

## RBI MAINTAINS STATUS QUO

# Growth forecast for FY25 raised to 7.2%

### Economists see shallow rate cut in Oct–Dec qtr

**MANOJIT SAHA**

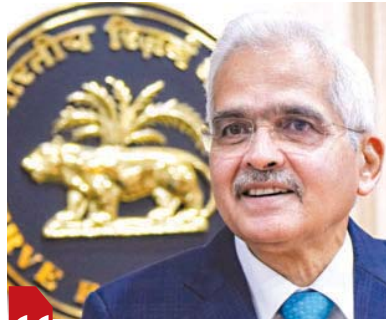
Mumbai, 7 June

The six-member monetary policy committee (MPC) of the Reserve Bank of India (RBI) on Friday decided to keep the policy repo rate unchanged at 6.5 per cent, with a majority vote of 4:2. The MPC also continued with the stance of withdrawal of accommodation, while revising the growth forecast marginally higher to 7.2 per cent (from 7 per cent estimated earlier) for the current financial year.

External member Ashima Goyal joined Jayanth Varma for rate cut of 25 basis points (bps) and change in stance to neutral while the other four members voted in favour of the rate and stance resolution. Till the last meeting, Varma was the lone voice for change in rate and stance.

“Inflation continues to moderate, mainly driven by the core component... Food inflation, however, remains elevated,” RBI Governor Shaktikanta Das said while explaining the MPC’s decision. “We are on the right track, but there is still work to be done,” he said, reiterating that with growth holding firm, monetary policy has greater elbow room to pursue price stability to ensure that inflation aligns with the target on a durable basis.

Turn to Page 6 ▶



**“WHILE WE DO CONSIDER THE IMPACT OF MONETARY POLICY IN ADVANCED ECONOMIES ON INDIAN MARKETS, OUR ACTIONS ARE PRIMARILY DETERMINED BY DOMESTIC GROWTH–INFLATION CONDITIONS AND THE OUTLOOK”**

**Shaktikanta Das**, RBI Governor

## PROJECTIONS

**Growth forecast**  
(In %)

	April	June
Q1	7.1	7.3
Q2	6.9	7.2
Q3	7.0	7.3
Q4	7.0	7.2
FY25	7.0	7.2

**Inflation estimate**  
(Y-o-Y in %)

	April	June
Q1	4.9	4.9
Q2	3.8	3.8
Q3	4.6	4.6
Q4	4.5	4.5
FY25	4.5	4.5

Source: RBI

continuity remain, which experts said would be eyed from the government's first 100-day plan.

The upward revision of GDP estimates to 7.2 per cent from 7 per cent by the Reserve Bank of India (RBI) also boosted sentiment. On Friday, the RBI kept the benchmark repurchase rate unchanged for the eighth time at 6.5 per cent.

## RBI ...

After raising the repo rate by 250 bps between May 2022 and February 2023, the RBI has kept the rate unchanged along with the withdrawal of accommodation stance. "The RBI policy decision is largely on expected lines, but with a surprise on the vote split," said Sonal Varma, managing director and chief economist (India and Asia ex-Japan), Nomura.

"Two external MPC members voted for a cut versus one member earlier, suggesting that divergence within the committee is growing further. However, we don't think this is a signal of an impending cut, as the MPC members will have to pivot to swing the needle," Sonal said, adding that they expect the first rate cut in October, with 75 bps in cumulative easing in FY25.

The next policy, scheduled in August, could be the last of the external members, who have a fixed four-year term. The current external members were notified by the government on October 5, 2020.

Assuming a normal monsoon, the RBI retained CPI inflation projection for FY25 at 4.5 per cent, with Q1 at 4.9 per cent; Q2 at 3.8 per cent; Q3 at 4.6 per cent; and Q4 at 4.5 per cent.

Das explained that the fall in inflation in Q2 could be one-off due to base effects and may reverse in the third quarter. "Repeated food price shocks, however, slowed down the overall disinflation process," he said. During the post-policy inter-

action with the media, he said the last-mile journey to the 4 per cent inflation target is "pretty sticky".

"Looking ahead, overlapping shocks engendered by rising incidence of adverse climate events impart considerable uncertainty to the food inflation trajectory," the RBI said.

Das discarded the theory of following the US Federal Reserve for domestic policymaking. "I would like to unambiguously state that while we do keep a watch on whether clouds are building up or clearing out in the distant horizon, we play the game according to the local weather and pitch conditions. In other words, while we do consider the impact of monetary policy in advanced economies on Indian markets, our actions are primarily determined by domestic growth-inflation conditions and the outlook," Das said.

Noting real GDP growth of 8.2 per cent in FY24, Das said in FY25 so far, domestic economic activity has maintained resilience and revival in rural demand is getting a fillip from improving farm sector activity. Accordingly, the growth forecast has been revised upward from 7 per cent to 7.2 per cent.

Even though the RBI refrained from providing any indication on when the rate cycle will turn, economists said the first rate cut is likely in the Oct-Dec quarter of 2024. At the same time, they said the rate cut cycle to be shallow, of 50 bps only. "We continue to expect a shallow easing cycle of total 50 bps rate cuts from the RBI, with 25bps each in Q4 CY24 and Q1 CY25, with the first cut most likely in the December 2024 meeting," said an economist at Goldman Sachs.

RBI noted that during the current financial year so far, system liquidity transited from surplus to deficit conditions, and back to surplus in early June.

According to Soumya Kanti

Ghosh, group chief economic adviser, State Bank of India, liquidity management will continue to remain one of the most critical issues during this financial year and the RBI may have to innovate on liquidity augmentation tools going forward.

## Modi...

In his speech, Modi said the alliance is committed to the constitutional principle of "*sarva panth sambhav* (interfaith harmony)" and mutual trust was at the core of the bloc. To underscore the diversity of the alliance, he said the NDA had governments in 22 states, including in 10 states where Scheduled Tribes were in big numbers, and also in the states in the Northeast and Goa where Christians have a major presence.

He said the NDA government in the next 10 years will focus on good governance, development, quality of life, and minimum interference in the lives of common citizens. He said a priority would be to reduce the interference of the government in the lives of the people, especially those from the middle class and upper middle class.

Allies, such as Telugu Desam Party President N Chandrababu Naidu, described Modi as "the right leader at the right time for India", but stressed the need to balance regional aspirations with national interest and "ensuring holistic development across all strata of society." Bihar CM Nitish Kumar, whose party is keen to secure a "special category status" for the state, said: "We know you will take care of Bihar's concerns."

Later in the day, NDA leaders called on President Droupadi Murmu, and submitted letters of support for Modi. She declared him prime minister-designate.

More on business-standard.com