

CATCHING UP WITH THE WORLD

On Friday, the Reserve Bank of India (RBI) is expected to announce another rate hike as it plays catch-up with other central banks to contain inflation and protect against further rupee depreciation.

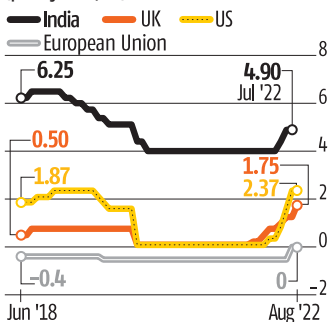


While the US Federal Reserve raised rates by 75 basis points (bps) at its meeting in July, the European Central Bank instituted its first rate hike in 11 years, as it increased the deposit rate by 50 bps. On August 4, the Bank of England raised rates by 50 bps to 1.75 per cent. A *Business Standard* poll of 10 economists expects the RBI to raise rates by 35–50 bps. The current hike is expected to drive the repo rate either equal to or above the pre-pandemic level. Even if the RBI raises rates by 50 bps, the quantum of hikes would still be lower compared to other major economies. The Bank of England has raised rates by 1.65 per cent since March 2020, whereas the US Fed has instituted a 2.25 per cent rate hike during this period. With a 50-bp hike, India's rates would have risen by 1.4 per cent.

ISHAAN GERA

Era of rate hikes

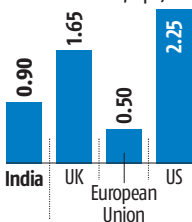
(policy rate, %)



Note: ECB rate is deposit rate. US rates are average of the lower and upper range

India's rate hikes are still lower

(quantum of rate hikes since Mar 2020, bps)



Source: RBI, ECB, BoE, and Fed