

India

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India: RBI’s Governorship Changes Hands

- The Reserve Bank of India (RBI) has got a new Governor, Sanjay Malhotra. He takes over Shaktikanta Das.
- The composition of the monetary policy committee (MPC) changes noticeably ahead of the RBI’s 7 February 2025 meeting.
- We continue to expect RBI to cut its policy rate by a cumulative 50bps, starting with a 25bp cut at the 7 February 2025 meeting.

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Sanjay Malhotra succeeded Shaktikanta Das as the 26th Governor of the Reserve Bank of India (RBI). The change, while unexpected, was not entirely ruled out given that the government had kept mum about renewing former Governor Das’s contract. Incoming Governor Sanjay Malhotra’s term will be for a period of three years, starting 11 December 2024.

The composition of the monetary policy committee (MPC) will shift noticeably ahead of the RBI’s 7 February meeting. Deputy Governor Michael Patra is set to complete his tenure on 15 January 2025, leaving room for a new DG. It is worth nothing that Dr. Patra’s term was extended two times, in 2023 and 2024 by a period of one year. The other three external members of the MPC, Saugata Bhattacharya, Ram Singh and Nagesh Kumar were appointed to the MPC on 1 October 2024.

While the incoming governor’s inclinations in terms of policy direction are still not clear, any statements from the incoming governor will be watched closely to understand his policy leanings. His former post as Revenue Secretary and his career of thirty-three years as a bureaucrat across various sectors including finance, taxation, power and IT has tacitly implied that he may be more pre-disposed to supporting growth, particularly if headline inflation can be brought back to within the RBI’s 2-6% target range.

Monetary policy committee				
Dates of meeting	09-Oct-24	06-Dec-24	Members	07-Feb-25
Shri Shaktikanta Das	Hold	Hold	Sanjay Malhotra	n.a.
Shri Saugata Bhattacharya	Hold	Hold	Shri Saugata Bhattacharya	n.a.
Dr. Rajiv Ranjan	Hold	Hold	Dr. Rajiv Ranjan	n.a.
Dr. Michael Debabrata Patra	Hold	Hold	?	n.a.
Professor Ram Singh	Hold	Cut by 25bps	Professor Ram Singh	n.a.
Dr. Nagesh Kumar	Cut by 25bps	Cut by 25bps	Dr. Nagesh Kumar	n.a.

Source: RBI; OCBC.

At the previous meeting on 6 December, RBI cut the Cash Reserve Ratio (CRR) by 50bps to release INR1.16trn to the banking system in two tranches (14 December and 28 December). In terms of forecasts, RBI raised its FY25 headline CPI forecast to 4.8% YoY from 4.5% previously and lowered its FY25 GDP growth forecast to 6.6% versus 7.2% previously. RBI's assessment of the GDP growth is more optimistic than ours. We forecast FY25 GDP growth to average 6.2% YoY based on mixed monthly activity data trends, elevated interest rates weighing on credit growth and weaker external demand in 2025. While our forecast does suggest improvements in growth in the second half of the fiscal year, the risks are skewed to the downside.

We maintain our forecast for the RBI to deliver a shallow rate cutting cycle of a cumulative 50bps in 2025, starting with 25bps on 7 February 2025. The voting patterns of the relatively new MPC, statements from the new Governor and the bias of votes will be watched closely ahead to better understand the leanings of the MPC in 2025.

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