

Here's a **simple and step-by-step explanation** of the article titled:

"Ahead of its meet, MPC faces tight call on repo rate decision"

What's it about?

The **Reserve Bank of India (RBI)** is holding a key **Monetary Policy Committee (MPC)** meeting from **August 4–6**. The big question:

Should the **repo rate** (the interest rate at which RBI lends to banks) be **cut again or paused?**

Key Terms to Know:

- **Repo Rate:** Interest rate at which RBI lends money to banks.
 - **Rate Cut:** Reducing the repo rate to encourage borrowing and economic growth.
 - **Frontloading:** Cutting rates early and quickly, rather than gradually over time.
 - **CPI (Consumer Price Index) Inflation:** A measure of retail price rise – RBI targets 4%.
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Step-by-step Summary with Salient Points:

Background: RBI has already cut rates a lot

- RBI has reduced the repo rate by **100 basis points (1%)** recently.
 - Some experts feel RBI should **pause now**, as those earlier cuts need time to work.
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Why a pause is being considered:

- **Retail inflation is very low** – just **2.1% in June**, below RBI's 4% target.
- **Global uncertainty:** US imposed **25% tariffs on Indian exports**.
- **Rupee may weaken** due to tariffs and dollar strength.
- RBI Governor **Sanjay Malhotra** hinted at a pause by shifting stance from "**accommodative**" to "**neutral**" in June.

- This means RBI is being cautious and not in a hurry to cut further.
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Expert Opinions Supporting Pause:

- **CARE Ratings** economists: Rate cuts have already been frontloaded. No need for more unless growth slows sharply.
 - **Barclays**: RBI might give a "**dovish pause**" – pause now but remain open to cuts later.
 - **Transmission delay**: Past cuts haven't fully impacted the economy yet.
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Reasons for a final cut now (Opposing View):

- **SBI's Chief Economic Adviser**: Believes RBI should cut another **25 basis points** in August.
 - His logic: The world is moving fast – everything is being frontloaded (tariffs, festivals, GDP expectations).
 - A rate cut before the festival season could **boost credit demand**.
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Outlook on Inflation & Growth:

- **FY26 inflation forecast (CPI)** may be **revised down from 3.7%**.
 - **Growth forecast** likely to stay at **6.5%**.
 - ICRA's Chief Economist agrees a final **25 bps cut** is likely due to:
 - Low CPI
 - US tariffs dampening growth
 - Rupee volatility
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What's Likely to Happen?

- Most expect the RBI to **pause** now but keep a **dovish tone** (i.e., may cut later if needed).
 - A **final rate cut of 25 bps** may come in **October**, bringing the repo rate to **5.25%**.
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Summary (in 1 line):

RBI faces a tough decision – pause to observe the impact of previous rate cuts, or go for one final cut to boost growth amid global uncertainty and low inflation.

Let me know if you want a short version for slides, a chart showing repo rate cuts, or anything visual.