BUSINESS STANDARD POLICY POLL

Economists see 35 bps rate hike, then a pause

Some expect a slight reduction in GDP growth forecast

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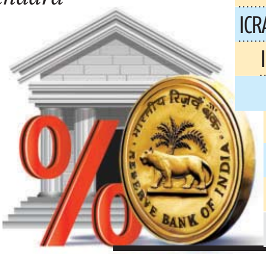
Mumbai, 27 November

EXPERT PROJECTION

The MPC will meet on Dec 5 for three days. Here's what the 10 respondents expect from it



Institution	Hike (bps)	Stance	Forecast for FY23 (%) GDP growth	Forecast for FY23 (%) Retail inflation
Axis Bank	25-35	Status quo	6.8-7.0	6.7
Bank of Baroda	25-35	Status quo	6.7-6.8	6.7
Barclays	35	Change to neutral	7.0	6.7
HDFC Bank	35	Status quo	7.0	6.7
ICRA	35	Change likely	7.0	6.7
IDFC First Bank	50	Status quo	7.0	6.7
India Ratings & Research	35	Status quo	7.0	6.7
Kotak Securities	25	Status quo	6.8-7.0	6.7
Standard Chartered Bank	35	Status quo	7.0	6.7
QuantEco Research	35	Change to neutral	6.8	6.7
	Median 35	Mode 35		

The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) is likely to announce a 35-basis point (bp) hike in the repo rate on December 7, in a bid to bring headline retail inflation back to its 4 per cent target, a *Business Standard* poll showed.

The MPC's next meeting is scheduled from December 5-7. Since May 4, 2022, the MPC has raised the repo rate by a total of 190 basis points to 5.90 per cent. The past three rate hikes have each been in tranches of 50 basis points.

According to a poll comprising 10 respondents, the MPC is seen increasing the repo rate by 35 basis points in the upcoming meeting, taking the benchmark policy rate to 6.25 per cent. Both median and mode of the poll showed a rate hike of 35 bps.

Six of the 10 respondents expected a 35-bp hike, while two provided a range of 25-35 bps. One respondent predicted a 25-bp hike. Only one respondent forecast a tightening greater than 35 bps. If the MPC were to raise the repo rate by 35 bps to 6.25 per cent, it would mark the highest level for the policy rate since February 2019.

All the respondents expected the MPC to keep the retail inflation forecast for the current fiscal year at 6.7 per cent. Four institutions, however, predicted a mild reduction in the central bank's current GDP growth forecast of 7 per cent.

The rapid pace at which the MPC has raised interest rates since May comes against the backdrop of a significant rise in upside risks to India's inflation following Russia's invasion of Ukraine. The war, which broke out in late February, led to a surge in commodity prices across the globe, including that of crude oil. India imports more than 80 per cent of its oil needs.

An aggressive monetary tightening cycle by the US Fed has also exerted pressure on other economies to tighten policy, in order to maintain interest rate differentials with the world's largest economy.

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MODERATE PACE OF RATE HIKES: INDIA INC TO RBI P6

FROM PAGE 1

35 bps...

But with India's CPI inflation recently showing signs of softening, economists feel the MPC may now reduce the quantum of rate hikes from 50 bps.

The CPI-based inflation was at 6.77 per cent in October versus 7.41 per cent a month ago. The RBI's CPI-based inflation target is 4 per cent; the tolerance band for the price gauge is 4-6 per cent.

"Rate hike is likely, but quantum is a matter of debate. The debate is whether the monetary policy in India could be thought of as decoupling from Fed hike cycle. Capital inflows into India have remained remarkably strong in November and 75 per cent of the capital outflow until July end has now been reversed," Soumya Kanti Ghosh, State Bank of India's group chief economic adviser, said.

Some economists were of the view that after an additional 35-bp rate hike next month, the MPC could take a breather and wait for the impact of its rate tightening to play out in the economy. Three of the polled respondents expected a change in the stance of the monetary policy from "withdrawal of accommodation".

"We've been thinking about a shift to neutral for quite some time. We have this as the last meeting where the MPC will hike (the repo rate). Since we are not forecasting any more hike, one can say that 6.25 per cent will be the terminal repo rate," said Rahul Bajoria, Barclays' head of EM-Asia (ex-China) economics research.

"What we are saying effectively is that there's a lot of data dependency that exists from meeting to meeting of the MPC. We don't think there's going to be any material urgency to hike the rate beyond 6.25 per cent," he said. The view of the MPC going slow on future tightening has been strengthened by the dissent of two external members of the rate-setting panel —Ashima Goyal and Jayanth Varma — in last policy review. While Goyal favoured a 35-bp hike in September, instead of a 50-bp jump, Varma voted against the stance of withdrawing accommodation, saying that the MPC should now pause. While the bulk of the respondents forecast a less aggressive tightening action, some economists highlighted persistent risks on the inflation front.

"We maintain our view of a 50-bp hike in December, which is an out-of-consensus view. The reason being that both domestic and global factors support continuing front-loading of rate hikes," IDFC First Bank economist Gaura Sengupta said.

PMAY-G...

According to the scheme's guidelines, the financial burden of the implementation is shared between the Centre and states at a ratio of 60:40 in the plains, and 90:10 in hilly and special category states.

The Centre is implementing the PMAY-G from April 1, 2016, to realise Prime Minister Narendra Modi's vision of 'Housing for All' by 2022.

Under this, 10 million pucca houses were to be constructed in rural areas by March 2019.

"Training of rural masons, development of locally appropriate house design typologies, and dedicated structure for monitoring at various levels led to quality and timely completion of houses," official documents show. Thereafter, the Union Cabinet considered building another 19.5 million houses under the PMAY-G.

BS SUDOKU # 3830

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SOLUTION TO #3829

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4	8	1	6	7	9	2	3	5
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Medium: ★★★

Solution tomorrow

HOW TO PLAY

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