

# 'Rate cuts possible when the real interest rate becomes excessive'

**JAYANTH VARMA**, external member, Reserve Bank of India's (RBI's) monetary policy committee (MPC), in an email interview with Manojit Saha, says cooling commodity prices auger well for inflation in the medium term. Edited excerpts

**System liquidity was in huge surplus but has turned into deficit following the incremental cash reserve ratio (I-CRR) norms. Is it prudent to maintain tight liquidity during the festival season as it could hurt growth?**

Liquidity management does not lie within the purview of the MPC as it is merely a part of the operational toolkit for implementing the monetary policy. I would not like to comment on this.

**Do you think oil companies should start reducing pump prices of petrol and diesel as these could quicken the process of headline inflation**

**aligning with the target?**

The timing and quantum of pump price adjustments are broader policy decisions, and I would not want to comment on this

as an MPC member. I would only point out that commodity prices have cooled off from the immediate aftermath of the Ukraine war and this augurs well for inflation in the medium term.

**Though core inflation moderated, it remained elevated at 4.9 per cent in July. Is that a concern in terms of impacting headline inflation?**

The tightening, which has been effective since May last year, is still working its way through the system. And, this is expected to maintain

downward pressure on core inflation over the next few quarters. Declining core inflation will also feed into a reduction in headline inflation over time.

**RBI has projected the retail inflation rate at 5.2 per cent for Q1 of FY25, the same level as Q4 of FY24. Does that mean policy repo rate will stay at least at the current level for another year?**

Rate cuts will be possible when the real interest rate on the basis of projected inflation 3-4 quarters ahead becomes excessive. Inflation falling into the tolerance band is not by itself sufficient for this.



**JAYANTH VARMA**

External member, MPC



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