RBI holds repo rates again, cites food inflation risks

Policy must stay the course with close vigil on inflation trajectory, says governor

MANOJIT SAHA
Mumbai, 8 August

In its 50th review of the monetary policy, the Reserve Bank of India's (RBI's) six-member monetary policy committee (MPC) on Thursday decided to keep the repo rate unchanged at 6.5 per cent. It maintained the 'withdrawal of accommodation' policy stance for a ninth straight time, citing food inflation risks, and red-flagged 'certain' lenders not adhering to topup loan norms and credit card spend growth staying high despite an increase in risk weightings.

External MPC members Jayanth Varma and Ashima Goyal continued to vote for a 25-basis-point cut in the repo rate and a change in stance to neutral.

"Headline inflation, after remaining steady at 4.8 per cent during April and May 2024, increased to 5.1 per cent in June, primarily driven by the food component, which remains stubborn," RBI Governor Shaktikanta Das said while explaining the policy decision. He emphasised it was important for the monetary policy to stay the course while maintaining a close vigil on the inflation trajectory and the risks thereof.

HDFC Bank' treasury research team said in a note that the overall tone of the policy "seemed hawkish, with the RBI highlighting the risks around the stickiness in food inflation".

Even as it kept the FY25 growth and inflation projections unchanged at 7.2 per cent and 4.5 per cent, respectively, the central bank raised the July-September inflation projection from 3.8 per cent to 4.4 per cent.

"On inflation, the near-term upward revision has been offset by a downward revision for Q4, implying the food price shock is seen as transitory," said Sonal Verma, managing director and chief economist (India and Asia ex-Japan) at Nomura. The inflation figures for the January-March quarter of FY24 were revised from 4.5 per cent to 4.3 per cent.

Growth numbers for the June quarter were also lowered from 7.3 per cent to 7.1 per cent.

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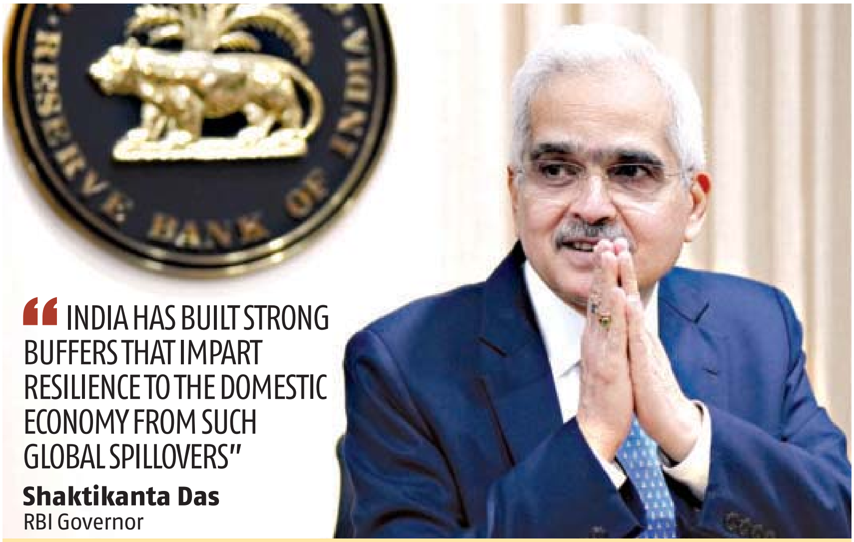

"INDIA HAS BUILT STRONG BUFFERS THAT IMPART RESILIENCE TO THE DOMESTIC ECONOMY FROM SUCH GLOBAL SPILLOVERS"

Shaktikanta Das
RBI Governor

FOOD INFLATION PRESSURES CANNOT BE IGNORED: DAS PAGE 6

RBI PROJECTIONS

Growth forecast (In %)

	Jun MPC	Aug MPC
FY25	7.2	7.2
Q1	7.3	7.1
Q2	7.2	7.2
Q3	7.3	7.3
Q4	7.2	7.2
Q1FY26	XX	7.2

Inflation forecast (Y-o-Y in %)

	June	August
FY25	4.5	4.5
Q2	3.8	4.4
Q3	4.6	4.7
Q4	4.5	4.3
Q1FY26	XX	4.4

Source: RBI

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'Some entities not following topup loan regulations'

The Reserve Bank of India (RBI) on Thursday said some banks and non-banking financial companies (NBFCs) were not following norms on topup loans pertaining to the "loan to value" (LTV) ratio and the monitoring of the end use of funds. It highlighted high growth in credit card outstanding despite increase in risk weightings.

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Banker's Trust

No concern on growth, no comfort on inflation

RBI Governor Shaktikanta Das has just two words for the market: Have patience. The markets seemed to have listened to him. Movements in both bond yield, as well as currency, were muted in the absence of any surprise in the policy.
TAMAL BANDYOPADHYAY writes

FROM PAGE 1

Revenue from GenAI remains elusive for IT companies

Bendor-Samuel added in some cases large investment in GenAI was resulting in significant value, but these were few and far between and did not look like they would combine to make a significant revenue wave. This is what Krithivasan also said.

This slow pickup in GenAI is significant as the industry is hoping that GenAI-led deals will provide the required push to growth, which has been affected due to macro uncertainties. This is important because companies have invested billions in AI and GenAI capabilities

A recent report by Ambit points to slowing growth in the sector. The top four IT firms' growth in Q1FY25 was 2.7 per cent in constant currency year-on-year. This is a low from the 5.2 per cent in Q1FY24. The report also said the macro indicators suggested a modest recovery in global spending.

HFS Research CEO and Chief Analyst Phil Fersht is hopeful. "There are too many clients stuck in pilot mode, but this will change for many as proven case stories emerge, where there is significant productivity and value. There will be gradual growth in this area over the next few months and this will pick up more aggressively next year," he said.

But the year 2024 was supposed to be one when GenAI would scale for enterprise usage too.

Pareekh Jain, CEO of EIRTrends and Pareekh Consulting, said GenAI was turning out to be better as a marketing narrative than as a revenue generator.

"At present most of them are building their GenAI narrative more. This is crucial because clients are looking at a partner who also has the ability to implement when the time comes," he said.

The slow uptick in GenAI deals also stems from a mismatch in expectations.

Aiman Ezzat, CEO of Paris headquartered Capgemini, said GenAI was a little hyped, especially around productivity and cost cutting. "In reality it's not happening," he had told this newspaper.

Disappointment in Gen AI also seems to be driven by the growing realisation that it usually requires significant investment in tech and the corresponding operational organisation.