Picture of resilience: RBI ups FY24 growth forecast to 7%

MPC holds repo rate at 6.5% but maintains tight stance as inflation remains a concern

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Mumbai, 8 December

The six-member Monetary Policy Committee of the Reserve Bank of India (RBI) on Friday decided to keep the policy repo rate unchanged at 6.5 per cent for the fifth straight review meeting, as well as the withdrawal of accommodation stance, while stopping short of clearly communicating that the rate cycle had peaked.

One of the key highlights of this no-action policy was the sharp revision of the FY24 GDP growth rate, which is now projected at 7 per cent as compared to 6.5 per cent earlier.

The inflation projection for FY24 has been retained at 5.4 per cent, with a word of caution for the November and December prints.

While emphasising that the monetary policy must continue to be actively disinflationary, RBI Governor Shaktikanta Das said: "Policy makers have to be mindful of the risk of being carried away by a few months of good data or by the fact that CPI (consumer price index) inflation has come within the target range. They have to be also mindful of the risks of overt-tightening, especially when large structural changes and shifts, geopolitical and geoeconomic, are taking place."

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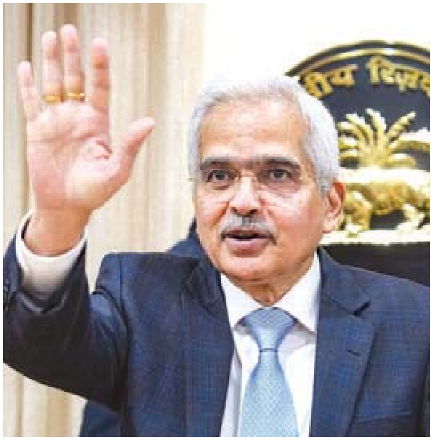
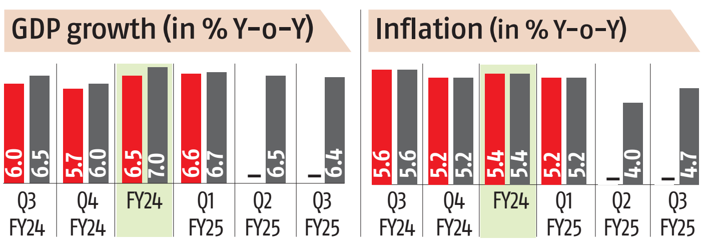


"THEY (POLICYMAKERS) HAVE TO BE MINDFUL OF THE RISK OF OVERTIGHTENING, ESPECIALLY WHEN LARGE STRUCTURAL CHANGES, GEOPOLITICAL AND GEOECONOMIC SHIFTS ARE TAKING PLACE"

Shaktikanta Das
RBI governor

WHAT RBI EXPECTS

October policy forecast
December policy forecast



Source: RBI

Framework for loan aggregators on cards

The RBI will constitute a regulatory framework for web aggregators of loan products for greater transparency and neutrality. The move is based on the recommendations of the Working Group on loan aggregation services offered by lending service providers.

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UPI LIMIT FOR HOSPITALS, EDUCATION INSTITUTES RAISED TO ₹5 LAKH P5

RBI PLANS CLOUD FOR FINANCIAL SECTOR, FINTECH REPOSITORY P5

Centre bans onion exports, tightens wheat stock limits

With food inflation remaining elevated amid concern over kharif and rabi harvests, the Central government in the past 48 hours initiated measures to tame prices and ensure key items are available. This starts with stopping the production of ethanol from sugarcane juice, followed by a ban on exporting onion till March 2024.

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Nifty tops 21k on RBI boost

NIFTY50 INTRADAY
20,901.2
Dec 7
20,969.4
Dec 8
0.3
Chg%

Indian equity benchmarks logged fresh highs on Friday after the Reserve Bank of India (RBI) revised gross domestic product projections while maintaining a status quo on interest rates. The Nifty50 crossed the 21,000 mark for the first time and ended the session at 20,969, gaining 68 points, or 0.3 per cent.

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lines and high passenger footfall, the group is already preparing to expand the terminal capacity from the existing 4.4 MPPA to 7.7 MPPA.

RBI...

Das, however, said over-tightening should not be interpreted as an imminent change in the RBI's approach. While acknowledging that monetary policy had made significant progress in bringing down the inflation rate below 5 per cent in October, Das said the summer of 2022, when headline inflation breached the upper tolerance band of 6 per cent on successive occasions, was behind.

"We have now reached a stage when every action has to be thought through even more carefully to ensure overall macroeconomic and financial stability; more so, because the conditions ahead could be fickle. We have to remain vigilant and ready to act, (in accordance with) the evolving outlook," he said.

Stating that the future was expected to be clouded by uncertain food prices and the CPI rate for November was anticipated to be high, Das said inflation management could not be on auto-pilot.

The policy was interpreted by the market as dovish as compared to the previous two. In the August policy review the central bank mandated a temporary incremental cash reserve ratio for banks while in the October policy Das talked about possible open market sales of bonds to mop up liquidity. "No new action from the RBI against the backdrop of a larger-than-expected upward growth revision could be interpreted as being slightly dovish on the margin," said Kaushik Das, India chief economist, Deutsche Bank.

"Also, for the first time in the current rate-tightening cycle, the RBI highlighted the potential risks of over-tightening. This does not mean that the RBI is ready to cut rates anytime soon, but it probably marks a small pivot to the one-sided narrative of needing to keep rates higher for longer," he added.

A report from Nomura said if inflation moderated closer towards 4 per cent in FY25 and growth disappointed below the RBI's robust outlook of 6.5 per cent, the central bank would then have to reassess the need for such high real rates.

"We stick to our view that the RBI will deliver 100bp of cumulative rate cuts starting in August, with risks skewed towards earlier cuts," the report said.

Das said growth remained resilient and robust, surprising everyone on the upside. Q2 GDP growth, which was 7.6 per cent, was much higher than the central bank's projection of 6.5 per cent. "The Indian economy presents a picture of resilience and momentum," Das said.

"The upward revision in GDP forecast to 7 per cent (SBI at 7 per cent) for FY24 looks optimistic and reasonable and is likely to be overshot," Soumya Kanti Ghosh, group chief economic adviser, State Bank of India, on the revision of FY24 growth forecast to 7 per cent.

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