

Only a competition-friendly economy will thrive: FinMin

‘Don’t take growth for granted amid global shocks’

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India cannot afford to take its growth performance for granted amid worsening geopolitical polarisation and needs to take sustained, high-quality and reasonably swift decisions to reassure investors, while making the economy more “competition-friendly” rather than merely “business-friendly”, the Ministry of Finance said in its latest Monthly Economic Review on Thursday.

Flagging the risk of cross-border capital flows slowing down amid high global

interest rates, the review authored by officials in the Department of Economic Affairs stressed that sustained high quality, consistent and reasonably swift decision-making will reassure investors. “More importantly, India must work on ensuring that the economy is more competition-friendly rather than business-friendly,” the officials noted.

“Only a competitive economy will become a successful, innovative, and manufacturing economy. Improved governance and enhanced state capacity hold the key to a competitive Indian economy,” they added. Turn to Page 6 ►

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New project proposals decline in Q2

New private sector project announcements fell 2 per cent year-on-year and 49 per cent sequentially to ₹8.8 trillion in the July-September quarter. SACHIN P MAMPATTA reports

■ Net GST revenue up 18% to ₹1.7 trn in Sep

charge in October 2020, succeeding Aditya Puri, and was reappointed in 2023.

In a report on Thursday, Yes Securities praised Bagchi for his skills in stakeholder relations, including the governmental and regulatory ecosystem. "We see this as positive

for HDFC Bank," Yes Securities in the note.

HDFC Bank, along with State Bank of India and ICICI Bank, is classified as a domestic systemically important bank by the RBI and is subject to additional capital requirements.

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The warning comes at a time when foreign investors have turned cautious on Indian equities, with foreign portfolio investors (FPIs) pulling out funds amid rising global bond yields, tariff pressures, and the absence of a domestic artificial intelligence (AI) play.

The ministry officials hoped that, over time, investors will come to appreciate the resilience and the sustenance of high growth in India in the post-Covid years. "As some of these clouds inevitably dissipate, India's intrinsic growth potential will earn the attention it deserves from investors," they said.

The ministry review pegs economic growth at 7.3 per cent in Q2FY27 following a robust 7.8 per cent expansion in the June quarter.

"Growth momentum has extended into Q2FY27, though at a more measured pace. Geopolitical and geoeconomic uncertainty mean that India cannot afford to rest on its post-Covid growth laurels. It has to be earned every quarter. That is the challenge for policymakers," the review said.

The officials said most high-frequency indicators point to continued economic activity in the early part of Q2. "Monsoon conditions have been more favourable than earlier anticipated, with kharif sowing close to last year's levels across several crops. This supports the outlook for agricultural output and rural demand, although rabi prospects will require monitoring," they added.

However, the review maintained that sustaining growth

will require preserving macro-economic stability and strengthening economic resilience. It also warned that inflation arising due to supply shocks will restrain economic growth. "Interest rates in developed world are rising sharply. It will spill over into domestic bond yields as well. Apart from that, it means crossborder capital flows will slow as higher interest rates will persuade many investors to stay invested in domestic markets amidst pervasive and rising global uncertainty," it said.

The officials underlined upside risks to inflation from compounding climate, geopolitical and monetary headwinds. "A strong El Niño event could pose risks to the upcoming Rabi crop through heat stress and reduced soil moisture, although a positive Indian Ocean Dipole (IOD) may partially offset these effects. Geopolitical tensions and elevated crude oil prices could also add to imported inflation pressures, particularly amid the US Federal Reserve's 25 bps rate hike in September," the review said.

However, it said the Reserve Bank of India's recent open market operations to absorb excess system liquidity could help maintain balanced financial conditions and contain undue demand-side overheating. "Meanwhile, festive demand and higher input costs could add some near-term pressure to prices. However, proactive supply-side and market measures by the Government could help contain these upside risks and provide a cushion against temporary

price pressures," it added.

Quoting robust goods and services exports, the review said that, at the current run rate of nearly \$400 billion in the first five months of the year, India's overall exports for the full financial year could approach \$1 trillion. "That is a very strong confirmation that India's trade agreements are providing impetus to India's exports. It can only get better from here, with more trade agreements on the anvil," it said.

BUSINESS STANDARD POLL

RBI may hike repo rate by 25 basis points

The need for a hike is driven by both domestic and external factors, said Gaura Sen Gupta, chief economist at IDFC First Bank. "Consumer Price Index (CPI)-based inflation is expected to average 5.2 per cent in 2026-27 (FY27), marginally higher than the RBI's estimate," said Sen Gupta. "Crude oil prices have stayed elevated for longer than expected, which raises the risk of inflation pressures becoming broad-based."

Retail inflation rose to 4.8 per cent in August from 4.45 per cent in July. Crude oil has stayed above \$100 per barrel in recent weeks.

Aditi Nayar, chief economist at Icria, said retail petrol and diesel prices may need to be raised by as much as ₹8-9 per litre at current crude prices, which would make the generalisation of inflationary pressures more acute. "A pre-emptive rate hike in October may be appropriate, with another one in December based on how the price situation pans out," she said.

Madan Sabnavis, chief economist at Bank of Baroda, was the only respondent to say that the MPC is expected to keep rates unchanged, as a hike just before the festival season would do little to improve transmission to deposit rates, especially with inflows under the Foreign Currency Non-Resident (Bank), or

In August, the services trade surplus offset 65 per cent of the merchandise trade deficit, thereby reducing the overall trade deficit.

The ministry officials said trade relations with the US remain "unsettled" following the passage of the Graham Bill through Congress and its presidential assent. The Bill empowers the President to impose tariffs of up to 100 per cent on countries that purchase Russian crude oil.

FCNR(B), scheme. "They can wait for one more policy," he said.

Respondents also expect the central bank to raise its FY27 growth forecast from 6.7 per cent, after GDP growth of 7.8 per cent in the April-June quarter, 80 bps above the RBI's projection. "High-frequency indicators show that growth remains strong in Q2 also," said Sen Gupta.

The market will closely watch the RBI's strategy on liquidity management, which is in surplus of over \$5.45 trillion. The surplus liquidity has caused the weighted average call rate (WACR), the operating target of the monetary policy, to hover at the lower band of the policy corridor. Following the open market operation of bond sales in September, WACR aligned with the repo rate for a short period.

"With system liquidity at 1.8 per cent of NDTL surplus and WACR at 5.1 per cent, below the repo rate (as of September 28), we expect the RBI to continue with liquidity absorption measures, through a mix of overnight VRRR, term VRRR, OMO sales and swaps," the Barclays note said.

Majority of the respondents expect the RBI to raise its FY27 inflation forecast from 5 per cent now, with estimates of the revision ranging from 10-20 bps to a larger upward revi-