RBI may hold fire even if Fed hikes rates twice: CEA

'RBI cycle not so tightly linked to Fed cycle now'

RUCHIKA CHITRAVANSHI
New Delhi, 2 November

The Reserve Bank of India (RBI) will not be under pressure to tighten its monetary policy even if the US Federal Reserve (Fed) increases interest rates further, Chief Economic Advisor (CEA) V Anantha Nageswaran on Thursday said.

The Fed on Wednesday held interest rates with Fed Chair Jerome Powell saying the US central bank could raise them again if progress on cooling inflation stalled.

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VOTE OF CONFIDENCE

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MARKETS REBOUND AFTER FED HOLDS RATES STEADY

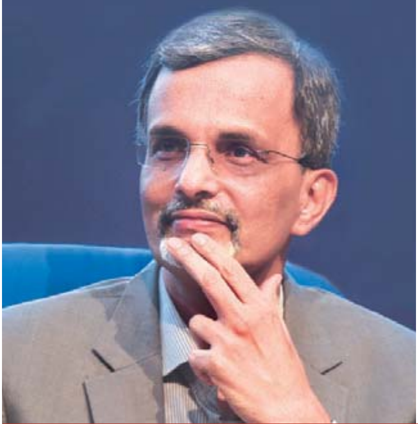
"If the Fed were to hike 25 basis points, or even two times, that will not put pressure on the RBI to follow suit," Nageswaran told *Bloomberg Television* on the sidelines of the Barclays Asia Forum in Singapore.

The CEA held the RBI's rate cycle had not been so tightly linked to that of the Fed because India's external balances and financial stability were much better than they were 10 years ago, when India was part of the taper tantrum countries.

"The Indian rupee among Asian currencies this year has been the most stable. And given the macro fundamentals, I think the RBI does have a few degrees of freedom than before ... India's financial variables, both interest rates and exchange rates, have been remarkably stable," Nageswaran said.

RBI Governor Shaktikanta Das recently said at the Business Standard's BFSI Insight Summit domestic factors determined India's monetary policy.

"GIVEN THE MACRO FUNDAMENTALS, I THINK RBI DOES HAVE A FEW DEGREES OF FREEDOM THAN BEFORE"



V Anantha Nageswaran
Chief economic advisor

"We look at all possible international factors because we are living in a globalised world. We will be impacted by what's happening all around us. But ultimately and eventually, our monetary policy is primarily determined by domestic factors. Our monetary policy is not influenced by the differential in bond yields (with the US Fed) or if the currency is depreciating, but by inflation-growth dynamics and its future outlook," he added.

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Last month, the Monetary Policy Committee (MPC) of the RBI unanimously kept the repo rate unchanged at 6.5 per cent for the fourth consecutive policy review. The MPC has hiked the repo rate by 250 basis points between May 2022 and February 2023 to curb rising inflationary pressures in the economy.

On the risks associated with oil prices, Nageswaran said India was well within the margins of safety of where the oil price forecast was assumed to be. The RBI's forecasts are based on a crude oil price of $85 a barrel in the second half of the financial year. Nageswaran said capital formation would underpin India's growth this decade. However, some of the risks for the India economy, he said, would include a significant price correction in the global stock markets. The US especially will have a spillover effect on many other countries, including India, with a knock-on effect on sentiment and consumption. "If geopolitical developments worsened considerably and oil prices shoot up well above $100-$105 (per barrel), the speed and the magnitude will matter for India."

The CEA said there was no indication that the fiscal policy was about to be loosened, because of the upcoming elections. "The fiscal deficit is 40 per cent of the annual estimate, which is very well on track to achieve the 5.9 per cent (fiscal deficit target) which we have in place for the Union government."