

To maintain status quo or cut rates — a tough choice for RBI's MPC

Our Bureau

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Come October 1, it will be decision time for the Reserve Bank of India's (RBI) rate-setting panel, with continuation of the *status quo* and a repo rate cut being equally likely outcomes in the backdrop of retail inflation being well below the target and growth gathering momentum.

It will be a tough choice for the six-member Monetary Policy Committee (MPC) when they meet between September 29 and October 1 for the current financial year's fourth bi-monthly monetary policy review.

US TARIFFS

The US' 50 per cent tariffs on Indian exports, the raising of the application fee for H-1B visa to \$100,000, and the proposed move to impose 100 per cent tariffs on branded and patented pharma exports could have growth implications for the country.

This could warrant a repo rate cut to support growth.

However, with gross domestic product (GDP) growth picking up to a five-quarter high in the first quarter (Q1FY26) of 7.8 per



ONE VIEW. Rating agency ICRA expects the MPC to maintain the *status quo* on the repo rate

cent year-on-year from 7.4 per cent in the preceding quarter, GST rate rationalisation expected to boost demand and the rupee coming under pressure, there may be a case for maintaining a *status quo* on the repo rate.

The MPC has cumulatively cut the repo rate by 100 basis points (bps) since February 2025 to 5.50 per cent.

The committee kept this rate on hold and continued with the "neutral" monetary policy stance at its last meeting in August. Rating agency ICRA expects the MPC to maintain the *status quo* on the repo rate.

POSITIVE IMPACT

Its view is supported by the positive impact of GST reforms on demand, stronger-

than-expected Q1 FY26 GDP growth, and an inflation trajectory that (while lowered due to GST rationalisation, with FY26 average now 2.6 per cent), is expected to slope upwards thereafter.

Aditi Nayar, Chief Economist, ICRA, observed that the GST rationalisation could dampen the headline CPI prints by 25-50 basis points during Q3 FY26-Q2 FY27 period relative to the agency's pre-GST rationalisation estimates, taking the average for FY26 to 2.6 per cent (versus 3 per cent earlier).

While October-November 2025 may mark a fresh low for the CPI inflation, the trajectory subsequently remains upward sloping, she added.

Headline CPI inflation inched up in August to 2.1 per cent (1.6 per cent in July) after falling for nine consecutive months.

UNDER PRESSURE

Radhika Rao, Senior Economist, DBS, noted that against the backdrop of firm growth of over 6.5 per cent, fiscal levers being tapped to boost demand, inflation heading up gradually and the rupee under pressure, the repo rate is expected to be left unchanged.

Rao said there is scope for 20-30 bps increase in the official FY26 growth forecast (of 6.5 per cent) and a downward revision of a similar magnitude to inflation (projection of 3.1 per cent).

However, cognizant of fresh tariff salvos from the US and risks to growth, ICRA has assigned a 30 per cent probability for a cut, if the RBI sees reason in front-loading action.

SBI's Economic Research department, in a report, said a 25 bps rate cut in the upcoming bi-monthly monetary policy review is the best possible option for RBI. But this will require calibrated communication from the central bank as post June, the bar for rate cut is indeed higher.