

# Inflation at 99-month low: Case for multiple repo rate cuts strengthens

ANJALI KUMARI

Mumbai, 14 October

India's retail-inflation rate in September eased to a 99-month low, sharply below the Reserve Bank of India's (RBI's) target band, strengthening the case for monetary easing in the coming quarters.

Economists have said this has opened up possibilities for several rate cuts, with the terminal policy rate expected to settle around 5 per cent by the end of next year.

"The September rate expectedly softened further to 1.54 per cent year-on-year (Y-o-Y) on deflation in food prices. The core CPI inflation rate inched up as housing inflation rose. Retail prices month-to-date indicate that the October retail rate is set to fall to a series low of 0.5 per cent, cementing the case for a 25 basis-point cut in December," said Aastha Gudwani, chief economist, Barclays.

Economists at UBS Securities echoed the view. Tanvee Gupta Jain, chief India economist, said in a report: "We continue to expect further 25-50bps repo rate cuts in the rest of FY26. We expect the headline CPI to average 2.4 per cent Y-o-Y in FY26, marginally below the RBI's revised forecast of

## Experts' take

- **UBS Securities:** Expects further 25-50 bps repo rate cuts in the rest of FY26
- **SBI:** Expects average CPI inflation for FY26 to be now at 2.2%
- **IDFC First Bank:** Policy rates will ease by 25 bps to maximum 50 bps cut
- **DBS:** Government's fiscal measures and strong supply response in agriculture create a rare alignment of policy levers conducive to both low inflation and stable growth

2.6 per cent."

UBS noted that a combination of softening food prices, low energy prices, and the cuts in goods and services tax (GST) in late September will help keep inflation benign this year.

"Headline inflation could be lower by around 1 per cent on full pass-through of the GST cut," the report added.

The RBI's Monetary Policy Committee kept the repo rate unchanged at 5.50 per cent in its August and October policy meetings, striking a dovish tone, hinting that inflation risks were ebbing faster than anticipated.

Between February and June, the policy rate was cut by 100 basis points.

Economists say the central bank's next move will hinge on growth data and external trade developments.

"To the central bank at this juncture, growth and pipeline headwinds are likely to matter more than the price outlook, with the dovish commentary in October leaving the door open for a rate cut by the end of 2025," said Radhika Rao, executive director and senior economist, DBS Bank.

The consumer price index (CPI) dropped to 1.54 per cent Y-o-Y in September, the lowest since late 2017, led by a sharp decline in food prices and a favourable base effect.

Moderation was broadbased



across perishables, pulses, and edible oils, with energy prices also staying subdued.

"The RBI, with its primary mandate of inflation targeting, runs the risk of missing the bull's eye if it remains fixated on market cacophony even when deceleration in inflation has been way too evident," said Soumya Kanti Ghosh, group chief economic adviser, State Bank of India (SBI). "It would be better to err on the rate cut front (Type I error) than to err on the side of caution, languishing far behind the curve as markets seem to be quite uncertain about reading the Mint Street's mind," he said.

SBI expects the average retail-inflation rate for FY26 to be now 2.2 per cent, much lower than the RBI forecast of 2.6 per cent.

Rao pointed out the average second-quarter inflation rate came in slightly below the central bank's revised trajectory, and the indirect tax cuts announced in September would likely have a more material impact on October's inflation print.

The government's fiscal measures, including reductions in GST rates and income-tax cuts, are expected to ease price pressures

while supporting demand recovery.

Analysts say these steps, combined with a stronger supply response in agriculture, have created a rare alignment of policy levers conducive to both low inflation and stable growth.

Despite a growing consensus on the direction of rates, some economists said the space for further easing could be limited as real interest rates are already near neutral levels.

"The ultra-low headline inflation rate indicates there is space for rate cuts, albeit limited. Based on the RBI's Q4 FY27 inflation estimate of 3.9 per cent, the forward real rate is already 1.6 per cent. The real-rate analysis suggests that current monetary-policy settings are not a drag on growth. Moreover, the space to ease policy rates further is limited to another 25-50 basis point cut. The terminal repo rate is seen at 5 per cent to 5.25 per cent," said Gaura Sen Gupta, chief economist, IDFC First Bank.

She said the RBI holding rates in October reflected caution amid trade uncertainties and potential tariff-related pressures.

"The need for a rate cut will open up once downside risks to growth materialise."