

The Oct'25 Monetary Policy Committee (MPC) had unanimously voted to keep the policy repo rate unchanged at 5.5% while continuing with a neutral stance. While all members supported holding the rate, Dr. Nagesh Kumar and Prof. Ram Singh advocated for a shift to an accommodative stance, signaling readiness to support growth if conditions warranted. The minutes were broadly aligned with the policy statement. The guidance was balanced with dovish streaks as the MPC further noted space for easing opening up even as the time was not seen as opportune in October amid heightened domestic and global macro uncertainty.

Key takeaways from MPC minutes:

a. Space for policy easing has opened up, but at the appropriate time

The Oct'25 MPC minutes showed that while the space for easing exists due to lower inflation, the timing must be right. The dissent by two members calling for an accommodative stance suggests internal expectations for possible easing in upcoming cycles, if risks remain in check. Markets and observers are expecting a possible rate cut in December or in early 2026, contingent on growth, inflation, and external developments. The MPC's emphasis is on a "data-dependent" approach as they want to watch how the effects of past cuts and fiscal actions unfold before committing to further moves. External risks, especially from trade tensions and tariffs, remain key constraints on how aggressively the RBI can ease monetary policy.

b. While GDP growth remains resilient, H2 outlook under pressure on external headwinds

While the FY26 growth forecasts were revised upwards from 6.5% to 6.8%, growth forecasts for Q3, Q4 and Q1FY27 were revised downwards by 10-20 bps, with the MPC members acknowledging the subdued growth outlook amid tariff related uncertainty. The committee notes that the acceleration in growth in Q1FY26 was largely driven by consumption, especially rural consumption, and front-loaded government capital expenditure. Private investment remains sluggish despite healthy profit margins and high-capacity utilization rates, possibly due to ongoing trade policy uncertainties.

The MPC expressed concern over recent trade policy measures by the US, including increased tariffs and visa fees, which could adversely affect India's exports, particularly in labour-intensive sectors like textiles, garments, and processed food products. These sectors are dominated by micro, small, and medium enterprises (MSMEs) and account for a significant portion of manufacturing sector employment. In response, the RBI emphasizes the need for diversification of export markets and effective utilization of existing Free Trade Agreements (FTAs) with countries like the UK, EU, Japan, South Korea, Australia, and the UAE.

c. Inflation trajectory likely to remain benign

Inflation has moderated sharply, reaching an eight-year low driven by a decline in food prices and the impact of GST rate rationalisation. The CPI inflation forecast for FY26 was lowered to 2.6% (from 3.1% earlier), with inflation expected to remain below target for most of the year and rise modestly in Q4 due to base effects.

d. Policy Rationale

The committee observed that inflationary pressures have eased significantly, creating policy space to support growth. However, it preferred to pause further monetary easing to allow the impact of previous rate cuts and fiscal measures to transmit fully through the economy. The neutral stance was retained to maintain flexibility amid global uncertainties and evolving trade dynamics. Effective communication was emphasized to ensure policy credibility. The MPC concluded that while inflation is comfortably below target, growth—though resilient—faces potential risks from external shocks. The RBI will continue to monitor the evolving situation closely and act as needed to sustain macroeconomic stability. In summary, the RBI's decision to keep the repo rate unchanged and maintain a neutral stance reflects a cautious approach, balancing the need to support growth while monitoring external risks and ensuring inflation remains within target.

e. Our view remains of a rate cut in December

Guided by our CPI projections for FY26 currently tracking -2%, much below RBI's Oct'25 MPC projections at 2.6%, we maintain our view of 25 bps rate cut in Dec'25 MPC. We see inflation further down in the month of Oct'25 on high base effect, lagging seasonality in food prices and full-blown impact of GST reforms before only gradually picking up in the following months. Our projection for Oct CPI is tracking below 0.50% as on date. Food inflation too is expected to fall sharply in Oct and continue to be in negative zone during the coming winter months with impact of floods muted.

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Key Statements by members (paraphrased)

Member	Key Statements
RBI Governor Shri Sanjay Malhotra	<p>The RBI Governor acknowledged that there is policy space to support growth due to the benign inflation outlook. However, the impact of previous fiscal and monetary actions is still playing out, and tariff-related and global uncertainties remain. “...even though there is policy space to further cut the policy rate, I feel this is not the opportune time for the same as it will not have the desirable impact.” Hence, he voted to keep the repo rate unchanged at 5.5%. He emphasised that the policy intent remains growth-supportive, with additional regulatory measures announced to aid this goal. He preferred to retain the neutral stance, arguing that shifting to “accommodative” would act as explicit forward guidance about future rate cuts. In the face of rapidly evolving global developments and an uncertain outlook, he advised a cautious, data-dependent approach, deciding policy meeting by meeting.</p>
Dr. Nagesh Kumar	<p>He highlighted that while India’s Q1 FY26 GDP growth of 7.8% exceeded expectations and led to an upward revision of annual growth projections to 6.8%, the external environment has worsened due to US trade measures, including high tariffs on goods and labour-intensive exports, H1B visa fees, and other policies. These measures disproportionately affect MSMEs and jobs, particularly in textiles, garments, leather, gems & jewellery, and processed foods. To mitigate these risks, he emphasized export diversification—leveraging FTAs with the UK, EFTA, Japan, Korea, Australia, and the UAE—and boosting domestic demand through GST reforms. On monetary policy, with inflation projected at a benign 2.6% for FY26, there is room for easing, but Dr. Kumar favoured pausing the repo rate for now while changing the stance from neutral to accommodative. This signals readiness to support growth and private investment, while monitoring the transmission of past measures and unfolding trade uncertainties before considering further rate cuts.</p>
Shri Saugata Bhattacharya	<p>Despite low inflation creating room for monetary easing, he argued for pausing the policy repo rate and maintaining the neutral stance. While domestic activity remains resilient and GDP growth is projected at 6.6% for FY27, ongoing trade and tariff uncertainties pose risks to growth and investment. The effects of prior monetary, fiscal, and regulatory measures are still unfolding, and financial conditions remain broadly balanced. Given these factors, the speaker emphasized that moderation in inflation alone does not justify a rate cut, and it is prudent to wait for the full impact of policy actions and greater clarity on external developments before considering further easing.</p>
Prof. Ram Singh	<p>He observed that the case for an additional rate cut has strengthened due to low headline inflation (2.1% in August 2025) and benign core inflation, along with upwardly revised GDP growth for Q1 FY26. CPI inflation is expected to remain low in the near term, aided by stable food and fuel prices, improved agricultural output, and favourable monsoon conditions. Real GDP growth for FY26 is revised to 6.8%, though H2 growth shows some moderation, indicating a partial slack in momentum. Given the persistent external uncertainties, including US tariffs and global market volatility, and the fact that past monetary and fiscal measures are still working through the system, Prof. Singh voted to pause the policy repo rate at 5.50%. At the same time, he advocated changing the stance from “neutral” to “accommodative”, signalling the potential for future rate cuts to support growth. This accommodative stance would reinforce the effects of past easing, support domestic demand and private investment, maintain flexibility against inflation or external shocks, and help lower bond yields, thereby boosting credit market activity.</p>
Shri Indranil Bhattacharyya	<p>He noted that despite global geopolitical and trade uncertainties, the Indian economy has shown resilience, with GDP growth at 7.8% in Q1 FY26, driven by strong services and manufacturing sectors. High-frequency indicators suggest continued buoyancy in Q2, while H2 growth will depend on domestic tailwinds—such as GST rationalisation, income tax relief, past monetary actions, and RBI regulatory measures and external headwinds like trade uncertainties. He highlighted that the sharp moderation in inflation, from 6.2% in Oct’24 to 1.6% in Jul’25, was driven mainly by declining food prices, with further easing expected from GST rationalisation. Consequently, the headline inflation forecast for FY26 was revised down to 2.6%. While current inflation is low, it is considered transitory, and monetary policy must remain mindful of medium-term demand pressures and potential supply shocks. Given this context, Bhattacharyya recommended pausing further rate cuts to: (i) allow existing monetary and fiscal measures to take effect, (ii) avoid market surprises that could harm credibility, and (iii) maintain flexibility under a neutral stance. He emphasized that communication is crucial, warning against sending signals that may mislead the market, citing the Fed’s advice that monetary policy is largely about messaging.</p>
Dr. Poonam Gupta	<p>Dr. Gupta observed that the Indian economy continues to display resilience, with growth expected around 6.5-7%, supported by strong domestic demand and lower, steadier inflation. The recent GST rate rationalisation and easing food prices have made the inflation outlook more benign, leading to a downward revision of FY26 inflation to 2.6%. While slower growth is anticipated in the second half of the fiscal year, she noted that the benign inflation environment provides some room for future monetary easing. However, she cautioned that fiscal and monetary measures already in place are still transmitting through the system, and global uncertainties remain high. Hence, Dr. Gupta voted to keep the repo rate unchanged at 5.50% and to maintain a neutral stance, reasoning that a neutral stance retains flexibility for future action without prematurely signalling an accommodative policy.</p>

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