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The Reserve Bank of India (RBI) is expected to raise the repo rate by 35-50 basis points (bps) in its policy meeting this week, in tandem with ECB and US Fed's rate hike.

Written by Surbhi Jain
August 3, 2022 7:33:38 am

Recent commodity price declines could offer the RBI some room to lower its inflation forecasts

The Reserve Bank of India (RBI) is expected to raise the repo rate by 35-50 basis points (bps) in its policy meeting this week, in tandem with ECB and US Fed's rate hike. The monetary policy committee (MPC) will begin from Wednesday, 3rd August and the decision will be announced on Friday. Prioritising inflation over growth, the RBI has effectively raised rates by 130 bps since April 2022. Analysts see another two repo rate hikes of 25bp – in September and in December. Some economists also see the possibility of a change in stance to calibrated tightening. "Recent commodity price declines could offer the RBI some room to lower its inflation forecasts modestly amid signs of stable growth," Rahul Bajoria, MD & Chief India Economist, Barclays, said. CareEdge expects CPI inflation may soften below 6 per cent by Q4FY23.

RBI likely to hike repo rate by another 100 bps in the remainder of FY23: Rajani Sinha, Chief Economist, CareEdge

With the softening of many commodity prices, CPI inflation seems to have broadly peaked at the current levels and expected to witness a downward movement to below 6% by Q4FY23. However, domestic inflation is still high and so is the global commodity prices, we expect RBI to continue with front-loading of rate hiking cycle. We expect 50 bps of repo rate hike in the upcoming policy and another 50-bps rate hike post that taking the terminal repo rate to 5.90% by the end of the fiscal year.

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We see change in stance to calibrated tightening, may retain CPI, real GDP growth forecasts: BofA Global Research

We now expect the RBI MPC to raise policy repo rate by 35bp on Aug 5 & change stance to calibrated tightening. We see RBI MPC retain growth and inflation forecasts at 7.2% & 6.7% yoy respectively in this case & see repo at 5.75% by Mar'23. The possibility of an aggressive 50bp & a measured 25bp hike cannot be ruled out either. In our base case, we now see the RBI MPC hike policy repo rate by 35bp, taking it to 5.25%, with stance change to calibrated tightening from withdrawal of accommodation. We expect the RBI MPC to retain their CPI and real GDP growth forecasts.

RBI commentary may be neutral / dovish: Lakshmi Iyer, Chief Investment Officer (Debt) & Head Products, Kotak Mahindra AMC

We expect RBI MPC to hike benchmark repo rate by 50bps as CPI continues to rule above RBIs threshold band. Commentary may be neutral / dovish as CPI trend seems to be following RBIs forecast for FY 2023. Key to watch also would be the guidance if any in the future course of rate moves.

RBI to continue normalisation of monetary policy: Rahul Bajoria, MD & Chief India Economist, Barclays

Recent commodity price declines could offer the RBI some room to lower its inflation forecasts modestly amid signs of stable growth. Still, we expect the RBI to deliver a unanimous 35bp repo rate hike during this week's policy review meeting, followed by two 25bp rate increases – one in September and another in December. We expect monetary normalisation to continue, but see signs that the RBI is turning more comfortable with a modest pace of rate hikes.

INR pressures unlikely to dictate MPC's decision: Emkay Global Financial Services

The MPC is likely to unanimously vote for a 35bps or so hike in the policy rate this week, with limited change in the broad outlook of domestic macro realities. With recession fears gathering globally, the reaction function of central banks, including the Reserve Bank of India (RBI), will likely start weighing the growth-inflation trade-off carefully in the coming months. INR pressures are unlikely to dictate MPC's decision as of now. Even as India's inflation has peaked, it still warrants caution, especially underlying inflation appears sticky. Nonetheless, with end-March FY23 inflation likely under 5.0% and sliding down further ahead, FY23 could see policy rates go up by another 75bps (including August), with the RBI showing its intent to keep real rates near the estimated natural rate.

Repo rate hike to impact the sentiments of home buyers: Shishir Baijal, Chairman and Managing Director, Knight Frank India

We anticipate the upwards revision to be in the range of 35 – 40 BPS, taking the total change since May 2022 to 125 – 130 BPS higher. From the real estate sector's standpoint, an upward revision will impact the sentiments of home buyers, who have remained positive despite the last set of revisions that led to a rise in home loan interest rates. A further increase in repo rates will lead to a proportionate erosion of affordability, thereby possibly impacting sales momentum.