

# Benign inflation outlook calls for lower real interest rates: RBI Guv

**MPC minutes:** Data suggests some slack persists in economy, said Deputy Guv Gupta

**ANJALI KUMARI & SUBRATA PANDA**  
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A benign outlook for both the headline and core inflation rates makes a case for real interest rates to be lower, said Reserve Bank of India (RBI) Governor Sanjay Malhotra, explaining his vote for a 25 basis-point cut in the repo rate in the December Monetary Policy Committee (MPC) meeting, as the cut will likely stimulate demand and be support growth, the minutes of the meeting, released on Friday, showed.

Additionally, Malhotra said real growth in gross domestic product (GDP) was poised to exceed 7 per cent this financial year (FY26), much above the earlier expectations of 6.5 per cent, because healthy domestic prospects outweighed concerns on the external front.

“Domestically, H1 witnessed strong growth, driven by several positive domestic factors viz., direct and indirect tax rationalisation, monetary easing, conducive financial conditions and benign inflation,” Malhotra said, adding that although domestic economic activities remained resilient in Q3, weakness in some leading high-frequency indicators suggested deceleration in growth momentum in H2 vis-à-vis H1. “Overall, real GDP growth is poised to exceed 7 per cent, much above our expectation of 6.5 per cent at the beginning of the year, as healthy domestic prospects outweigh the concerns on the external front. Going forward in H1 next year, domestic growth is projected to remain strong, though moderate to 6.7-6.8 per cent,” he said. Malhotra also said he was in favour of retaining the “neutral” stance because it gave the requisite flexibility to the MPC to remain data-dependent and act in accordance with the evolving macroeconomic conditions and outlook.

Against the backdrop of subdued inflation and steady growth, the members of the MPC said policy conditions allowed room



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Sanjay Malhotra  
Governor, RBI

to support the economy. The panel, therefore, unanimously lowered the repo rate by 25 basis points to 5.25 per cent and maintained a “neutral” stance, although external member Ram Singh argued for changing the stance to “accommodative”.

Singh said that the inflation data made a strong case for an additional rate cut and underscored its urgency.

“A delay in the rate cut would hurt real GDP growth by keeping real interest rates unnecessarily above growth-supportive levels. The delay will extend the low-inflation phase, which has important implications both micro and macro including a less-than-expected nominal GDP growth,” Singh said.

He further said the subdued price momentum in both headline and core consumer price indices, along with the need to support growth, warranted a shift in the policy stance to “accommodative”.

According to the minutes, the rate-setting panel observed that the inflation rate



**“MOST NOMINAL INDICATORS OF THE ECONOMY ARE PREVAILING AT LEVELS THAT INDICATE THAT THE ECONOMY AT THIS POINT IS NOT SHOWING SIGNS OF OVERHEATING”**

Poonam Gupta  
Deputy Governor, RBI

had eased more than expected, led by unusually soft food prices, and was now likely to remain below earlier estimates.

The core inflation rate, after firming up over the past year, showed early signs of cooling in the latest quarter and was expected to stay well contained. Both the headline and core inflation rates are projected to align close to the 4 per cent target in the first half of 2026-27, with underlying price pressures even milder after adjusting for higher precious metal prices.

Poonam Gupta, deputy governor, who too voted for a 25 basis-point cut, said that the cumulative 125 basis-point rate cut during the current cycle did not pose a threat of overheating. She said not only the headline and core inflation rates but also most other nominal indicators remained at levels that showed no signs of overheating. Instead, the data suggests that some slack still persists in the economy.

“One may ask whether the current rate

## RBI board okays risk-based deposit insurance for banks

The Central Board of Directors of Reserve Bank of India (RBI) approved the risk-based deposit insurance framework for banks at the 620th meeting of the central board of directors of the RBI held in Hyderabad. The Board also reviewed the activities of select central office departments and the draft report on Trend and Progress of Banking in India, 2024-25. “The Board discussed the global and domestic economic situation and associated challenges. It approved the risk-based deposit insurance framework for banks. The Board also reviewed the activities of select Central Office Departments and the draft Report on Trend and Progress of Banking in India, 2024-25,” the RBI said in a statement. **BS REPORTER**

cut, resulting in a cumulative rate cut of 125 bps, could lead to overheating in the economy. However, not just headline and core inflation, but most other nominal indicators of the economy are prevailing at levels that indicate that the economy at this point is not showing any signs of overheating. Instead, one could interpret the data as indicating that there is slack in the economy,” she said.

Meanwhile, external member Nagesh Kumar said the inflation rate was too low, breaching the lower bound of the flexible inflation-targeting framework, particularly when the impact of precious metals such as gold was excluded.

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