

The December MPC meeting minutes showed a clear demarcation in views between the internal and (most of) the external members. Dr Kumar and Professor Singh, while calling for a repo rate cut, spoke of the lack of impact of monetary policy on supply-shock led food inflation, while mentioning its effect on consumption and investment demand. On the other hand, Governor Das and Dr Patra continued to assert the need for durable disinflation to support growth on a sustained basis, with Dr Patra attributing the recent growth slowdown to persistent inflation shocks hurting consumption. Going forward, a new MPC will be facing vastly different policy challenges amid a diverse global and macro landscape. A rate cut in February remains tricky.

Clear demarcation in views between new external members

The December MPC minutes show a widening divergence between internal and external members on the growth-inflation balance, (as evidenced by the 4-2 vote split from 5-1 earlier), even as there was unanimous acknowledgement and concerns around the Q2FY25 growth slowdown. Liquidity concerns were addressed with two members (Dr Kumar and Dr Ranjan) explicitly calling for a 50bps CRR cut.

External members largely focus on elevated inflation being food-driven

The widest divergence among MPC members was in their assessment of growth-inflation dynamics. Dr Kumar and Professor Singh (both of whom voted for a 25bps repo rate cut), opined that monetary policy has little impact on food inflation shocks that are supply-driven, as has been the case for tomatoes, onions, and potatoes (TOP) in recent months. Professor Singh also stated that the correlation between food prices and core inflation is quite weak, with little evidence of a transmission of elevated food prices to core inflation. On the other hand, the persistent decline in core inflation, along with slower growth, indicates that there is a wide difference between actual and potential growth. This would allow higher growth without triggering higher inflation. Similarly, Dr Kumar spoke of the impact of a rate cut on the manufacturing slowdown, stating that it would bring down the cost of capital and stimulate both—investment and consumer demand. Bhattacharya once again spoke of the need to remain cautious and data-dependent.

Internal members contend that durable disinflation is needed to support growth

On the other hand, Governor Das and Dr Patra continued to focus on the need for durable disinflation as the only way to support growth on a sustained basis. In fact, Dr Patra attributed the recent growth slowdown to persistent inflation shocks – with higher price pressures eroding the urban consumer's spending ability. This, in turn, is slowing down private capex, as the demand outlook remains uncertain due to higher inflation. He also mentioned the uptick in core inflation since July as a worrying sign of a spillover from elevated food prices. While he acknowledged the need for improving the investment outlook, he once again cited the need to bring about durable disinflation to allow robust revival of domestic demand. Governor Das had a similar opinion, as he also spoke about the need to maintain the gains achieved on disinflation so far. In his view, lower inflation will improve domestic demand by enhancing disposable income and purchasing power. Dr Ranjan mentioned the improving outlook for both, growth and inflation, for the rest of FY25, along with heightened global and domestic uncertainty, as the main reason for keeping rates unchanged.

Rate cut cycle depth and timing remains tricky

With this being the last MPC meeting for both, the Governor and Deputy Governor, there will be two new members at the next MPC meeting in February. This new MPC will be facing substantially different policy challenges along with a diverse macro and global landscape. The policy trade-offs are getting acute due to: i) the entrenched state of India's stagflation, ii) tricky timings and small window of conventional rate cuts as global dynamics turn more fluid, iii) mounting FX pressure and increasing cost of FX intervention. Thus, the window for a conventional rate cut is narrowing. A February rate cut call remains tricky.

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Exhibit 1: Summary of the views of members of the Monetary Policy Committee

MPC member	Key comments	Tone
Governor Shaktikanta Das	<ol style="list-style-type: none"> 1) Gains achieved so far on disinflation need to be preserved 2) Biggest support for higher growth will come from price stability 	Neutral
Dr Michael Patra	<ol style="list-style-type: none"> 1) Q2FY25 growth shock reveals the damage to economic activity from persistent inflation shocks 2) Early signs of spillover from primary food prices to other food prices, as well as core inflation 3) Durable disinflation is necessary to rekindle growth on a sustainable basis 	Neutral
Dr Rajiv Ranjan	<ol style="list-style-type: none"> 1) Both—growth and inflation—are expected to recover imminently from the recent adverse prints 2) CRR cut is appropriate to provide durable liquidity, and help improve deposit and credit growth over an extended period 3) Need of the hour is to remain watchful of incoming data 	Neutral
Professor Ram Singh	<ol style="list-style-type: none"> 1) Interest rates have little effect on volatility in fruit and vegetable prices 2) Empirical evidence suggests that the impact of food inflation on core inflation has significantly reduced 3) In such a scenario, keeping interest rates elevated imposes costs on growth that are disproportionately higher than the gains from lower inflation 4) In a world with higher uncertainty, it is better to aim for inflation within a range rather than a point target (4%) 5) Present situation of significantly slower growth without material change in inflation outlook warrants a shift in monetary policy 	Dovish
Saugata Bhattacharya	<ol style="list-style-type: none"> 1) Data suggests that the impact of rate hikes on aggregate demand was much lower, while having a bigger impact on lowering inflation and inflation expectations 2) High interest costs do not seem to be contributing to the growth slowdown 3) Growth-inflation balance has turned adverse on both, growth and inflation 4) Prevailing conditions make it appropriate to “make haste slowly”; greater risk of a policy error now than earlier 	Neutral
Dr Nagesh Kumar	<ol style="list-style-type: none"> 1) Slowdown in growth largely on account of weakness in industrial sector 2) Monetary policy has limitations in addressing inflation that is largely driven by supply-side issues 3) However, slowdown in manufacturing can be addressed by bringing down the cost of capital 4) Risk of further currency appreciation, if rate normalization is not initiated 	Dovish

Source: RBI, Emkay Research's assessment of tone

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