BUSINESS STANDARD POLL

Policy rate cut not likely before Q1FY25

Despite inflation worries, MPC to maintain status quo on rates in its meet this week

ANJALI KUMARI
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The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) is expected to start cutting the policy repo rate only from the first quarter of the next financial year (Q1FY25), seven of 10 participants said in a *Business Standard* poll. The RBI will announce the review of the policy on August 10.

The respondents to this poll expect the committee members to maintain the status quo for the third consecutive policy review even if inflationary pressures resurface on rising vegetable prices.

After increasing the repo rate by 250 basis points (bps) to 6.5 per cent between May 2022 and February 2023, the MPC hit a pause in the April review of monetary policy.

In the June policy review, it maintained its pause stance. RBI Governor Shaktikanta Das emphasised that it was a pause and not a pivot, while retaining the possibility of further tightening.

"We expect the MPC to keep the policy rates unchanged in its August meeting," said Rahul Bajoria, managing director & head of EM Asia (ex-China) economics, Barclays.

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EXPERT OPINION

Respondent	When do you expect the RBI to start cutting the repo rate?	Do you expect the RBI to revise FY24 inflation forecast? If so, by how much?
SBI	Not yet firmed / Q1FY25	Yes
BOB	Driven by data	No
DBS Bank	Pause for FY24	Yes
I Sec PD	Not in foreseeable future	Yes
Axis Capital	Q1FY25	Yes
STCI	Q1FY25	Yes (30-40 bps higher)
YES Bank	Maybe Q1FY25	Yes (20 bps higher)
HDFC Bank	Q1FY25	Yes
Barclays	Q1FY25	No
ICRA	June 2024	Yes, up by 20 bps to 5.3 per cent

Note: All of the respondents expected the RBI to keep the policy repo rate unchanged in the August policy review; None of the respondents expects the RBI to change the policy stance and FY24 growth forecast

BANKER'S TRUST

Expect status quo, both for rate and policy stance

We may have to wait for the first rate cut till the next financial year, starting April 2024. The stance will change ahead of that, but don't expect it soon.

TAMAL BANDYOPADHYAY writes 13

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Bajoria further said: "We also expect the committee to flag resilient economic growth and anchored underlying inflation as reasons to monitor incoming economic data while keeping policy settings on hold." He expects a rate cut only in the first quarter of the next financial year.

As far as the policy stance is concerned, all the respondents said the RBI would continue with the withdrawal of accommodation stance as liquidity continued to be in surplus in June and July.

Eight of the participants expect the RBI to revise the inflation projection for the current financial year (FY24) upward. In the June policy review, the consumer price index (CPI) inflation for FY24 was projected at 5.10 per cent.

The CPI inflation in June was at a three-month high of 4.81 per cent year-on-year (Y-o-Y), but below the RBI's upper tolerance limit of 6 per cent.

"In July, however, headline CPI is expected to increase to 6.7 per cent Y-o-Y while core CPI is likely to fall to 5.0 per cent," said Soumya Kanti Ghosh, group chief economic adviser, State Bank of India.

"It is expected that the divergence between these two trends will increase up to 0.6 per cent, and then headline CPI will start trailing towards core CPI in 6 months. We project the average CPI for FY24 now at 5.4 per cent," Ghosh said.

Core inflation, which excludes volatile food and fuel items, stayed stubborn at around 5 per cent for some time. "The surge in vegetable prices is likely to push the CPI inflation well above 6 per cent in July 2023. Moreover, the average for this quarter would exceed the latest estimate for the second quarter (Q2) that the MPC released in June. As a result, we expect the MPC's commentary to be fairly hawkish, amid a continued pause on the repo rate and stance in the upcoming policy review," Aditi Nayar, chief economist at ICRA, said.

The central bank has projected average CPI inflation in Q1 to be at 4.6 per cent and 5.2 per cent for Q2.

"Given the transient nature of shocks in food items, particularly in some vegetables, our base case is a status quo on rates through FY24, with the earliest rate cut foreseen only in the June 2024 policy review," Nayar said.

None of the respondents expect the central bank to revise its growth forecasts for the current financial year. Even if interest rates are kept unchanged, the tone of the policy is likely to be hawkish due to near-term inflation pressures.

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OMC earnings are highly volatile and depend on exogenous factors, such as changes in indirect taxes on transport fuel and international crude oil prices. This, analysts said, raises a question mark over the future trajectory of corporate earnings.

"As we exclude certain sectors, the picture on profit changes significantly, indicating that this growth in earnings has not been broad-based," said Madan Sabnavis, chief economist at Bank of Baroda.

Public sector oil refiner and marketer Bharat Petroleum Corporation (BPCL) was the single biggest contributor, accounting for 16 per cent of YoY growth in the overall corporate earnings in Q1FY24. The oil major reported a ₹16,863 crore positive swing in net profit to ₹10,824 crore in Q1FY24, from a net loss of ₹6,148 crore a year ago. It was followed by Hindustan Petroleum which swung from a net loss of ₹8,557 crore a year ago to a net profit of ₹6,766 crore. Indian Oil Corporation reported a net profit of ₹14,437 crore in the quarter ago, against a net loss