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RBI gov hikes repo rate by 40 basis points in emergency meet

By Anand JC, ET Online Last Updated: May 04, 2022, 04:56 PM IST

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Synopsis

The Reserve Bank of India (RBI) Governor Shaktikanta Das on Wednesday in an unscheduled meet said that the Monetary Policy Committee (MPC) unanimously voted to hike rates by 40 bps whilst remaining accommodative.



Agencies

RBI Governor Shaktikanta Das (File image)

In an unscheduled press briefing on Wednesday, the [Reserve Bank of India \(RBI\)](#) Governor [Shaktikanta Das](#) announced that the Monetary Policy Committee ([MPC](#)) in an off-cycle meet unanimously voted to hike rates.

The policy repo rate has been hiked by 40 bps to 4.40% with immediate effect. The standing deposit facility rate is now at 4.15% while the marginal standing facility rate and bank rate stand at 4.65%. The RBI also hiked the cash reserve ratio (CRR) by 50 basis points to 4.5% effective May 21. The

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WOULD BE TO THE ORDER OF RS 67,000 CRORE, GOVERNOR DAS SAID.

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In a surprise move on Wednesday, RBI Governor Shaktikanta Das hiked repo rates by 40 bps to 4.40% with immediate effect. Wednesday's hike is the first since August 1, 2018. Governor laid down the following rationale behind the off-cycle rate hike

"The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting growth," Das said.

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The MPC held an off-cycle meeting on May 2 & May 4 to reassess the evolving inflation-growth dynamics and the impact of the developments after the MPC

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"The situation is dynamic and fast-changing and our actions have to be tailored accordingly," Das reiterated.

"Monetary policy still remains accommodative, approach will be to focus on careful & calibrated withdrawal of accommodation"

— RBI Governor Das

Inflation outlook

Laying down the rationale behind the off-cycle rate hike, Das said that inflation-sensitive items relevant to India, like edible oils, are facing shortages due to the conflict in Europe and export ban by key producers.

"The jump in fertiliser prices and other input costs has a direct impact on food prices in India," he said.

The sharp acceleration in headline CPI inflation in March 2022 to 7% was propelled in particular by food inflation, Das said. "Nine out of the 12 food subgroups registered an increase in inflation in the month of March. High-frequency price indicators for April indicate the persistence of food price pressures," he added.

The MPC believes the core inflation is likely to remain elevated in the coming months, reflecting high domestic pump prices and pressures from the prices of essential medicines.

Headline retail inflation in [India](#) rose to a 17-month high in March led by a sharper than expected spike in prices of food and manufactured goods, official data showed. It has now remained over the RBI's upper tolerance band of 6% for the third straight month.

The MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second-round effects, Das said.

The RBI in its April monetary policy had kept its benchmark lending rate at a record low, keeping the repo rate unchanged at 4%.

"Interest rate hike has been aimed at strengthening, consolidating medium-

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Das said.

"RBI will ensure that there will be adequate liquidity in the system to meet the productive requirements of the economy in support of credit offtake growth," he said.

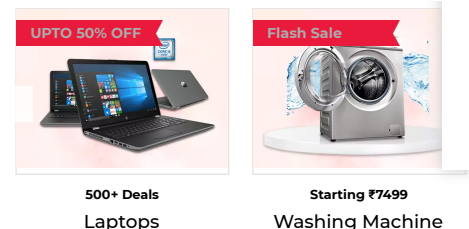
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"The hike in repo rate as announced by RBI was much required at this point in time. The very fact that the RBI has announced the repo rate hike in an unscheduled meeting, highlights the urgency of this move," research firm CareEdge's chief economist Rajani Sinha said.

"The persistence of inflationary pressure has also shown that inflation is not just transient in nature as was being anticipated earlier. It is very critical at this point to anchor inflationary expectations to avoid wage-price spiral in the economy. The global developments in the last few weeks have highlighted that this battle against inflation could be a long drawn affair," she added.

"The governor spoke about being an optimist, I think it is important to be a realist not just being an optimist. Unfortunately as I said the RBI waited too long and now when it had to act it had to act much faster than it was being warranted had it acted earlier," Mythili Bhusnurmath, Consulting Editor, ET Now said. "So I just cannot help thinking about LIC, the government disinvestment and how things could have been different if only the RBI had woken up in time."

The next meeting of the MPC is scheduled between June 6 & 8.


In Video: **Repo rate: RBI Governor outlines reasons for the first hike since August 1, 2018**

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