

MPC may hit pause again on repo rate

Most economists see FY24 inflation forecast likely being revised downward to 5% but no change in stance

MANOJIT SAHA
Mumbai, 4 June

The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) is expected to keep the policy repo rate unchanged during its monetary policy review this week, all the 10 participants of a Business Standard poll said. The RBI will announce the review of the policy on 8 June.

After raising the repo rate by 250 bps to 6.5 per cent between May 2022 and February 2023, the MPC decided to hit the pause button in the April review of the monetary policy. RBI Governor Shaktikanta Das emphasised that it was a pause and not a pivot, while retaining the possibility of further tightening.

The consumer price index-based inflation – the main yardstick for monetary policymaking – in April declined to an 18-month low of 4.7 per cent YoY (from 5.7 per cent YoY in March), well within the RBI's 2-6 per cent target band.

"The rate hike cycle has ended in India and inflation has peaked," said Dharmakirti Joshi, chief economist, Crisil.

The recent easing of inflation may

prompt the central bank to lower its inflation projection for the current financial year, from 5.2 per cent to 5 per cent, six of the 10 participants said.

"We expect a change in the CPI-based inflation forecast closer to 5 per cent, from the current 5.2 per cent average," said Rahul Bajoria, MD & head of EM Asia (ex-China) economics, Barclays.

Concerns about the monsoon may, however, prompt the central bank to keep the inflation forecast unchanged.

"ICRA expects the CPI inflation to ease further to 4.5-4.7 per cent in May-June 2023, with a Q1FY24 print of 4.7 per cent, well below the MPC's projection of 5.1 per cent for the quarter. While this would support a reduction in the MPC's inflation forecast for FY24, concerns about the monsoon may dissuade the Committee from the same," said Aditi Nayyar, chief economist, ICRA.

Growth, on the other hand, has surprised, with the January-March GDP growth print of 7.2 per cent. GDP growth for 2022-23 was 7.2 per cent -- better than expected.

The central bank projected GDP growth for FY24 at 6.5 per cent.

There could be an upward revision in the RBI's growth forecast, said

Soumya Kanti Ghosh, group chief economic adviser, State Bank of India.

SBI revised its FY24 GDP forecast after the Q4FY23 numbers.

"We are now factoring in a pick-up in growth momentum in FY24. We are upgrading our baseline forecast from 6.2 per cent to 6.7 per cent. Continuing on the path of strong activity in FY23, we project real GDP growth for FY24 at 6.7 per cent with Q1 at 7.8 per cent, Q2 at 6.5 per cent, Q3 at 6.3 per cent and Q4 at 6.2 per cent, amid broadly balanced risks," Ghosh said in a report.

So far, as the stance of the monetary policy is concerned, all the participants said the RBI would continue with the withdrawal of accommodation stance.

"Stance is likely to be a close call but in our base case we expect it to be retained as withdrawal of accommodation," said Gaura Sen Gupta, India economist, IDFC FIRST Bank. "A change in stance to neutral may give the wrong signal that focus has shifted away from containing inflation." According to her, the second reason for keeping the stance unchanged is that liquidity conditions have improved towards the end of May 2023, with system liquidity averaging at ₹1.5 trillion (May 28 to June 1).



EXPERT OPINION

	Do you expect a hike in the repo rate?	Do you expect a change in stance from withdrawal of accommodation to neutral?	Do you expect a change in the inflation forecast?	Do you expect a change in growth forecast?
1 SBI	No	No	Downward	Upward
2 BoB	No	No	Downward (0.1-0.2%)	No
3 PNB	No	No	No	Upward (20 bps)
4 StanC	No	No	No	No
5 Bandhan Bank	No	No	No	No
6 Barclays	No	No	Downward (closer to 5%)	No
7 IDFCFirst Bank	No	No	Downward	No
8 ICRA	No	No	No	No
9 Crisil	No	No	Downward (20 bps)	No
10 Emkay Global	No	No	Downward	No