

Economists expect a prolonged pause on RBI's policy repo rate

Next step may be a rate increase as and when the inflation rate grows

ANJALI KUMARI
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Economists are expecting up to a four-month pause on the central bank's policy repo rate following the release of the new consumer price index (CPI) series, which shows an upward trend in inflation and does little to materially alter the Reserve Bank of India's (RBI's) near-term projections.

The next step is more likely to be a rate increase as and when the inflation rate rises.

"Given the composition of the index and the dilution of the base effect for food items, we expect the inflation rate to go up in coming months. There may not be too much of an alteration in inflation forecasts by the RBI for next year," said Madan Sabnavis, chief economist, Bank of Baroda.

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) reduced the policy repo rate by 125 basis points to 5.25 per cent since February last year. The Committee maintained the pause in the review meeting last week.

"The next action is more likely to be an increase. But over the next three to four months, it will be a pause," he added.

The RBI had revised its outlook for the CPI inflation rate for the first and second quarters next financial year to 4 per cent and 4.2 per cent, respectively, during the MPC meeting, against the earlier projection of 3.9 per cent



Expert take

Institution	What is your policy rate view following the release of the new CPI series
HDFC Bank	Prolonged pause
Bank of Baroda	Prolonged pause
IDFC First Bank	Prolonged pause
Emkay Global Financial	Prolonged pause
Union Bank of India	Pause
DBS Bank	Prolonged pause

and 4 per cent, respectively.

The RBI had also increased the growth projections for the two quarters by 20 basis points, citing factors including the trade deals with the United States (US) and the European

Union (EU).

"We do not expect the new inflation series to materially influence policy in the near term. An extended rate pause looks likely, underpinned by a cyclical upturn in both growth and inflation and improving confidence following the conclusion of US-India trade negotiations," said Madhavi Arora, chief economist, Emkay Global Financial Services.

The MPC's decision in the February meeting was unanimous. Evolving macroeconomic conditions and the outlook based on new growth and inflation data series will shape the course of the monetary policy, it said.

The panel this month retained its policy stance as "neutral". Between February and December last year, the RBI had reduced the repo rate by 125 basis points.

Kanika Pasricha, chief economic advisor, Union Bank of India, who is not expecting any changes in the policy rate yet, said: "It's better for the RBI to wait and watch the trends and momentum in these numbers before taking any view."

The data on gross domestic product for FY24 to FY26 will be released on February 27 with 2022-23 as the base year. The revised series will help clarify the prevailing growth-inflation dynamics and provide a basis for forming a fresh outlook.

"From an inflation perspective, there is no change in view. There could be some minor upward revision for FY27," said Gaura Sen Gupta, chief economist, IDFC FIRST Bank.

The RBI in the policy meeting did not make a full-year forecast on growth.

The next review of the monetary policy has been scheduled for April 6-8, 2026.