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August 20, 2025

Minutes of the Monetary Policy Committee Meeting, August 4 to 6, 2025
[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The fifty-sixth meeting of the Monetary Policy Committee (MPC), constituted under Section 45ZB of the Reserve Bank of India Act, 1934, was held during August 4 to 6, 2025.

2. The meeting was chaired by Shri Sanjay Malhotra, Governor and was attended by all the members – Dr. Nagesh Kumar, Director and Chief Executive, Institute for Studies in Industrial Development, New Delhi; Shri Saugata Bhattacharya, Economist, Mumbai; Professor Ram Singh, Director, Delhi School of Economics, Delhi; Dr. Poonam Gupta, Deputy Governor in charge of monetary policy and Dr. Rajiv Ranjan, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934).

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

(a) the resolution adopted at the meeting of the Monetary Policy Committee;
(b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and
(c) the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail the staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. The Monetary Policy Committee (MPC) held its 56th meeting from August 4 to 6, 2025 under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank of India. The MPC members Dr. Nagesh Kumar, Shri Saugata Bhattacharya, Prof. Ram Singh, Dr. Poonam Gupta and Dr. Rajiv Ranjan attended the meeting.

6. After assessing the current and evolving macroeconomic situation, the MPC voted to maintain the policy repo rate at 5.50 per cent. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) remains unchanged at 5.25 per cent and the marginal standing facility (MSF) rate and the

Bank Rate at 5.75 per cent. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Growth and Inflation Outlook

7. The global environment continues to be challenging. Although financial market volatility and geopolitical uncertainties have abated somewhat from their peaks in recent months, trade negotiation challenges continue to linger. Global growth, though revised upwards by the IMF, remains muted. The pace of disinflation is slowing down, with some advanced economies even witnessing an uptick in inflation.

8. Domestic growth remains resilient and is broadly evolving along the lines of our assessment. Private consumption, aided by rural demand, and fixed investment, supported by buoyant government capex, continue to boost economic activity. On the supply side, a steady south-west monsoon is supporting *kharif* sowing, replenishing reservoir levels and boosting agriculture activity. Moreover, services sector and construction activity remain robust. However, growth in industrial sector remained subdued and uneven across segments, pulled down by electricity and mining.

9. As for the growth outlook, the above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. The supportive monetary, regulatory and fiscal policies including robust government capital expenditure should also boost demand. The services sector is expected to remain buoyant, with sustained growth in construction and trade in the coming months. 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, projection for real GDP growth for 2025-26 has been retained at 6.5 per cent, with Q1 at 6.5 per cent, Q2 at 6.7 per cent, Q3 at 6.6 per cent, and Q4 at 6.3 per cent. Real GDP growth for Q1:2026-27 is projected at 6.6 per cent (Chart 1). The risks are evenly balanced.

10. CPI headline inflation declined for the eighth consecutive month to a 77-month low of 2.1 per cent (y-o-y) in June 2025. This was driven primarily by a sharp decline in food inflation led by improved agricultural activity and various supply side measures. Food inflation recorded its first negative print since February 2019 at (-) 0.2 per cent in June. High-frequency price indicators signal a continuation of the lower price momentum in food prices this year to July as well. Core inflation, which remained within a narrow range of 4.1-4.2 per cent during February-May, increased to 4.4 per cent in June, driven partly by a continued increase in gold prices.

11. The inflation outlook for 2025-26 has become more benign than expected in June. Large favourable base effects combined with steady progress of the southwest monsoon, healthy *kharif* sowing, adequate reservoir levels and comfortable buffer stocks of foodgrains have contributed to this moderation. CPI inflation, however, is likely to edge up above 4 per cent by Q4:2025-26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play. Barring any major negative shock to input prices, core inflation is likely to remain moderately above 4 per cent during the year. Weather-related shocks pose risks to inflation outlook. Considering all these factors, CPI inflation for 2025-26 is now projected at 3.1 per cent with Q2 at 2.1 per cent; Q3 at 3.1 per cent; and Q4 at 4.4 per cent. CPI inflation for Q1:2026-27 is projected at 4.9 per cent (Chart 2). The risks are evenly balanced.

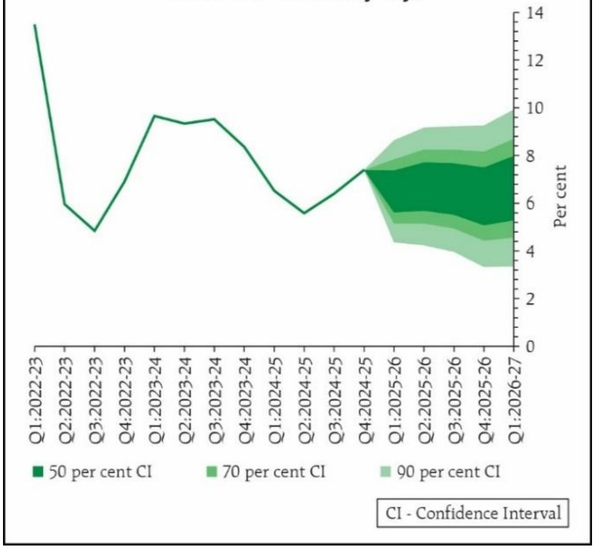

Chart 1: Quarterly Projection of Real GDP Growth (y-o-y)

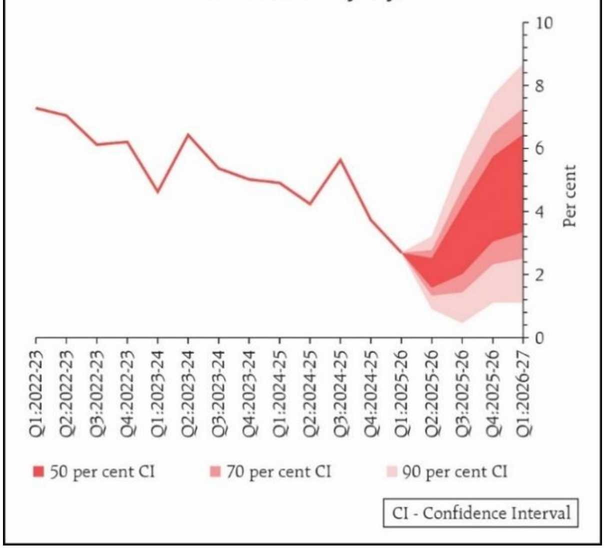

Chart 2: Quarterly Projection of CPI Inflation (y-o-y)

Rationale for Monetary Policy Decisions

12. The MPC noted that the inflation outlook in the near term has become more benign than anticipated earlier, and the average CPI inflation this year is expected to remain significantly below the target. This is driven mainly by lower food inflation that entered deflationary territory in June. However, CPI inflation is likely to edge up above the 4 per cent target from Q4:2025-26 onwards. Moreover, core inflation has been rising steadily from the recent low of 3.6 per cent recorded during December-January 2024-25 and averaged 4.3 per cent in Q1 this year. Core excluding precious metals has witnessed an uptick and averaged 3.4 per cent in Q1.

13. Growth has held up well with some pick-up expected in the coming festive season and is evolving in line with our assessment of 6.5 per cent for 2025-26.

14. Thus, while headline inflation is much lower than projected earlier, it is mainly due to volatile food prices, especially of vegetables. 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 cuts since February 2025 on the economy is still unfolding.

15. On balance, therefore, the current macroeconomic conditions, outlook and uncertainties call for continuation of the policy repo rate of 5.5 per cent and wait for further transmission of the front-loaded rate cuts to the credit markets and the broader economy. Accordingly, the MPC unanimously voted to keep the repo rate unchanged. 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. Accordingly, all members decided to continue with the neutral stance.

16. The minutes of the MPC's meeting will be published on August 20, 2025.

17. The next meeting of the MPC is scheduled from September 29 to October 1, 2025.

Voting on the Resolution to keep the policy repo rate unchanged at 5.5 per cent

Member	Vote
Dr. Nagesh Kumar	Yes
Shri Saugata Bhattacharya	Yes
Prof. Ram Singh	Yes
Dr. Rajiv Ranjan	Yes
Dr. Poonam Gupta	Yes
Shri Sanjay Malhotra	Yes

Statement by Dr. Nagesh Kumar

18. The MPC held its August meeting against the backdrop of continued challenges to the sustainability of economic growth, especially in the manufacturing sector, posed by the trade policy uncertainties and subdued private investment, while inflationary pressures have eased further.

19. The inflationary outlook has continued to remain benign. The CPI headline has softened further in June 2025 to 2.1 per cent, the lowest level since January 2019, driven by declining food prices, which went into negative territory at -0.2% on a y-o-y basis. The inflationary expectations remain well anchored as the RBI household surveys confirm the continued easing of inflationary expectations. Hence, the projections for headline CPI for 2025 have been revised downwards by 60 basis points from 3.7% at the time of June Policy to 3.1% now.

20. The economic growth outlook remains challenging. Despite healthy growth of profits and profit margins, and capacity utilisation rates trending upwards and staying above the 75% level (including the seasonally adjusted capacity utilisation), considered a critical threshold, especially for manufacturing, the sales growth moderated, and private investment is not showing signs of picking up. The credit offtake has also not happened in the expected manner, despite lower interest rates. The urban demand continues to remain subdued, although rural demand is showing healthy growth, led by rising rural wages, robust agricultural growth with the prospects of a good monsoon.

21. The private investment sentiment is adversely affected by the trade policy uncertainties. While the signing of the UK-India FTA is an important positive development, the US announcement of 25% tariffs on India is causing a lot of anxiety about the economic outlook. The preliminary calculations suggest that these tariffs may hurt the growth rate in the current year by 20 to 30 basis points but given the fact that the US is a major market for India's exports of labour-intensive goods such as textiles and garments, leather goods, gems and jewellery, shrimp among other food products, the threat of job losses is more serious. One can only hope that the penal tariffs for Russian oil purchase will be withdrawn and the ongoing bilateral trade negotiations will succeed in eventually bringing down the US tariffs on Indian exports to more manageable levels and broadly in line, if not better, with the Asian peers, such as ASEAN countries and Bangladesh and the disruption will be short-lived. However, the uncertainty is affecting the investment climate. Going forward, diversification of markets for goods will be important. In that context, the negotiations of the India-EU FTA need to be expedited and the FTAs or the comprehensive economic partnership agreements with Japan and the Republic of Korea need to be reviewed to make them more effective, especially for the export of labour-intensive goods. Tapping the domestic market fully for the finished consumer goods by reducing the dependence on imports would also be helpful. Enhancing the domestic value addition in consumer goods exports through building the globally known Indian

brands and supply chains, including through overseas direct investments (ODI) and acquisitions of foreign retail chains, would also be important.

22. Keeping in mind the compulsions to support economic growth, the repo rate has been lowered three times since the February 2025 MPC meeting bringing a total of 100 basis points reduction. Transmission of the repo rate cuts to the lending and deposit rates happens with a lag. However, the transmission was accelerated by the hefty 50 basis point cut in June 2025 policy. By now, overall, the lending rates have gone down by 71 basis points, and the deposit rates by 87 basis points for fresh loans and deposits. Given the lag in transmission, further softening of lending rates may happen in the coming months, especially given that liquidity continues to remain in surplus.

23. While the case for stimulating private investments and urban demand remains, and the benign inflation outlook provides policy space, we may wish to wait and watch as the transmission of the existing actions takes place and how the trade policy uncertainties play out before considering policy actions at the October meeting of the MPC. Hence, I vote for keeping the repo rate unchanged at this juncture. I also feel that we could continue with the neutral stance to keep our options open in this challenging and complex economic environment.

Statement by Shri Saugata Bhattacharya

24. The MPC has been pro-active in easing monetary policy since February 2025, in conjunction with multiple RBI measures to reinforce transmission and ease lending conditions. The policy repo rate has been cut by 100 basis points in the space of 5 months. Average system liquidity has been in Rs 3.0 lakh crores surplus since the June 2025 MPC meeting, and the pre-emptive guidance of a 100 basis points cut in the CRR starting September is expected to keep liquidity in surplus. Financial conditions, as reflected in RBI data, remain easy.

25. At this point, we need to step back, assess the impacts of the rate decisions and other policy actions. As trite as this sounds, it is worth re-emphasising that monetary policy has to address multiple, often conflicting, objectives and optimise the consequent trade-offs.

26. The most important of these trade-offs, to my mind, is the balance between loan and deposit rates. The intervening period from June 2025 has seen a fairly large transmission of the policy easing into credit interest rates, particularly for fresh loans. To reiterate, one of the principal objectives of monetary policy easing is to lower borrowing costs to support investment intent and decisions. This can presumably facilitate increased demand for credit. To an extent, this has happened. Bank credit flows to the micro and small enterprises (as of 27th June) have largely held up. More broadly, overall flows of funds to the commercial sector, via both domestic and offshore channels, have also been robust.

27. During this same period, though, interest rates on fresh deposits have fallen more sharply than on fresh loans. *Prima facie*, this likely would have primarily been driven by cuts in wholesale deposits rates, due to the large liquidity surplus. Even factoring in the underlying deposit mix, this fall in deposit rates is of some concern regarding the accretion of domestic household savings, given my conjecture about restricted foreign savings (capital) flows into India, at least in the near future.

28. Building on the credit narrative, domestic economic activity, based on high frequency indicators, remain largely resilient, despite moderation in some proxies of aggregate demand. RBI Survey responses indicate continuing consumer confidence. Inflation forecasts over the next couple of quarters in FY26 are moderate, but are projected to rise thereafter. In addition, the sources of the moderation in recent

inflation prints originate from a concentrated subset of the index, which is a latent risk. This is the second trade-off.

29. As to the broader macroeconomic environment, uncertainty about global trade and economic activity remains elevated, even though the emerging scope and scale of US tariffs are becoming somewhat clearer. Despite this, uncertainty about global supply chain dislocations remains heightened. The outlook on India-US trade, in particular, has become fraught, based on the publicly available information on India-specific US tariffs plus unknown additional penal tariffs. Geo-strategic considerations have thus added another layer of uncertainty. The outcome and timelines of a bilateral trade deal with the US are unclear. If these tariffs persist, there is likely to be an adverse impact on India growth in FY26, and probably beyond. All these have clouded the outlook on India's external balance, both current and capital accounts. The balance between the domestic economic dynamics and the offshore uncertainty is the third trade-off.

30. Given this level of extant and evolving uncertainty, it is difficult to provide even a modicum of forward guidance. Policy decisions will continue to be based on incoming data and be taken on a meeting-by-meeting basis. While the current trade dynamics play out, data on economic data on activity in India in the recent past, notably Q1 FY26 GDP and Balance of Payments, are also awaited.

31. Hence, given the fluidity of the macro-financial environment, coupled with the ambiguities in the information set presently available, I believe that a pause in monetary policy decisions, both on the repo rate and the stance is appropriate. Hence, I vote for status quo in this MPC meeting.

Statement by Prof. Ram Singh

32. I will make a brief statement about the August 2025 meeting, as my assessment of the current growth-inflation dynamics and the prospects is very similar to what is described in the MPC statement. I will avoid duplicating the data presented in the MPC statement.

Inflation

33. The CPI headline inflation has continued on its downward trajectory during the last two quarters, almost touching the floor of the tolerance band in June. The unexpected drop in CPI inflation has been driven primarily by a sharp decline in food inflation that registered its first negative print in June 2025 at (-) 0.2 per cent, the lowest since February 2019. Decline in food inflation is broad-based. The high-frequency indicators signal a continuation of the lower price momentum in food prices in the coming months as well. Fuel inflation has also moderated over the last couple of months to touch 2.6 per cent in June. The Core inflation, in contrast, has increased to 4.4 per cent in June from 4.1-4.2 per cent during February-May of this calendar year. An increase in gold and precious metal prices is a significant factor behind the uptick in Core inflation.

34. The inflation outlook in terms of average CPI inflation, for the fiscal year (FY) 2025-26, has become very benign, mainly on account of unexpectedly low food inflation. The RBI has lowered its CPI inflation forecast to 3.1%. However, the average core inflation is likely to remain above the target range during coming quarters.

GDP Growth

35. Overall, the GDP growth is holding up so far amidst mixed signals coming through some high-frequency indicators. The rural consumption, including tractor and two-wheeler sales, remained resilient in Q1: 2025-26, whereas indicators of urban consumption, including FMCGs, passenger vehicle sales and also air passenger growth, remained tepid.

36. Going forward, several factors are expected to provide comfort: an increase in the flow of funds to the private sector through bond markets and non-banking channels, a super-healthy corporate balance sheet, high levels of PMIs for the manufacturing and services sectors, and rising capacity utilisation. The above-normal monsoon, low inflation, supportive monetary, regulatory, and fiscal policies, along with the onset of the festival season, are expected to support growth by boosting demand. The sustained growth rates in construction, trade and a broad range of services sectors are expected to remain buoyant in the coming months, supporting the growth.

37. There are also some stress signs associated with achieving a 6.5% growth rate. Private capex growth remains below expectations, though the recent signals in this regard are encouraging. Overall, fixed investment is primarily supported by government capex. Growth in the industrial sector remained subdued and uneven across segments. The Index of Industrial Production (IIP) has also shown moderation. The net FDI is also trending at low levels.

38. Moreover, prospects on the exports front are highly uncertain amidst ever-changing tariff announcements and protracted trade negotiations. The headwinds emanating from a fluid geopolitical scenario, heightened global uncertainties, and volatility in international financial markets pose serious risks to the domestic growth outlook. US tariffs have already put Indian exporters at a disadvantage. Signs of distress in growth and employment for MSMEs are visible in sectors reliant upon the US market, such as diamond and jewellery, textile and apparel, and fisheries.

39. Under normal circumstances, there would be a case for a growth-supportive interest rate cut given benign inflation prospects. However, the unusually high degree of uncertainty on both inflation and growth fronts calls for greater caution. The CPI inflation is projected to cross 4 per cent in Q4:2025-26 and remain above the point target in subsequent quarters due to unfavourable base effects. Moreover, the impact of the demand boost from the monetary and fiscal policy in action is yet to play out. There is a risk of imported inflation due to uncertainty about the prices of some commodities and the unquantifiable implications of volatility in global financial markets.

40. On the other hand, improved domestic food supply chain logistics, healthy *kharif* sowing, and above-normal water reservoirs bode well for food inflation in the coming quarters. The expected revision in the inflation series based on the revised CPI index (with a lower weightage for food) adds to the downside of inflation risks. In the future, the base effect (high prices of precious metals) can also moderate the core inflation.

41. All these factors have increased the variance of the inflation forecast. The assumptions about global growth and inflation are changing by the day. Global growth is holding up so far. Exports have been front-loaded, with exporters absorbing a larger share of the tariff costs. This means that the full impact of tariff tussles is yet to play out fully on the US economy and the rest of the world. In the second half of the fiscal year, global growth and inflation can turn out to be very different from the projected levels.

42. The tariff tussle between the two largest economies will simultaneously unleash inflationary and deflationary pressures on the Indian economy. The overall effect is hard to quantify. Given the high degree of uncertainty regarding growth and the volatile nature of food inflation, caution is warranted in the rate cut. The interest rate decisions of the US Fed and other central banks in the coming months will also have a bearing on the feasibility of a further rate cut by the RBI and its quantum.

43. To respond to an unpredictable set of events, it is crucial to maintain policy options, in terms of the number of policy tools that can be used as well as their force. Only the incoming data can help in assessing the inflation with the precision required under the current global economic order. Moreover, the MPC needs to watch the pass-through of the 100 bps rate cut to ascertain its effects on inflation and growth. We need to monitor the sectoral impacts of direct and indirect effects of tariffs on Indian exports.

44. In view of the above-discussed multi-dimensional and high-order uncertainty, I vote to pause the policy repo rate under the liquidity adjustment facility (LAF) at 5.50 per cent.

45. For the same reason, I support keeping the monetary policy stance as 'neutral'.

Statement by Dr. Rajiv Ranjan

46. The August MPC meeting was my 21st meeting as MPC member. This was one of the most difficult meetings in terms of deciding on the future course of monetary policy. Even though I had said in my June 2025 meeting minutes, "…*having front-loaded the policy rate cut by 50 bps, we would be left with less room for further downward adjustments in policy rates*", I felt that the arguments were equally strong and delicately poised on both sides in this August meeting – to cut the policy repo rate by 25 bps or not to cut. Let me first summarise the arguments in favour of cutting the policy rate by 25 bps.

47. We have reduced the projection of inflation substantially by 60 basis points to 3.1 per cent in the current policy as the inflation outlook for the remainder of 2025-26 has turned benign, supported by favourable base effects, a well-progressing southwest monsoon, healthy *kharif* sowing, and comfortable foodgrain stocks. With projections for 2025-26 marked down significantly, inflation well below the 4 per cent target in the near term and greater traction of cyclical policy support for economic activity as the festive season approaches, there is a good case to be made that the room has opened up again for policy to ease further in support of growth, especially in an uncertain global environment.

48. On the other hand, the arguments to maintain the status quo with respect to the policy rate and stance seemed to be stronger on account of the following. First, the recent monetary easing cycle has already delivered a front-loaded 100 bps rate cut since February 2025. Its effects are still working through the system, and transmission to credit markets is ongoing. Thus, it is prudent at the current juncture to adopt a wait-and-watch approach to see the extent of transmission before delivering further policy stimulus. The impact of the CRR cut done earlier will also start kicking in from September 2025.

49. Second, the growth outlook for the Indian economy for 2025-26 has been evolving on the lines projected in the previous policy, despite unfavourable global demand conditions. The monsoon season has been progressing well with higher *kharif* sowing. Performance of the non-financial corporate sector is holding well. Key high-frequency volume-based activity indicators show that economic activity is

holding firm. As such, growth is tracking our earlier projections, robust but still below aspirations.

50. Third, the decline in headline inflation has been largely due to sharp correction in its volatile component *i.e*., the food prices. Core inflation remains around 4 per cent, with potential upside risks from demand revival. Adverse weather shocks could upend the current sanguine food price scenario. The baseline inflation projections indicate that headline inflation is likely to overshoot the 4 per cent target by Q4:2025-26 and further increase to 4.9 per cent by Q1:2026-27. Given these risks, there is a strong case for monetary policy to wait for a more definitive signal about a sustained moderation in inflation before venturing into further policy easing.

51. Fourth, globally, countries are moving cautiously with either pausing or cutting rates intermittently. We have had a rather accelerated easing in the last three consecutive policies.

52. Overall, growth remains resilient, supported by public capex, resilient rural demand, and steady services activity, although industry shows some unevenness. Inflation is significantly lower than projected earlier, but the decline is concentrated in a few volatile components and the outlook suggests a rise in inflation to above the target going forward. In next few months, we can have clarity on how tariffs and their impact on the macroeconomy evolve. The prudent course of action is to allow time for the recent policy easing to transmit fully into the economy and to assess its effects on real economic activity. An additional rate cut at the current juncture could also reduce our policy space should global or domestic risks materialise. After weighing these considerations, I conclude that the balance of risks calls for no action in this meeting, and accordingly I vote for the policy repo rate to be kept unchanged at 5.50 per cent.

53. I also feel that the neutral stance of policy should be maintained, as it allows enough flexibility to react to the unfolding growth-inflation dynamics. Policy will have to be data-dependent, forward-looking and nimble-footed, aiming to secure price stability while supporting growth. Such an approach leaves the space to act, should downside risks to growth arises and inflation remains on the projected trajectory.

Statement by Dr. Poonam Gupta

54. In this meeting, I vote for the *status quo*, *i.e.*, to keep the policy repo rate unchanged at 5.5 percent. My vote is predicated on the following three factors.

55. First, the evolving growth-inflation dynamics have weighed on my vote. Despite receding from their peak of May and June, financial market volatility and geopolitical uncertainties have remained elevated; and some trade uncertainties have aggravated for India. Notwithstanding these challenges, the Indian economy remains resilient overall. A favourable monsoon, low inflation, government infrastructure spending and congenial financial conditions facilitated by frontloaded policy easing remains supportive of domestic economic activity.

56. Since the last policy, the inflation outcome has turned out to be surprisingly benign with CPI headline inflation declining to 2.1 per cent (y-o-y) in June. One could argue that the benign inflation outlook gives the headroom to continue with policy easing in support of accelerating the growth momentum. However, this moderation is not general, but is primarily driven by a deflation in food (-0.2 per cent y-o-y), particularly by a sharp decline in the prices of vegetables and pulses. Besides, CPI inflation is likely to firm up above 4 per cent from Q4:2025-26 as the unfavourable base effects would come into play and move closer to 5 per cent in Q1:2026-27 even with moderate price momentum. Additionally, core inflation is likely to remain above 4

per cent in the near to medium term, barring any major negative shock to input prices.

57. Second, this policy action needs to be seen in its totality and in the context of the past actions. There has been a cumulative rate cut of 100 bps since February 2025, which includes a frontloaded rate cut of 50 bps in the June policy. Simultaneously, the RBI has deployed other tools during this period, including easier liquidity conditions; regulatory easing; and transparent, and frequent communication and forward guidance. The effect of all these actions has been permeating through the economy. Transmission of the cumulative rate cut has been impressively rapid, but it is still unfolding, and is likely to pick up in the coming months, facilitated by the CRR cuts coming into effect from September 2025.

58. Third, while awaiting the transmission to be completed, the cost or availability of funds (bank credit and other sources of funds) is not deemed to be a material constraint to growth at the current juncture. Rather, heightened global uncertainties and structural factors seem to be more constraining for new investment and consumption decisions.

59. Taking into account the growth-inflation outlook, past actions, the state of the domestic economy, and the global dynamics, I do not see the scope or rationale for a further policy rate cut at this point. I also propose a neutral stance so that the future actions could be data dependent, *i.e.*, conditioned by the relative dynamics of growth and inflation, while also internalizing the impact of policy actions from other relevant countries.

Statement by Shri Sanjay Malhotra

60. The global economy continues to traverse a period of heightened uncertainty on account of trade and tariff negotiations and lingering geopolitical tensions. Global growth outlook, however, has improved at the margin for 2025 driven by front loading of exports in anticipation of tariffs, easing of financial conditions and fiscal expansion in advanced economies (AEs). The pace of disinflation, however, has slowed down and inflation continues to remain above the target in most AEs.

61. Domestic growth has evolved largely in line with the assessment set out in our June policy. Growth projected at 6.5 per cent is resilient, considering the current uncertain environment which shows no signs of abatement. However, this is certainly lower than what we can achieve. High-frequency indicators point toward buoyant rural economic activity and consumption, whereas urban spending continues to remain sluggish. During the remaining part of the financial year, growth is likely to receive support from both favourable supply-side factors as well as a supportive policy environment. Monsoon has progressed well, sowing has been satisfactory, and reservoir levels are comfortable, all of which augur well for farm output and rural demand. Urban demand is likely to pick up during the festive season, especially in a period of benign inflation. Services sector activity is also likely to remain strong, as evident from forward-looking assessments from surveys. Uncertainty in external demand, driven by tariff and geopolitical uncertainty, remains the major drag on growth as it also hinders private investment intentions, which is yet to show visible signs of improvement.

62. Inflation continued its downward trajectory, with the headline CPI inflation in June at 2.1 per cent - a 77-month low. The decline in inflation was primarily driven by the food component, which registered a year-on-year contraction of -0.2 per cent in June. The extent of moderation in food inflation turned out to be larger than that expected during the June MPC meeting, as supply-side conditions turned out to be much more favourable. Core (CPI excluding food and fuel) inflation recorded a

modest rise to reach 4.4 per cent in June, driven by higher gold prices. Headline inflation, driven by the food component, is likely to record substantially lower numbers in the near term. The baseline forecast for CPI inflation during 2025-26 is being revised downwards to 3.1 per cent.

63. Overall, our economy presents a picture of strength, stability, and opportunity. India's strong fundamentals, growth inducing policies, and forward-looking economic strategy clearly place it in a strong position. While growth has remained steady, inflation outcomes have been far more benign on account of higher food price moderation. Although we are likely to see inflation undershooting the target in the near term, with a likelihood of monthly numbers even crossing the lower tolerance band of 2 per cent, headline inflation is projected to inch up from Q3 onwards. The uncertainties of tariffs are still evolving. Monetary policy transmission of the cumulative 100 basis points cut in the policy rate since February 2025, though hastened due to various measures, is still continuing. The CRR cut, that is likely to kick in from next month, will also facilitate further monetary transmission and stimulate economic activity.

64. Considering all these, especially the current state of uncertainty on the external front, monetary policy needs to remain watchful. Therefore, I vote to keep the policy repo rate unchanged at 5.50 per cent. I also support retaining the neutral stance as it would provide monetary policy the necessary flexibility to respond to the evolving domestic and global economic conditions.

(Puneet Pancholy)
Chief General Manager

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