RBI MPC Explained: Why Did the RBI Hold Rates Despite Higher Growth?

The RBI cut its FY27 inflation projection to 5% and raised its growth projection to 6.7%. Lower inflation, higher growth, and still no move on rates.

That reads like a contradiction until you see the quarterly path.

Inflation sits at 5.3% in Q1, drops to 4.7% in Q2, then jumps to 5.9% in Q3 before easing to 5.5%. The RBI said it directly: headline inflation rises from here and peaks in Q3, driven by food and fuel, before it moderates.

So, the annual number got better. The road to it did not.

That's the entire decision in one line. Cutting rates while you're forecasting your own inflation spike two quarters out makes no sense. Hiking makes even less sense when the economy just outperformed expectations in Q1 and you've upgraded growth because of it.

And there's the part nobody can do much about. This inflation isn't coming from Indian demand. It's crude, freight, supply chains, a conflict in West Asia. You can raise the repo rate as high as you like in India and it won't move the price of a barrel in the Gulf. All it does is make borrowing dearer here while the actual pressure sits somewhere else entirely.

The Governor put it about as plainly as a central bank can. There's a need for greater clarity on inflation, its path and its composition, before taking any policy action.

Key stats you would like to know:

→ Repo rate 5.25%, neutral stance

→ FY27 inflation 5%, down from 5.1%, peaking at 5.9% in Q3

→ FY27 growth 6.7%, up from 6.6%

Read more explainers at: https://www.economicstaan.com/explainers