

RBI downgrades India growth forecast

JOHN REED AND KRISHN KAUSHIK
NEW DELHI

India's central bank yesterday sharply cut its growth forecast for this year, confirming a slowing trend in what has been one of the world's fastest-growing economies.

But the Reserve Bank of India kept its benchmark policy interest rate unchanged at 6.5 per cent, citing an unexpected increase in inflation, and said the economy was showing signs of bottoming out.

The RBI said it now estimated growth for the 2024-25 financial year would be 6.6 per cent, compared with a previous estimate of 7.2 per cent. Its downgrade came a week after India announced GDP growth of 5.4 per cent year on year for the quarter to the end of September, the weakest showing in nearly two years.

India's recent record of strong economic growth has underpinned support for Narendra Modi, who won a third term as prime minister in June. Modi has vowed to invest in more infrastructure and attract more foreign manufacturing to continue to drive the economy.

Some analysts had expected the RBI could decide to cut interest rates to boost the economy, after keeping the benchmark repo rate at 6.5 per cent since early 2023. However, the central bank said it remained concerned about inflation, which in October surged above 6 per cent, outside its 4-6 per cent target band.

"Inflation has to be brought down in the interest of sustainable growth," RBI governor Shaktikanta Das told a press conference.

Growth in the second quarter of the

financial year "turned out to be much lower than anticipated", led by a slow-down in industry, he said in an earlier statement.

However, he added that indicators suggested that a slowdown in domestic economic activity had bottomed out and that industrial activity "is expected to normalise and recover".

"The second half of this year looks better than the first half," Das said, adding that elections this year had probably affected government expenditure.

Experts had expected the RBI to revise its growth projections, as India's economy has shown signs of cooling in recent months amid a slowing of consumption among urban Indians, an outflow of some portfolio capital, and a sluggish trend in private investment.

"Even though we see sequential improvement from here, we are still sceptical whether we are looking at a secular uptick in the growth story in India," said Madhavi Arora, chief economist with Emkay Global in Mumbai. "And thus we remain much lower than the RBI in terms of our growth forecast, at 6 per cent."



Shaktikanta Das: 'Inflation has to be brought down' for growth's sake