

The April MPC minutes mark a decisive shift in the policy backdrop, as the West Asia conflict has disrupted the earlier “goldilocks” phase and introduced a negative supply shock with material implications for both growth and inflation. The MPC has shifted to a risk-management approach, recognizing that monetary policy has limited ability to address supply shocks and that premature action may lead to a large growth sacrifice. However, it was acknowledged that core inflation pressures remain subdued at present, and that the passthrough of the inflation shock to headline inflation and inflation expectations would be vital for the policy response ahead. The unanimity of these views means that the MPC is likely to remain in a “wait-and-watch” mode going forward. We note that upside risks to inflation may materialize soon, with a potential retail fuel price hike and the possibility of a below-normal monsoon.

MPC acknowledges worsening growth-inflation balance

Members broadly agreed that the West Asia conflict has tilted the macro balance unfavorably—with downside risks to growth and upside risks to inflation. The growth hit (estimated at ~50-60bps by Professor Singh for FY27) reflects the drag from higher energy prices, supply disruptions, and weaker global demand. While acknowledging supply disruption-linked upside risks to the inflation trajectory (both from the conflict and a potential *El Nino* event hurting monsoon rains), the MPC noted that underlying inflation (ie core inflation) remains benign. However, there were some concerns around a potential stagflationary scenario if the conflict persists.

Monetary policy has limited influence in supply shock scenarios

A key theme across members is that the current inflationary impulse is not demand-driven, limiting the effectiveness of the monetary policy. Additionally, Saugata Bhattacharya mentioned that monetary policy can only help curtail demand to contain the inflation shock. Members emphasized that reacting to supply shocks could entail a large growth sacrifice, while the appropriate response for now is to monitor the passthrough to core inflation and expectations. “Wait-and-watch” appears to be the MPC’s strategy, as long as second-order effects remain contained. Bhattacharya also noted that domestic financial conditions have tightened substantially, which amounts to a *de facto* rate hike, thus already helping to moderate demand somewhat. Professor Singh opined that a dovish pause was needed to help MSMEs manage supply disruptions.

MPC to stand pat ahead, but upside risks to inflation may materialize

With the ME crisis persisting longer than anticipated, we believe India’s challenge is likely to quickly evolve from a current account issue to a capital account one. During such periods of stress, policy responses are needed to broaden beyond inflation, with a stronger emphasis on macro-financial stability and a more assertive stance on FX management. Financial stability will not play second fiddle to the inflation-centric policy reaction function if the crisis persists. With the RBI having already put measures in place to contain untoward INR depreciation (albeit having partially reversed them as well), we believe the bar for any conventional rate hike remains high. This would require a sustained supply shock pushing headline CPI well above the target persistently, with energy price pressures spilling over to core inflation and, importantly, into inflation expectations. That said, we note that upside risks to our inflation forecast (FY27E: 4.6%) are material. There remains a possibility of a retail fuel price hike after state elections conclude in Apr-26, while an *El Nino* event could lead to a below-normal monsoon and pose further upside risk to food prices.

Madhavi Arora

madhavi.arora@emkayglobal.com

+91-22-66121341

Harshal Patel

harshal.patel@emkayglobal.com

+91-22-66242434

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions.com)

Exhibit 1: Summary of MPC members' views

MPC member	Key comments (paraphrased)	Tone
Governor Sanjay Malhotra	<ol style="list-style-type: none"> 1) The Iran crisis represents a supply shock which complicates policy trade-offs 2) Underlying inflation pressures remain contained 3) An extended conflict would intensify the central bank's dilemma between controlling inflation expectations and minimizing the growth sacrifice 	Neutral
Dr Poonam Gupta	<ol style="list-style-type: none"> 1) While inflation pressures are rising, core inflation projections remain benign 2) In the current scenario, monetary policy needs to continue supporting the economy's productive needs 	Neutral
Indranil Bhattacharya	<ol style="list-style-type: none"> 1) Inflation driven by supply shocks requires a markedly different policy response than a demand-driven one 2) Monetary policy has limited ability to dampen the direct effects of a supply-led inflation shock 3) It is best to look through the shock initially as the growth sacrifice from a pre-emptive response is large 	Neutral
Professor Ram Singh	<ol style="list-style-type: none"> 1) Despite rising, the inflation path ahead remains within the tolerance band 2) Growth is expected to be hit by ~50-60bps due to the West Asia crisis at present 3) Dovish pause needed to help MSMEs deal with supply disruptions 4) External sector pressures can be managed via administrative and regulatory measures 	Dovish
Saugata Bhattacharya	<ol style="list-style-type: none"> 1) Balance of risks has changed significantly vs Feb-26, with the growth-inflation tradeoff now extremely uncertain 2) While monetary policy cannot adjust energy prices directly, it can help curtail demand to keep inflation controlled 3) Domestic financial conditions have substantially tightened, amounting to a <i>de facto</i> rate hike 4) Maintaining status quo has the lowest risk of a policy error 	Balanced
Dr Nagesh Kumar	<ol style="list-style-type: none"> 1) A sharp rise in inflation is driven by supply-shocks, with no evidence of demand push at present 2) It is prudent to remain on hold at present 	Dovish

Source: RBI, Emkay Research's assessment of tone

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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