent could be the terminal rate.

“We may dub today’s pause as the ‘technical pause’ as the

inflation projections are hovering in the band of uncertainty. Under such a scenario (along-with expectation of robust GDP growth), we believe that if RBI inflation projections for FY26 may remain correct then 5.5% repo

rate may be the terminal rate,” said Soumya Kanti Ghosh, Group Chief Economic Adviser, State Bank of India.

The next review meeting of the monetary policy is scheduled from September 29 to October 1, 2025.

Amid US strain, PM set to visit China after 7 years

Meanwhile, Russian President Vladimir Putin is also expected to attend the SCO summit, which is due to take place in the Chinese city of Tianjin from August 31 to September 1.

India, China and Russia are not only members of the SCO but also of Brics, which held its latest summit in Rio de Janeiro in July. Both Xi and Putin were absent from that gathering, sending deputies in their place. Sources in New Delhi have not ruled out a possible Modi-Putin meeting on the sidelines of the Tianjin summit. Ahead of the SCO, National Security Adviser Ajit Doval and External Affairs Minister S Jaishankar are scheduled to travel to Moscow.

At the Rio summit, Brics nations voiced concern over the rise in unilateral tariff and non-tariff measures that distort global trade and run counter to World Trade Organisation rules, though the US was not named directly. In March, as Washington escalated tariffs on Chinese imports, Wang Yi called for stronger cooperation between New Delhi and Beijing to push back against “hegemonism and power politics”, stating that “making the dragon and elephant dance is the only choice”.

On April 1, marking the 75th anniversary of India-China diplomatic ties, Xi sent a message to President Droupadi Murmu, saying the two nations should aim for “a cooperative pas de deux of the dragon and the elephant”.

Modi and Xi last met on October 23, 2024, on the sidelines of the Brics summit in Kazan, Russia. The encounter marked a thaw in relations after the severe deterioration triggered by the Galwan Valley clash between Indian and Chinese troops in June 2020. The Kazan meeting led to disengagement at two key friction

points along the Line of Actual Control, completed by November 2024. It also paved the way for the resumption of the Mansarovar Yatra, tourist visas for Chinese citizens, and discussions on reviving direct flights.

Nevertheless, relations between the two countries have remained bumpy in recent months. In April, India raised concerns over Chinese restrictions on the supply of rare earth elements. A month later, it said Beijing provided military assistance to Pakistan during “Operation Sindoor”, India’s offensive to dismantle terrorist infrastructure across the border. According to Indian officials, Pakistan deployed Chinese weapons and drones, and benefited from Chinese intelligence during the conflict.

India has also been working to deepen ties with several of China’s neighbours. On Tuesday, India and the Philippines signed agreements aimed at enhancing military cooperation. Their navies also conducted joint exercises near Scarborough Shoal, an atoll in the South China Sea that is the focal point of a maritime dispute between Beijing and Manila. Modi last visited China in June 2018 for the SCO summit, while Xi last visited India in October 2019. In the run-up to the Tianjin summit, Defence Minister Rajnath Singh, Jaishankar, and Doval had all visited China for preparatory SCO meetings. The two sides have also revived the Special Representatives dialogue and other engagement mechanisms. Pakistan, too, is a member of the SCO. In June, Singh refused to endorse a draft joint statement by the bloc’s defence ministers, citing its failure to mention the Pahalgam terror attack and omission of references to Pakistan-backed cross-border terrorism.