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GAZING INTO THE CRYSTAL BALL: AUGUST 2024 POLICY

05 August 2024

With India reinforcing its position as a "bright spot" in the global economy and straddling well the path of high growth and reasonably contained inflation, the MPC's August 2024 deliberations assume significance. Two issues most often discussed in the run up to the Policy are the stance of the RBI and the change, if any, in the benchmark rates.

MPC Action - Connecting the Dots

Our take is that the MPC's stance in the forthcoming Policy will continue to be "withdrawal of accommodation" and the Repo Rate (last changed in February 2023) will be kept unchanged for the ninth consecutive time.

Why do we say so? Despite 7-8 % per cent steady growth in Asia's third-largest economy, all is not well on the inflation front-not by a long shot. These concerns are manifested in inflation breaching the 5 % mark in June 2024 (five-month high of 5.08 % in June 2024) and persistently sticky food inflation despite continuously declining core inflation.

Given heightened geopolitical dynamics, geoeconomic fragmentation and the RBI's unequivocal mandate of monetary stability, which is characterised by moderate and stable inflation, there is a compelling need for caution and vigil on the inflation score. In other words, "if it ain't broke, don't fix it".

The US Fed's action at the September meeting (three rate cuts by the US Fed are likely this year) also has a bearing on charting the course of monetary policy. A rate cut by the US Fed is on the cards and this rate cut by the "big Daddy" would have spillover effects across the development spectrum including inducing central bankers to move to a less restrictive Policy. The US Fed Policy could have a lagged effect on the direction, pace and sequencing of the monetary policy events in India.

Where do we go from here? Given this overarching macro landscape, we expect the RBI to initiate a rate cut in Q 4 of FY 25.

Looking Ahead

The monetary policy debate in India is almost always conditioned in the context of a trade-off between growth and inflation, depending on the distinctive peculiarities at various points. In the ultimate analysis, both the monetary and the fiscal policy have to move in tandem to trigger a virtuous cycle of high growth and low inflation. This uneasy task is still some distance away and will take some doing.