RBI hikes repo rate by 35 bps, cuts FY23 GDP forecast to 6.8%

BALANCED TRADE-OFF. Arjuna's eye on evolving inflation dynamics; growth aspect will be kept in mind: Das

Our Bureau
Mumbai

To address the twin challenges of elevated inflation and slowing growth, the Monetary Policy Committee (MPC) on Wednesday tamped down the policy repo rate hike to 35 basis points. Simultaneously, the Reserve Bank of India (RBI) lowered the GDP projection for FY23 to 6.8 per cent from 7 per cent , even as retail inflation projection for FY23 was left unchanged at 6.7 per cent.

Governor Shaktikanta Das cautioned that the battle against inflation is not over. "While being watchful of the impact of our earlier monetary policy actions, we will keep Arjuna's eye on the evolving inflation dynamics and be ready to act as may be necessary," he said. Experts read this as a signal that more rate hikes are in the offing.

CONTAINING INFLATION

MPC members voted by a majority of 5-1 to up the repo rate from 5.90 per cent to 6.25 per cent. The last time that the repo rate was at 6.25 per cent was in February 2019. The MPC also decided by a majority of 4-2 to remain focused on the withdrawal of accommodative stance to ensure that inflation remains within the target, while supporting growth.

"We will have to be nimble in our actions, and we have to be watchful and act should it become necessary. Therefore, the battle against inflation is not over... there is no room for complacency. But the worst of inflation is behind us and it is moderating," said Das.

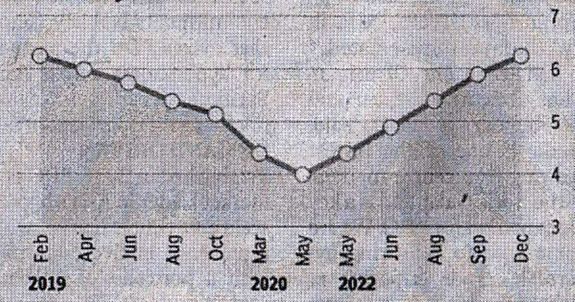
The Governor added that the MPC was of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break core inflation persistence and contain second order effects. These actions will strengthen the medium-term growth prospects of the economy, he said.

POLICY HIGHLIGHTS

- Battle against inflation is not over: Das
- FY23 inflation projection unchanged at 6.7 per cent
- Monetary policy to remain focused on withdrawal of accommodation

Referring to the moderation in the policy rate increase, Deputy Governor MD Patra said this is a very fundamental guidance that MPC is giving to the market. "If things pan out as projected, the days of 50 bps consecutive increases are over. But we cannot take our shoe off the brake because inflation is still averaging at 5-5.4 per cent next year. So, we must guide it to a place where it remains stable in those ranges and then moves on to 4 per cent. Till then we must be on our toes," Patra said.

Rate cycle



FEELING THE PINCH

With the repo rate being cumulatively hiked by 225 basis points in the last eight months and banks transmitting this to lending rates, experts say this could pinch borrowers, especially in the retail segment. Radhika Rao, Executive Director and Senior Economist at DBS Bank, said, "With inflation off the boil and high-frequency data likely to turn mixed, we expect the remaining 25 bps hike to be delivered at the February meeting before rates settle into a prolonged pause."

Dinesh Khara, Chairman, SBI, said: "The RBI policy statement is nuanced, nimble, forward-looking and ensures a fine balancing trade-off between growth and inflation. A marginal downward revision in growth estimates reveals that the only certainty in the current environment is uncertainty. A visible improvement in consumer and business confidence as per RBI surveys augurs well for the future growth outlook."