

RBI MONETARY POLICY

RBI in wait and watch mode

AUGUST 2025



After an eventful monetary policy in June 2025, market sentiment was split—some anticipated a rate cut amid subdued inflation, while others favoured a pause, expecting inflationary pressures to build later in the year. We maintained a clear and consistent stance that interest rates would remain unchanged. Today’s policy announcement affirms our stance, as the central bank opted to hold rates steady—balancing a softening growth outlook with forward-looking inflation projections.

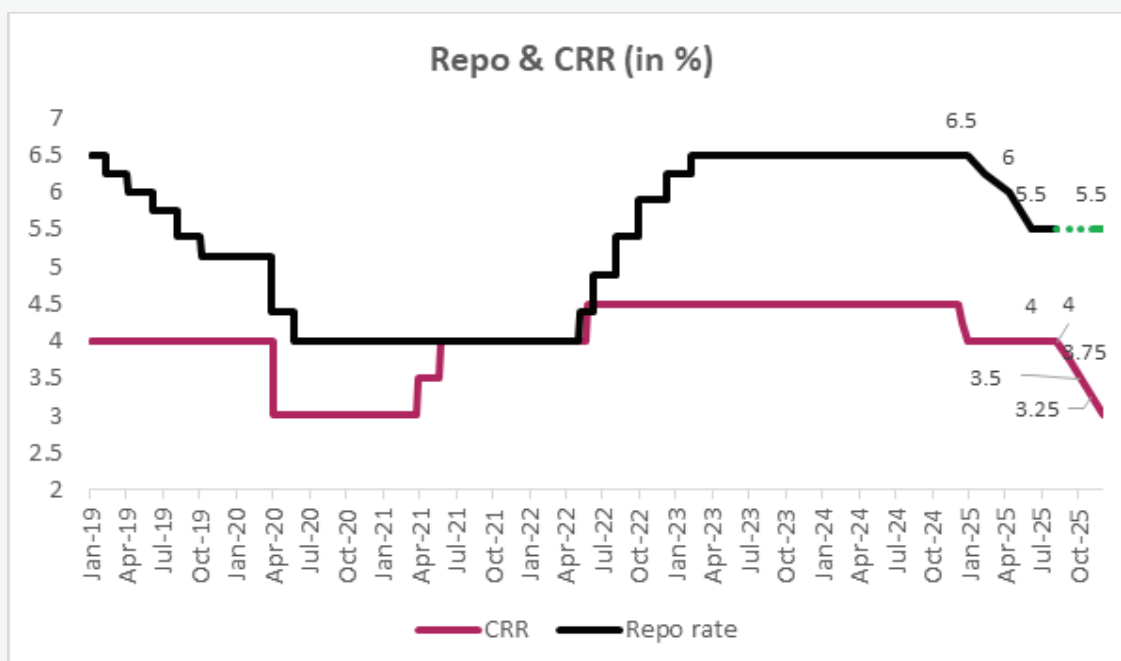
RBI’s actions

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) maintained a neutral stance, keeping interest rates unchanged amid ample liquidity and ongoing transmission of the 100 basis points of cumulative easing implemented thus far. The central bank acknowledged that while global uncertainties have moderated, supply chain disruptions persist, and the imposition of tariffs on India could marginally temper growth.

The RBI highlighted that average daily liquidity has remained above Rs 3 lac crore since the June policy review. The upcoming phased CRR reductions, beginning in September, are expected to further augment this surplus.

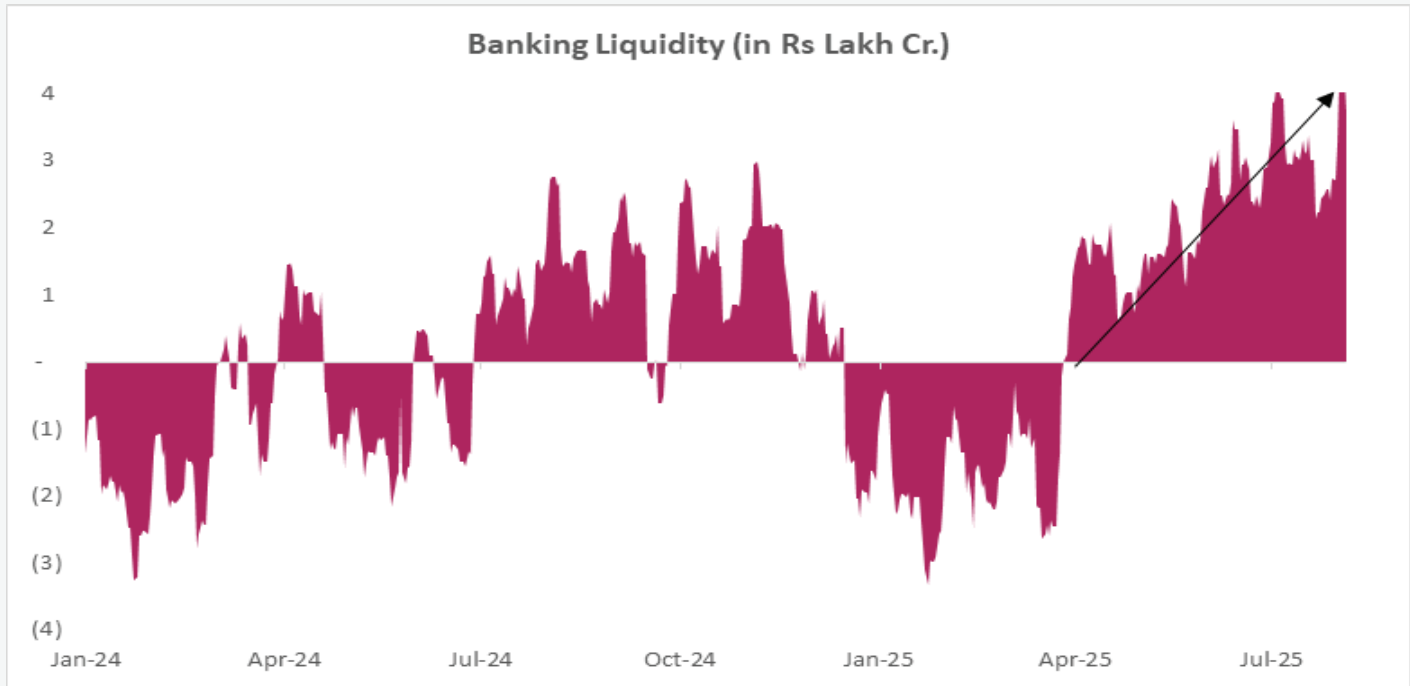
As emphasized by the Governor, policy transmission is still unfolding, particularly through deposit rate adjustments. Most banks have responded with modest reductions in deposit rates and have recalibrated their repo-linked external benchmark lending rates (EBLRs) and marginal cost of funds-based lending rates (MCLR), thereby easing borrowing costs to a small extent.

Rates unchanged



Source: RBI Monetary Policy

Liquidity in surplus since end of March 2025



Source: Bloomberg

Policy Decision

- Repo rate unchanged at 5.5%
- SDF rate unchanged at 5.25% and MSF rate & bank rate unchanged at 5.75%
- All members voted for no rate cut and decided unanimously “to maintain neutral stance”

Growth estimates unchanged while inflation expected to fall before rising again

The central bank noted that domestic economic momentum remains robust and broadly aligned with its projections. Private consumption—bolstered by improving rural demand—and fixed investment, driven by strong government capital expenditure, continue to underpin overall activity. On the supply side, a favourable south-west monsoon is aiding kharif sowing, replenishing reservoir levels, and supporting agricultural output. The services sector is poised to maintain its momentum, with continued strength anticipated in construction and trade over the coming months. However, the outlook for external demand remains clouded by ongoing tariff measures and unresolved trade negotiations. Additionally, persistent geopolitical tensions, global economic uncertainties, and volatility in financial markets present notable headwinds to the overall growth trajectory.

Headline CPI inflation eased for the eighth consecutive month, touching a 77-month low of 2.1% year-on-year in June 2025. This decline was primarily driven by a sharp drop in food inflation, supported by improved agricultural output and targeted supply-side interventions. Notably, food inflation turned negative for the first time since February 2019, registering at -0.2% in June. High-frequency indicators suggest that this downward momentum in food prices is likely to extend into July. Meanwhile, after remaining stable, core inflation has been above 4% partly reflecting continued strength in gold prices. CPI inflation, however, is likely to edge up above 4% by end of 2025 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play. **While RBI revised down the estimate for inflation in the third quarter, the 4.9% estimate for Q1FY27 shows that inflation is expected to edge higher and could be the reason that RBI chose to stay on pause.**

RBI Projections	Q2FY26	Q3FY26	Q4FY26	FY2025-26	Q1FY27
Real GDP Growth	6.7%	6.6%	6.3%	6.5%	6.6%
CPI Inflation	2.1%	3.1%	4.4%	3.1%	4.9%

Source: RBI Governor’s Statement dated 6th August 2025

Market Reaction

As mentioned above, the market was divided on interest rate cuts. However, we did believe that interest rates would be on hold. Post the announcement, yields across the board rose by 3-5 basis points.

Our View

Are there further rate cuts in the pipeline?

We align with the central bank’s current policy stance. Given the absence of significant economic vulnerabilities and considering the cumulative 100 basis points rate reduction already implemented, the RBI is well-positioned to maintain a neutral approach. With operative rates already eased by ~150 bps, any further cuts may be limited to just one more or two at best in case the growth surprises on downside.

Moreover, the implications of elevated tariffs warrant careful evaluation, with key macroeconomic variables—such as currency dynamics, capital flows, and evolving trade relationships—requiring close monitoring. As rightly noted by the Governor, monetary policy transmission operates with a lag and must be allowed to fully play out.

In our view, we are at the fag end of the rate cut cycle and an additional 25 basis points rate cut would have had limited incremental impact under prevailing liquidity conditions. That said, we continue to believe that interest rates are likely to remain lower for an extended period.

Why we believe RBI chose to maintain a pause?

Monetary policy has its own limitations and as highlighted works with a lag. Factors such as no further room for fiscal consolidation, demand-supply mismatches in government bonds, the potential rollout of the 8th Pay Commission and fiscal impulse early next year could have prompted the central bank to adopt a more cautious approach.

What should investors opt for?

Against a backdrop of abundant liquidity and lower rates, we advise clients to ***seek yield and near-term capital appreciation in short-duration and accrual-based strategies.*** This perspective is detailed in our latest Acumen titled ***“Is the Rally Over in Long Duration Bonds?”***

From an equity market perspective, abundant liquidity, rate cuts and regulatory easing measures for lending are setting the stage for a pickup in consumer loan growth. Combined with recent tax relief measures, this is likely to stimulate consumption. In line with this outlook, we maintain an overweight position in financials—especially NBFCs—as well as consumer oriented particularly discretionary sectors.

Global economic outlook

Globally the risks have increased with all countries facing higher tariffs. The US itself is witnessing weakening high frequency indicators. Unemployment has been trending upwards while inflation remains uneven. The focus remains on the economic impact of these tariffs. Countries may face a slowdown to varying degrees and most companies impacted by tariffs could likely pass on the increasing costs to consumers. Against this backdrop, our base case scenario is that the Fed will lower interest rates twice this year in the current interest rate cycle.

Risks to our view

- 1) Currency
- 2) Growth shocks globally and in India
- 3) Inclusion in Bloomberg indices

Product	Macaulay Duration	Current Positioning
Axis Money Market Fund	197 days	Actively managed high quality money market strategy
Axis Corporate Bond Fund	3.24 Years	Actively managed corporate bond portfolio. 100% AAA /SOV/A1+ oriented
Axis Income Plus Arbitrage Active FOF*	2.29 Years#	Fund of funds scheme investing in debt oriented mutual fund schemes and arbitrage funds

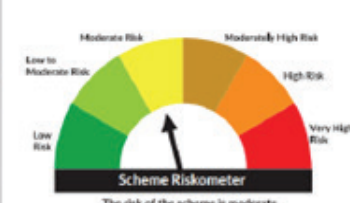
Allocation and strategy is based on the current market conditions and is subject to changes depending on the fund manager's view of the markets. Data as on 31 July 2025. #Duration as of 30 June 2025

*Investors will be bearing the recurring expenses of the scheme in addition to the expenses of other schemes in which Fund of Funds scheme makes investment.

Product Labelling

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)																								
Axis Corporate Bond Fund (An Open Ended Debt Scheme Predominantly Investing In AA+ And Above Rated Corporate Bonds. A relatively high interest rate risk and moderate credit risk) Benchmark: NIFTY Corporate Bond Index A-II	This product is suitable for investors who are seeking* - Regular income over short to medium term. - Predominantly investing in corporate debt *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	Scheme Riskometer The risk of the scheme is moderate	Benchmark Riskometer The risk of the benchmark is low to moderate	<table><tr><th colspan="4">Potential Risk Class</th></tr><tr><td>Credit Risk →</td><td>Relatively Low (Class A)</td><td>Moderate (Class B)</td><td>Relatively High (Class C)</td></tr><tr><td>Interest Rate Risk ↓</td><td></td><td></td><td></td></tr><tr><td>Relatively Low (Class E)</td><td></td><td></td><td></td></tr><tr><td>Moderate (Class B)</td><td></td><td></td><td></td></tr><tr><td>Relatively High (Class III)</td><td></td><td>B-II</td><td></td></tr></table>	Potential Risk Class				Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓				Relatively Low (Class E)				Moderate (Class B)				Relatively High (Class III)		B-II	
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Axis Money Market Fund (An open ended debt scheme investing in money market instruments. A relatively low interest rate risk and moderate credit risk.) Benchmark: NIFTY Money Market Index A-I	This product is suitable for investors who are seeking* - Regular income over short term. - Investment in money market instruments with maturity up to one year. *investors should consult their financial advisers if in doubt about whether the product is suitable for them	Scheme Riskometer The risk of the scheme is low to moderate	Benchmark Riskometer The risk of the benchmark is low to moderate	<table><tr><th colspan="4">Potential Risk Class</th></tr><tr><td>Credit Risk →</td><td>Relatively Low (Class A)</td><td>Moderate (Class B)</td><td>Relatively High (Class C)</td></tr><tr><td>Interest Rate Risk ↓</td><td></td><td></td><td></td></tr><tr><td></td><td>Relatively Low (Class E)</td><td>B-I</td><td></td></tr><tr><td></td><td>Moderate (Class H)</td><td></td><td></td></tr><tr><td></td><td>Relatively High (Class III)</td><td></td><td></td></tr></table>	Potential Risk Class				Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓					Relatively Low (Class E)	B-I			Moderate (Class H)				Relatively High (Class III)		
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Axis Income Plus Arbitrage Active FOF (An open ended fund of funds scheme investing in debt oriented mutual fund schemes and arbitrage funds) Benchmark: 65% NIFTY Composite Debt Index +35% Nifty 50 Arbitrage TRI This product is suitable for investors who are seeking* - To generate optimal returns over medium term - Investment primarily in debt oriented mutual fund schemes and arbitrage funds *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	Fund  The risk of the scheme is moderate	65% NIFTY Composite Debt Index +35% Nifty 50 Arbitrage TRI  The risk of the benchmark is low to moderate

DISCLAIMER

Source of Data: RBI Governor’ Statement, RBI Monetary Policy Statement & RBI post policy press conference dated 6th August 2025, Axis MF Research

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