

Comment on RBI Credit Policy by Ms. Sakshi Gupta, Principal Economist - HDFC Bank

August 6, 2025: Despite the significant downward revision in its inflation forecasts, mixed macro trends so far in Q1 and tariff headwinds lingering on, the RBI decided to keep its policy rate unchanged at 5.5% as expected and kept its stance unchanged at neutral. The MPC decision was unanimous.

While a neutral stance indicates limited scope for further easing, the governor hinted that future action would be dependent on how growth performs – therefore, not closing the door on further rate cuts completely in the post policy press conference. Defacto given the inflation projections, the space for another 25-50bps rate cut remains in place, although the RBI would exercise that only if there is a significant downside risk to growth – both due to domestic activity performance and the tariff impact. Only if the tariff outcome becomes decisively negative between now and the October policy, the probability of a rate cut could then increase for the October policy. For now, we expect that the policy rate remains unchanged at 5.5% for FY26.

In our base case we project GDP growth at 6.3% for FY26 (lower than the RBI's projection of 6.5%). However, in the case where tariffs remain elevated at current levels and/or are further raised we see a downside risk of 20-25bps to our GDP growth forecast for the year. On the one hand, while we see relative rupee depreciation, pick-up in rural activity, and frontloaded monetary easing and fiscal spending to provide support to growth, on the other hand, the impact of higher tariffs on exporters (particularly MSMEs), delay in capex plans and hiring present significant risks to the outlook.

**Sakshi Gupta,
Principal Economist
HDFC Bank**