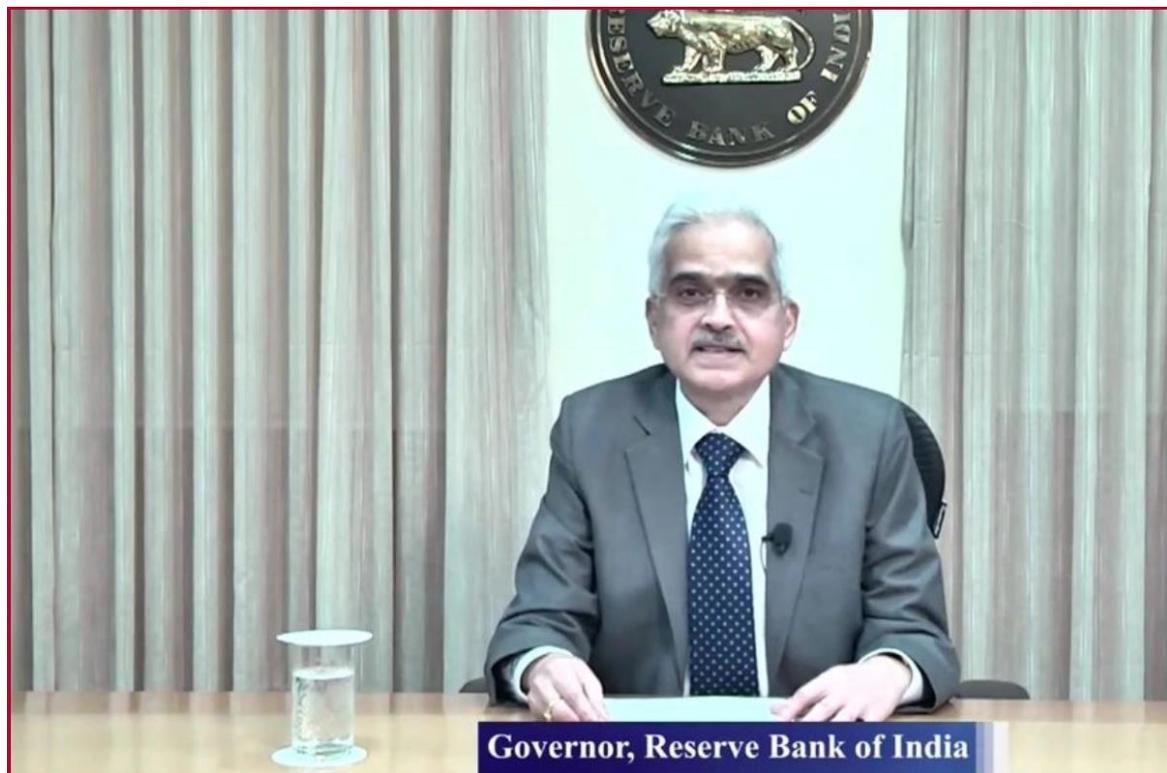


RBI set to hike policy rates for the third time in a row to tame inflation

Data analytics firm CareEdge expects RBI to hike the policy interest rate by another 100 basis points in the remainder of the financial year 2022-23. This will take the terminal rate to 5.90 per cent by the end of FY23.

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New Delhi: The Reserve Bank of India is likely to hike the policy repo rate by 25 to 50 basis points on Friday, the third hike since the beginning of the current financial year, in order to tame the inflationary pressure.

While the hike in policy interest rates is almost certain, analysts and economists have different opinions on the extent of the rate hike. It varies between 25 basis points to 50 basis points.

According to Srikanth Subramanian, CEO-Designate, Kotak Cherry, RBI is expected to hike the policy repo rate by 35 to 50 basis points.

“The upcoming RBI policy is expected to resonate the rate increase action taken by peer central bankers with the consensus between 35-50 bps hike getting acknowledged across the yield curve,” Subramanian said.

“Monetary policies are swayed by macro data where inflation and growth are tracked with few high-frequency indicators. Few advanced economies have fallen prey to conflicting indicators and facing the tough task of collaborating them together. Domestically, the cooling of commodities along with crude, good GST numbers, rise in PMI, firm power consumption points towards the resilience of the economy and have provided RBI with a clear guidance to focus on price stability (inflation),” Subramanian added.



The second bi-monthly meeting of the RBI Monetary Policy Committee started on Wednesday. RBI Governor Shaktikanta Das is scheduled to announce the Monetary Policy Committee decisions on Friday morning.

According to HDFC Bank’s Chief Economist Abheek Barua, the RBI is “likely to take rates above a level deemed ‘neutral’ (which we think is closer to 5.25 per cent) before slowing down or looking at becoming more data dependent in this rate hike cycle.”

“We expect RBI MPC to hike benchmark repo rate by 50 bps as CPI continues to rule above RBI's threshold band. Commentary maybe neutral / dovish as CPI trend seems to be following RBI's forecast for FY 2023. Key to watch also would be the guidance if any in the future course of rate moves,” said Lakshmi Iyer, Chief Investment Officer (Debt) & Head Products, Kotak Mahindra Asset Management Company.

“From to hike or not earlier this year, the key question for policymakers is how much to hike! US Fed seems to be running a Sprint as far as rate hikes are concerned. Most other economies may not have the luxury of a marathon race hence,” Iyer said.

On the impact of the RBI decision on the stock markets, Subramanian said, “Equity markets seem to have discounted a 35-50 bps rise and hence a corresponding rate hike may not result in a big shock specially on the back of good earnings and economic momentum.”

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While the current CPI inflation is still around 7 per cent, the easing of many commodity prices is attributed as a major factor of influence towards a lower inflation trajectory by the fourth quarter of the FY23.

“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 per cent by the end of the fiscal year,” said Rajani Sinha, Chief Economist, CareEdge.

“With the softening of many commodity prices, CPI inflation seems to have broadly peaked at the current levels and is expected to witness a downward movement to below 6 per cent 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,” Sinha said.

If the RBI chooses to hike the policy repo rate on Friday, it will be the third hike in a row. The RBI started tightening the monetary policy at the beginning of the current financial year. In its off-cycle monetary policy review in May, the RBI hiked the policy repo rate by 40 basis points or 0.40 per cent. This was the first increase in the policy repo rate in nearly two years. The repo rate is the interest rate at which the RBI lends short-term funds to banks.

In its second bi-monthly policy review in June, the RBI hiked the policy repo rate by 50 basis points to 4.90 per cent.