

MPC minutes signal caution amid tariff woes

- **Dovish pause:** The RBI adopted a dovish pause (repo rate unchanged at 5.5%) in its October policy, signaling readiness to support growth if disinflation sustains and growth momentum softens.
- **Four members voted for a “neutral” stance:** Dr. Nagesh Kumar and Prof. Ram Singh voted in favor of changing the stance from “neutral” to “accommodative”.
- **Rationale behind the pause:**
 - **Inflation has turned even more benign** in recent months, supported by lower food prices and government supply measures. Headline inflation remained well below the RBI’s 4% target for the eighth consecutive month in Sep’25.
 - **Improved supply conditions** from a normal monsoon and lower commodity prices.
 - **Stable financial conditions** and adequate liquidity support credit growth.
 - **Growth still trails expectations**, with 3Q and beyond likely to see a mild moderation due to tariff hikes partly offsetting GST-driven gains.
- **Scope for monetary easing:** The sharp moderation in inflation has created room to support growth. Despite tariff pressures offsetting GST benefits, a 50bp rate cut may be possible in Dec’25/Feb’26.

Highlights of the MPC minutes:

- **Growth below aspirational levels:** India’s growth outlook remains resilient, supported by strong domestic demand, a good monsoon, easing inflation, monetary accommodation, and the positive impact of recent GST reforms. However, as per the MPC members, growth continues to lag desired levels. While the FY26 growth forecast has been revised upwards to 6.8% from 6.5% earlier, projections for Q3 and beyond are likely to be slightly softer than earlier estimates, as the adverse impact of recent tariff hikes partly offsets the benefits from GST rationalization.
- **Key statements by MPC members**
 - **Shri Saugata Bhattacharya:** *“The impact of the frontloaded monetary policy actions and the recent fiscal measures is still playing out. Trade-related uncertainties are still unfolding. A moderation in the inflation rate is not a compelling reason, at this point, to cut the policy rate.”*
 - **Prof Ram Singh:** *“CPI headline inflation has continued to surprise on the downside, as it declined to 2.1% YoY in August 2025 after registering its eight-year low of 1.6% in July. The prevailing inflation rate is too low - it is neither conducive for businesses nor for public finances.”*
“Inflation trajectory looks benign at least for the next two quarters. Inflation may top 4% aim in FY27 on unfavorable base, demand boost.”
“The next question to ponder over is what could be the downsides of a further rate cut... But interest rates do not seem to be the main driving force of the aggregate saving rate.”
 - **Dr. Poonam Gupta:** *“The described growth-inflation mix, particularly slower growth in 2H and a benign inflation rate, has potentially opened some space for lowering the policy rates further; yet it is difficult for me to vote for a rate cut at this juncture.”*

- **Shri Sanjay Malhotra:** *“I prefer to retain the neutral stance as any change to an accommodative stance at this stage, as suggested by some members, would tantamount to giving a definitive forward guidance about the future trajectory of the policy rate. The policy uncertainty, rapidly evolving developments, and the foggy outlook suggest that we exercise caution and take a view for each policy as per the then prevailing macroeconomic conditions and outlook.”*

■ **Outlook:**

- Economic activity remains supported by strong consumption, government spending, and a rebound in services and manufacturing, while inflationary pressures are subdued due to lower food prices and GST rationalization. Members noted that external risks, including trade uncertainties and global financial volatility, could weigh on growth in the coming months.
- Looking ahead, the moderation in inflation and robust domestic conditions provide scope for future easing, but the MPC emphasized allowing earlier measures to fully take effect and maintaining flexibility in response to evolving developments.
- While awaiting the complete pass-through of the 100bp rate cut in CYTD25 and the impact of GST rate cut rationalization, we see a window of a 50bp rate cut opening up in Dec'25/Feb'26.

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