# RBI raises repo rate by 50 bps to 3-year high

## GDP GROWTH FORECAST FOR FY23 CUT TO 7% FROM 7.2%

## INFLATION TARGET RETAINED AT 6.7%; TRAJECTORY REMAINS UNCERTAIN: GUV

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Mumbai, 30 September

The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) on Friday decided to increase the policy repo rate by 50 basis points (bps) to 5.9 per cent — which is largely on expected lines — as inflation continues to stay above 6 per cent, the upper level of its tolerance band, for the past eight months.

Except External Member Ashima Goyal, who voted for a 35-basis point hike, the rest were in favour of what the MPC settled for.

Since May this year, the repo rate has been increased by 190 bps to 5.9 per cent, a three-year high.

The committee also decided to remain focused on withdrawing "accommodation", which was supported by all except External Member Jayanth Varma.

While the policy statement was seen as dovish, RBI Governor Shaktikanta Das alluded to a third major shock — the other two being the pandemic and Russia-Ukraine war — which is aggressive monetary policy actions by developed economies.

"The world is in the eye of a new storm ... The recent sharp rate hikes and forward guidance about further big rate hikes have caused tightening of financial conditions, extreme volatility and risk aversion ... There is nervousness in financial markets with potential consequences for the real economy and financial stability," Das said, adding that despite this unsettling global environment, the Indian economy continued to be resilient.

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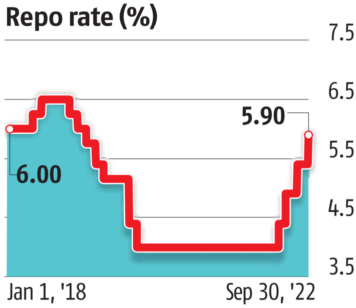
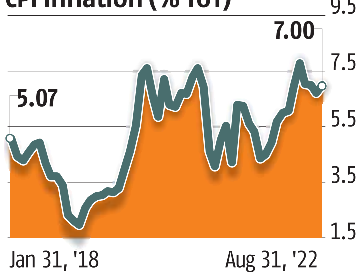
### TRACKING KEY TRENDS

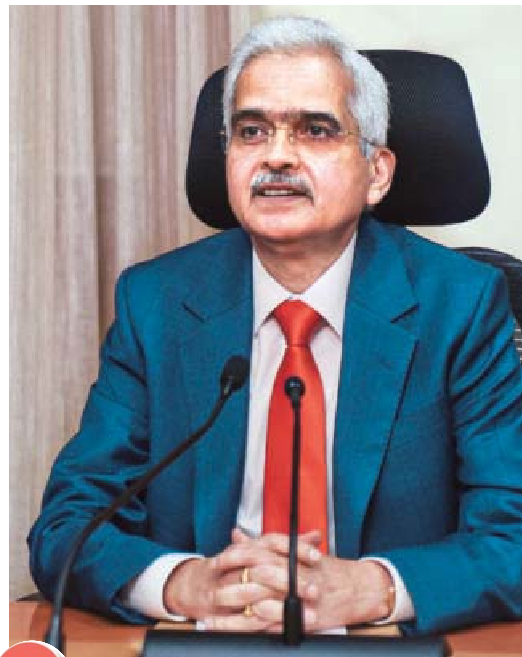
Repo rate (%)




CPI inflation (% YoY)




Source: RBI/Bloomberg



"THE OVERALL STRESS ON THE GLOBAL FINANCIAL SYSTEM HAS BECOME MUCH MORE IN THE AFTERMATH OF MONETARY TIGHTENING...NOBODY IS BLAMING ANYONE. WE HAVE TO DEAL WITH THE SPILLOVERS"
**SHAKTIKANTA DAS,** RBI governor

Q&A 'RUPEE FLUCTUATION NOT A FACTOR FOR CONSIDERATION OF MPC' P6

### 'INFLATION PRIORITY OVER GROWTH'

As the Monetary Policy Committee hiked the repo rate by 50 basis points, officials in North Block said they were in lockstep with the RBI and that managing inflation and external sector pressures took precedence over growth. 6

### AUG CORE SECTOR GROWTH AT 3.3%

The eight infrastructure industries that comprise the core sector grew at the slowest pace in nine months at 3.3 per cent in August. This is owing to a higher base and deceleration in output growth of steel and electricity. 4

### APR-AUG FISCAL DEFICIT AT 32.6%

The centre's fiscal deficit for April-August FY23 came in at ₹5.4 trillion, or 32.6 percent of the budget estimate of ₹16.6 trillion, official data showed. This compares to a fiscal deficit of ₹4.68 trillion for the same period last year. 4

67% OF FALL IN FOREX DUE TO VALUATION CHANGES: DAS P7

INFLATION TO AVERAGE 5.2% IN FY24 P6

RBI WANTS EXPECTED LOSS-BASED APPROACH P7

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# RBI...

The RBI sees the inflation rate falling to 5 per cent during Q1 next fiscal year.

Some market participants were expecting a change in stance to "neutral". Commenting on the stance, Das highlighted when the stance was changed from "neutral" to "accommodative" in June 2019, liquidity was in deficit and the inflation rate was trailing the repo rate. The situation is the opposite now as shown by the fact that real rates are negative and liquidity is still in surplus, though the magnitude has come down. In the post-policy press conference, Das, however, abstained from commenting on under what circumstances the committee would change its stance. "The RBI did little to remove the ambiguity and perceived deviation around its stance, keeping it unchanged at 'withdrawal of accommodation', contrary to our expectations that a move to neutral was on the cards," HDFC Bank said in a note. Nomura raised its terminal rate to 6.50 per cent (from 6.15 per cent earlier).

Lower than expected GDP growth in April-June prompted the RBI to revise the growth forecast for FY23 to 7 per cent from 7.2 per cent. However, the FY23 inflation forecast of 6.7 per cent was retained despite a sharp drop in international crude oil prices.