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RBI MPC meeting: As RBI focuses on withdrawal of loose policy, economists see interest rate hike in August

Barclays India said it expects RBI to start raising interest rates from August meeting. It expect policy rate hikes of 50 bps, which will push repo rate to 4.5% by end-2022.

Written by [Aakriti Bhalla](#)
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RBI MPC meeting: Economists say RBI could begin the process of hiking interest rates from August. (File: RBI)

As the Reserve Bank of India acknowledged the “tectonic shifts” that have been caused by the ongoing Russia-Ukraine war and kept the benchmark interest rates unchanged to back growth, economists now expect the central bank to shift to a neutral stance in the next meeting. [RBI](#) may eye an incremental rate hike in the monetary policy committee’s August meeting, economists added.

In the press conference following the monetary policy announcement, RBI Governor said the central bank has maintained an accommodative stance while focusing on withdrawal of accommodative stance in a gradual manner. The Das-led central bank has kept its monetary policy stance loose, from neutral, even before the pandemic hit i.e. in 2019.



RBI on path to policy corridor normalisation

Barclays India said the RBI monetary policy committee's decision to stick to an accommodative stance is not surprising, adding that it was expecting the RBI to normalise the corridor between now and August. "It's more a shift in timing, rather than the action," Barclays said.

"As such, we still expect policy rate hikes of 50bp that will push the repo rate to 4.5% by end-2022, with the new SDF floor rising to 4.25%. We also think it now makes sense for the RBI to change its policy stance to neutral in the June policy meeting. Assuming that downside risks to growth have dissipated by then, we expect repo rate hikes to be announced from the August MPC meeting," it added.

"RBI has shifted towards hawkishness acknowledging the increasing upside risks to inflation. The withdrawal of accommodation tilt is clear by the normalisation of the effective policy corridor to pre covid levels of 50bps. We expect the MPC to change the policy stance to neutral in the June policy. The repo rate hikes will follow from August. We see 50bps repo rate hike in FY23," Upasna Bhardwaj, Senior Economist at [Kotak Mahindra Bank](#) said.

CareEdge expects the RBI to hike the repo rate by a minimum of 75 basis points in the current fiscal given the looming threat of inflation. RBI decided to keep the repo rate unchanged at a record low of 4%, while it kept the reverse repo rate unchanged at 3.35%.

'No longer a dove'

With its policy announcement, the RBI no longer remains a stout dove and the central bank's reaction function is now evolving with fluid macro realities, says Madhavi Arora, Lead Economist, [Emkay Global Financial Services](#).

"Overall, the policy calibration is well appreciated — crawling towards withdrawal of "ultra accommodation", with policymakers making the liquidity normalisation long drawn multi-year process. However with the reaction