

# RBI rate cut in Feb may not be a done deal, say economists

Inflation hit 14-month high of 6.2% in October, breaching upper tolerance band

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Even as the high inflation figure for October has ruled out any possibility of a rate cut by the Reserve Bank of India's (RBI's) monetary policy committee (MPC) in December, a rate cut in February also looks uncertain due to global uncertainties. Economists told *Business Standard* that unless domestic growth slows markedly, the outlook on rate cut remains unclear.

India's headline inflation touched a 14-month high of 6.2 per cent in October, breaching the MPC's upper tolerance band of 6 per cent. October's inflation figure was even higher than September's (5.49 per cent), driven by a spike in food inflation, which stood at 10.87 per cent while core inflation (excluding food and fuel) remained benign.

"While a rate cut in December is now off the table, a cut in February or April is more likely. The timing will depend on the impact of global developments, particularly regarding tariffs, on the rupee, domestic inflation, and bond yields," said Sakshi Gupta, principal economist at HDFC Bank.

"With signs of a slowdown in growth and if momentum in the second half of the year remains weak, the RBI could be inclined to initiate a rate cut in February. However, if the RBI delays further, the decision will likely be influenced by global factors, including the impact on the rupee and bond yields," Gupta added.

RBI Governor Shaktikanta Das, in his monetary policy statement, cautioned that although headline inflation is on a downward trajectory, the moderation in inflation was expected to September and October to reverse. In recent public events, he also said that a rate cut during a period of high inflation could be "risky" and "premature".

In the October monetary policy meeting, the MPC changed its stance to 'neutral', which led to speculation about a potential rate cut in December. However, Das



## EXPERT VIEW

- Most economists expect a cut in February but say it could spill over to April
  - Cut in February if inflation moderates; global factors could also play a role in RBI not opting for it
  - Experts expect inflation to ease in November and the following months due to a favorable base effect
- Slowing domestic growth could influence RBI to consider a rate cut if growth weakens further in FY25's second half

clarified that a change in stance does not necessarily indicate a rate cut in the next policy meeting.

"We have revised our outlook, now expecting the earliest possible rate cut to occur in February rather than December, following the higher-than-expected inflation print of 6.2 per cent in October," said Rahul Bajoria, head of India and Asean economic research at Bank of America.

"While the inflation trajectory is expected to reverse in the coming months, growth is seen slowing, with increasing concerns about weakening consumption. Given the evolving growth-inflation dynamic, we anticipate that the RBI will initiate a shallow rate-cut cycle starting in February," Bajoria added.

According to Indranil Pan, chief economist at Yes Bank, the proba-

bility of a rate cut in December is zero. "In February, we put the probability at 50-50, but we are not sure. A rate cut in April is a surer bet," Pan said.

Although inflation in September and October was on the higher side, economists believe the inflation trajectory will trend downward in the coming months, with the base effect playing a role.

Additionally, Michael Patra, deputy governor of the RBI, has previously said that domestic headline retail inflation is expected to align with the 4 per cent target on a durable basis by 2025-26. The RBI has projected inflation at 4.5 per cent for the current financial year (2024-25), assuming a normal monsoon and stable supply conditions.

Gupta noted that the high October inflation figure is likely to

## Expanding supply capacity will curb inflation: S&P

**S&P Global Ratings on Wednesday said India's supply capacity is expanding rapidly, which will help contain inflationary pressure.** Vishrut Rana, S&P Senior Economist for Asia Pacific, noted that the Reserve Bank of India's (RBI) monetary policy and inflation target remain credible, allowing it to anchor inflation expectations. "That remains a manageable challenge," he said.

India's retail inflation surged to a 14-month high of 6.21 per cent in October, surpassing the RBI's tolerance band, mainly due to rising food prices. It was 5.49 per cent in September.

"As long as the economy's supply capacity continues expanding quickly, especially with emphasis on manufacturing and infrastructure, inflationary pressures should be contained," Rana said at the Asia-Pacific Credit Outlook 2025 conference.

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be a one-off, with inflation expected to moderate in the coming months. "We forecast November inflation to be around 5.5 per cent, followed by a decline below 5 per cent and potentially reaching 4-4.5 per cent in the fourth quarter of 2024-25 (FY25)," she said.

Madan Sabnavis, chief economist at Bank of Baroda, believes inflation, particularly food inflation, will begin easing in November due to a favourable base effect and other factors, which should help lower the overall inflation rate.

"The earliest policy easing by the RBI could occur at the February MPC meeting if the data is favourable," Sabnavis said.

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