India's central bank confronts growth surge

Blistering GDP data raises doubts about rate cut amid questions over official data

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Sanjay Malhotra was parachuted into the governor's seat at the Reserve Bank of India a year ago when the world's most populous nation was grappling with weakening economic growth and inflation was above 6 per cent.

Now, GDP growth is surging and inflation is at a record low annual rate of close to zero — a performance that would seem to vindicate Malhotra's early decision to cut the central bank's benchmark interest rate for the first time in five years.

Yet the sheer pace of growth — official data last week showed real GDP up 8.2 per cent year on year in the quarter to September — has made some economists question previous assumptions that Malhotra will announce another rate cut today. India's retail inflation rate was just 0.25 per cent in October, suggesting there is room for further rate reductions.

But Pranjul Bhandari, HSBC chief India economist, said the recent data was "tough to navigate".

He added: "The Indian economy seems to have transitioned from hints of stagflation just a year ago, to a sweet spot now. Yet, a few details feel unsettling," and pointed to "a low base and deflator issues" that might have affected the latest GDP readings.

Bhandari said the rate decision would be "a close call", but projected the RBI would cut its benchmark repo rate by 0.25 percentage points to 5.25 per cent.

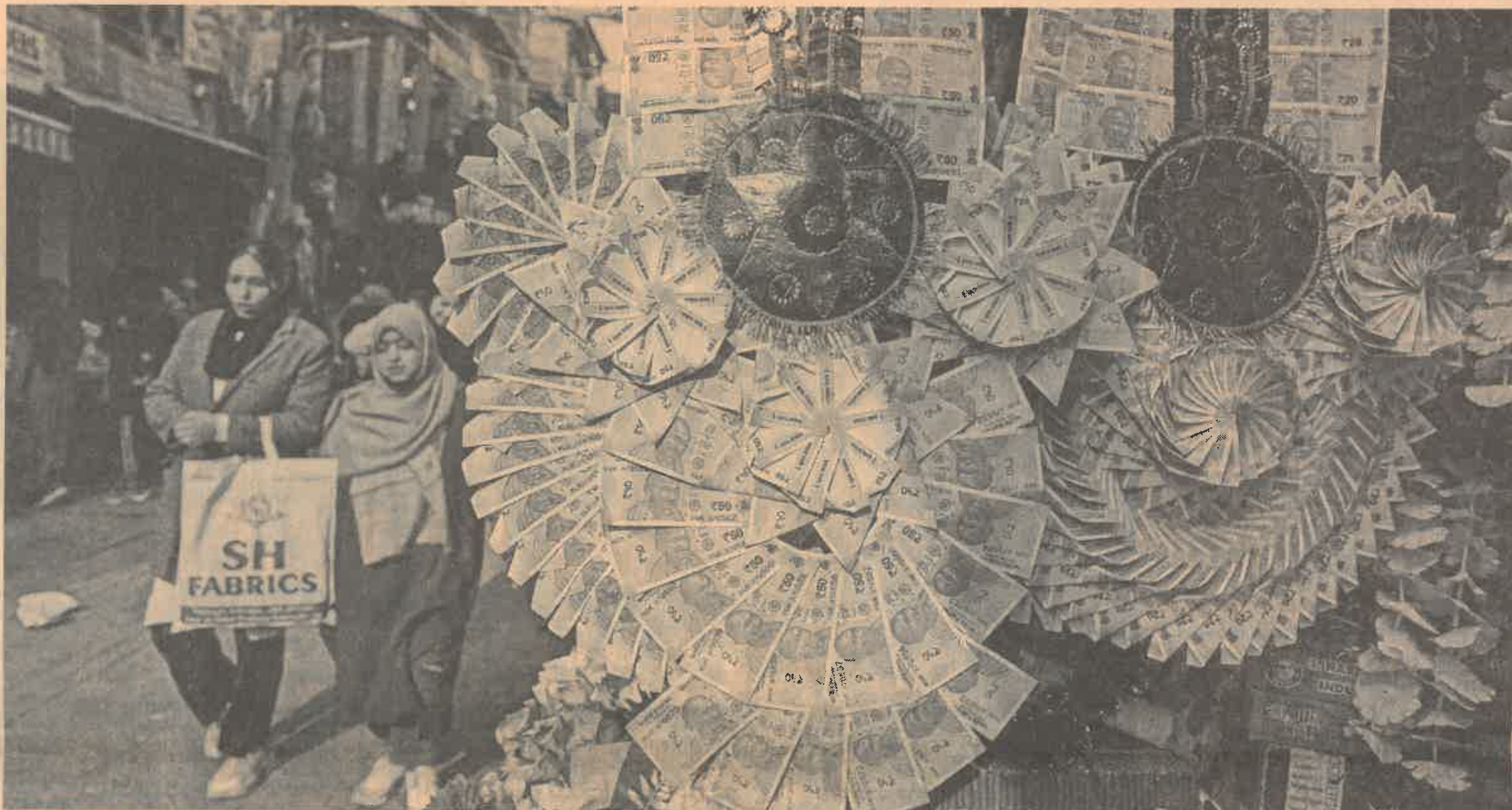
Nomura also forecast a 0.25 percentage point cut, but said the "staggering" growth rate would make for a "nail-biting" meeting. Barclays economists, by contrast, wrote that GDP expansion was now "too hot" for the RBI to cut.

The blistering economic growth is a matter of pride for Prime Minister Narendra Modi, who said the latest reading reflected "the impact of our pro-growth policies and reforms".

Modi has set a target for India to achieve developed nation status by 2047, the centenary of its independence, which would require average annual GDP growth of about 8 per cent over the next two decades, economists say.

Achieving such a rate was made more challenging in August, when US President Donald Trump launched a broadside against India's economy, levelling tariffs totalling 50 per cent on many exports in what he said was punishment for the country's purchases of Russian oil.

India is not a large-scale exporter, shielding it somewhat from Trump's tariffs, but analysts believe the US measures spurred Modi to accelerate a string of economic reforms, including a simplification of goods and services taxes and enactment of new labour codes.



Garlands made of Indian currency notes at a shop in Srinagar. The rupee fell past Rs90 per dollar to a record low on Wednesday
Tauseef Mustafa/AFP/Getty

> 'The Indian economy seems [in] a sweet spot. Yet, a few details feel unsettling'

A weaker rupee, which fell past Rs90 per dollar to a record low on Wednesday, has offset the impact of Trump's tariffs on exports. The RBI has taken a less interventionist approach to the currency under Malhotra, a former senior finance bureaucrat.

The IMF recently reclassified the RBI's management of the rupee as a more freely moving "crawl-like arrangement", in contrast to the previous approach where it "stabilised" the currency.

"Greater exchange rate flexibility would be helpful for absorbing external shocks," the multilateral lender said.

Shilan Shah at Capital Economics said "the generationally low rate of headline inflation should help to offset concerns over the weakening rupee".

The strength of the recent GDP growth — which was driven by expansion across manufacturing and services and appeared to confirm India's status as the world's fastest-growing major economy — reassured some economists.

"This underscores the resilience of the domestic economy," wrote Yuvika Singhal, an economist with QuantEco Research in New Delhi. But some experts have questioned whether the GDP data was an accurate gauge of the economy's health.

Miguel Chanco, chief emerging Asia economist at Pantheon Macroeconomics, called the GDP release "not worth the paper it's printed on", with almost half of headline growth coming from the "discrepancy" category amid a lack of clarity about some of the calculations underpinning growth.

Madhavi Arora, chief economist at Emkay Global Financial Services, said the GDP data included "a disproportionate blend of statistical anomalies.

"Beneath the supposed macro-Goldilocks, underlying growth remains uneven," Arora said. She suggested nominal GDP for the full fiscal year ending in March 2026 would be "sub 8 per cent".

The government's chief economic adviser V Anantha Nageswaran dismissed suggestions that the official statistics were flattering the economy's performance.

"The charge that the low deflator gives an exaggerated sense of real GDP growth does not hold water," he said, arguing that the Indian economy was on "a higher trend growth path".

India's GDP grew 8.2% in the July to September quarter ... ... while inflation was at low levels

The GDP deflator is reported quarterly, while CPI and WPI are published monthly
Sources: Ministry of Statistics and Programme Implementation; Wind