

India cuts interest rate by more than expected

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India's central bank reduced its key interest rate by half a percentage point and cut the amount banks must hold in their reserves, hoping to boost lending and support the economy as concerns ease over inflation.

The Reserve Bank of India's rate cut yesterday was deeper than anticipated and lowered the benchmark repo rate to 5.5 per cent. Economists' consensus forecasts were for a 0.25 per cent cut.

The central bank has now reduced its benchmark rate by 1 per cent this year over three consecutive meetings. Governor Sanjay Malhotra said the central bank, which also reduced the cash reserve ratio for lenders by 100 basis points to 3 per cent, was "frontloading" rate cuts to drive economic growth.

The moves came as the RBI lowered its annual inflation forecast to 5.7 per cent from 6 per cent for the financial year to March 2026.

"As the global environment remains uncertain it becomes even more important to focus on domestic growth amidst sustained price stability," Malhotra said, noting that the RBI had also changed its stance from "accommodative" to "neutral".

He added: "Accordingly, today's monetary policy actions can be seen as a step towards propelling growth to a higher aspirational trajectory."

Central banks around the world are wrestling with the turmoil caused by US President Donald Trump's escalating tariff threats. The European Central Bank on Thursday signalled that it is nearing the end of its rate-cutting cycle in response to that uncertainty.

Trump plans to impose a 26 per cent tariff on imports from India if a trade deal is not ready by July.

Cooling inflation in India as food prices have softened has given the RBI more scope to bolster the economy. The consumer price index in April rose at its slowest rate in nearly six years, at 3.2 per cent year-on-year.

Even so, the dramatic rate "decision caught almost all Indian observers, including ourselves, off-guard", said Miguel Chasco, chief emerging Asia economist at Pantheon Macroeconomics, which now expects the RBI to take a "wait-and-see approach" at the next meeting in August before a further cut later in the year.