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RBI'S AUGUST 2025 POLICY - STAYING THE COURSE

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The RBI's August 2025 policy was formulated against the backdrop of Trump's tariff tirade, global financial market volatility, stable 6.5 % macroeconomic growth in FY 26, and inflation slackening to a 77-month low of 2. 2.1 % in June due to large favorable base effects combined with steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels, and comfortable buffer stocks of foodgrains. The inflation outlook for the year remains benign.

Given such global cues and the domestic economic setting, the RBI appropriately held the policy repo rate steady at 5. 50%. The decision not to surprise markets or implement a surprise move after three consecutive rate cuts totaling 100 basis points since February, and maintaining the policy stance as "*neutral*"- as in June- after briefly turning "*accommodative*" in April, is a positive step.

The credit- deposit ratio for the banking system at end-June 2025 was 78. 9%. Bank credit grew at 12. 1% during FY 25, slower than the 16. 3% growth in FY 24. The flow of non-food bank credit during FY 2024-25 decreased by about ₹ 3. 3.4 lakh crore from ₹ 21. 4 lakh crore to nearly ₹18 lakh crore. Overall financial resource flow to the commercial sector increased from ₹ 33. 9 lakh crore in 2023-24 to ₹ 34. 8 lakh crore in 2024-25. With persistent surplus liquidity of approximately ₹ 2. 8 lakh crore, the RBI is considering reforms to the liquidity framework, such as a new 7-day VRR (Variable Rate Repo), a review of the fixed-rate repo window, and the introduction of SORR (Secured Overnight Reference Rate).

Moving forward, the RBI, with its data-driven and evidence-based policy approach, may cut the rate in October 2025, provided inflation remains low and external shocks diminish.

The three key consumer-centric announcements- focusing on micro insurance and pension schemes for financial inclusion and customer grievance redress; standard procedures for settling death claims and articles in bank lockers; and retail participation in treasury bills through systematic investment plans (SIPs)- are well-conceived. Given the evolving growth-inflation dynamics, the RBI made the right decision.