

RBI cuts rate to 5.25%, loans to be cheaper

■ Says inflation will fall to 2% ■ Won't intervene as rupee slides, to let markets decide

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MUMBAI, DEC. 5

The Reserve Bank of India's (RBI) rate-setting panel on Friday cut its policy repo rate by 25 basis points to 5.25 per cent, paving the way for banks to lower interest rates on home loans, car loans, personal and small business loans.

The repo rate is the rate at which the Central bank lends short-term money to commercial banks. A lower repo rate means banks can borrow funds at a lower cost from the Central bank and are

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expected to pass on the lower cost to the borrowers.

The rate-setting panel, the monetary policy committee (MPC), retained its neutral policy stance. With this cut, the MPC



Sanjay Malhotra

has delivered four lending rate cuts, cumulatively easing the repo rate by 125 basis points so far this year since February amid a sharp decline in consumer price-based inflation (CPI).

For a home loan of ₹50 lakhs, borrowers could now save around ₹1.80 lakhs over the 20-year tenure, improving affordability and boosting housing demand.

The RBI also announced measures to ensure sufficient liquidity in the banking system and stabilise the rupee. These include the open market purchase of government bonds worth ₹1-lakh crores and a \$5 billion dollar-rupee buy/sell swap for a three-year tenure in December designed to inject durable liquidity into the system and facilitate faster transmission of rate cuts.

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The Central bank revised both inflation and growth projections. It delivered a benign inflation outlook, driven primarily by exceptionally subdued food prices and

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