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December 19, 2025

**Minutes of the Monetary Policy Committee Meeting,
December 3 to 5, 2025
[Under Section 45ZL of the Reserve Bank of India Act, 1934]**

The fifty-eighth meeting of the Monetary Policy Committee (MPC), constituted under Section 45ZB of the Reserve Bank of India Act, 1934, was held during December 3 to 5, 2025.

2. The meeting was chaired by Shri Sanjay Malhotra, Governor and was attended by all the members – Dr. Nagesh Kumar, Director and Chief Executive, Institute for Studies in Industrial Development, New Delhi; Shri Saugata Bhattacharya, Economist, Mumbai; Professor Ram Singh, Director, Delhi School of Economics, Delhi; Dr. Poonam Gupta, Deputy Governor in charge of monetary policy and Shri Indranil Bhattacharyya, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934).

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

- (a) the resolution adopted at the meeting of the Monetary Policy Committee;
- (b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and
- (c) the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed in detail the staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. The MPC also reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. The Monetary Policy Committee (MPC) held its 58th meeting from December 3 to 5, 2025, under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank

of India. The MPC members Dr. Nagesh Kumar, Shri Saugata Bhattacharya, Prof. Ram Singh, Dr. Poonam Gupta and Shri Indranil Bhattacharyya attended the meeting.

6. After a detailed assessment of the evolving macroeconomic and financial developments and the outlook, the MPC voted unanimously to reduce the policy repo rate under the liquidity adjustment facility (LAF) to 5.25 per cent. Consequently, the standing deposit facility (SDF) rate shall stand adjusted to 5.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.50 per cent. The MPC also decided to continue with the neutral stance.

Growth and Inflation Outlook

7. The global economy is holding up better than expected, though the earlier frontloading of trade is showing signs of normalising. Uncertainty has eased somewhat following the end of the US government shutdown and progress on trade agreements, yet it remains elevated. Global inflation dynamics remain uneven, with inflation trending above target in most major advanced economies. The US dollar strengthened primarily on safe haven demand while treasury yields remained range bound. Equity markets remain volatile, driven by shifting views on the monetary policy outlook and concerns surrounding stretched valuations in tech stocks.

8. In India, real gross domestic product (GDP) registered a six-quarter high growth of 8.2 per cent in Q2:2025-26, underpinned by resilient domestic demand amidst global trade and policy uncertainties. On the supply side, real gross value added (GVA) expanded by 8.1 per cent, aided by buoyant industrial and services sectors. Economic activity during the first half of the financial year benefited from income tax and goods and services tax (GST) rationalisation, softer crude oil prices, front-loading of government capital expenditure, and facilitative monetary and financial conditions supported by benign inflation.

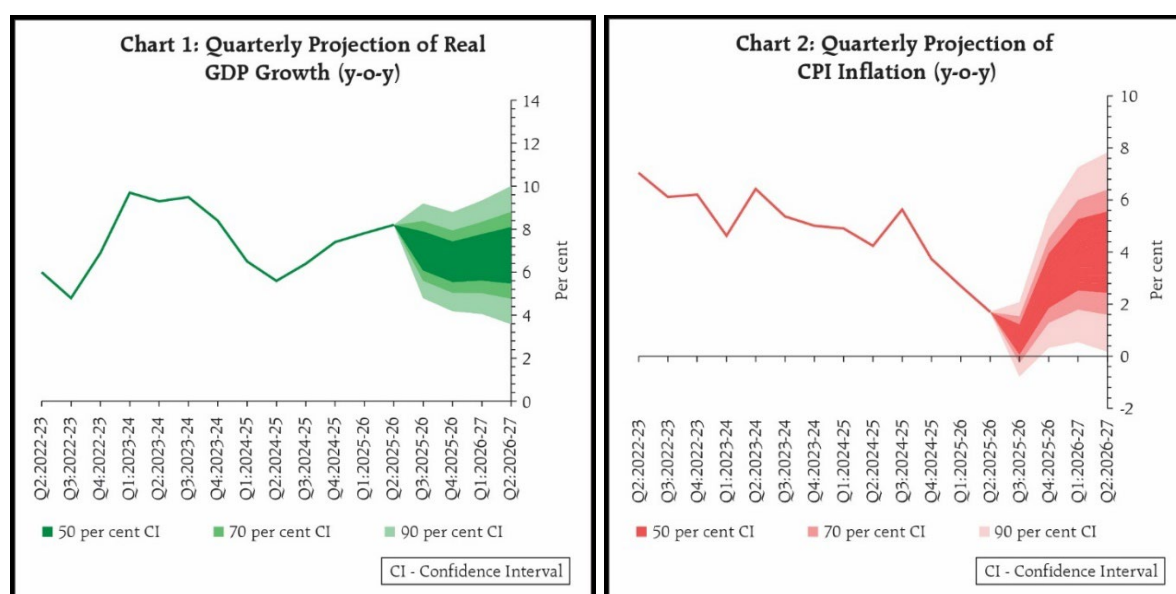
9. High-frequency indicators suggest that domestic economic activity is holding up in Q3, although there are some emerging signs of weakness in a few leading indicators. GST rationalisation and festival-related spending supported domestic demand during October-November. Rural demand continues to be robust while urban demand is recovering steadily. Investment activity remains healthy with private investment gaining steam on the back of expansion in non-food bank credit and high capacity utilisation. Merchandise exports declined sharply in October amid subdued external demand, accompanied by softer services exports. On the supply side, agricultural growth is supported by healthy *khari* crop production, higher reservoir levels and better *rabi* crop sowing. Manufacturing activity continues to improve, and the services sector is maintaining a steady pace.

10. Looking ahead, domestic factors such as healthy agricultural prospects, continued impact of GST rationalisation, benign inflation, healthy balance sheets of corporates and financial institutions and congenial monetary and financial conditions should continue to support economic activity. Continuing reform initiatives would further facilitate growth. On the external front, services exports are likely to remain strong, while merchandise exports face some headwinds. External uncertainties continue to pose downside risks to the outlook, while speedy conclusion of ongoing trade and investment negotiations present upside potential. Taking all these factors into consideration, real GDP growth for 2025-26 is projected at 7.3 per cent, with Q3

at 7.0 per cent; and Q4 at 6.5 per cent. Real GDP growth for Q1:2026-27 is projected at 6.7 per cent and Q2 at 6.8 per cent (Chart 1). The risks are evenly balanced.

11. Headline CPI inflation declined to an all time low in October 2025. The faster than anticipated decline in inflation was led by correction in food prices, contrary to the usual trend witnessed during the months of September-October. Core inflation (CPI headline excluding food and fuel) remained largely contained in September-October, despite continued price pressures exerted by precious metals. Excluding gold, core inflation moderated to 2.6 per cent in October. Overall, the decline in inflation has become more generalised.

12. Turning to the inflation outlook, food supply prospects remain bright on the back of higher *kharif* production, healthy *rabi* sowing, adequate reservoir levels and conducive soil moisture. Barring some metals, international commodity prices are likely to moderate going forward. Overall, inflation is likely to be softer than what was projected in October, mainly on account of the fall in food prices. Considering all these factors, CPI inflation for 2025-26 is now projected at 2.0 per cent with Q3 at 0.6 per cent; and Q4 at 2.9 per cent. CPI inflation for Q1:2026-27 and Q2 are projected at 3.9 per cent and 4.0 per cent, respectively (Chart 2). In fact, the underlying inflation pressures are even lower as the impact of increase in price of precious metals is about 50 basis points (bps). The risks are evenly balanced.



Rationale for Monetary Policy Decisions

13. The MPC noted that headline inflation has eased significantly and is likely to be softer than the earlier projections, primarily on account of the exceptionally benign food prices. Reflecting these favourable conditions, the projections for average headline inflation in 2025-26 and Q1:2026-27 have been further revised downwards. Core inflation, which had been rising steadily since Q1:2024-25, eased at the margin in Q2:2025-26 and is expected to remain anchored in the period ahead. Both headline and core inflation are expected to be around the 4 per cent target during the first half of 2026-27. The underlying inflation pressures are even lower as the impact of increase in price of precious metals is about 50 bps. Growth, while remaining resilient, is expected to soften somewhat.

14. Thus, the growth-inflation balance, especially the benign inflation outlook on both headline and core, continues to provide the policy space to support the growth momentum. Accordingly, the MPC unanimously voted to reduce the policy repo rate by 25 bps to 5.25 per cent. The MPC also decided to continue with the neutral stance. However, Prof. Ram Singh was of the view that the stance be changed from neutral to accommodative.

15. The minutes of the MPC's meeting will be published on December 19, 2025.

16. The next meeting of the MPC is scheduled during February 4 to 6, 2026.

Voting on the Resolution to reduce the policy repo rate to 5.25 per cent

Member	Vote
Dr. Nagesh Kumar	Yes
Shri Saugata Bhattacharya	Yes
Prof. Ram Singh	Yes
Shri Indranil Bhattacharyya	Yes
Dr. Poonam Gupta	Yes
Shri Sanjay Malhotra	Yes

Statement by Dr. Nagesh Kumar

17. The December 2025 MPC Meeting is taking place against the backdrop of mixed trends in the Indian economy. The GDP growth in FY2026:Q2 at a robust 8.2% exceeded expectations, particularly in the context of a challenging and uncertain external environment. What was more remarkable about the quarterly growth was its acceleration over the past four consecutive quarters, from 6.4% to 7.4%, 7.8%, and finally to 8.2%. After lagging for many quarters, the Q2 growth was led by manufacturing, which grew at over 9%, underpinned by the robust consumption, especially rural consumption, and investment growth. Higher manufacturing growth augurs well for jobs-creation. With FY26:H1 having delivered a solid 8%, the full-year projections have been upgraded from 7.0% to around 7.3%. On the other hand, inflation not only continued to remain benign but the headline CPI declined further to 0.3% in October 2025, largely driven by declining food prices. It is in contrast to FY25:Q2, when the growth was slowing, but inflation was at relatively high-levels.

18. The celebrations of this 'goldilocks moment' (high growth, low inflation), however, were tempered by trends for October 2025 published only a few days later, suggesting that the economic activity had peaked in Q2. The industrial activity, as measured by Index of Industrial Production began losing momentum in October 2025 to 14 months low, with mining and quarrying contracting and manufacturing reporting only 1.8% growth. The high-frequency indicators, such as PMI for manufacturing, dropped from 59.2 to 56.6. The merchandise exports declined by around 12% in October 2025. The export orders were at their weakest, bringing the New Orders PMI to 13 months low. The rupee came under pressure and breached the psychological barrier of INR90 to a dollar. RBI's Industrial Outlook Surveys also suggest moderation in business assessment and expectations.

19. There is some evidence that the geopolitical and trade related uncertainties have started to hurt the business sentiment. The Trump tariffs are particularly affecting the labour-intensive industries such as textiles and garments, leather goods, gems & jewellery, processed food products like shrimp that have a higher exposure to the US market. These are also the sectors that are dominated by MSMEs and account for a disproportionately larger share (around 40%) of jobs in the manufacturing sector. Hence, the high tariffs imposed by the US on India have the prospect of affecting MSMEs and the jobs in a significant manner, as I had observed at the October 2025 MPC.

20. Therefore, there is a case for supporting growth through demand stimulus to preserve the growth momentum in H2 of 2025-26. From the fiscal side, the GST 2.0 reforms, the Rs 25,060 crores Export Promotion Mission to support diversification of markets, a Rs 20,000 credit guarantee scheme, and notification of the new labour codes, among other measures, have been announced to support economic growth. Coordinated fiscal and monetary policy actions have been very effective in reviving growth in the past. Hence, the monetary policy could step in to support the growth momentum, given that the transmission of the 100-basis point cut in the repo rate effected over the past year in a phased manner, is nearly complete. The headline inflation at 0.3% in October 2025, with projections for the full year 2025-26 at 2%, provides space for monetary policy action. Inflationary expectations remain well anchored. The current inflation rate is actually too low, breaching the lower bound in the flexible inflation targeting regime, especially if precious metals like gold are excluded. Besides, too low an inflation rate is not healthy for a developing country like India, suggesting a demand deficit.

21. Against that backdrop, I would like to vote for a 25-bps cut in the repo rate to support the growth momentum, while keeping a status quo on the stance.

Statement by Shri Saugata Bhattacharya

22. The October 2025 MPC resolution had noted that the then “current macroeconomic conditions and the outlook opened up policy space for further supporting growth”, based primarily on low inflation. Subsequent data on inflation – even lower than forecast – has further expanded this space, irrespective of the strong Q2 FY26 GDP growth print, whose interpretations have been widely debated.

23. Inflation has continued to undershoot forecasts. While the low prints have largely emanated from a small set of components, the broader basket of “underlying” inflation too is likely to undershoot the inflation target for many months. In addition, there is little to signal a risk of potential overheating of capacity even if growth momentum were to sustain. Household inflation expectations remain well anchored and have responded to the recent sharp drop in inflation.

24. However, growth forecasts, both in the resolution and the Survey of Professional Forecasters (SPF), suggest a gradual deceleration. The contraction in the October merchandise export data is concerning, and the trade balance will need to be closely monitored. The uncertainty inter alia relating to the trade environment, is also now showing up in a gradual slowdown in certain metrics like the Manufacturing (Purchasing Managers Index) PMI, the sales levels readings of the IIM Ahmedabad (Business Inflation Expectations Survey) BIES, etc. In addition, as a working

hypothesis, lower seller pricing power suggested by the expected moderate “underlying” inflation in the near future might not be conducive to investment decisions, even if FY26 growth remains close to 7.3% forecast in the resolution. The expected time for inflation to converge to its target might be longer than growth to its estimated potential. Hence, there might be a need for a relative overweight on inflation at this point.

25. Another factor for consideration is transmission. In the October 2025 MPC minutes, I had noted that the “impact of the frontloaded monetary policy actions and the recent fiscal measures is still playing out”, which had prompted me to vote for a pause. One component of these effects was transmission into the Weighted Average Lending Rate (WALR) for both fresh and outstanding Rupee loans, which had then been ongoing. Latest data suggests that transmission has been satisfactory and broad based across sectors. Given the RBI commitment to liquidity infusions, further transmission is also likely.

26. Bank credit offtake and the broader flow of resources to the commercial sector have been rising over the past few months, specially to both small and medium enterprises. This might be reflective of a moderate revival in private investment and a pickup in economic activity. A further cut in interest rates in the EBLR segments of banks’ loan portfolios (in association with committed further liquidity infusions) is likely to boost credit demand, particularly in the MSME segment. This can complement the credit supportive measures (including the macro- and micro-prudential relaxations) which RBI has progressively announced and notified in the financial sector.

27. All things considered, based on the assessed costs and benefits of a rate action at this point, the current macroeconomic environment, including inflation and growth forecasts factoring in various exogenous drivers of uncertainty, suggests that the appropriate risk management action is to err in favour of a policy easing. I, as individual member of the MPC, am risk averse to criticism of having “fallen behind the curve”, particularly the mistake of attributing as “transient” those drivers of inflation which might ultimately emerge as structural components. While overall financial conditions remain easy, there is an implicit worry that, at the present level, the real policy rate might be slightly more restrictive than warranted by the forecast macro-economic conditions in the near term. Notwithstanding my concerns regarding the adverse effect of lower interest rates on household savings behaviour, and hence bank deposits, a priority now is to overweight growth in the balance of multiple objectives.

28. To repeat, however, I believe that the cumulative policy rate cuts and liquidity infusions will now have moved the orientation of monetary policy from mildly restrictive to balanced. Pending incoming data, I believe the policy interest rate is now consistent with macroeconomic stability.

29. Based on the totality of this assessment, I vote to cut the policy repo rate to 5.25%, with the caveat that the next actions will be data dependent. Hence, especially taking into account the continuing uncertainty on the external balance, it is prudent to continue with the neutral stance.

Statement by Prof. Ram Singh

30. Since the MPC's October meeting, incoming data on growth-inflation dynamics have provided additional policy space to support the growth momentum. Inflation has registered unprecedentedly low levels with average headline inflation at 1.7 per cent for Q2:2025-26, dipping further to 0.3 per cent in October 2025. Excluding gold, core inflation has also moderated to 2.6 per cent. The CPI inflation forecast for the full financial year 2025-26 is 2.0%. During the first half of 2026-27, both headline and core inflation are expected to remain benign relative to the 4 per cent target. With this kind of inflation trajectory, the question is not whether, but how much, of a repo rate cut is possible without heating the economy.

31. Monetary policy easing is warranted on both the inflation and growth fronts, independently. At the current policy rate, the real repo rate of 3.8 per cent for Q2:2025-26 was very high. From a forward-looking perspective, the real policy rate over the next three quarters will remain well above what can be considered a growth-supportive rate (4.9% in Q3 FY26, 2.6% in Q4 FY26, and 1.6% in Q1 FY27). If we filter out the effect of elevated precious metals prices, the real rates are even higher.

32. So, the inflation data itself makes a strong case for an additional rate cut and underscores its urgency. A counter-cyclical price-stabilising monetary policy must aim to bring prices toward the target as soon as possible.

33. A delay in the rate cut would hurt real GDP growth by keeping real interest rates unnecessarily above growth-supportive levels. The delay will extend the low-inflation phase, which has important implications both micro and macro including a less-than-expected nominal GDP growth (estimated at 8.3% for the full FY26, down from the budgeted projection of 10.1%).

34. Besides, the prevailing low inflation will squeeze profit margins and increase the real value of debt and interest rates for the private sector. Disinflationary expectations running across several quarters can dampen and defer private-sector investment even in the short run. As MSMEs' businesses operate in highly competitive markets and have limited ability to raise prices through the market power channel but the wages tend to be downward sticky, low inflation is detrimental to their interests as well.

35. Will the rate cut heat up the economy? Numbers speak for themselves. Whichever way we slice the inflation data, the headline CPI inflation has been on a downward trajectory, even though a substantial part of the transmission expected from 100 bps repo rate cuts so far has already materialised. The decline is broad-based. Core inflation, a crucial indicator of underlying price trends, has remained stable and range-bound. Excluding gold, core inflation moderated to 2.6 per cent in October 2025 and is expected to be below 4% for the next 3-4 quarters. According to the World Bank Commodity Price Forecasts for October 2025, prices are projected to moderate in 2026 from 2025 levels, except for some precious metals. International oil prices are looking south. Even after factoring in the base effect turning adverse for food prices, a rate cut is unlikely to alter the projected trajectory significantly.

36. The supply side also does not suggest any upward pressure building up. The GDP growth rate for recent quarters - Q2 FY 2025-26 at 8.2%, Q1 FY 2025-26 at 7.8% and Q4 FY 2024-25 at 7.4% - may appear to be above the trend. At the same time, the projected growth trajectory for the coming four quarters indicates a moderation in growth from the level achieved in the preceding three quarters. Besides, several indicators suggest a slack in the economy.¹ Even otherwise, we should not infer from the recent real GDP growth prints that the output gap is positive – that is, the economy's actual real GDP rate is higher than its maximum sustainable output growth rate. Several structural changes underway appear to have increased the potential real growth rate.

37. For one, the incremental capital–output ratio (ICOR) has come down. So, the same level of additional capital investment produces higher output today than before.² Productivity gains due to fast adoption of technological advances in conjunction with rapid expansion of physical and digital infrastructure (improved digitalisation, better infrastructure (roads, railways and power, among others) over the last decade have been more pronounced substantial, especially in construction and the services sector. From now on, however, structural reforms in the factor markets (labour and land) and regulatory easing aimed at improving the efficiency of the capital market are bound to raise productivity in the manufacturing sector, putting it on a higher growth-rate path. GST 2.0 reforms will also provide a much-needed boost to manufacturing's growth potential. Thus, it may well be the case that the output gap is negative - economy is still running below its potential – an inference corroborated by the trajectory of the core inflation excluding gold.

38. As the demand for industrial products, the 2025 Household Consumption Expenditure Survey (HCES) data paint a clear and encouraging picture for demand prospects for the manufacturing sector. During the last decade, rural spending on durable goods has surged by 217%. Demand for durable goods in urban areas has grown even more. This kind of surge in demand for durable goods is likely to be a force multiplier for industrial growth, as Indian households shift to higher-value durable goods.

39. Due to these productivity gains and the healthy prospects for domestic demand, the economy can now sustain higher real GDP growth than in the past. To me, a growth rate above 7.5% appears realistic without building up price pressure. A rate cut will further boost the demand and help sustain a high growth rate.

40. In view of the above, there is a very persuasive case for a 25-basis-point cut in the repo rate. Filtering out the effect of precious metals in headline CPI and CPI core (approximately 50 basis point), or the base effect turning favourable for these metals, gives us additional room for a rate cut. However, the decision on the quantum of the rate cut should also factor in the challenges on the external front.

¹ The capacity utilisation has reached 74.8% giving a fillip to private capex. But CU needs to improve further for the private capex to pick up in full force. In recent months, there has been a moderation in the PMI Manufacturing (to 56.6 in November 2025 a 9-month low) in growth in index of industrial production (down to 0.4 per cent in October 2025). Electricity demand has remained in contractionary zone while steel consumption and cement production have recorded only modest growth rates.

² HDFC estimates suggest that between FY10 and FY19, India's ICOR has come down from 4.6 to 4.0. Various other sources also, including reports from CRISIL, the SBI, and economic think tanks like ICRIER, provide evidence that India's incremental capital-output ratio (ICOR) has come down in recent years, indicating improved capital efficiency.

41. Exports will continue to face headwinds from uncertainty related to US tariffs and competition from Chinese exports. On the one hand, the latter put strain on the prospects for Indian exports. On the other hand, China's strategy of exporting its vast excess domestic capacity acts as a global inflation stabiliser, exerting downward pressure on global goods prices. Together, these effects also strengthen the case for demand-supportive rate cuts without compromising the predictability of the inflation trajectory.

42. However, a rate cut can add to the pressure on the INR. The Real Effective Exchange Rate (REER) for INR has fallen substantially due to FPI outflows triggered by global financial market uncertainty and less appealing price-earnings ratios for India. However, the economy's fundamentals – BOP, Forex, fiscal deficit, debt-to-GDP ratio, corporate and bank balance sheets, inflation, and growth dynamics – are all robust. Therefore, I expect exchange pressures and FPI flows to be self-limiting. As such, the depreciation is unlikely to cause imported inflation due to low oil and commodity prices - international pricing benchmark Brent crude (BZ=F) has fallen to a lowest level in recent times and World Bank's CPF has projected most prices to moderate in 2026.

43. Overall, given the uncertainty on the external front, it seems prudent to go for only a 25-basis-point cut at this point. Additionally, in view of the dormancy in the price momentum underlying headline CPI and CPI core, and the case for supporting growth momentum, the rate cut should be accompanied by a change in stance to "accommodative".

Statement by Shri Indranil Bhattacharyya

44. The global economy remained robust in 2025 as evident from upward revision in growth projections³ but lingering uncertainties and persisting fragilities continue to cloud its outlook. In this milieu, growth in India surprised on the upside at 8.0 per cent in H1:2025-26, powered by both fiscal activism and monetary stimulus – rate cuts and liquidity injections – in an environment of benign inflation. While domestic tailwinds (GST cut, easy financial conditions) continue to support growth, external headwinds from the trade and tariff-related uncertainties are acting as a dampener. Illustratively, while merchandise exports contracted by around 12 per cent in October 2025, exports to the US declined by 8.6 per cent. In terms of outlook, although high frequency indicators suggest that the economy is holding its course in Q3, few leading indicators point towards a deceleration in momentum in the period ahead. Accordingly, growth is projected to moderate from H1:2025-26 to about 6.8 per cent each in H2 and H1:2026-27.

45. In contrast to growth, inflation surprised on the downside by plummeting to 0.3 per cent (lowest level in the current CPI series) in October 2025. Moderation of headline inflation by about 180 bps during September-October was faster than anticipated and was primarily driven by the deflation in food prices. Although core inflation remained rangebound at around 4 per cent, it was powered by the disproportionate impact of rising prices of precious metals (gold and silver). Core excluding precious metals recorded a muted momentum with seasonally adjusted

³ In October, the IMF raised its 2025 global growth forecast by 20 bps to 3.2 per cent, due to lower than anticipated negative impact of tariff.

annualised rates averaging 2.0 per cent during Q2:2025-26 and turning negative in October, partly reflecting the rationalisation of GST rates. CPI diffusion index, which tracks the extent of generalisation of price pressures, declined to its lowest level in October since the COVID-19 pandemic.⁴ The benign inflation scenario is likely to prolong, as reflected in the trimming of the CPI inflation forecast by 60 bps each for 2025-26 and Q1 2026-27 to 2.0 per cent and 3.9 per cent, respectively. The forecast of 4.0 per cent in Q2:2026-27 indicates eventual alignment of headline inflation with the target. During this period, core inflation (excluding precious metals) is likely to remain well-below the target.

46. Given the above context, I vote for a 25-bps rate cut based on the following considerations. First, flexible inflation targeting derives credibility from predictable policy responses based on the current state of the economy, while retaining the flexibility to use discretion during exceptional circumstances.⁵ In the Indian context, the credibility of monetary policy is reinforced by a firm commitment to the 4 per cent inflation target. In the current context, when muted inflation outlook, both in terms of the trajectory of headline and core (excluding precious metals), suggests absence of demand pressures, the MPC ought to support growth, particularly when it is projected to decelerate going ahead. This is also consistent with the MPC communication in October of acting on policy space provided by lower than projected inflation prints. Second, calibrated policy easing, as being done since February 2025, supports output stabilisation as failure of policy to adjust to evolving conditions can increase macroeconomic volatility.⁶ This, however, has not resulted in compromising price stability, as inflation expectations have also moderated in line with the decline in inflation. Finally, given the neutral stance of policy, lower realised inflation and a downward revision in the inflation forecast warrants downward adjustments in the nominal policy rate. I also support retaining the neutral stance as it preserves the flexibility to respond judiciously to the evolving situation by remaining data dependent while avoiding the pitfalls of precommitment in an uncertain environment.

Statement by Dr. Poonam Gupta

47. The last two months since the October policy have been momentous, with the following three developments holding particular relevance. First, the global economy has held up well despite prevailing uncertainties. No new shocks have emerged on the global front during this period. One could perhaps safely conclude that the global uncertainties have peaked.

48. Second, the recent economic momentum has not just sustained but has even improved, as borne out in the data for Q2:2025-26 (real GDP growth rate accelerating to 8.2 per cent). The high frequency indicators for Q3 thus far seem to be holding up. Indications are that the growth outcomes during the second half of the year may moderate from the elevated levels of H1 but would continue to remain strong.

⁴ The cumulative weight of items that recorded an annual inflation of below four per cent has increased to about 80 per cent in October indicating that inflation moderation has been comprehensive across items.

⁵ For a detailed discussion on the role of rule versus discretion within Inflation Targeting framework, see Bernanke, B. S., & Mishkin, F. S. (1997). *Inflation targeting: A new framework for monetary policy*. Journal of Economic Perspectives, 11(2), 97–116.

⁶ Role of output stabilisation under inflation targeting is discussed in Svensson, L. E. O. (2010). *Inflation targeting*. In B. M. Friedman & M. Woodford (Eds.), *Handbook of Monetary Economics* (Vol. 3B, pp. 1237–1302). Elsevier.

49. Third, inflation dynamics have been more benign than were earlier projected. Inflation has been below the 4 per cent target for the last nine months averaging 2.3 per cent and is likely to remain well contained for at least nine more months. The average inflation for 2025-26 is projected to be 2.0 per cent, down by 60 bps from the October policy.

50. The most crucial recent development from the perspective of monetary policy has been the faster than anticipated moderation in CPI headline inflation. Under the current Flexible Inflation Targeting Framework, the mandate is price stability (an inflation target of 4 per cent within a band of 2 to 6 per cent) keeping in mind the objective of growth. Therefore, even if the MPC members traditionally consider a whole host of factors in their decisions, but when the prevailing inflation and its forecast is as low as it is currently - it alone ought to get a larger weight in the monetary policy deliberations.

51. Therefore, I vote for a rate cut of 25 bps.

52. One may ask whether the current rate cut, resulting in a cumulative rate cut of 125 bps, could lead to overheating in the economy. However, not just headline and core inflation, but most other nominal indicators of the economy are prevailing at levels that indicate that the economy at this point is not showing any signs of overheating. Instead, one could interpret the data as indicating that there is slack in the economy.

53. As for the stance, I propose to retain it at neutral. In other words, let any future course of policy action be totally data dependent.

Statement by Shri Sanjay Malhotra

54. Global growth has remained resilient during the year but persisting risks from geopolitical and trade tensions, policy uncertainty, and economic fragmentation continue to temper its outlook. Receding inflation pressures, although above targets in some advanced economies, open up the scope for more accommodative policies in the ensuing months. Financial market sentiments remain circumspect, conditioned by lingering uncertainties on divergent policy paths of major central banks, and regional disparities in macroeconomic outcomes.

55. Domestically, H1 witnessed strong growth, driven by several positive domestic factors viz., direct and indirect tax rationalisation, monetary easing, conducive financial conditions and benign inflation. Although domestic economic activity remains resilient in Q3, weakness in some leading high-frequency indicators is suggestive of a deceleration in the growth momentum in H2 vis-à-vis H1. Overall, real GDP growth is poised to exceed 7 per cent, much above our expectation of 6.5 per cent at the beginning of the year, as healthy domestic prospects outweigh the concerns on the external front. Going forward in H1 next year, domestic growth is projected to remain strong, though moderate to 6.7-6.8 per cent.

56. At the same time, headline inflation in H1:2025-26 turned out to be much softer than anticipated due to the generalised moderation in price pressures, particularly the sharp decline in food prices. Moreover, core inflation (CPI headline excluding food and fuel) remained rangebound notwithstanding the continued increase in prices of precious metals. In fact, core inflation excluding precious metals, has been low for a

long time. Since the beginning of 2024, it has been in the range of 2.5 to 3.4 per cent. Going ahead, good agricultural production, low food prices and exceptionally benign international commodity price outlook suggest that headline inflation for the full year (2025-26) is likely to be around 2 per cent, half of what was projected at the beginning of the year. Headline inflation is projected to be close to the 4 per cent target in H1:2026-27. Excluding precious metals, inflation is likely to be much lower, as has been the trend since the beginning of 2024.

57. Thus, demand pressures, as evident from low core inflation (excluding precious metals), are minimal and projected to remain low in the next three quarters. Considering the benign inflation outlook – headline as well as core - real interest rates need to be lower. Therefore, I vote for a 25-bps rate cut. This will also stimulate demand and be growth-supportive. Moreover, I am in favour of retaining the neutral stance which gives the requisite flexibility to remain data-dependent and act according to the evolving macroeconomic conditions and outlook.

Press Release: 2025-2026/1739

(Brij Raj)
Chief General Manager