

India will need to front-load rate hikes, two MPC members say



MUMBAI: The sharp surge in inflation in India will require front-loading of interest rate increases, two members of the central bank's [Monetary Policy Committee](#) (MPC) said in minutes of its May 4 meeting released on Wednesday.

The [Reserve Bank of India](#) raised the repo rate, the rate at which it lends to banks, by 40 basis points to 4.40%, at the unscheduled meeting two weeks ago, marking its first change in the rate in two years and its first rate hike in nearly four years.

"Since April, inflation risks have become more pronounced both in terms of magnitude and in terms of persistence," wrote Jayant Varma, an external member of the MPC.

"It appears to me that more than 100 basis points of rate increases needs to be carried out very soon," he added.

All six MPC members have a vote each and the governor has a veto in the event of a tie.

Consumer price index-based inflation rose more than expected to 7.79% in April year-on-year, remaining above the RBI's tolerance band of 6% for a fourth month in a row.

Annual wholesale price inflation, a proxy for producers' prices, climbed to 15.08% in April, remaining in double-digits for the 13th month in a row.

"In view of a reasonable recovery and the sharp rise in inflation, which will also raise inflation projections, frontloading of rate hikes is required to prevent the real rate becoming too negative," Ashima Goyal, another external MPC member, said in the minutes.

"Government supply-side action can also reduce future rate rises, output sacrifice and borrowing costs," she added.

A large part of inflation in India is being driven by supply side pressures notably due to the surge in global commodity prices, particularly oil.

India imports more than 80% of its oil requirements and high global crude prices have been pushing up the country's trade and current account deficit and also fuelling imported inflation.

"Geopolitical spillovers have thrust upon us a surge in the momentum of inflation we can ill afford. As long as the geopolitical crisis and retaliatory actions persist, so will inflation," deputy governor Michael Patra said in the minutes.

Globally, stagflation could be transitioning from a risk scenario to a baseline scenario, Patra warned.

"Minutes of RBI's off-cycle policy meeting highlighted members shifting their priority from growth to inflation," said Sanjay Pawar, fund manager – fixed income at LIC Mutual Fund Asset Management Ltd.

"We see further rate hikes by RBI in upcoming policies as near term inflation prints are expected to be above RBI's upper tolerance band."

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