BUSINESS STANDARD POLICY POLL

RBI may push rates up by 30-50 bps

MPC may front-load rate hikes to tame inflation, say economists

BHASKAR DUTTA
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The Reserve Bank of India's Monetary Policy Committee (MPC) is likely to announce a repo rate hike of 35-50 basis points (bps) in its policy statement on August 5 in a bid to tackle elevated inflation, according to a majority of respondents in a *Business Standard* poll.

EXPERT PREDICTION

Institution	Rate hike expectation (in bps)
Standard Chartered Bank	50
ICICI Securities Primary Dealership	50
YES Bank	50
Quant Eco Research	40-50
Axis Bank	35-50
HDFC Bank	35-50
Barclays	35
Bank of America Securities	35
India Ratings and Research	35
Emkay Global Financial Services	25-35

Of the 10 institutions polled, three expected the MPC to straightaway raise the benchmark policy rate by 50 bps; three others predicted an increase of 35 bps. Two institutions gave an estimate of a 35-50-bp hike, while one provided a range of 40-50 bps for policy tightening. One institution said the MPC could opt for a 25-35 bp increase. The median of the poll showed a rate increase of 43 basis points.

The rate-setting panel commenced its current monetary policy tightening cycle on May 4, and has raised the repo rate by total 90 basis points to 4.90 per cent since then.

A rate hike of 25 bps would take the repo rate back to 5.15 per cent — the level that prevailed before the national lockdown was imposed to curb the spread of Covid-19 in March 2020.

PAGE 17

BANKER'S TRUST

HOW MUCH RATE HIKE THIS WEEK: 50 OR 35 BPS?

BY TAMAL BANDYOPADHYAY

Given that the Consumer Price Index inflation — the RBI's monetary policy anchor — remains well above the central bank's target band of 2-6 per cent, a fresh rate hike on August 5 is being considered a certainty by economists and market participants.

The latest data showed that headline retail inflation was at 7.01 per cent in June, marking the sixth consecutive month when the price gauge was above the RBI's mandated zone. The central bank's medium-term target for CPI inflation is 4 per cent. Upside risks to India's inflation increased dramatically after Russia's invasion of Ukraine in late February as the conflict led to a sharp increase in global commodity prices, including that of crude oil. Given that India imports more than 80 per cent of its fuel needs, the hardening of crude oil prices exerts considerable pressure on both country's inflation and trade deficit.

While crude oil prices have cooled down sharply over the past couple of months — Brent crude oil futures were last near the \$104 per barrel-mark against a 14-year high of \$140 per barrel in March — economists expect the RBI to announce rate hikes in quick succession in order to rein in the inflationary impulses.

Turn to Page 6

Rate hike…

"While inflation could come down below 7 per cent in the next few prints, the RBI is likely to continue with its front-loading of interest rate hikes as inflationary risks still remain. The terminal rate in this policy cycle is likely to be close to 5.75-6 per cent," said HDFC Bank's Principal Economist Sakshi Gupta. Gupta predicted a rate hike of 35-50 bps in the upcoming policy statement.

Members of the MPC and RBI officials have recently spoken about the need for front-loading rate hikes in the current cycle. This is happening at a time when the Federal Reserve is aggressively raising interest rates to rein in 40-year high inflation in the US.

So far in 2022, the US central bank has raised interest rates by 225 basis points. The rapid pace of the Fed's rate hikes has led to large outflows of overseas funds from Indian equities in 2022 as global investors have preferred improved returns in the world's largest economy.

Consequently, the rupee has weakened against the US dollar, touching a record low of 80.06 on July 19. Some economists feel that while the inflation risks in the US are much higher than those prevailing in India, the Fed's rate hikes exert pressure on the RBI to raise rates at home and make returns on domestic debt instruments attractive. While the RBI is not seen following the Fed's path when it comes to the magnitude of rate hikes, economists expect it to decisively signal a shift towards tighter financial conditions by not only raising the repo rate but also changing its liquidity stance.

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