



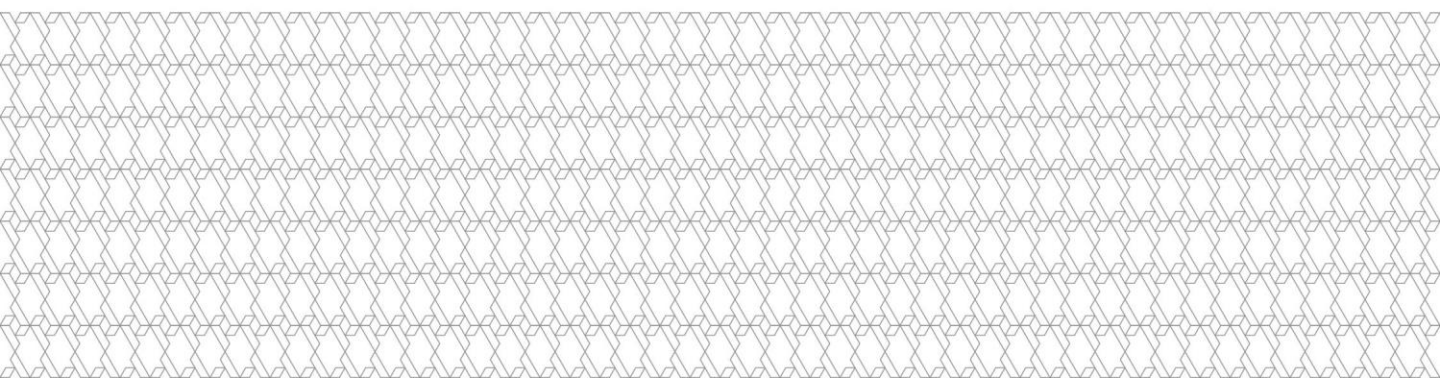
**Burgundy**

Wealth Management | Axis Bank

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# **RBI MONETARY POLICY**

## **AUGUST 2025**



## HIGHLIGHTS

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### MPC holds rates and stance, waits for the developments

- **MPC's third bi-monthly Monetary Policy Review: 2025-26**

The MPC voted 6-0 to keep the repo rate steady at 5.50% while also maintaining a neutral stance. Growth projections were maintained despite risks from global factors, while near-term inflation was revised lower due to food price effects. The MPC is keeping 'a close vigil on incoming data' through ongoing transmission of 'front-loaded rate cuts' and signals the door ajar to further easing, if seen justifiable.

- **Policy Actions**

Repo rate unchanged at 5.50%.

Consequently, SDF is at 5.25% and MSF is at 5.75%.

CRR cut announced in the last policy comes into effect - 100 bps to 3.00%, in tranches of 25 bps each over Sep-Nov 2025

## GROWTH-INFLATION DYNAMICS

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- FY26 inflation lowered to 3.1% from 3.7% earlier and was primarily driven by a sharp drop in food inflation which was supported by improved agricultural output and targeted supply-side interventions. 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 the end of 2025 and beyond, due to unfavourable base effects, and demand side factors from policy actions may 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.
- FY26 GDP growth was maintained at 6.5% with quarterly projections also held as domestic economic momentum remains robust and is 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, while on the supply side, a favourable south-west monsoon is aiding kharif sowing, replenishing reservoir levels, and supporting agricultural output. Risks were seen as balanced, but it might be possible for lower outcomes given uncertainty results on tariff 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.

## LIQUIDITY AND EXTERNAL SECTOR

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- Recommendations of the committee to review the liquidity framework indicated continued support for the use of the weighted average call rate (seen as being correlated and having signaling effects around other money market rates) aligned to the policy repo rate through the use of VRR/VRRR
- Comments around the external sector continued to exude confidence.

## POLICY STANCE AND GUIDANCE

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- The policy stance remains neutral with past comments indicating rates could move in either direction. The MPC felt that 'current macroeconomic conditions, outlook and uncertainties' warranted a status quo as they 'wait for further transmission of the front-loaded rate cut.' While the MPC sees risks to growth as evenly balanced, in our view, with the global growth weakening, and outcomes on trade negotiations with the US so far still inconclusive, the downside risks to growth may overshadow any upside risks emanating from faster-than-expected monetary transmission.

## KEY MEASURES ANNOUNCED BY THE RBI

Measures announced in chronological order in last 1 year.

Date	Measures Announced
<b>June 2024</b>	<b>7,</b> <ul style="list-style-type: none"><li>Proposed to revise the definition of bulk deposits as 'Single Rupee term deposit of Rs.3 crore and above' for SCBs (excluding RRBs) and SFBs.</li><li>Proposed to rationalise the extant FEMA guidelines on export and import of goods and services.</li><li>Proposed to establish a Digital Payments Intelligence Platform for network level intelligence and real-time data sharing across the digital payments' ecosystem.</li><li>Inclusion of Recurring Payments with Auto-Replenishment Facility under the e-mandate Framework</li><li>Introduction of Auto-Replenishment of UPI Lite Wallet – Inclusion under the e-mandate Framework.</li></ul>
<b>August 2024</b>	<b>8,</b> <ul style="list-style-type: none"><li>Proposes to create a public repository of digital lending apps (DLAs) deployed by its regulated entities. The regulated entities will report and update information about their DLAs in this repository.</li><li>Proposed to increase the frequency of reporting of credit information to credit information companies (CICs) on a fortnightly basis or at shorter intervals.</li><li>Enhance the limit for tax payments through UPI from ₹1 lakh to ₹5 lakh per transaction.</li><li>Proposed to reduce the clearing cycle by introducing continuous clearing with 'on-realisation-settlement' in CTS.</li></ul>
<b>October 2024</b>	<b>9,</b> <ul style="list-style-type: none"><li>Banks and NBFCs are not permitted to levy foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned to individual borrowers for purposes, other than business and now proposed to include loans availed by micro and small enterprises or MSEs as well.</li><li>To increase the per-transaction limit in UPI123Pay from Rs 5,000 to Rs 10,000; and raise the UPI Lite wallet limit from Rs 2,000 to Rs 5,000 and per-transaction limit from Rs 500 to Rs 1,000.</li><li>RBI will issue a discussion paper on capital raising avenues for Urban Co-operative Banking (UCB) Sector.</li><li>Proposes to create a data repository for climate risk assessment, namely, the Reserve Bank – Climate Risk Information System (RB-CRIS)</li><li>Proposes to introduce Beneficiary Account Name Look-up Facility for RTGS and NEFT system. This facility will enable the remitter to verify the name of the account holder before effecting funds transfer to him/her through RTGS or NEFT.</li></ul>
<b>December 6, 2024</b>	<ul style="list-style-type: none"><li>Expanding the reach of FX-Retail Platform through Linkages with Bharat Connect platform of NPCI.</li><li>Proposes to introduce a new benchmark - the Secured Overnight Rupee Rate (SORR) - based on all secured money market transactions – overnight market repo as well as TREPS.</li></ul>

# KEY MEASURES ANNOUNCED BY THE RBI

Measures announced in chronological order in last 1 year.

Date	Measures Announced
December 6, 2024	<ul style="list-style-type: none"> <li>To increase the limit for collateral-free agriculture loans from ₹1.6 lakh to ₹2 lakh per borrower.</li> <li>to permit Small Finance Banks also to extend pre-sanctioned credit lines through the UPI.</li> <li>Experts committee to set up a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the financial sector.</li> </ul>
February 7, 2025	<ul style="list-style-type: none"> <li>Introduction of Additional Factor of Authentication (AFA) for domestic digital payments and proposed to extend AFA to online international digital payments made to offshore merchants.</li> <li>Proposed to include forward contracts in Government securities to facilitate long-term investors such as insurance funds to manage their interest rate risk across interest rate cycles.</li> <li>Expand the access of NDS-OM for secondary market transactions in government securities, to non-bank brokers registered with SEBI.</li> <li>Set-up working group to review of trading and settlement timings across various market segments, report to be submitted by 30th April of this year.</li> </ul>
April 9, 2025	<ul style="list-style-type: none"> <li>Proposed to enable securitisation of stressed assets through market-based mechanism, in addition to the existing ARC route under the SARFAESI Act, 2002.</li> <li>Co-lending arrangements are restricted to only priority sector loans by banks and NBFCs to be extended to all regulated entities for all loans.</li> <li>RBI will introduce standardised guidelines for loans backed by gold jewellery and ornaments across all Res.</li> <li>New norms will consolidate rules for non-fund based facilities like guarantees, letters of credit, and co-acceptances.</li> <li>UPI Transaction limits to be made flexible by the NCPI in consultation with stakeholders.</li> <li>RBI plans to shift the Regulatory Sandbox to an open-ended, theme-neutral format.</li> </ul>
August 6, 2025	<ul style="list-style-type: none"> <li>Standardisation of procedure for settlement of claims in respect of deposit accounts of deceased customers of banks.</li> <li>Introduction of Auto-bidding facilities in RBI Retail Direct for Investment and Re-investment in T-bills.</li> </ul>



## IMPACT ON THE MUTUAL FUND INDUSTRY:

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- **Liquid Funds:**

These schemes will continue to generate returns around the operating rate due to their portfolio composition i.e. being invested at the shorter end of the money market segment. Liquid funds have low average maturity as they concentrate more on high quality papers including CPs, CDs and other debt securities with residual maturity of up to 3 months.

- **Ultra Short Term / Low Duration / Money Market Funds (Maturity Up to 1 Year):**

These schemes predominantly invest in below 1 year maturity paper. The strategy adopted by these schemes is to hold the paper till maturity and capitalize on the running yield. Hence, returns in this category will continue to remain relatively attractive depending on the positioning of the fund.

- **Short Duration Funds:**

Schemes in this category are predominantly invested in Corporate Bonds, CPs and CDs while a few of them also have some exposure to G-Secs. We continue to remain bullish at the shorter end of the curve. Investors may consider these funds (with an investment horizon commensurate with the maturity profile of such funds) and gain from current accruals and capital appreciation in the event of a fall in yields.

- **Medium Duration:**

Given the flattened yield curve there are sufficient buffers in the intermediate duration (3-6 years) segment. Till the time RBI is anchoring the long end of the yield curve, the current yield curve may provide some cushion even if there are mark-to-market losses. Investors may consider those funds with high quality portfolios and where the investment horizon is commensurate with the maturity profile of the funds and also gain from current accruals and capital appreciation in the event of a fall in yields.

## IMPACT ON THE MUTUAL FUND INDUSTRY:

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### ○ **Credit Risk Funds:**

We remain cautious on Credit Risk Funds as they have failed to prove their mettle in the last 2-3 years with the overhang of defaults and erosions of NAV on the back of mark-to-market impacts due to the aforementioned. The uncertainty around credit funds which are in an open ended avatar continues to pose risks to investors. Much also depends on the liquidity conditions in the market and redemption pressure on these funds. Thus, we think there is a systemic risk in the market within the credit space. Hence, it makes sense for one to stay away from these funds.

### ○ **Long Term Income Funds / Gilt Funds / Dynamic Bond Funds:**

Domestic growth is currently being driven by front-loaded government spending and resilient rural demand, even as urban consumption and private investments are showing signs of moderation. While monetary and fiscal stimulus (incl. tax cuts), are expected to support growth in the second half of the year, recent corporate results suggest that the outlook for domestic demand remains uncertain. Additionally, U.S. tariffs continue to pose a headwind to external demand.

The MPC decided to keep policy rates unchanged and maintained a neutral stance, which was inline with our and broader market expectations. However, despite strong signals to the contrary from recent interviews of the Governor, some sections of the market had rekindled hope for a 25 bps cut. The more notable takeaway from the policy was that the RBI/MPC have further lifted the bar for future rate cuts. This then counts as what is generally termed as a 'hawkish hold', and the markets have reflected this sentiment with a rise in bond yields following the policy announcement.

FY26 is shaping up to be a year of easy liquidity and accommodative monetary policy in India, partly diverging from U.S. trends and more aligned with other emerging markets. The RBI's 100 bps rate cut and CRR reduction have contributed to lower yields and a steeper yield curve. However, recent policy signals and expectations of strong growth suggest that the easing cycle may be nearing its end.

Globally, concerns around weaker U.S. fiscal consolidation, rising bond supply, declining safe-haven demand, and stagflation risks are contributing to upward



## IMPACT ON THE MUTUAL FUND INDUSTRY:

pressure on long-term U.S. yields. While delays in tariff implementation have slightly eased recession fears, the U.S. economy still faces slowing growth, persistent inflation, and a cautious Federal Reserve.

Despite global volatility, the Indian bond market has remained resilient amid geopolitical tensions and oil price fluctuations. The RBI's stimulus and liquidity measures are expected to support economic recovery. However, with most positives already priced in, bond market movements will hinge on CRR inflows, FPI activity, U.S. yields, Fed actions, crude oil prices, and geopolitical developments.

We expect markets to remain in a consolidation phase, awaiting clearer triggers to move decisively in either direction. While India's macro fundamentals remain strong, external risks such as unexpected inflation spikes, global trade disruptions, or geopolitical shocks call for a measured and active approach in navigating the bond market. In the medium term, markets are likely to remain range-bound. The RBI's shift to a neutral stance suggests that the Monetary Policy Committee believes policy rates are now in a neutral zone, with the growth–inflation trade-off finely balanced. The RBI's recent liquidity withdrawal measures indicate its intent to keep the weighted call money rate close to the repo rate, thereby reducing the likelihood of further rate cuts.

Yields have risen, warranting caution, especially on the long end of the curve where gains are largely priced in. The 10-year yield is expected to trade in the 6.20%–6.50% range, while 1- to 5-year bonds, particularly high-quality ones, offer a better risk-reward profile. A carry-focused strategy is preferred over duration plays in the current environment.

The 10-year Indian benchmark bond yield rose ~7 bps from the previous close to 6.39% (at the time of writing the note).

- **Conservative Hybrid Funds (*Erstwhile: Monthly Income Plans (MIPs)*):**

With a 10% to 25% allocation to equity, returns of CHFs are largely determined by the vagaries of the equity markets as against the debt markets. These funds are therefore suitable for investors who have a reasonably long-time horizon & are comfortable with taking exposure to equities.

## OUTLOOK

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- We continue to anticipate India bond yields to remain on the steeper end of the curve, given the current post-OMO but pre H2 supply environment. As the easing cycle concludes, term premiums remain susceptible to upward pressure amid potential fiscal dominance of policy.
- We remain constructive on the short to medium end of the yield curve. **Short Duration funds, Banking & PSU Debt funds, Corporate Bond funds, Medium Duration funds, Money Market funds, Low Duration funds and Ultra Short Duration funds** can be considered by investors with an investment horizon commensurate with the maturity profile of the schemes. Investors can consider investing upto **Medium Duration** as per their risk appetite with an investment horizon of at least 2-3 years to avoid any intermittent volatility.

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