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RBI's Cautious Hold: Why 5.25% Is the Right Call — and Why It Might Not Be Enough

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 Business Standard

12 April 2026

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INTERVIEW ANGLE

"When supply-side energy shocks drive inflation, cutting rates to spur growth and hiking rates to contain prices are both wrong — what should a central bank actually do?"

WHY IN NEWS

The Reserve Bank of India's Monetary Policy Committee (MPC) held the repo rate at **5.25%** with a **neutral stance** at its April 2026 meeting — the first MPC decision of FY 2026–27. *Business Standard* endorses the hold as technically correct but argues the broader policy framework requires adaptation: supply-side inflation caused by West Asia energy shocks is beyond monetary policy's reach, yet the RBI faces pressure to act on inflation optics.

WHAT THE MPC DECIDED AND WHY

PARAMETER	DECISION
Repo rate	5.25% — unchanged
Stance	Neutral
MPC meeting	First of FY 2026–27
RBI Governor	Sanjay Malhotra
GDP growth (FY27) — RBI	6.9%
GDP growth (FY27) — World Bank	6.6% (revised down from 7.2%)
India FY26 actual	~7.4%
Rationale	West Asia energy uncertainty; supply-side inflation; external sector stress

The neutral stance is a deliberate positioning: the MPC is signalling it will neither cut (which could stoke already-elevated inflation) nor hike (which would strangle investment when the economy faces external shocks). It is the monetary equivalent of standing still on a moving treadmill — appropriate when the direction of the next step is genuinely uncertain.

THE SUPPLY-SIDE INFLATION TRAP

The core dilemma for the RBI is that the **source of inflationary pressure is outside its jurisdiction**:

- India's crude oil basket surged from \$69/barrel (February 2026) to \$113/barrel (March 2026) — a 64% spike driven entirely by **Strait of Hormuz** disruption
- LPG supply disruptions are feeding into food inflation (through restaurant costs, mid-day meal kitchens, commercial cooking)
- RBI's April 2026 estimate: West Asia-related shocks are generating **4.2–4.5% food-related CPI pressure**

A rate hike cannot reduce the price of crude oil. A rate cut cannot substitute for LPG. Monetary policy is designed to address demand-pull inflation (too much money chasing too few goods) — not cost-push inflation driven by global supply shocks. Using rate hikes to suppress supply-side energy inflation would:

- 1 Slow domestic investment and consumption
- 2 Increase borrowing costs for MSMEs already stressed by input cost inflation
- 3 Reduce India's GDP growth without actually resolving the oil supply constraint

Business Standard argues the RBI correctly identified this dynamic and chose restraint.

WHAT THE REVISED GDP FORECASTS SIGNAL

The divergence between RBI (6.9%) and World Bank (6.6%) India GDP forecasts for FY27 is not a contradiction — it reflects different assumptions:

FORECAST SOURCE	FY27 INDIA GDP	KEY ASSUMPTION
RBI	6.9%	West Asia conflict partly resolved by H2 FY27; oil prices moderate
World Bank	6.6%	Prolonged disruption; transmission through investment slowdown
IMF (baseline, March 2026)	~6.8%	Moderate disruption scenario

India's FY26 actual growth (~7.4%) was above all forecasts — reflecting strong domestic consumption and public capex. The downward revision to 6.6–6.9% for FY27 is not a crisis — India would still be the world's fastest-growing major economy — but it represents approximately \$15–20 billion in foregone GDP relative to the pre-crisis trajectory.

THE NEUTRAL STANCE — WHAT IT MEANS IN PRACTICE

The MPC's **neutral stance** is a forward guidance tool:

STANCE	WHAT IT SIGNALS
Accommodative	Next move is likely a rate cut
Neutral	Next move could be either cut or hike — MPC is data-dependent
Withdrawal of accommodation	Moving toward tightening
Hawkish/Tightening	Rate hike signalled

A neutral stance after a period of cuts (India cut rates twice in early 2025 to support post-pandemic growth) signals that the cutting cycle may be paused but not definitively ended. If West Asia stabilises and energy prices fall, the MPC could resume cuts. If inflation persists, a hike remains possible.

THE MPC ARCHITECTURE — UPSC BACKGROUND

The MPC was constituted under the **RBI Act, 1934** (amended by Finance Act, 2016) — giving it statutory independence.

FEATURE	DETAIL
Members	6 — 3 RBI officials + 3 external (Government-appointed)
Chair	RBI Governor (casting vote in tie)
Inflation target	CPI 4% ± 2% band (2–6%)
Review frequency	6 meetings per year (bi-monthly)
Accountability	If CPI stays outside band for 3 consecutive quarters, RBI must explain to government

Current RBI Governor **Sanjay Malhotra** succeeded Shaktikanta Das in December 2024. The transition was notable for Malhotra's reputation as a more pragmatic, growth-oriented governor compared to Das's hawkish inflation focus.

WHAT RBI CANNOT SOLVE — POLICY GAPS

Business Standard uses the MPC decision to make a broader structural argument: monetary policy has limits, and India needs fiscal and supply-side responses that the MPC cannot deliver:

PROBLEM	MONETARY POLICY RESPONSE	FISCAL/SUPPLY RESPONSE NEEDED
High crude prices	Cannot reduce oil prices	SPR expansion; supply diversification
LPG supply disruption	Cannot create LPG	Strategic LPG stockpile; alternative cooking fuel push
Food inflation via energy	Rate hike strangles growth without fixing food	MSP stability; input subsidy buffer
Investment slowdown	Rate cut (if appropriate)	Public capex; PLI scheme acceleration

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Economy	MPC; repo rate; monetary policy transmission; inflation targeting
GS3 — Economy	Supply-side vs demand-side inflation; limitations of monetary policy
GS2 — Governance	RBI's statutory independence; MPC composition; Finance Act 2016 amendment
Interview	"Can monetary policy address supply-side inflation? What should central banks do when the source of inflation is geopolitical?"
Mains Keywords	MPC, neutral stance, repo rate, CPI inflation target, supply-side inflation, RBI Governor, Finance Act 2016

Repo rate: **5.25%** (unchanged) | Stance: **Neutral** | Governor: **Sanjay Malhotra** | First MPC of FY 2026–27 | GDP FY27: RBI → **6.9%**; World Bank → **6.6%** (down from 7.2%) | India FY26 actual: ~7.4% | Rationale: West Asia energy uncertainty; supply-side CPI pressure 4.2–4.5% | **MPC structure:** 6 members (3 RBI + 3 external); statutory body under RBI Act 1934 (amended Finance Act 2016); CPI target 4% ±2%; RBI Governor chairs + casting vote | India crude basket: **\$69/bbl (Feb)** → **\$113/bbl (Mar)** — +64% | GS3: Economy, Monetary Policy

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