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MS.PRITI GOEL

**FOUNDER & CEO OF PRISHA WEALTH
MANAGEMENT PRIVATE LIMITED
PARTNER & CEO OF AVINAV CONSULTING
AUTHOR – DHANAISHA, CHERISHED WEALTH**

A TALE OF TWO FEDS: DIVERGING PATHS OF THE U.S. FEDERAL RESERVE (FED) AND RESERVE BANK OF INDIA (RBI) AND THE RIPPLE EFFECT ACROSS BRICS NATIONS.

In its meeting on 29 October 2025, the Fed's Federal Open Market Committee (FOMC) cut the federal funds target range by 25 basis points to 3.75%–4.00%.

In its official statement, the Fed indicated that this decision was driven by an increased assessment of downside risks to employment. The Committee reaffirmed its commitment to returning inflation to the 2 % objective and achieving maximum employment but added that uncertainty remains elevated.

Several key take-aways:

- This is the second cut in 2025 (after an earlier 25 bp reduction in September)
- The Fed emphasised caution: although the move signals easing, it did not commit to rapid or large-scale future cuts. Some officials highlighted inflation remains a constraint
- The context: a US economy showing signs of labour softening, concerns about data availability (amid a government shutdown), and inflation still above target

Implications for the U.S. economy and markets:

- Borrowing costs for consumers and businesses are poised to moderately ease, although the transmission to mortgage rates, etc., remains gradual
- From a global perspective, the Fed's pivot to easing alleviates some pressure on the U.S. dollar and global yields, which could benefit asset-prices and capital flows in risk-sensitive markets.
- But the Fed's cautious tone limits expectations of a broad easing spree; markets will be watching for data and signals.

The RBI: Holding steady amid domestic strength

In contrast, the RBI in its review on 1 October 2025 opted to keep the repo rate unchanged at 5.50%.

Key features of that decision:

- The Monetary Policy Committee (MPC) adopted a neutral stance rather than a further easing bias.
- The RBI revised downward its inflation forecast for FY26 to 2.6% (from ~3.1%) and raised the GDP growth outlook to 6.8%.

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- RBI commentary emphasised that with inflation well-behaved (at ~2–3%), growth momentum strong (private consumption, investment), it has the “room” to hold rates and allow earlier cuts to be fully transmitted.

Implications for India:

- With rates held, banks may continue to pass through earlier cuts (India has cut ~100 bp earlier in 2025).
- The stronger growth projection points to confidence in domestic demand and stability of the external sector (the current account deficit is low).
- From a global capital-flow viewpoint, keeping rates unchanged while global rates ease may attract carry flows into India (so long as inflation and currency risks remain contained).

“A tale of two central banks”: cross-comparison

While both central banks are managing inflation and growth, their policy stances diverge for the moment.

- The Fed is cutting rates (modestly) to pre-empt downside risks; the RBI is holding rates steady, confident in growth and inflation.
- For global markets, this means differing signals: the US is nudging towards accommodation; India is signalling stability and room for future easing but not urgency now.
- From India’s perspective (and more broadly emerging markets), the Fed’s rate cut opens potential benefits (weaker dollar, lower US yields, improved access to capital) but also raises questions about timing and inflation risk.

Impact on BRICS and emerging-market bloc dynamics

The ripple effects of the Fed’s and RBI’s policy actions extend beyond the U.S. and India to other BRICS economies and emerging markets more broadly.

Capital flows & currencies:

With the Fed easing, U.S. yields soften, and the U.S. dollar may weaken, which historically supports emerging market (EM) assets and currencies. Many BRICS countries (Brazil, Russia, South Africa, besides India) may benefit from improved external financing conditions if capital flows resume.

Conversely, the RBI’s stable policy may help India attract yields relative to global peers though the attractiveness depends also on currency stability and inflation outlook.

Commodity & external-sector linkages:

Several BRICS countries are commodity exporters (Brazil, Russia, South Africa). A weaker dollar tends to support commodity prices, which can bolster commodity-dependent economies. Moreover, easing in the U.S. may raise global demand for commodities, supporting these exporters.

At the same time, risk exists that if global growth slows (which prompted the Fed’s cut), then commodity demand could soften posing a risk for these economies.

Monetary policy space and trade-off management:

Emerging central banks often respond to U.S. policy shifts. A Fed cut gives more space for EM central banks to ease or maintain accommodative stances without fear of runaway capital outflows.

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However, internal constraints remain - inflation, currency risk, and structural vulnerabilities can limit policy easing in some BRICS countries (e.g., Brazil or South Africa with higher inflation). The RBI's decision to hold suggests that domestic fundamentals matter even if global liquidity improves. Other BRICS banks may face the same trade-offs: balancing growth support against inflation and external risks.

De-dollarisation / structural shifts in BRICS:

The broader BRICS narrative, structural ambition around reducing dollar dependence, strengthening local-currency settlement, and building alternative payment architectures gains a subtle tailwind in a world of lower U.S. rates and a somewhat softer dollar. However, as noted by Brazil's central-bank director, the dollar's dominance remains entrenched and such structural shifts will take time.

Risks and caveats

- Timing ambiguity: While the Fed cut, its tone is cautious. Markets had been expecting more aggressive easing; if the Fed lags expectations, the dollar may strengthen again, which would reverse some benefits for EM/BRICS.
- Inflation & currency risks in BRICS: Some BRICS economies face inflationary pressures and volatile currencies. A weaker dollar helps, but not if local inflation takes off or external shock arrives.
- Growth concerns: The Fed's cut signals some concern about U.S. growth; if global growth weakens more broadly, BRICS commodity exporters may suffer demand collapse.

Policy divergence inside BRICS: India is holding while other BRICS may have to adjust differently; this could lead to divergence of capital flows and relative performance.

What this means for India & BRICS investors/planners

- For India (and your interest in wealth management, legacy building, etc): The combination of global easing and India's stable policy offers opportunity more benign global funding conditions plus a domestically confident RBI.
- In our context of holistic wealth creation (consistent with my book Dhanaisha: Cherished Wealth), this is a good moment to emphasise diversification: exposure to emerging market growth (India, other BRICS) could be enhanced by the global pivot in policy.
- Paying attention to currency and inflation risk will be critical even if global conditions improve, domestic fundamentals matter.
- For other BRICS countries: one could monitor how capital flows react, whether commodity prices receive a tailwind, and whether policy space opens for easing or growth support.
- From a strategic investor stance: the backdrop suggests the potential for EM/BRICS assets to benefit, as long as the dollar softens and global liquidity remains supportive but with caution.

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Conclusion

The October 2025 policy moves illustrate a subtle yet important divergence: the Fed is modestly unlocking easing, signalling caution; the RBI is standing pat, signalling confidence and optionality. For the BRICS and emerging markets at large, the Fed's cut offers a favourable backdrop weaker dollar, lower global yields, more policy space but the real benefits will depend on each economy's domestic fundamentals: inflation control, currency stability, and growth momentum.

In short, the story is not one of synchronised global easing, but of nuanced regional responses. For India, this environment underscores both opportunity (global tailwinds) and responsibility (domestic discipline). For the BRICS bloc, the window is open yet not guaranteed to harness these shifts. As we build narratives around wealth, stewardship, and legacy, the interplay of central-bank actions across geographies will increasingly shape our frameworks.

Disclosures:

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