BUSINESS STANDARD POLL

August rate cut hopes get a fillip

Economists pencil in 25 bps reduction in the repo rate by December

ANJALI KUMARI
Mumbai, 15 July

The prospects of a further easing in policy rates by the Reserve Bank of India's Monetary Policy Committee (MPC) have become brighter with the headline retail inflation plummeting to a 77-month low of 2.1 per cent in June. While most economists expect the next rate cut to be effected in October or December, the probability of a reduction as early as August has also heightened.

Irrespective of the timing, the hopes of more rate cuts on top of the 100 basis points (bps) of reductions effected since February to bring the policy rate to 5.5 per cent, are also fueled by expectations that retail inflation through this financial year (FY2026) may undershoot the RBI's projection of an average 3.7 per cent uptick in the key price gauge. Most economists have lowered their FY26 retail price rise projection after June's Consumer Price Index (CPI) was released on Monday.

In June, the MPC had slashed rates by 50 bps, outpacing consensus expectations of a 25 bps cut, as the central bank frontloaded rate action to enhance transmission of monetary policy rates. That frontloading and the move to a neutral policy stance, had spurred a street view that the central bank may pause rate actions in August.

"With growth remaining below potential and aspirations, the MPC could lean towards a 25 bps rate cut in the August or October policy review to further fast track policy transmission," Quanteco Research economists concluded in a report, stressing that the current MPC's preference for expediting transmission strengthens the case for a front loaded cut.

Turn to Page 6

What they expect

Institution	Rate cut expectation: How much and when	Avg CPI inflation forecast for FY26 (%)
SBI	25 bps; sooner than later	3.0-3.2
Barclays	25 bps; Oct or Dec 2025	3.5
IDFC First Bank	25 bps; Oct or Dec, 2025	2.7
Nomura	25 bps each in Oct & Dec	2.8
ICRA	High probability in Aug	Sub-3.5
QuantEco	Aug or Oct 2025	3
Emkay Global	Aug, and/or Oct/Dec	2.9
HDFC Bank	Unlikely in Aug	3.3

EDIT: Comfortable position 9

"WE'RE IN A NEUTRAL STANCE, WHICH MEANS WE CAN MOVE IN EITHER DIRECTION DEPENDING ON THE OUTLOOK, NOT JUST THE CURRENT DATA"

Sanjay Malhotra, RBI governor

Related report P4

BUSINESS STANDARD POLL

August rate cut hopes get a fillip; economists pen in 25 bps by Dec

"For the full year FY26, CPI inflation estimate is tracking at 2.7 per cent, after keeping space for potential food price spikes. FY27 inflation estimate is tracking at 4 per cent," IDFC First Bank said in a note.

The benign inflation outlook has firmed up expectations of a rate cut, 'sooner than later', the bank's economists reckoned.

"With a firmly benign inflationary trend envisaged going ahead, notwithstanding the tumult on part of trade led restrictions and non-linear pass-through of such vagaries, the plot seems to be spiced with a further 25 bps rate cut (sooner than later) to give an adrenaline boost to the economic juggernaut," said Soumya Kanti Ghosh, Group Chief Economic Adviser State Bank of India, in a report.

"After the lower than anticipated June print, the average CPI inflation for FY26 may be sub 3.5 per cent. With this, the probability of a rate cut in August 2025 has gone up appreciably," said Aditi Nayar, chief economist, ICRA.

If not in August, the central bank would cut the rates in the third quarter of the current financial year, according to economists.

"While the hurdle for a rate cut at the next meeting in August appears high, we expect 25bp cuts in each of the October and December meetings to a terminal rate of 5.00 per cent," economists at Nomura said.

Nomura recently lowered FY26 headline inflation forecast to 2.8 per cent Y-o-Y from 3.3 per cent, well below the RBI's forecast of 3.7 per cent.

Economists at Barclays said June's lower-than-expected CPI inflation outcome and likely further softening in July paves the way for potential additional easing by the RBI MPC.

"We argue that the rate cutting window will close shortly as we expect CPI inflation to rise to above 4.5 per cent in Q4FY26. It may thus become rather challenging for the RBI MPC to deliver a cut post October-December 2025," Barclays' economists said.