

India's Economic Priority: Inflation or Growth?

An analytical review of India's macroeconomic policy dilemma in 2025-26.

By Anjani Kumar Mishra — April 2026 — Policy Analysis



01. Introduction

One of the RBI's biggest challenges is balancing inflation control with economic growth. In India, this tension has become particularly sharp over the past year.

INFLATION The rate at which prices rise over time. When inflation runs high, a hundred rupees buys less than it did a year ago, a reality that hits hardest for middle-class families and daily wage workers.

ECONOMIC GROWTH Measured through GDP, it shows how fast the economy is expanding, more output, more jobs, more income.

THE RBI'S DILEMMA The RBI's primary mandate is price stability, but it also has to support growth. When it raises the repo rate, borrowing becomes costlier, which cools inflation but can also slow investment and consumption.

In 2025-26, this tension has sharpened. India remains one of the world's fastest-growing economies, yet persistent food inflation and squeezed household budgets raise a question that most policy papers tend to gloss over:

Should the RBI prioritise bringing prices down, or should it ease up to keep the growth engine running?

02. India's Current Economic Picture

After a rapid tightening cycle that pushed the repo rate from 4% in early 2022 to 6.5% by early 2023, the RBI held rates steady for nearly two years. In February 2025, it delivered its first rate cut, reducing the repo rate to 6.25%, a cautious shift toward supporting growth.

India's GDP growth for FY26 is estimated at around 6.4%, a slight moderation from the 8.2% seen in FY25 but still among the strongest of any major economy. Headline CPI inflation averaged close to 4.9% in FY26, with food inflation, particularly vegetables, pulses, and edible oils, regularly spiking above 8-10% in monthly readings.

This food price volatility matters more in India than in most economies. For a large share of the population that spends 40-50% of household income on food, any sustained spike directly compresses disposable income and dampens consumer confidence. Add in slower Chinese demand, geopolitical trade disruptions, and a volatile rupee, and the picture gets more complicated.

03. Why Inflation Control Matters More

The case for prioritising inflation control is straightforward. Inflation acts like a silent tax, it erodes the purchasing power of wages without employers technically cutting salaries. A factory worker in Pune or a shopkeeper in Indore does not care about GDP numbers, what they notice is that the same grocery basket costs two hundred rupees more than it did six months ago.

03. Why Inflation Control Matters More (continued)

High and unpredictable inflation also damages **business confidence**. When companies cannot forecast input costs reliably, whether for raw materials, logistics, or labour, they delay expansion and hold back hiring. This indirectly chokes the very growth the RBI might be trying to protect by keeping rates low.

From a currency perspective, sustained inflation pressure weakens the rupee against the dollar, making imports more expensive, including oil, which India heavily depends on. This fuels a self-reinforcing cycle of rising costs. Foreign portfolio investors also become wary when real interest rates turn negative, which reduces the capital inflows India needs to fund its current account deficit.

For many Indian households, this is not an abstract concern. Rural wage growth has barely kept pace with food inflation, and MSMEs, which employ over 110 million people, operate on thin margins and struggle to pass on higher input costs. When inflation runs hot, these are the segments that feel it first and hardest.

04. Why Growth Cannot Be Ignored

That said, dismissing growth as secondary would be a mistake. India is a young country, with over 65% of its population under 35, and it needs to generate roughly **seven to eight million new jobs every year** just to absorb new entrants into the workforce. That requires investment, credit availability, and an environment where businesses want to expand.

Keeping rates high for too long has real costs. Higher EMIs reduce loan uptake for homes, vehicles, and equipment. Startups and small businesses, which have thinner margins and rely on affordable credit, feel the squeeze disproportionately. A prolonged restrictive environment risks turning a temporary growth slowdown into something more structural.

India also has a stated ambition of becoming a **\$5 trillion economy** by 2028-29. Meeting that target requires sustaining growth above 7%, which in turn demands monetary conditions that do not unnecessarily constrain private investment.

Key observation. The RBI's February 2025 rate cut to 6.25% was its first in nearly two years. It signalled a cautious shift from restriction toward supporting growth, while acknowledging that inflation, particularly food prices, remains a persistent challenge.

05. A Real-World Example: The EMI Effect

Consider a middle-class couple in Bengaluru who took a ₹40 lakh home loan in 2021 at 7% interest. By mid-2023, as the repo rate peaked, their floating rate had climbed to 9.5%, pushing their monthly EMI up by over ₹6,000. That is ₹72,000 less per year available for schooling, savings, or discretionary spending.

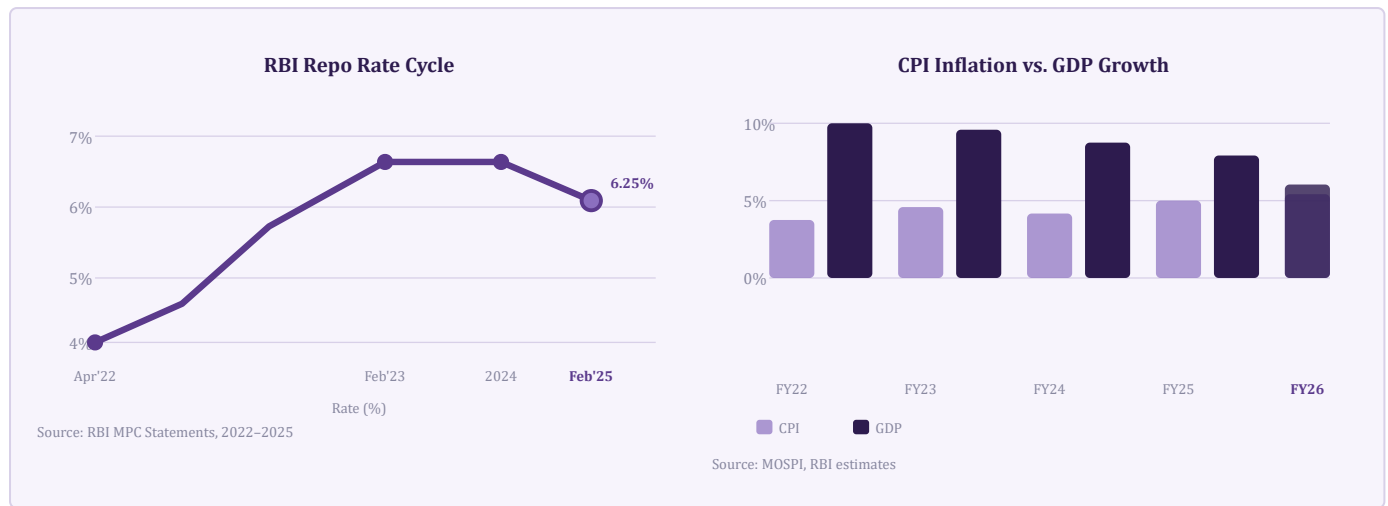


Chart 1 (left): RBI repo rate tightening cycle and first cut in February 2025. Chart 2 (right): CPI Inflation vs. GDP Growth FY22–FY26, showing the inverse pressure between the two. FY26 GDP bar shown as estimated.

05. A Real-World Example: The EMI Effect (continued)

Multiply this across millions of borrowers and the macro picture becomes clear, rate hikes do not just slow inflation, they also directly reduce consumption, which is the backbone of India's domestic demand-driven growth. This is why the RBI's February 2025 cut was interpreted as an acknowledgement that the balance had tipped too far toward restriction.

Small businesses felt it even more acutely. A restaurant owner in Chennai who needed a ₹5 lakh working capital loan at 12% interest in 2023 was paying nearly ₹5,000 per month just in interest, a burden that made expansion decisions near impossible.

Finally, with the general election cycle behind us and fiscal consolidation underway, this is arguably the right moment to ensure that inflation expectations stay anchored, before they become harder and more expensive to reverse.

06. Key Indicators to Watch in FY26

The macro picture for 2025–26 is defined by a few numbers that tell most of the story. Here is where things stand:

INDICATOR	VALUE	REMARK
GDP Growth (FY26E)	~6.4%	Moderation from 8.2% in FY25
CPI Inflation (FY26)	~4.9%	Above RBI's 4% target
Food Inflation	8–10%	Spikes in vegetables & pulses
Repo Rate	6.25%	Cut in Feb 2025, held since
Rural Wage Growth	Slow	Barely tracking food inflation

In practical terms, this means the RBI is operating in a narrow corridor. Inflation is above target but not runaway. Growth is solid but decelerating. The central bank does not have the luxury of a clear-cut decision either way.

One thing that often gets overlooked in these discussions is the rural economy. Even as urban consumption holds up reasonably well, rural demand has been sluggish. This matters because rural India accounts for a significant share of FMCG sales, two-wheeler demand, and agricultural credit. Without a meaningful pickup in rural incomes, the broader consumption story stays incomplete.

07. Conclusion

Having looked at both sides of this, my view is that **controlling inflation should remain India's slightly higher priority right now**, but only marginally so.

The RBI's February 2025 rate cut to 6.25% struck a sensible tone. It signalled a pivot without abandoning discipline. Inflation in India, particularly food inflation, is not yet fully under control, and allowing price expectations to drift upward would undo years of credibility the central bank has built.

At the same time, the RBI cannot afford to lose sight of growth. If inflation trends downward over the next two quarters, and global commodity prices stay stable, there is a reasonable case for another measured cut later in 2025. The goal should not be to pick sides between inflation and growth, but to **sequence policy smartly**, consolidate price stability first, then create the monetary space for growth to accelerate sustainably. Masaaki Shirakawa, Governor of the Bank of Japan once said:

Sustainable growth built on price stability lasts longer than growth borrowed on loose money.

India's long-term story remains compelling. Demographics, digital infrastructure, and a growing manufacturing base all point in the right direction. But the RBI appears to understand the sequencing challenge, and for an economy this size, that restraint is reassuring.

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