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After RBI raises repo rate by 50 bps, experts see more hikes with focus on inflation control

Wednesday's increase takes repo rate to 4.90 per cent



(https://www.theweek.in/authors.nachiket-kelkar.html)

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RBI said that they had already "reprioritised" policies to control inflation without losing sight of growth requirements | PTI

The Reserve Bank of India will continue to raise repo rate in the next few monetary policy committee (MPC) meetings as containing inflation has taken centre stage, say market experts.

On Wednesday, the MPC unanimously [raised the repo rate by 50 basis points](https://www.theweek.in/news/biz-tech/2022/06/08/emi-to-rise-further-rbi-raises-repo-rate-50bps-to-tame-inflation.html) (<https://www.theweek.in/news/biz-tech/2022/06/08/emi-to-rise-further-rbi-raises-repo-rate-50bps-to-tame-inflation.html>). This is the second time the central bank has raised the rate at which it lends banks. Last month, it had surprised with an unexpected hike of 40 bps.

Today's increase takes the repo rate to 4.90 per cent, up from 4.0 per cent at the time of the April MPC meeting.

However, it is still lower than the pre-pandemic repo rate of 5.15 per cent.

Retail inflation in April had hit an eight-year high of 7.79 per cent, well above RBI's comfort band of 2-6 per cent. The Ukraine-Russia conflict, apart from supply-side challenges due to the pandemic, has pushed up prices of crude oil and many other commodities.

On Wednesday, RBI Governor Shaktikanta Das asserted that inflation was likely to stay above the upper end of the band in the first three quarters of the current financial year. It has projected inflation at 6.7 per cent in 2022-23, while GDP growth forecast for the year has been retained at 7.2 per cent.

Das also said that they had already "reprioritised" policies to control inflation without losing sight of growth requirements.

In this backdrop, the next MPC meeting could further see the repo rate being hiked to take it to above pre-pandemic level and then some more.

"We expect 35 bps repo rate hike in the August policy to 5.25 per cent and repo rate at 5.75 per cent by end-FY 2023. Along with pushing the repo rate to above the pre-pandemic level, a 35 bps hike would also signal a gradual normalisation in the policy actions, while being adequately hawkish," said Suvodeep Rakshit, senior economist at Kotak Institutional Equities.

Dharmakirti Joshi, chief economist at credit ratings agency CRISIL, expects the RBI to increase the repo rate by another 75 bps this fiscal, and take it 50 bps above the pre-pandemic level.

"A sharp rise in inflation is forcing Mint Road's hand," he said.

The RBI's policy tightening is also warranted to reduce pressure on the rupee from widening the current account deficit (CAD) and stem foreign portfolio outflows, said Joshi. So far, the rupee has weakened 4.3 per cent since the start of 2022.

Abheek Barua, chief economist at HDFC Bank, feels the central bank seemed far more concerned about inflation - reflected in the upward revision of inflation forecast - and relatively more sanguine on domestic growth impulses.

"Clearly, the RBI is concerned about the broad-based nature of the increase in inflation and the risk of the second-round impact on inflation expectations," said Barua.

He expects the repo rate to be raised close to 6.0 per cent by the end of March 2023.

Nikhil Gupta, chief economist, Motilal Oswal Financial Services takes a different view. He feels the central bank may raise repo rate by another 25 bps in the August MPC meet and then pause.