

5.5% SEEMS TO BE A LONG HAUL FOR NOW: BAR FOR A FURTHER RATE CUT IN 2025 IS NOW EVEN HIGHER

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MPC has unanimously decide to keep the repo rate unchanged at 5.5%. The RBI decision to keep the repo rate unchanged at 5.5% comes against the backdrop of lingering uncertainty unleashed by the global tariff wars. With a large part of the rate cuts having been frontloaded, the RBI decision to hold the rates was guided by caution and wait for more incoming data. All members of MPC decided to continue with the neutral stance.

On the projections side, RBI has revised downwards its FY26 CPI inflation projection by 60 bps to 3.1%. The revision factors in steady progress of monsoon, healthy Kharif sowing, adequate reservoir levels and comfortable buffer stocks of food-grains. RBI has kept the projection for real GDP growth for FY26 at 6.5% owing to resilience in Private consumption, aided by rural demand, and fixed investment, supported by buoyant government capex.

The impact of the past cut was closely watched by RBI in the run up to the MPC meeting. RBI Governor in his statement stated that, *"...even though growth rate of bank credit slowed last year, the overall flow of financial resources to the commercial sector increased from ₹33.9 lakh crore in 2023-24 to ₹34.8 lakh crore in 2024-25. This trend continues during the current financial year as well."* A disaggregate analysis indicate that while the flow of bank credit declined by Rs 3.4 lakh crore, the flow of non-bank resources has increased by Rs 4.3 lakh crore. This indicate that the slowdown of bank credit in FY26 is not a novel phenomenon and the slowdown has perpetuated from last fiscal itself.

On the development and regulatory policy front, two measures were announced. Introduction of Auto-bidding facilities in RBI Retail Direct for Investment and Re-investment in T-bills was announced in RBI Retail Direct. RBI proposed to Standardize procedure for settlement of claims in respect of deposit accounts of deceased customers of banks. At the end of June 2025, around ₹67,003 crore of unclaimed deposits with banks. Additionally, to enhance accessibility and simplify the search process for unclaimed deposits, RBI has already launched the Centralized Web Portal UDGM (Unclaimed Deposits- Gateway to Access Information) for the public. However, this synchronized policy across the banks may help the nominee/legal heirs and also reduce the burden on banks.

We may dub the today's pause as the 'technical pause' as the inflation projections are hovering in the band of uncertainty (while below 3% till Q3 it may sharply increase to 4.9% in Q1 FY27). 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. However, if the inflations numbers does undershot, window will open up, but at most it will be at most a 25 bps. The crucial point is however will be the timing of such a move, if any. The difficult part for such a further rate cut is that with front-loading already done and a frontloaded robust GDP growth in first half, the bar for a rate cut in 2025 has now moved even higher! Can there be a rate cut with such a large intervening gap from June 2025? Over to RBI ...

REPO RATE MAINTAIN STATUS QUO

- ◆ MPC has unanimously decide to keep the repo rate unchanged at 5.5%. 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 of MPC decided to continue with the neutral stance.
- ◆ Taking into consideration the factors like steady progress of monsoon, healthy Kharif sowing, adequate reservoir levels and comfortable buffer stocks of foodgrains, RBI has revised downwards its FY26 CPI inflation projection by 60 bps to 3.1% (Q2: 2.1%; Q3: 3.1%; & Q4: 4.4%).

| RBI Growth & Inflation Outlook for India | | | | | | |
|--|---------|---------|---------|---------|------|---------|
| CPI Inflation (%) | Q1 FY26 | Q2 FY26 | Q3 FY26 | Q4 FY26 | FY26 | Q1 FY27 |
| Aug'25 | 2.7* | 2.1 | 3.1 | 4.4 | 3.1 | 4.9 |
| Jun'25 | 2.9 | 3.4 | 3.9 | 4.4 | 3.7 | - |
| Apr'25 | 3.6 | 3.9 | 3.8 | 4.4 | 4.0 | - |
| Feb'25 | 4.5 | 4.0 | 3.8 | 4.2 | 4.2 | - |
| Real GDP Growth (%) | Q1 FY26 | Q2 FY26 | Q3 FY26 | Q4 FY26 | FY26 | Q1 FY27 |
| Aug'25 | 6.5 | 6.7 | 6.6 | 6.3 | 6.5 | 6.6 |
| Jun'25 | 6.5 | 6.7 | 6.6 | 6.3 | 6.5 | - |
| Apr'25 | 6.5 | 6.7 | 6.6 | 6.3 | 6.5 | - |
| Feb'25 | 6.7 | 7.0 | 6.5 | 6.5 | 6.7 | - |

Source: RBI, SBI Research, *actual

- ◆ RBI has kept the projection for real GDP growth for FY26 at 6.5% owing to resilience in Private consumption, aided by rural demand, and fixed investment, supported by buoyant government capex. Services sector and construction activity also expected to remain robust.

RESOURCES TO THE COMMERCIAL SECTOR

- ◆ RBI Governor in his statement states that, “...even though growth rate of bank credit slowed last year, the overall flow of financial resources to the commercial sector increased from ₹33.9 lakh crore in 2023-24 to ₹34.8 lakh crore in 2024-25. This trend continues during the current financial year as well.”
- ◆ A disaggregate analysis indicate that while the flow of bank credit declined by Rs 3.4 lakh crore, the flow of non-bank resources has increased by Rs 4.3 lakh crore. This indicate that the slowdown of bank credit in FY26 is not a novel phenomenon and the slowdown has perpetuated from last fiscal itself.
- ◆ SCB's credit growth slowed to 9.8% as on July 11, 2025, compared to last year's growth of 14.0%. However, excluding bank credit, resource flow to commercial sector has expanded at 15.6% in Q1FY26. Credit growth to MSME sector was at 21.8% during the same period.

DEVELOPMENTAL AND REGULATORY POLICIES

- ◆ **Introduction of Auto-bidding facilities in RBI Retail Direct for Investment and Re-investment in T-bills:** Treasury bills are one of the safest debt securities in which short-term money can be parked, which are generally issued at a discount, and come with 4 maturity dates, namely 14 days, 91 days, 182 days and 364 days. The facility of having SIP in T-bills can help retail investors to save money securely for a short to medium-term goal. However, if money is required mid-way, then having desired liquidity may be a challenge.
- ◆ **RBI to Standardize procedure for settlement of claims in respect of deposit accounts of deceased customers of banks:** RBI announced that the process for legal heirs to access bank accounts and lockers of deceased individuals will soon be simplified, as the procedures vary across banks. At the end of June 2025, around ₹67,003 crore of unclaimed deposits with banks. To enhance accessibility and simplify the search process for unclaimed deposits, RBI has already launched the Centralized Web Portal UDGAM (Unclaimed Deposits- Gateway to Access Information) for the public. However, this synchronized policy across the banks may help the nominee/legal heirs and also reduce the burden on banks.

| Overall flow of financial resources to the commercial sector (Rs Lakh cr) | | | | |
|--|-------------|-------------|-------------------------|------------|
| Items | FY24 | FY25 | Change (FY25 over FY24) | |
| | | | Level | % growth |
| Flow of non-food bank credit | 21.4 | 18.0 | -3.4 | -15.9 |
| Flow of resources from non-banks (including domestic and foreign sources) | 12.5 | 16.8 | 4.3 | 34.4 |
| Total | 33.9 | 34.8 | 0.9 | 2.7 |

Source: RBI Governor's statement

WAY FORWARD

- ◆ We may dub the today's pause as the 'technical pause' as the inflation projections are hovering in the band of uncertainty (while below 3% till Q3 it may sharply increase to 4.9% in Q1 FY27). 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.

| RBI projection Vs actual inflation (%) | | | | | | | | |
|--|-----|-----|-----|-----|-----|-----|--------|-------------------------------|
| Quarter | P1 | P2 | P3 | P4 | P5 | P6 | Actual | Difference (Actual-P1 in bps) |
| Q1 FY24 | 5.0 | 5.0 | 5.0 | 5.0 | 5.1 | 4.6 | 4.6 | -40 |
| Q2 FY24 | 5.4 | 5.4 | 5.4 | 5.2 | 6.2 | 6.4 | 6.4 | 100 |
| Q3 FY24 | 5.4 | 5.4 | 5.4 | 5.7 | 5.6 | 5.6 | 5.4 | 0 |
| Q4 FY24 | 5.6 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 | 5.0 | -60 |
| FY24 | 5.3 | 5.2 | 5.1 | 5.4 | 5.4 | 5.4 | 5.4 | 10 |
| Q1 FY25 | 5.2 | 5.2 | 5.2 | 5.0 | 4.9 | 4.9 | 4.9 | -30 |
| Q2 FY25 | 4.0 | 4.0 | 3.8 | 3.8 | 4.4 | 4.1 | 4.2 | 20 |
| Q3 FY25 | 4.6 | 4.6 | 4.6 | 4.7 | 4.8 | 5.7 | 5.6 | 100 |
| Q4 FY25 | 4.7 | 4.5 | 4.5 | 4.3 | 4.2 | 4.5 | 3.8 | -90 |
| FY25 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.8 | 4.6 | 10 |
| Q1 FY26 | 4.4 | 4.3 | 4.6 | 4.5 | 3.6 | 2.9 | 2.7 | -170 |
| Q2 FY26 | 4.0 | 4.0 | 3.9 | 3.4 | 2.1 | - | | |
| Q3 FY26 | 3.8 | 3.8 | 3.9 | 3.1 | - | | | |
| Q4 FY26 | 4.2 | 4.4 | 4.4 | 4.4 | | | | |
| FY26 | 4.2 | 4.0 | 3.7 | 3.1 | | | | |
| Q1 FY27 | 4.9 | - | | | | | | |
| Source: RBI, SBI Research, Pi is RBI policy projection | | | | | | | | |

Source: RBI, SBI Research, Pi is RBI policy projection

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