Rate cuts expected only from early 2024, inflation key: S&P

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Global rating agency Standard and Poor's (S&P) on Monday said the policy rate cuts in India were expected to begin only in early 2024 as the Reserve Bank of India (RBI) would like to see retail inflation moving to 4 per cent.

"Softer crude oil prices and tempering of demand will bring down fuel and core inflation, respectively. The inflation and rate hike cycles have peaked. But we expect the RBI to cut rates only in early 2024, as it wants to see inflation moving to 4 per cent — the centre of its target range," it said. These comments are part of S&P's Economic Research: Economic Outlook Asia-Pacific Q3 2023 report, released on Monday.

It retained India's gross domestic product (GDP) growth forecast at 6 per cent, saying it would be the fastest-growing economy among Asia Pacific nations. The GDP growth forecast for the current and the next fiscal year has been kept unchanged from the forecast made in March partly on account of domestic resilience.

The agency has retained FY24 India growth projection at 6 per cent, which will be the fastest rate in Asia Pacific

In its quarterly economic update for Asia-Pacific, the rating agency said the medium-term growth outlook remains relatively solid. The Asian emerging market economies remain among the fastest-growing ones in the global growth outlook through 2026. "The medium-term growth outlook remains relatively solid. The Asian emerging market economies remain among the fastest growing ones in our global growth outlook through 2026," said Louis Kuijs, Asia-Pacific chief economist at S&P Global Ratings.

In India, growth in the March quarter (Q3FY23) outperformed our expectations. Statistics India revised whole-year GDP growth in fiscal 2023 to 7.2 per cent from the earlier 7 per cent. It confirmed a strong recovery from Covid-19, S&P said.

However, the growth of the region's (Asia-Pacific) economy faces several risks. The challenging external financial conditions amid even higher US interest rates. The slower-than-expected growth in the West and China and pockets of domestic interest rate stresses.

In India, under the assumption of normal monsoons, the rating agency expected the headline consumer inflation to soften to 5 per cent in FY24 from 6.7 per cent in FY23, it added.

The inflation and external deficits are receding; pressure on central banks to raise rates has diminished. Calls for rate cuts will grow louder. However, there generally is little room for lower rates any time soon in a setting of high US interest rates and lingering inflation risk, S&P added.