

Upward revision in GDP, inflation forecasts points to extended repo rate pause: Experts

ROSY OUTLOOK. RBI raises GDP projection for Q1, Q2 FY27 by 20 bps; revises up CPI inflation by 10 bps, 20 bps

Our Bureau
Mumbai

The upward revision in real GDP growth and CPI inflation projections by the Reserve Bank of India (RBI) for the first two quarters of FY27 could be an indication of a prolonged pause on the policy repo rate, say experts.

GROWTH PROJECTION

The Reserve Bank of India (RBI) has upped the real GDP growth projections for Q1 and Q2 quarters of FY27 by 20 basis points (bps) amid favourable growth outlook.

Further, the Reserve Bank raised the CPI inflation estimate for Q1 and Q2 FY27 by 10 bps and 20 bps, respectively,

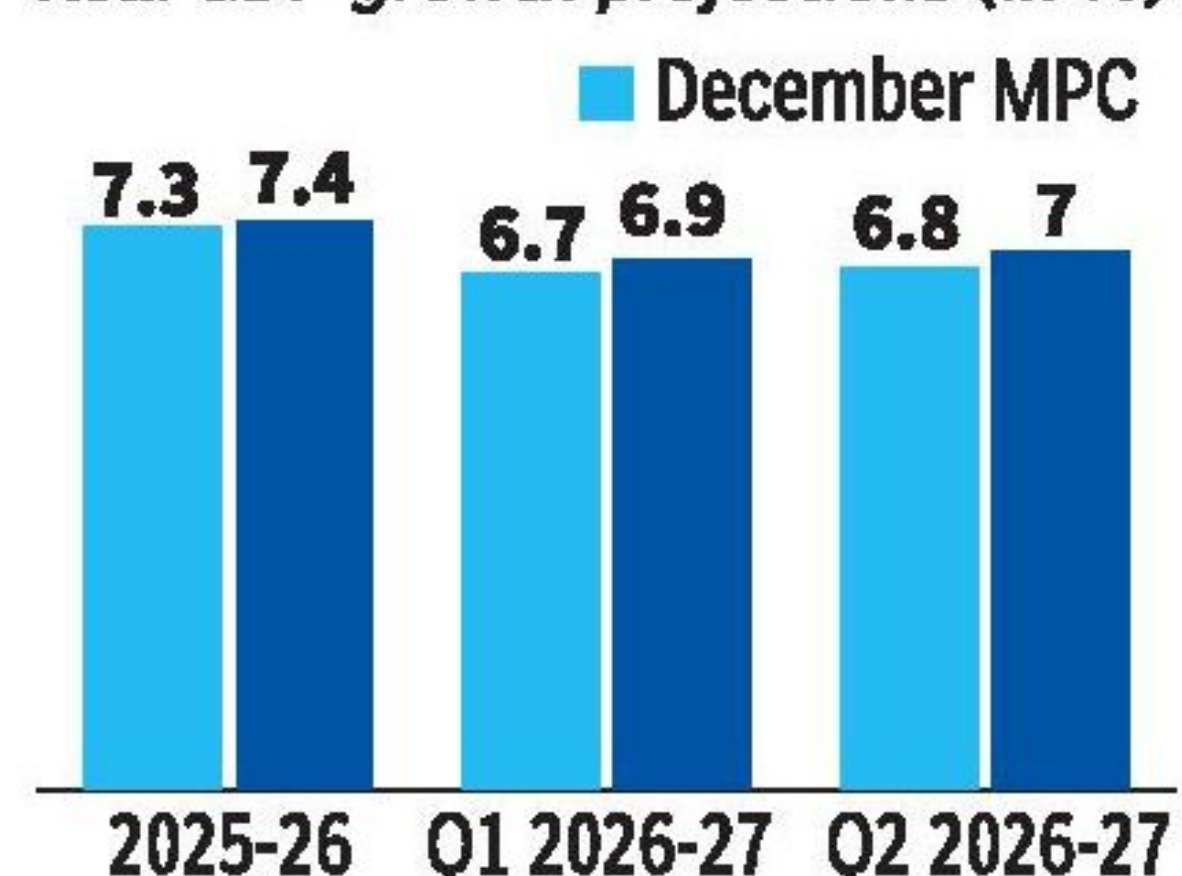
Also, CPI inflation for FY26 has been projected a shade higher at 2.1 per cent (2 per cent earlier) with Q4 (January-March) at 3.2 per cent (2.9 per cent).

The slight upward revision in inflation outlook is primarily due to increase in prices of precious metals, which contribute about 60-70 basis points, said Gov-

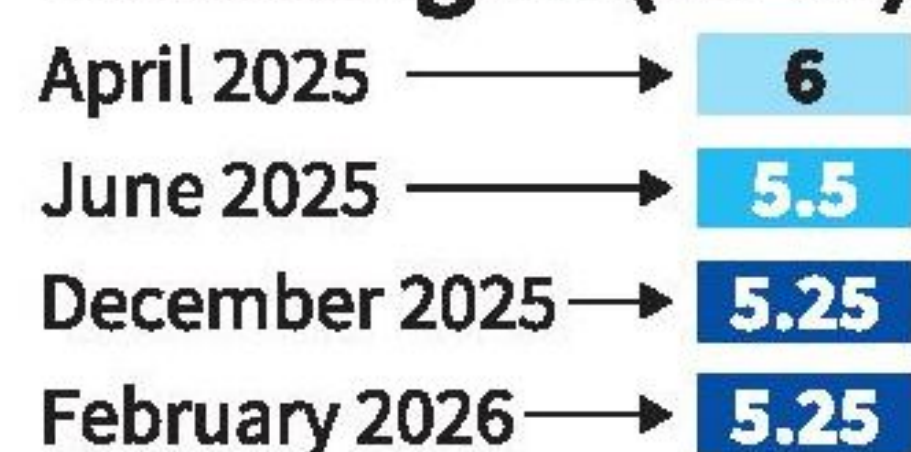
In a sweet spot

Growth projection revised upwards

Real GDP growth projections (in %)



Repo rate remains unchanged (in %)



Source: RBI

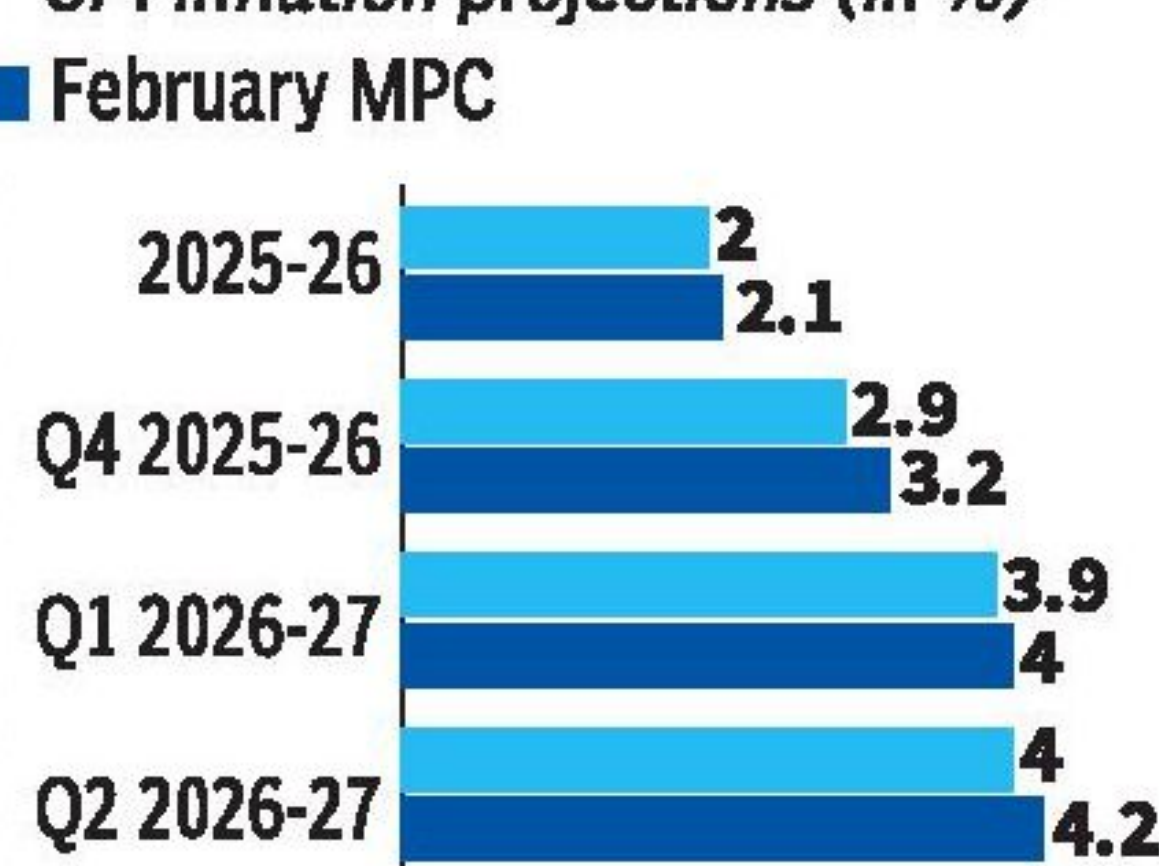
ernor Sanjay Malhotra. Real GDP growth projections for Q1 and Q2 FY27 have been revised upwards to 6.9 per cent (6.7 per cent) and 7.0 per cent (6.8 per cent), respectively.

EVENLY BALANCED

The risks are evenly balanced. CPI inflation estimate for Q1 and Q2 FY27 is now at 4 per cent (earlier projection of 3.9 per cent) and 4.2 per cent (4.0 per

Inflation estimate also increased

CPI inflation projections (in %)



Amidst heightened geopolitical tensions and elevated uncertainty, the

Indian economy is in a good spot with strong growth and low inflation

Sanjay Malhotra RBI Governor



The slight upward revision in inflation outlook is primarily due to increase in prices of precious metals, which contribute about 60-70 bps, said RBI Governor

by the evolving macroeconomic conditions and the outlook based on data from the new series in charting the future course of monetary policy.

“On the growth front, economic activity remains resilient. The First Advance Estimates suggest continuing growth momentum, driven by domestic factors amid a challenging external environment,” said Malhotra.

“The growth outlook remains favourable,” he added.

INFLATION TARGET

The Governor emphasised that the outlook for CPI inflation in Q1 and Q2 FY27

continues to be benign and near the inflation target.

NO ADDITIONAL CUT

V Rama Chandra Reddy, Head – Treasury, Karur Vysya Bank, opined that the upward revision in both CPI inflation and GDP growth has further narrowed the space for any near-term rate cuts, fading earlier market expectations of one additional cut.

The monetary policy committee’s assessment indicates that the current repo rate is broadly appropriate for the prevailing macroeconomic conditions.

“In February, both CPI and GDP series will change. The base year will change (2022-23 for GDP, 2023-24 for CPI), and the methodology will also be revised to include new entities, change measurement metrics. This can lead to a reassessment of growth and inflation trajectory till date,” said Crisil.

“The MPC decided to wait until April when the new series will be available before making projections for the upcoming fiscal,” added Crisil.