

## Press Release

### MPC Aug-22 Minutes: More front loading likely

RBI set to increase interest rates by another 50-60 bps in 2022

**22-Aug-2022**

The minutes of the Aug-22 MPC meeting held on Aug 5, 2022 highlights that inflation continues to remain the key concern for the MPC members despite a deceleration in the overall price momentum after a peak of 7.8% recorded in Apr-22. While there has been a general market consensus that domestic inflation has likely peaked out, there are still some persistent price pressures in the form of changes in GST rates, hike in electricity tariffs, uneven spatial and temporal rainfall distribution which could act as short-term upside risk to inflation as per Dr. Ashima Goyal. Governor Das also pointed out that though the inflation might have peaked, significant uncertainties remain on account of adverse global spill overs coming from simmering geopolitical tensions, volatile global commodity prices and financial markets. The MPC members thus coalesced around the need for frontloading the policy rate actions to keep inflation expectations anchored and strengthen monetary policy credibility. Dr. Ranjan stated that frontloading of policy actions lowers the necessary terminal policy rate needed to achieve the inflation target over the medium-term. Dr. Patra shared similar views advocating the need for frontloading of monetary policy actions to keep inflation expectations firmly anchored, re-align inflation with the target and reduce the medium-term growth sacrifice.

On growth front, all members agreed that India's economic recovery has remained broadly resilient despite the slowdown in global growth scenario. The members concurred that India has fared better than many of the other economies under the pandemic and Ukraine war shocks. Going forward, the pick-up in SW monsoon after initial hiccups, strong rebound in contact-intensive services sector and robust government expenditure is expected to keep the growth trajectory healthy. According to Dr. Bhide, sustaining this growth momentum will require reduction in inflation rate. While India's outbound shipments in last couple months has seen a slowdown amid global headwinds, diversification from China, India's digital advantage and government efforts are expected to support Indian exports according to Dr. Goyal. She further added that the future course of policy action has to carefully monitor the incoming data and respond to the current developments.

While members decided to "remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth", Prof. Jayant Varma opposed the current forward guidance stating that the statement is confusing and should be simply dropped. According to him, the current resolution be interpreted only as stating that there is a high likelihood of further front-loaded tightening without restricting the freedom of the MPC to respond to the changing environment in a data driven manner.

From policy perspective, there is a clear need felt to frontload rate hikes in tandem with global central banks but at the same time, the pace of the residual hike will also depend on the inflation print over the next few months. The rate action is likely to be

accompanied by calibrated withdrawal of money market core liquidity surplus. We believe core liquidity surplus could moderate towards 1.0/1.5% of NDTL levels from 2.8% currently.

**Says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research** "MPC minutes indicate that another 50-60 bps of rate hike should be expected in the forthcoming policy announcements irrespective of the moderation in the inflation trajectory. The likelihood of Q2FY23 CPI inflation print dropping to less than 6.0% is low, particularly given the pickup in the services sector. What is encouraging to note is the declining inflationary expectations of households which reflects the effectiveness of both the monetary and the fiscal policy actions till now; it will also help in strengthening medium term growth prospects."

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### **Media Contact:**

Sahban Kohari  
Ph: + 91-9890318722  
[sahban@eminenceonline.in](mailto:sahban@eminenceonline.in)

### **Analytical Contacts:**

Suman Chowdhury  
Chief Analytical Officer  
Ph: + 91-9930831560  
[suman.chowdhury@acuite.in](mailto:suman.chowdhury@acuite.in)

Prosenjit Ghosh  
Chief Operating Officer – Subsidiaries  
Ph: +91-9920656299  
[prosenjit.ghosh@acuite.in](mailto:prosenjit.ghosh@acuite.in)

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