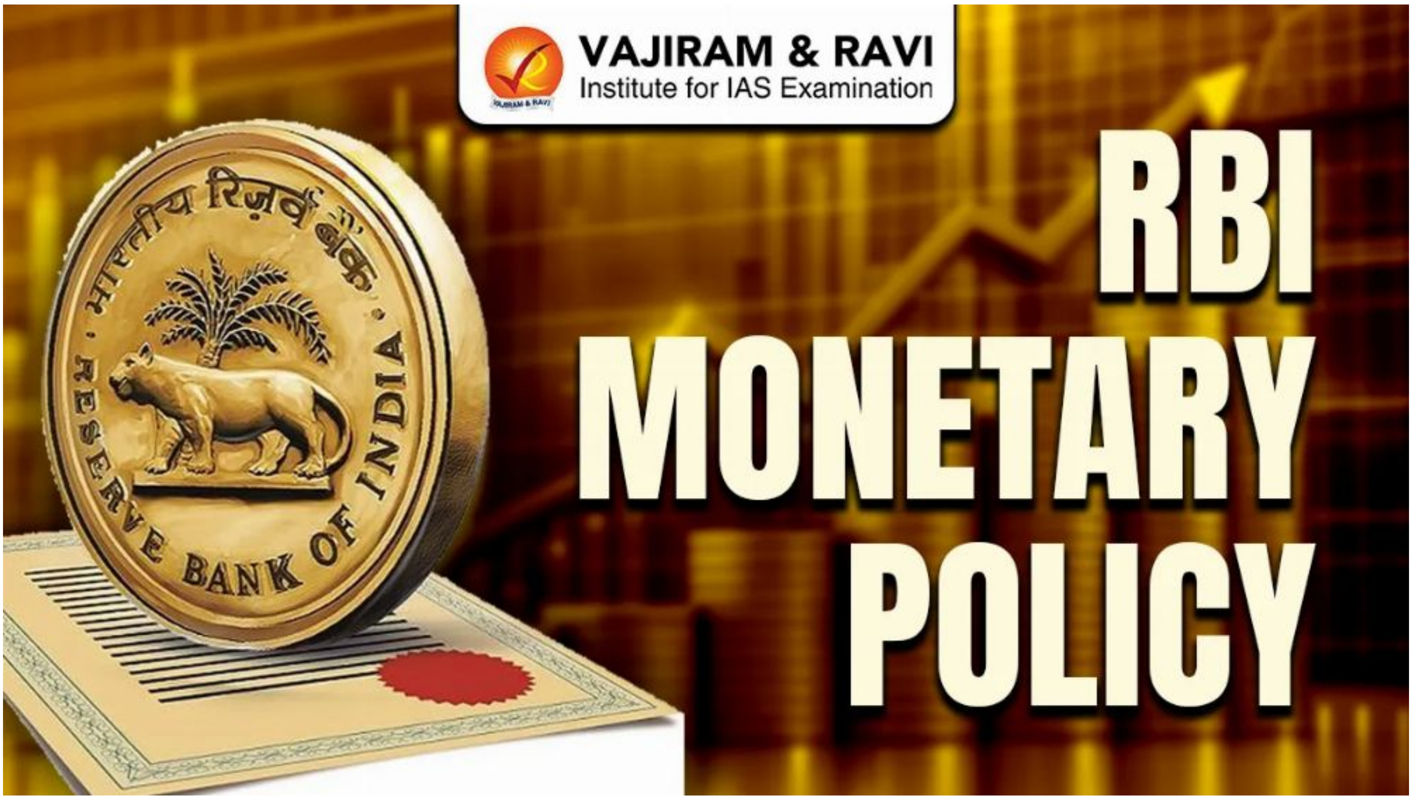
RBI Monetary Policy 2026, Repo Rate Unchanged, Impact on Indian Economy

August 5, 2026 • vajiramandravi.com



Why RBI Monetary Policy 2026 in News?

The **Reserve Bank of India** (RBI), through its Monetary Policy Committee (MPC) chaired by Governor Sanjay Malhotra, announced repo rate at 5.25% remains unchanged as of August 5, 2026.

What is Repo Rate?

- **Definition**: **Repo rate** is the interest rate at which the **Reserve Bank of India (RBI) lends short-term funds to commercial banks** against government securities.
- **Purpose**: It is a **monetary policy tool** used to control liquidity, inflation, and credit flow in the economy.
- **Mechanism**: When banks need short-term funds, they borrow from RBI by pledging government securities; the interest charged is the repo rate.
- **Significance**: Changes in repo rate directly affect **borrowing costs, lending rates, and overall economic activity**.

Impact of Repo Rate in Indian Economy

The repo rate is the interest rate at which RBI lends to banks. Changes in this rate affect loans, savings, investment, and overall economic growth.

Impact of Reducing Repo Rate

Cheaper Loans: Banks borrow at lower costs and offer **loans at lower interest rates** to people and businesses.

- **Increases Spending**: Low loan rates encourage **households to buy homes, cars, and goods**.
- **Encourages Business Investment**: Companies can **invest in new projects and expand operations** due to cheaper credit.
- **Supports SMEs and Agriculture**: Small businesses and farmers get **affordable loans** for working capital and production.
- **Improves Liquidity**: More money circulates in the economy, helping **banking operations and credit flow**.
- **Promotes Economic Growth**: Increased borrowing, spending, and investment **stimulate GDP growth**.
- **Enhances Consumer Confidence**: Cheaper credit **encourages people to spend and invest**, strengthening demand.

Impact of Increasing Repo Rate

- **Expensive Loans**: Banks pay more to borrow, making loans **costlier for consumers and businesses**.
- **Controls Inflation**: High loan costs reduce excessive spending, helping **stabilize prices**.
- **Reduces Credit Growth**: Slower borrowing ensures **economy doesn't overheat**.
- **Attracts Foreign Investment**: Higher interest rates may **draw foreign capital**, strengthening the rupee.
- **Encourages Savings**: People may prefer **saving more in banks** as returns rise.
- **Maintains Macro Stability**: Prevents **rapid economic growth** from causing inflationary pressures.
- **Strengthens Currency**: Reduced money supply can **support the value of the Indian rupee** in international markets.

About Monetary Policy Committee (MPC)

The **Monetary Policy Committee** (MPC) is a **six-member body** of the RBI responsible for formulating India's monetary policy, mainly deciding the repo rate, reverse repo rate, and stance to maintain price stability and support growth.

The MPC meets at least four times a year to review economic conditions and recommend policy actions. It plays a key role in balancing inflation control with economic growth.

Members of the MPC

1. **Governor of RBI** – Chairperson
2. Deputy Governor of RBI in charge of monetary policy – Member
3. One more RBI official appointed by the central board – Member
4. Three external experts nominated by the Government of India, usually economists or finance specialists