

The minutes of the Monetary Policy Committee (MPC) meeting held on April 07-09 were eagerly awaited as the monetary policy stance was surprisingly shifted to “accommodative”. The unanimous decision on the 25bps rate cut (as expected) and shift in stance was a double booster shot provided in this meeting.

The minutes, in line with the policy statement, are clearly dovish, with growth gaining a clear policy priority as greater confidence has emerged with respect to inflation trending towards the 4% target. The members remain concerned regarding the rising global uncertainty and headwinds to macro outlook. There is a unanimous view to shift policy stance (except for Saugata who has shown some reservations to shift stance to retain flexibility), it has been repeatedly asserted by members that this only *signals that “a rate hike is off the table”*; *an accommodative stance remains consistent with a pause, should macro-financial conditions necessitate.*

The downgrade of FY26 inflation forecasts have been revised downward by 20bps towards the 4.0% target has opened up space for further policy easing. Also, we believe that the MPC’s forecast of growth of 6.5% is optimistic and peg it closer to 6.0% with capex sentiment also coming under significant pressure amid rising global uncertainty apart from trade and flows related volatility. Going forward, we maintain our call of another 50bps repo rate cut to a terminal rate of 5.5%, assuming a neutral real interest rate of 150bps. While an accommodative stance warrants the real rate to be lower than the neutral levels, we will closely watch on global risks before re-assessing our call (*Please see “[India MPC: Policy decision as expected; stance shift with liquidity assurance a gamechanger](#)”*).

Key themes in MPC minutes:

1. *Global growth concerns have increased in the backdrop of Trump tariffs*

MPC acknowledges the increased growth concerns arising out of recent tariff related measures that pose new headwinds for global growth and inflation. Many central banks have either taken a pause in increasing their policy rates or in fact have acted cautiously by reducing rates. MPC, however, remains hopeful that the challenging environment may actually turn out to be blessing in disguise for India as the tariffs imposed on India were lower than other countries, especially China and Vietnam which may actually boost India’s export share to the US. That said, India may see competitiveness pressures especially from China in some markets outside US (like EU/UK etc) and also face dumping related issues in domestic economy (especially in sectors like textiles, toys, furniture, jewelry etc). The latter part from being a growth headwind may also lead to disinflationary pressures in the domestic economy.

2. *Outlook for inflation has turned decisively positive*

The MPC noted that there is a decisive improvement in the inflation outlook with a greater confidence of a durable alignment of headline inflation with the 4.0% target over a 12-month horizon. Sharp decline in inflation expectations for three months and one year ahead period would help anchor inflation expectations going ahead. Furthermore, the falling crude oil prices and growth and demand slowdown are likely to drive favourable inflation outlook. However, global market uncertainties and weather-related supply disruptions pose an upside risk to the inflation trajectory via imported inflation pressures on FX weakness. On balance, most members remain fairly confident of a benign inflation outlook, with China dumping risks also likely to contain price pressures.

3. *Shift in stance to accommodative has been endorsed by most members*

The MPC noted that in the uncertainties remain high in the wake of the recent spurt in global volatility. Growth, impeded by the challenging global environment, is still on the path to recovery after an underwhelming performance in the first half of 2024-25. That said, growth is trending below potential and in our view, is expected to significantly underwhelm the 6.5% forecast for FY26 (pegged at similar levels as FY25 which also faces downside risks). In fact, members believe that “risks to growth outweighing those of inflation”, hence prompting them to shift stance to accommodative.

4. *RBI remains committed to keep liquidity adequate*

In the post policy media conference, the RBI Governor indicated that there is a divide between policy and liquidity stance of the RBI led MPC. Yet, most members in the minutes have indicated that (shift in stance) “this will also be consistent with the large liquidity infusion that we have been doing in the recent past to aid policy transmission in this easing cycle.” This is in line with the liquidity assurance given by the RBI Governor to provide sufficient liquidity c.1% of NDTL, in the post policy press conference, which will be a game changer, in our view.

5. *More policy space is now available to support growth*

MPC noted that policy space has opened up to support growth via fiscal and monetary actions. While fiscal consolidation to deficit target of 4.4% of GDP in the FY26 Union Budget provides some fiscal leeway, monetary policy space is provided by inflation trending towards the 4% target. Hence, as stated above we expect another 50bps repo rate cut divided between June and August policy meetings.

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Nidhi Arora
nidhiarora@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Member	Key Statements
<p>RBI Governor Shri Sanjay Malhotra</p>	<p>The implications for inflation are two sided on imposition of tariffs. On the upside, uncertainties may lead to possible currency pressures resulting in imported inflation. On the downside, slowdown in global growth will further soften commodity and crude oil prices, which would ease the pressure on inflation. Overall, favourable factors for the inflation outlook outweigh those with possible adverse impact and should drive further disinflation in the headline CPI. It is expected that inflation will be well aligned to the target during the current financial year.</p> <p>When consumer price inflation is decisively around its target rate of 4.0% and growth is still moderate and recovering, monetary policy needs to nurture domestic demand impulses to further increase the growth momentum. This is specially so amidst an uncertain global environment, which has amplified downside risks to growth. Accordingly, he voted for a reduction in the repo rate by 25 bps. This will bolster private consumption and support a revival in private corporate investment activity.</p>
<p>Dr. Nagesh Kumar</p>	<p>He was of the view that given the uncertainties, there is a greater need for stimulating private consumption and investments through fiscal and monetary policy to sustain the growth momentum. The fiscal consolidation path taken by the govt. and the monetary policy space provided by a downward movement in headline inflation gives the policy space for necessary actions. The declining crude oil and other commodity prices with the subdued global demand, and normal monsoon predictions for FY26 suggest that CPI headline will remain within the target range of 4%. This provides headroom for adopting a more accommodative monetary policy. The time has now come for changing the stance to an ‘accommodative’ from ‘neutral.’ Given the need to support growth through private consumption and investment, we should continue with further repo rate cut.</p>
<p>Shri Saugata Bhattacharya</p>	<p>The forecasted moderate inflation path opens up more space for “good news” policy easing. Moreover, the present resilience of economic activity does not as yet necessitate additional “bad news” actions associated with prospects of a significant growth slowdown. RBI’s liquidity infusion will also hasten transmission to the relevant interest rates. The elevated uncertainty at present regarding the evolving economic outlook, which is likely to continue into the near future, warrants that policy decisions be taken considering incoming data on a “meeting-by-meeting” basis. However, the change in stance signals only that “a rate hike is off the table”; an accommodative stance remains consistent with a pause, should macro-financial conditions necessitate. Hence, I concur with the change of stance to accommodative while noting that, in my view, this does not provide guidance of a pre-determined policy easing path.</p>
<p>Prof. Ram Singh</p>	<p>Overall, the inflation outlook has improved decisively, and confidence in a durable alignment of headline inflation with the target of 4% over a 12-month horizon has improved. On the other hand, growth is still on a recovery path after an underwhelming performance in H1 FY25. Under these economic conditions, with growth below potential and a benign inflation outlook, the MPC should support growth by cutting the repo rate.</p> <p>In addition, there is a strong case for changing the stance to accommodative as a signal of policy guidance for the near term. For an effective and fast transmission of interest rate cuts and consistent with a changed stance, the RBI's liquidity management tool needs to be geared accordingly to operationalise these changes. Monitoring the liquidity conditions to take timely measures to ensure adequate liquidity will be salient to the transmission of the rate cuts.</p>
<p>Dr. Rajiv Ranjan</p>	<p>Considerable progress achieved on the disinflation front has offered latitude to monetary policy to be growth supportive. This state contingent policy preference is the true spirit of flexible inflation targeting. While growth is still reasonable, it is lower than our aspirations and needs policy impetus amidst a challenging global environment. We need to continue to accord higher weight to growth in our policy setting amidst benign inflation outlook with reasonable degree of definiteness.</p> <p>The current uncertain global environment has enhanced monetary policy and interest rate uncertainty globally, creating frictions between markets and central banks on the one hand and across different segments of the market, on the other, which is detrimental to monetary policy transmission. In this context, a change in stance to accommodative helps provide a clear signal for future rate action, thereby facilitating monetary transmission.</p>
<p>Shri M. Rajeshwar Rao</p>	<p>The current environment mired as it is with unprecedented global uncertainties, calls for constant watchfulness and monitoring, as well as promptness in policy actions to deal with any emerging risk to the growth-inflation balance. While the exact impact of US tariffs on India is not certain, it could weigh on trade, financial markets, and domestic economic activity through both direct and indirect channels.</p> <p>Assessing the overall situation, we find that while inflation outlook remains benign, GDP growth could face a downward pressure. The recent waves of global uncertainty demand decisive policy support to growth.</p>

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

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