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RBI Expected to Hold Rates in August, May Ease Again Later in 2025

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The Reserve Bank of India (RBI) is widely expected to maintain its benchmark repo rate at 5.50% during its upcoming August 6 policy meeting, according to a Reuters poll of economists. This decision comes after the central bank delivered a larger-than-anticipated 50 basis point cut in June, as inflationary pressures continued to ease and economic growth remained strong.

The repo rate, defined as the interest rate at which the RBI lends short-term funds to commercial banks, has been held steady since the June adjustment. Economists participating in the Reuters survey, conducted between July 18 and July 24, indicated that the RBI is likely to adopt a wait-and-watch stance before considering any further reductions. Around 75 percent of respondents forecast no change in August, while nearly a quarter expect another rate cut later this year, contingent on economic data trends.

Headline retail inflation is projected to average 3.4 percent in 2025, slightly below the RBI's estimate of 3.7 percent. This sustained moderation is giving policymakers room to consider additional easing, though the central bank has signalled that any moves will depend on incoming figures for growth, inflation, and credit demand rather than a predetermined path.

India's gross domestic product (GDP) grew by 7.4 percent in the first quarter of the 2025-26 fiscal year, supported by resilient domestic consumption and a recovery in private sector investment. However, economists caution that slowing global demand, tightening credit conditions, and sector-specific weaknesses, particularly in manufacturing exports, could temper momentum in the months ahead.

The June rate cut was intended to spur lending and stimulate consumer spending, but commercial banks have since tightened their credit standards in response to rising defaults on unsecured loans. This shift has dampened growth in retail lending segments such as personal loans and vehicle financing, potentially limiting the impact of the RBI's policy easing.

Despite these challenges, the RBI's stance remains broadly neutral, balancing the goal of sustaining growth with the need to maintain financial stability. Market watchers believe that if inflation continues to remain comfortably within the central bank's target range, the door could open for another rate cut before the end of 2025.

The upcoming monetary policy announcement will be closely monitored by investors, businesses, and households, as it will offer further insight into how India's central bank plans to navigate an evolving economic landscape marked by strong domestic fundamentals and external uncertainties.