RBI vs inflation: Round II

With the financial markets prepared for rate hikes, the central bank would take this opportunity to increase policy interest rates by 35-40 bps in the next meeting. Going forward, the eventual target would be to move towards a positive real rate of interest. This implies that the repo rate would be hiked to 6.5% or so

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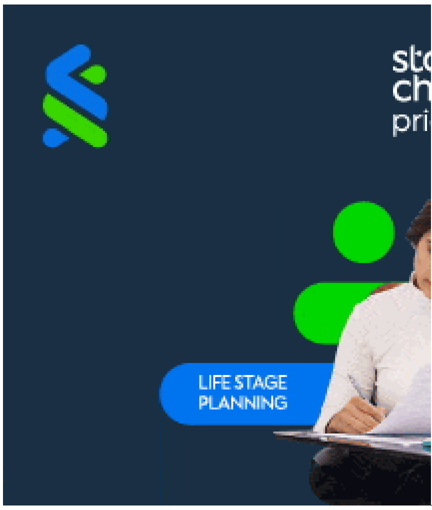

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By Rajani Sinha

RBI Governor Shaktikanta Das has said a rate hike at the June 8 MPC meet is a “no brainer”. So, the economists are now breaking their heads on how much the hike will be and how the growth and inflation projections for FY23 will be revised? More importantly, what will be the path taken in the next few months given the fragile domestic economic recovery?

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footwear, transport, communication, recreation and personal care. According to the latest data, core inflation (excluding food and fuel) has touched a high of 6.8%. The concern for RBI is that high food and fuel inflation will not just have a second-round effect on other components of inflation but will also push up household inflationary expectations. This, in turn, could result in a wage-price spiral, further pushing up actual inflation. Though the government has announced measures that will cool inflation by 50-60 bps, the concerns remain.

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In the next few months, CPI inflation is likely to be above 7%. However, with control measures being taken by RBI and the government, we could see some cooling of prices in H2 FY23. A likely slowdown in the global economy could also ease global commodity prices to some extent in the next few months. Considering all these factors, RBI is likely to hike the inflation projection for FY23 to around 6.5% from their earlier one of 5.7%.

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