Inflation may align with target in FY26: RBI dy guv

Patra says climate, tech risks seen as a threat to inflation-targeting

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The domestic headline retail inflation is expected to align with the 4 per cent target on a durable basis in FY26, Reserve Bank of India (RBI) Deputy Governor Michael Debabrata Patra has said while speaking at a high-level conference on "Central Banking at Crossroads" on Monday. The speech was published on the RBI website on Tuesday.

"In July and August 2024, inflation has fallen below the target. It is projected to average 4.5 per cent in 2024-25 before aligning with the target on a durable basis in 2025-26," he said. The central bank has been highlighting the importance of the last-mile disinflation process, which has been slow.

The RBI has projected inflation at 4.5 per cent for the current financial year (FY25), based on the assumption of a normal monsoon and stable supply conditions. However, the retail inflation surged to a nine-month high of 5.49 per cent in September, driven by rising food prices and unfavourable base.

In the monetary policy review earlier this month, the six-member Monetary Policy Committee (MPC) changed the stance to neutral from withdrawal of accommodation while keeping the policy rate unchanged. A section of market participants believe the committee may start the rate-cut cycle from December.

After raising the policy repo rate by 250 bps between May 2022 and February 2024, the RBI has been maintaining the status quo since then.

Commenting on transmission of monetary policy in a digital age, the deputy governor said digitalisation can improve access to financial services and enhance financial inclusion, thereby improving the transmission of interest rate-based monetary policy. At the same time, he cautioned that transmission could be dampened if digitalisation leads to shifting of credit supply from banks to less-regulated/unregulated nonbanks or to offsetting reductions in bank deposits.

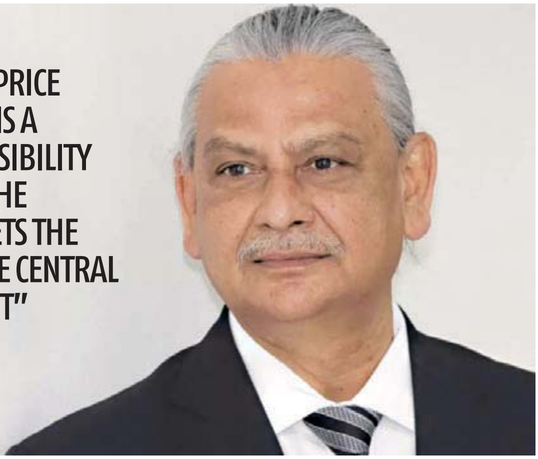
Patra also said that India's experience on inflation-targeting is distinctive due to the recurring shocks to food and fuel prices, which have posed challenges for monetary policy. In India, price stability is a shared responsibility, with the government setting the inflation target and the central bank working to achieve it.

He said that the inflation-target framework enables effective coordination between monetary and fiscal policies without compromising on financial stability, fiscal consolidation, or growth — potentially serving as a model for other countries vulnerable to inflationary pressures from supply shocks.

"The Indian experience is unique in view of the incidence of repetitive shocks to food and fuel prices, which challenged the conduct of monetary policy. In India, price stability is a shared responsibility under which the government sets the target, and the central bank achieves it. This allows monetary-fiscal coordination without posing risks to financial stability, fiscal consolidation or growth — perhaps a template for countries vulnerable to inflationary pressures emanating from supply shocks," he said.

Patra highlighted that in the coming years, central banks will face significant challenges in conducting inflation-targeting monetary policy due to climate change.

He said that climate-related supply shocks, such as food and energy shortages, as well as a decline in productive capacity, can lead to inflation volatility.



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>
> **MICHAEL D PATRA**
> Deputy Governor, RBI

RBI looking to establish a global model of risk-focused supervision: Swaminathan J

The Reserve Bank of India (RBI) is looking to engage more with the central banks of the global south, and aims to establish a global model of risk-focused supervision, said Swaminathan J, deputy governor, RBI on Tuesday. "The RBI aims to establish a global model of risk-focused supervision by fostering a strong risk discovery and compliance culture, building a "through-the-cycle" risk assessment framework. RBI is working to create a comprehensive data analytics ecosystem to support its supervisory functions," said Swaminathan speaking at the at the RBI@90 High Level Conference. He highlighted that historically, crises have acted as catalysts for bringing supervisors together to address shared challenges. **BS REPORTER**