MPC minutes: Walking the tightrope between growth and inflation

- **The broad signal from the MPC minutes is a clear shift into a cautious "wait-and-watch" mode, driven by heightened global uncertainty and the risk of policy missteps. Members explicitly acknowledge that both tightening pre-emptively (to counter inflation) and easing prematurely (to support growth) carry symmetric risks in the current environment.**
- **With domestic financial conditions already tightening, effectively acting as a passive rate hike, the argument for holding rates becomes stronger. The emphasis is on the difficulty of distinguishing between transitory and persistent shocks, especially in the context of geopolitical tensions, and the need to avoid reacting to noise rather than durable trends.**
- **At the same time, the minutes adopt a mildly dovish tone, particularly regarding growth concerns. The West Asia conflict is viewed as a supply-side shock that raises inflation risks while simultaneously dampening growth, with an estimated impact of 50-60bp. Importantly, members highlight that monetary policy has limited effectiveness against supply-driven inflation unless second-round effects emerge, which are currently absent due to anchored inflation expectations.**
- **This justifies "looking through" near-term inflation spikes and prioritizing growth support, especially for vulnerable segments like MSMEs facing cost pressures. The consensus, therefore, is a "dovish pause"—maintaining rates while staying vigilant, awaiting clearer signals on inflation persistence and the evolution of global shocks before taking any decisive policy action.**

Highlights of the MPC minutes:

- **Growth outlook moderates amid external shocks; domestic resilience intact**

  The MPC minutes indicate a clear moderation in the growth outlook relative to earlier optimism, largely reflecting the adverse impact of the West Asia conflict. While domestic growth engines, particularly private consumption, investment activity, and government capital expenditure, continue to exhibit resilience, external headwinds have weakened the near-term growth trajectory.

  Members noted that high-frequency indicators still point to sustained momentum in domestic demand, supported by ongoing public capex and infrastructure spending, alongside stable services activity and consumption trends. However, these positive domestic dynamics are increasingly being offset by elevated crude oil prices, disruptions in global trade and logistics, and a weakening global growth environment.

  As a result, real GDP growth for FY27 has been revised down to around 6.9% from approximately 7.6% in FY26, with risks tilted to the downside. The extent of this slowdown remains contingent on the duration and intensity of the ongoing geopolitical conflict.

- **Inflation outlook turns upward, but remains within the tolerance band**

  The inflation outlook has shifted materially upward, although it remains within the tolerance band of the RBI. The rise in inflation is primarily attributed to supply-side factors, including a sharp increase in crude oil and energy prices, rising input and transportation costs, and potential weather-related risks such as an El Niño event affecting food prices.

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Headline CPI inflation is now projected at around 4.6% in FY27, up from a low base of ~2.1% in FY26. Despite this increase, members emphasized that inflationary pressures are largely supply-driven rather than demand-led, with core inflation remaining relatively contained.

Administrative measures, such as fuel price management and adequate food stock buffers, are expected to limit the pass-through of global price shocks. Nonetheless, some caution was expressed, as short-term inflation expectations have firmed up and there remains a risk of second-round effects if supply disruptions persist over a prolonged period.

- **Outlook: Prolonged pause in policy rates**

  The outlook emerging from the Apr'26 MPC minutes suggests a prolonged pause in policy rates, with the central bank likely to remain in a data-dependent "wait-and-watch" mode amid elevated global uncertainty.

  While domestic growth remains relatively resilient, it is expected to moderate due to external headwinds, particularly from the West Asia conflict, while inflation is projected to rise but stay within the tolerance band and remain largely supply-driven. Given the limited effectiveness of monetary policy in addressing such shocks and the absence of strong second-round effects so far, the probability of near-term rate hikes or cuts remains low.

  Instead, the RBI is expected to focus on anchoring inflation expectations, ensuring adequate liquidity, supporting monetary transmission, and closely monitoring evolving risks from crude prices, food inflation, and global financial conditions before taking any decisive policy action.

Key statements by MPC members.

- **Shri Saugata Bhattacharya**

  "For me, the risks of a policy mistake have heightened amidst this uncertainty. Arguments for increasing the policy rate in anticipation of higher inflation are as risky as cutting rates in response to a fear of lower growth. Quantifying the glide path along a precise timeline is not an exact science. The challenge is to determine the extent of the shocks being transitory versus persistently percolating through the economy, and the time expected for both inflation and growth to revert to targets".

  "I am also guided by domestic financial conditions having tightened significantly, which amounts to a de facto policy tightening. Hence, a status quo at this time is likely to have the lowest cost. Hence, I vote to keep the repo rate unchanged at this meeting. Given the fluidity of the macro-financial environment, it is also appropriate to retain the neutral stance".

- **Prof. Ram Singh**

  "In this background, there is a case for a dovish pause. The estimated growth cost of the West Asia conflict so far is estimated to be about 50-60bp, widening the output gap. The underlying inflation, core inflation excluding precious metals, suggests that demand pressure in the coming quarters is expected to remain contained. On the other hand, high input costs driven by energy spikes and supply-side disruptions have disproportionately affected the MSME sector, which lacks the working capital bandwidth to tide over these shocks. A dovish pause in the repo rate, along with adequate fiscal measures, can help these firms deal with the shock".

- **Shri Indranil Bhattacharya**

  "Due to the conflict, monetary policy is confronted with a supply shock that poses upside risks to inflation and downside risks to growth. In this context, it is pertinent to note that supply-driven inflation warrants a distinctly different policy response than a demand-driven one".

  "As long as expectations remain anchored, looking through the shock is optimal since any pre-emptive response merely sacrifices output without delivering any significant gain on the inflation front. Therefore, it is prudent to wait for more incoming information before taking any definitive course of action".

- **Dr. Poonam Gupta**

  "What should be the role of monetary policy under the current milieu when global uncertainty has risen from already high levels, the external shock is supply driven; inflation, albeit expected to increase, is likely to remain close to the target; and growth is expected to be subdued? I feel that under the circumstances, central banks need to continue to play a conducive role in supporting the productive requirements of the economy. Constant vigil is warranted while waiting to ascertain the persistence of the supply shock, if any".

- **Governor Sanjay Malhotra**

  "As for monetary policy, this represents a supply shock. The underlying inflation pressures, minus the shock, are contained. If the conflict remains unresolved for a long duration, it can make the task of central banks arduous in their endeavor to rein in inflation expectations while minimizing growth sacrifice. With the announcement of the temporary ceasefire, however, there is a possibility of an early resolution of the conflict and normalization of supply chains. In such a situation, it is prudent to wait and watch before making any decisive move".

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