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Implications of a Repo Rate Cut on Inflation Targets in the Indian Economy: An Empirical Assessment

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Abstract: This study examines the implications of the Reserve Bank of India (RBI)'s recent repo rate cut on the inflation-targeting framework of the Indian economy. The reduction of the repo rate is an indication of a significant change in policy, aimed at stimulating borrowing, consumption and economic growth. While such a measure can have a positive effect on economic activity, it may also pose the risk of inflation exceeding the RBI's target of 4% (±2%), as established by the Chakravarty Committee and institutionalized by the Urjit Patel Committee. To investigate the dynamics between these two vital macroeconomic parameters, the study employs ARIMA models for time series forecasting of both inflation and repo rates, as well as linear regression analysis to measure the association between these variables. The analysis seeks to examine the balance between economic growth and price stability, and is expected to provide evidence-based recommendations for monetary policy, contributing to ongoing discourse on managing inflation in India's changing economy.

Keywords: ARIMA, Finance, Inflation, Monetary Policy, RBI, Repo rate, Stability

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