

Economists estimate a 25-50bps rate hike by MPC in September



The RBI-led monetary policy committee hiked repo rate by 50 basis points for the third time in a row in August, taking the policy rate to the pre-pandemic levels of 5.4%.

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Dilasha Seth

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BENGALURU : Following a spike in consumer price index based inflation to 7% in August, economists expect the Reserve Bank of India led monetary policy committee to hike repo rate by anywhere between 35-50 basis points during the 30 September policy meet.

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“With significant amount of uncertainty on the inflation dynamics, we expect the RBI to remain front-footed with its rate action and call for a 50bps increase in the repo rate at the September 30 policy. This also sets in well with the hawkishness of

major central banks of the world," said Indranil Pan, chief economist, YES Bank in a report.

Snapping four months of moderation, inflation based on the Consumer Price Index (CPI) rose to 7% in August, up from 6.71% in July, according official data released on Monday. The uptick in CPI inflation was led by food inflation, which spiked to 7.57% in August, from 6.71% in July. Food and beverages category makes up for 54% of the index.

IDFC First Bank in a note said that the inflation trajectory continues to support front-loading of rate hikes by RBI. It expects the monetary policy committee to hike policy rates by 35 basis points in September, followed by 25 basis points in December. "However, in case the Fed delivers another 75 basis points hike in September and there is no indication of its pace of rate hikes slowing, then a 50 basis points hike by RBI would be more likely," it said. It further said that it expects the pace of RBI rate hikes to slow with real repo rate turning marginally positive based on one year ahead inflation.

Inflation has remained over the Reserve Bank of India's upper tolerance band of 6% for the eighth month in a row. The RBI has projected inflation for 2022-23 at 6.7%.

Morgan Stanley expects CPI inflation to average 6.5% in FY2023. "We expect a 35bp rate hike in the September policy review. We expect CPI inflation to remain around 5.3% in FY2024 and thus believe that normalization in real rates is warranted," it said. It said that going forward it expects inflation to gradually decelerate, partially helped by easing global commodity prices. "As such, we expect near-term inflation to ease with CPI inflation to be just shy of the 6% mark from Feb-23 onward. Risks to the upside could emerge from unexpected changes in the food or commodity price trajectories," it said.

The RBI- led monetary policy committee hiked repo rate by 50 basis points for the third time in a row in August, taking the policy rate to the pre-pandemic levels of 5.4%.

CARE Ratings expects the RBI to hike rate by 25-50 basis points in the upcoming meeting. "While globally commodity prices are on a downward trend, volatility in food prices, which has a major share in CPI basket, continue to pose an upside risk

to the domestic inflation. Furthermore, reduction in global crude oil prices is unlikely to translate into immediate decline in domestic oil prices as oil companies would want to recoup their losses," it said.

It expects inflation in the second quarter to average around 7%, slightly lower than RBI's projection of 7.1%. Arrival of Kharif harvest in October-November in markets could help pacify food inflation and this will be reflected in average inflation print for Q3 and Q4, it said.

Emkay Global in a note said that even as India's inflation has peaked, it still warrants caution, with core inflation appearing sticky. It expects a repo rate hike of 25 basis points in September.

"The RBI is still far from its supposed neutral rate, we believe we are near the peak of RBI's hawkishness.... However, the global situation is still fluid and macro assessments might still require frequent adjustments ahead from a policy perspective... We believe FY23 could see the RBI's policy rates terminating around 5.75% (+10/15bps), with the central bank showing its intent to keep real rates near the estimated natural rate," it said.