Fuelling growth, taming inflation to top Malhotra's agenda at RBI

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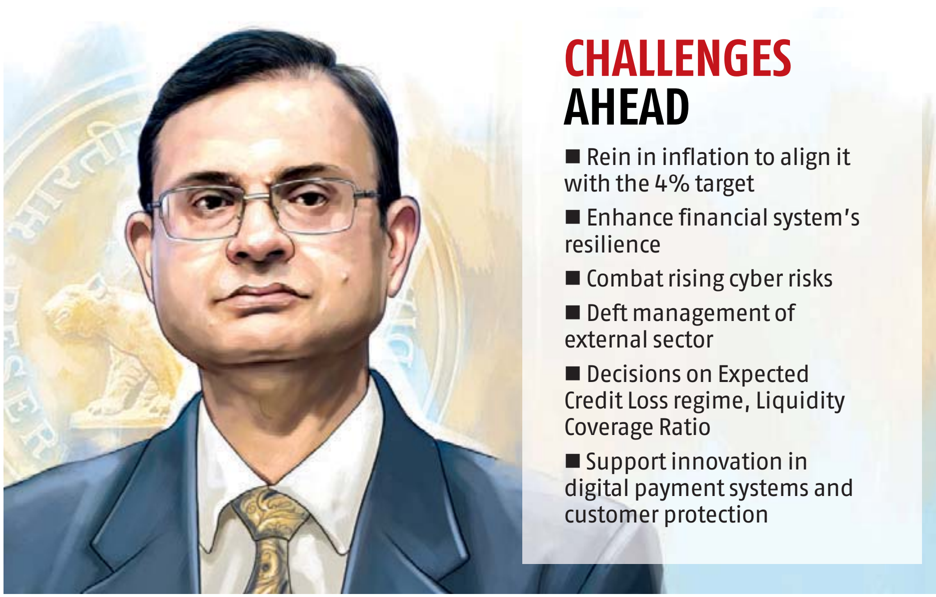
Sanjay Malhotra moves to head the country's central bank — the Reserve Bank of India (RBI) — at a time when the retail inflation is ruling above the comfort zone and the economic growth has slowed down. So, the first and foremost task will be to rein in inflation, measured by consumer price Index (CPI), and align it with the target of 4 per cent, and take steps to support economic growth.

Gaura Sengupta, economist at IDFC First Bank, said: "Challenge is basically the near-term growth as the outlook has turned a bit adverse; you have downside risk to growth and upside risk to inflation." Earlier, the RBI had the comfort that growth was on the stronger side, so they could remain focused on inflation. Now, going forward, the central bank will have to also start focusing on growth, she added.

Headline CPI (Consumer Price Index) inflation surged above the upper tolerance level to 6.2 per cent in October from 5.5 per cent in September and sub-4.0 per cent prints in July-August 2024, propelled by a sharp pickup in food inflation. RBI's Monetary Policy Committee (MPC) in its December review revised CPI inflation projection to 4.8 per cent from an earlier estimate of 4.5 per cent (made in October) for the current financial year (FY25).



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CHALLENGES AHEAD

- Rein in inflation to align it with the 4% target
- Enhance financial system's resilience
- Combat rising cyber risks
- Deft management of external sector
- Decisions on Expected Credit Loss regime, Liquidity Coverage Ratio
- Support innovation in digital payment systems and customer protection

The pace of the country's economic growth moderated sharply in the second quarter ended September 2024 (Q2FY25). The real gross domestic product (GDP) of India registered growth of 5.4 per cent, lower than RBI's estimates of 7.0 per cent for the quarter. The growth tempo slowed down as private consumption and investment decelerated even while government spending recovered from a contraction in the previous quarter. The RBI revised the real GDP growth estimates for FY25 downwards to 6.6 per cent from the earlier estimate of 7.2 per cent.

Pointing to the primacy of key systemic responsibilities, Madan Sabanavis, chief economist, Bank of Baroda, said one of the main priorities for the incoming governor will be to maintain financial stability and strengthen prudential regulations to safeguard the financial sector against emerging risks. Additionally, the governor will need to skillfully manage liquidity conditions using monetary policy tools to ensure that the flow of funds into the system remains uninterrupted, thereby supporting sustained economic growth. With the banking system in a strong position, it is crucial to maintain this stability moving forward.

While India's external position remains robust, a constant vigil and prompt actions in light of global geopolitical conflicts and economic headwinds will also seek his attention. This assumes significance at a time when the foreign exchange reserves have seen a continuous decline for eight weeks. However, it rose by around $1.5 billion in the fortnight ended November 29. Rupee has also been under pressure because of continuous selling by foreign portfolio investors (FPIs), senior bankers said.

Besides being manager of monetary systems, the RBI is also tasked to regulate, supervise, and develop the financial system of the country.

Rajnish Kumar, former chairman, State Bank of India (SBI), said while taking ahead existing reforms, continuing to support innovation across digital platforms and payments systems, enhancing protection from cyber risk, will demand the attention of the new governor. Substantial work has happened with investments by the ecosystem. The Indian financial system is much ahead of even many developed countries in financial technologies and their resilience, he added.

The RBI has done substantial groundwork on aligning norms for asset provisions with global standards. It will have to firm up a road map to transit to the Expected Credit Loss regime, based on the banking system's capability. The governor will have to apply mind and take a decision on finalising revised rules for Liquidity Coverage Ratio (LCR) norms, which take into account the increase in the use of digital platforms for opening and maintaining deposits, said two senior bankers.

(Anjali Kumari also contributed to the story)