

## RBI Faces Tough Balancing Act: Pause Now, Cut Later?



As the Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) begins its three-day deliberations, a new analysis from financial services firm Nuvama suggests the central bank is facing a complex balancing act. While most analysts anticipate a pause on interest rate cuts in this meeting, Nuvama believes that slowing economic growth and a favorable inflation outlook could set the stage for further rate reductions in the future.

The MPC, led by RBI Governor Sanjay Malhotra, has already lowered the repo rate by a cumulative 100 basis points in three tranches since February 2025. Following a significant 50-basis-point cut in June, the committee also shifted its policy stance from "accommodative" to "neutral." This change in language signaled a move to a "wait and watch" approach, allowing the central bank to assess the impact of its previous actions before committing to further easing. The decision of the August meeting is scheduled to be announced on Wednesday.

Nuvama's report, cited by The Financial Express, argues that while a pause is likely for now, the case for future rate cuts is "compelling." The Indian economy shows signs of losing momentum, with key indicators like credit growth, corporate profits, and private capital expenditure showing moderation. At the same time, inflation remains comfortably within the RBI's target range of 2% to 6%, with June's CPI inflation hitting a six-year low of 2.1%. This combination of soft inflation and slowing growth puts pressure on the RBI to provide support to the economy.

According to Nuvama, the onus is on the central bank to stimulate demand, as other economic policies, particularly fiscal measures, are constrained by consolidation goals. While a rate cut

would be a direct way to encourage borrowing and spending, the central bank may choose to wait for clearer trends to emerge and for the full effects of past cuts to take hold. The decision is also complicated by external factors, including new tariffs imposed by the US and uncertainty over global trade, which could pose a downside risk to India's growth and add volatility to the currency. The MPC's final decision will be a careful judgment on whether to wait for more data or act now to stimulate a slowing economy.