

# Growth over Inflation: RBI's Policy Shift

The Reserve Bank of India (RBI) has signaled a shift in its immediate priorities by cutting interest rates for the first time in nearly five years. This decision reflects a move towards prioritising economic expansion over strict inflation control, amidst global economic uncertainties and fluctuating domestic growth projections.



by OJAANK IAS



# MPC's Pivotal Decision

## Rate Cut

**The Monetary Policy Committee (MPC) unanimously decided to cut the benchmark repo rate from 6.50% to 6.25%, marking a significant departure from previous policies.**

## Inflation Concerns

**Despite inflation moderating to 5.2% in December, still above the RBI's 4% target, the central bank is focusing on economic expansion.**



# Global Economic Challenges

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## Global Uncertainties

RBI Governor Sanjay Malhotra highlighted challenges from global economic uncertainties, including stalled disinflation and diminishing prospects of rate cuts in the U.S.

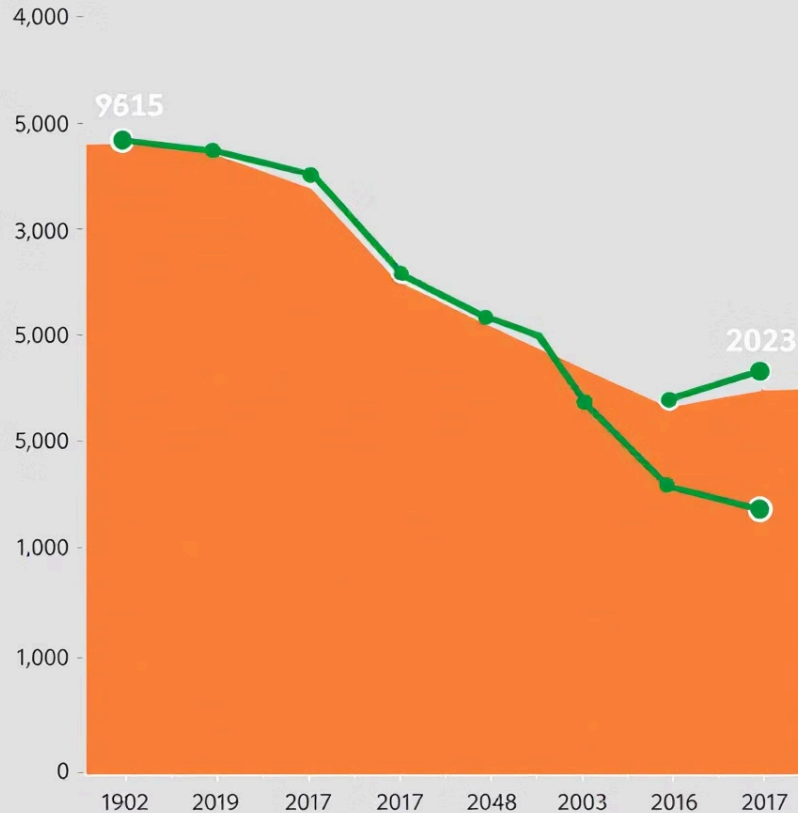
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## Stronger Dollar

A stronger dollar is pressuring emerging markets and their currencies, including the rupee, complicating policy trade-offs for India.

# Projected inflation rates decrease

Every year to decrease



# Justification for Prioritising Growth

## Inflation Outlook

The MPC expects price pressures to ease further, projecting inflation to average 4.2% in 2025-26 from 4.8% this year.

## Key Assumptions

This outlook hinges on a favorable food inflation trajectory, a normal monsoon, and a bumper harvest of key vegetables.

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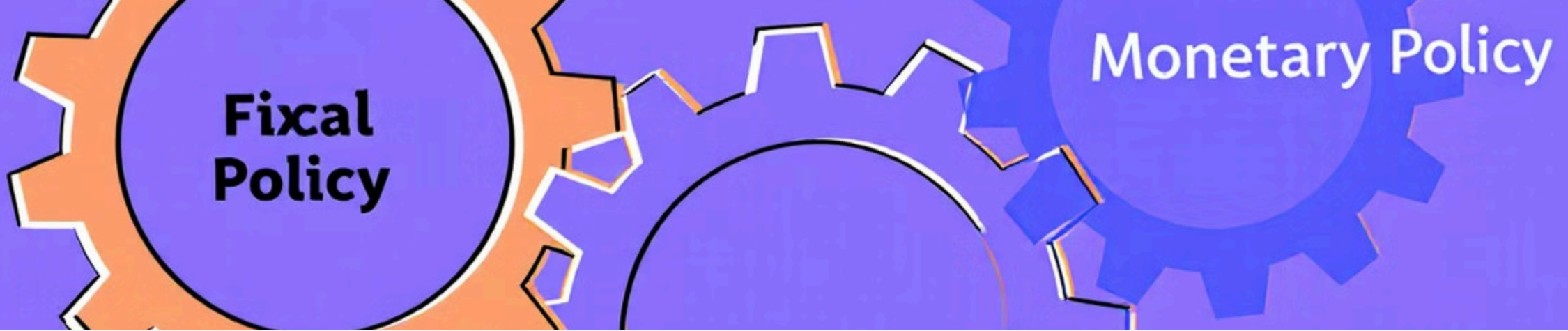
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## Alignment with Fiscal Policy



### Cooperation

The RBI's policy stance suggests closer alignment with fiscal policy, heeding the government's call for monetary and fiscal measures to work in tandem.



### Revival

The combined stimulus measures aim to revive consumption, attract private investment, and boost overall economic growth.

# Potential Benefits of Adjusted Review Schedule

A magnifying glass is positioned over a financial chart. The chart shows a blue line graph with a peak and a dip, and a red line graph below it. The number '1514' is prominently displayed in a white box. The year '2015' is also visible. The chart is set against a background of a grid and some text, including 'Friday Inier 1Dn' and 'Uar, To. 2416'.

**1**

## **Incorporate Latest Data**

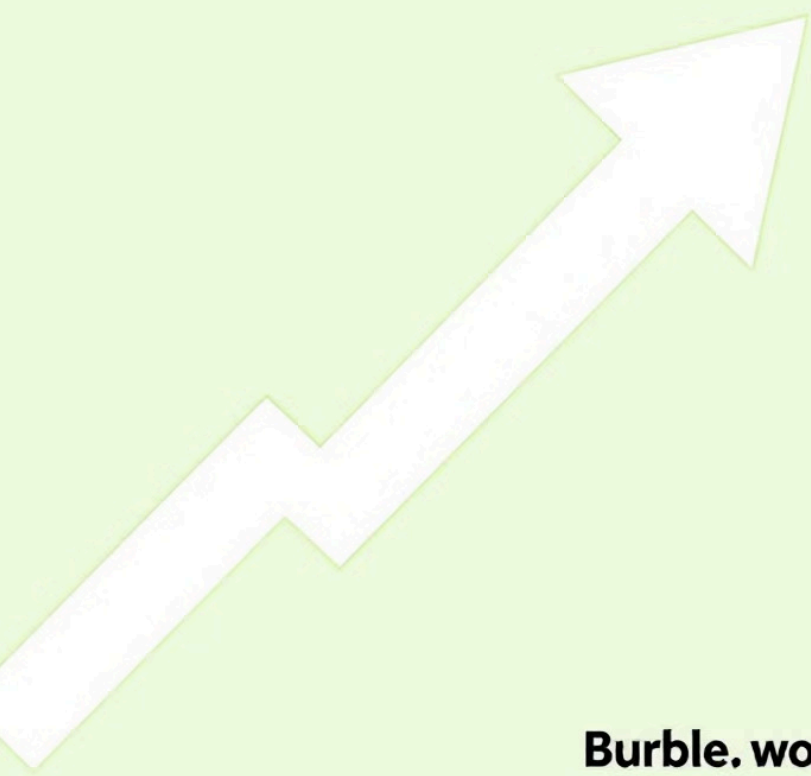
**Adjusting the MPC's review schedule to incorporate the latest inflation data could provide additional justification for policy decisions.**

**2**

## **Data-Driven Policy**

**A slight shift in timing could make monetary policy more responsive and data-driven, enhancing the committee's ability to justify its stance.**

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# Impact on Consumption and Investment

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## Consumption

The rate cut, combined with the Budget's stimulus measures, aims to revive consumer spending and boost demand.

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## Private Investment

Lower interest rates are expected to attract private investment, encouraging businesses to expand and create jobs.

3

## Economic Growth

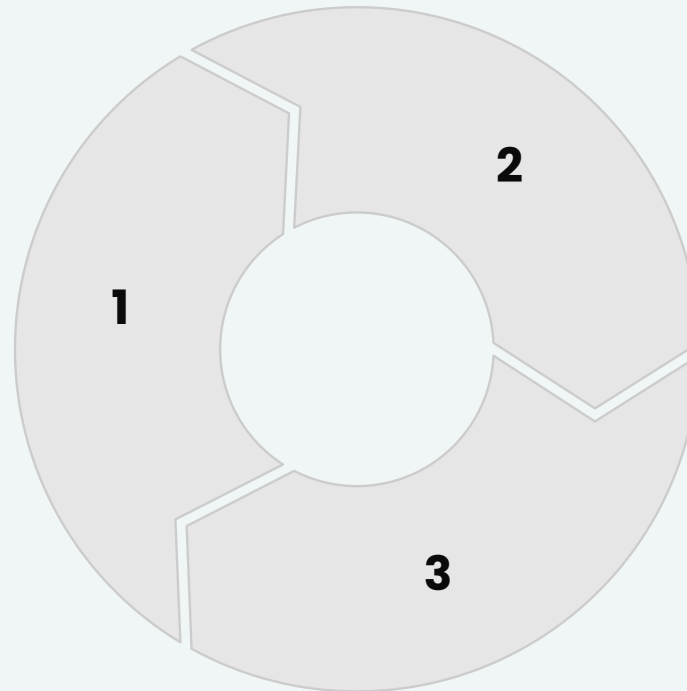
The combined effect of increased consumption and investment is projected to drive overall economic growth.



# Challenges and Uncertainties

## Global Factors

Global economic uncertainties continue to pose challenges to India's growth prospects.



## Inflation Risks

Inflation remains a concern, with potential for price spikes from key vegetables.

## Growth Recovery

The extent to which the rate cut will revive economic growth remains uncertain.

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# RBI's Data-Driven Approach

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**Real-Time Indicators**

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**Justification**

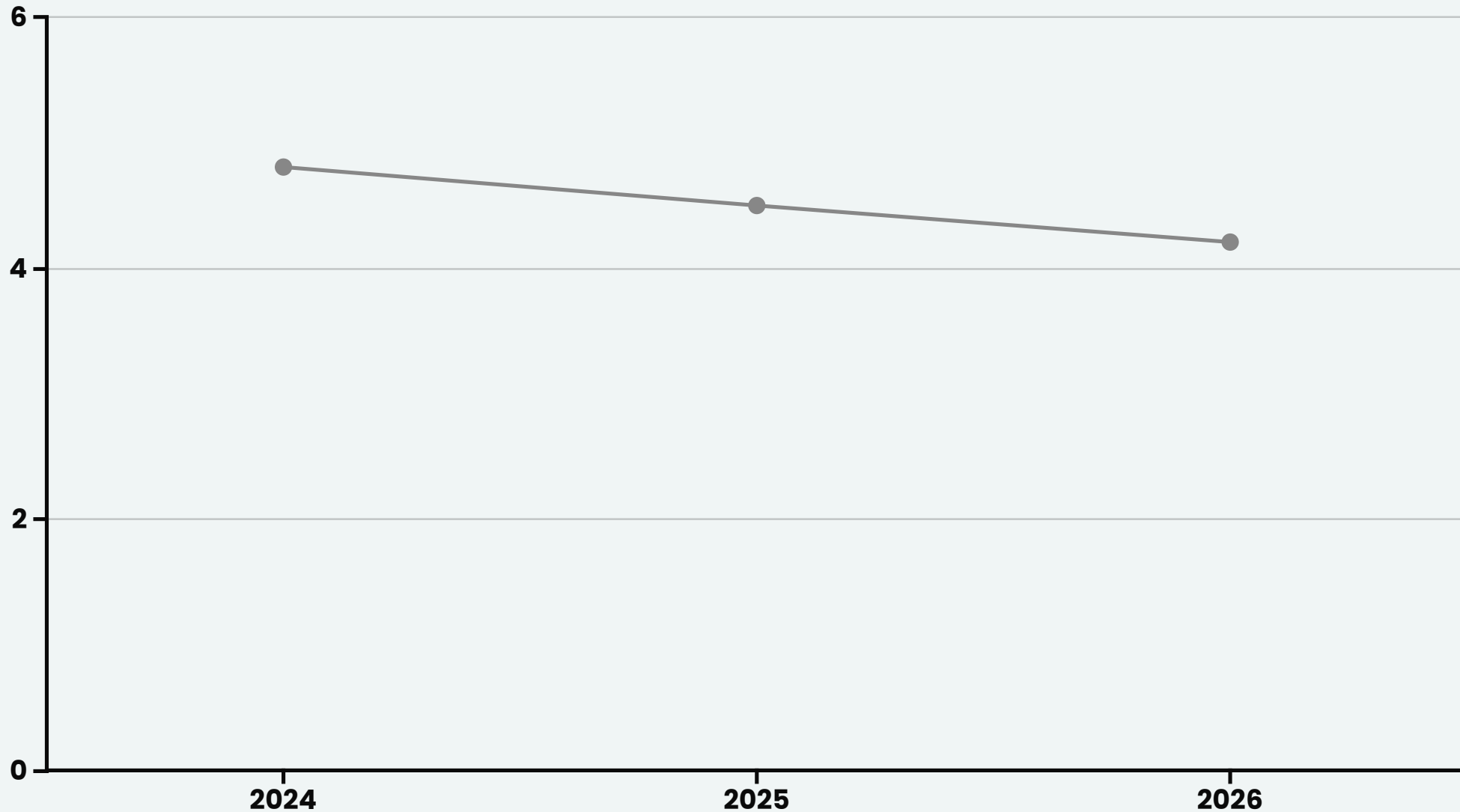
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**Responsiveness**

**A slight shift in the timing of its bi-monthly meetings could make monetary policy more responsive and data-driven, enhancing the committee's ability to justify its stance with real-time economic indicators.**

# Projected Inflation Rates



**The chart shows the projected inflation rates over the next three years. Inflation is expected to decrease from 4.8% in 2024 to 4.2% in 2026.**



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