JOURNALISM OF COURAGE

Why RBI kept repo rate unchanged at 5.25% despite inflation concerns

RBI's Monetary Policy Committee kept the repo rate unchanged at 5.25%, retained a neutral stance, raised FY27 GDP growth to 6.7% and lowered the inflation forecast to 5%.

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The committee chose to maintain the existing interest rate in view of prevailing global economic uncertainties, particularly the continuing conflict in West Asia and the resulting rise in international crude oil prices.

 The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI), at the conclusion of its policy meeting Wednesday, decided to keep the key policy repo rate unchanged at 5.25 per cent. The MPC also decided to keep the stance neutral, while hiking the growth projection marginally to 6.7 per cent from 6.6 per cent and reduced the inflation forecast to 5 per cent from 5.1 per cent in FY27.

The **decision by the 6-member MPC**, headed by RBI Governor Sanjay Malhotra, means interest rates on both loans and deposits will remain unchanged. Banks are set to continue offering the same lending and deposit rates, providing stability for borrowers and savers. As a result, equated monthly instalments (EMIs) on existing loans, especially home and gold loans, will remain the same, while returns on fixed deposits and savings accounts will also stay steady unless banks decide to make independent adjustments.

Why policy panel opted for status quo

The committee chose to maintain the existing interest rate in view of prevailing global economic uncertainties, particularly the continuing conflict in West Asia and the resulting rise in international crude oil prices. Elevated oil prices pose inflationary risks for India, as the country imports a significant portion of its crude oil requirements. By holding the repo rate steady, the RBI aims to balance the need to support economic growth while ensuring that inflation remains within its target range amid an uncertain global environment.

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Unveiling the policy, Malhotra said the crude oil prices have remained volatile. “Financial markets remain volatile, fluctuating in line with the changing intensity and uncertainty of the West Asia conflict,” he said.

“The MPC noted that headline inflation has edged up above target, as expected. The realised inflation for Q1, however, remained marginally lower than projections, reflecting limited power through post pressure. The higher inflation is mostly on account of fuel and food, with little signs of generalisation of price pressures so far,” Malhotra said. “It is expected to peak in Q3 of this year. Primarily again, due to food and fuel, and thereafter, moderate.”

On June 5, MPC had kept the interest rates unchanged at 5.25 per cent despite mounting inflationary pressures from rising crude oil prices and supply-side pressures triggered by the West Asia conflict.

Hike in GDP projection

The marginal increase in GDP forecast to 6.7 per cent is in the wake of the slight improvement in the growth conditions. The MPC reduced the inflation forecast to 5 per cent despite continuing inflationary pressures. Retail inflation breached the RBI's target for the first time in 17 months in June, setting the stage for interest rate hikes in an economy at risk from a prolonged Middle East conflict. Retail inflation rose to 4.38% year-over-year in June crossing the 4 per cent target of the RBI. Crude oil prices have been volatile.

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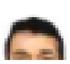
The policy panel lowered the growth projection from 6.9 per cent to 6.6 per cent and hiked inflation forecast from 4.6 per cent to 5.1 per cent in the June policy review. The RBI policy panel re-reassessed both its growth and inflation projections, with risks emanating from elevated oil prices, uncertainty in global trade, adverse weather conditions and geopolitical tensions clouding the economic outlook.



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