Monetary Policy Committee (MPC) – RBI Keeps Repo Rate Unchanged Amid Global Uncertainty

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Monetary Policy Committee (MPC) Latest News

- The Monetary Policy Committee (**MPC**) of the Reserve Bank of India (RBI), chaired by Governor Sanjay Malhotra, has kept the repo rate unchanged at **5.25%** and retained a neutral monetary policy stance.
- While GDP growth projection for FY2026-27 has been revised upward to 6.7% (from 6.6%), the inflation forecast has been lowered to 5.0% (from 5.1%).
- This **reflects confidence** in domestic resilience despite heightened geopolitical and global economic risks.

Key Monetary Policy Decisions

- **Status quo on repo rate:**
  - Repo rate retained at 5.25%, indicating that the policy stance continues to remain neutral.
  - Interest rates on home loans, gold loans, deposits and savings accounts are expected to remain broadly unchanged unless banks independently revise them.

- **Revised macro projections (FY2026-27):**
    - **Real GDP growth**: Previous forecast was 6.6%, while the revised forecast is 6.7%.
    - **CPI inflation**: Previous forecast was 5.1%, while the revised forecast is 5.0%.

Why did the MPC Maintain Status Quo?

- The MPC refrained from altering policy rates due to elevated global **uncertainties**, particularly –
    - Escalating conflict in West Asia, causing volatility in crude oil prices.
    - Risks to global supply chains and international trade.
    - Uncertainty surrounding the South-West Monsoon and possible El Niño conditions.
    - Persistent geopolitical tensions and evolving global trade policies.
- Given India’s dependence on imported crude oil, higher energy prices pose significant inflationary risks.
- The RBI chose to prioritise **stability** until the inflation outlook becomes clearer.

Inflation Outlook:

- **Current inflation trends:**
    - Retail inflation (CPI) rose to 4.38% in June, crossing the RBI’s 4% target for the first time in 17 months.
    - Inflationary pressures are primarily driven by the **food** and **fuel** prices.
    - Core inflation remains relatively moderate, indicating limited demand-side pressures.
- **RBI’s inflation assessment:**
    - Inflation is expected to rise during Q3 FY27 due mainly to food and fuel, while moderates thereafter as supply conditions improve.
    - **Projected CPI inflation**: 4.7% in Q2, 5.9% (Q3), 5.5% (Q4), and 5.3% in Q1 FY28.
    - **Core inflation for FY27**: Projected at 4.3%.
- **Key concern:** The RBI remains alert to the possibility of second-round effects, where higher food and fuel prices translate into widespread inflation across sectors.

Growth Outlook

- Despite global headwinds, domestic economic activity has shown resilience.
- **Reasons for improved growth projection:** Strong high-frequency economic indicators during Q1, improvement in domestic demand conditions, and partial easing of earlier supply disruptions.
- However, growth remains vulnerable to global trade slowdown, elevated crude oil prices, geopolitical instability, and adverse weather conditions affecting agriculture.

External Sector Concerns

- The RBI highlighted several emerging external risks.
- For example,
    - **Current account deficit (CAD):** Upside risks arise from rising energy import bill, slowing global trade, and persistent trade policy uncertainties.
- **Exchange rate policy:**

    - The RBI reiterated that the rupee will remain market-determined.
    - Intervention will be limited to prevent excessive volatility, curb speculative activity, and avoid disorderly market movements.

Global Context and Major Risks Identified by RBI

- **Global context:**
    - The US Federal Reserve also maintained its Federal Funds Rate at 3.50–3.75%, reflecting similar concerns over **inflation** persistence and global uncertainty.
- International monetary authorities continue to adopt a **cautious** approach amid geopolitical tensions and inflationary pressures.
- **Risks:** West Asia conflict and volatile crude oil prices, **supply-chain disruptions**, global trade uncertainty, south-west monsoon performance and El Niño risks, and potential spillover of food and fuel inflation into broader price levels.

Conclusion

- The RBI has adopted a **wait-and-watch** approach, balancing inflation control with support for economic growth amid an uncertain global environment.
- Going forward, prudent monetary policy, stable energy supplies, resilient supply chains, and favourable monsoon conditions will be critical for maintaining macroeconomic stability.

Source: IE | IE