

## India's Reserve Bank hikes 50bp

A pick up in the pace of tightening by India's Reserve Bank indicates that the inflation threat is being taken seriously



Reserve Bank of India  
Governor Shaktikanta  
Das

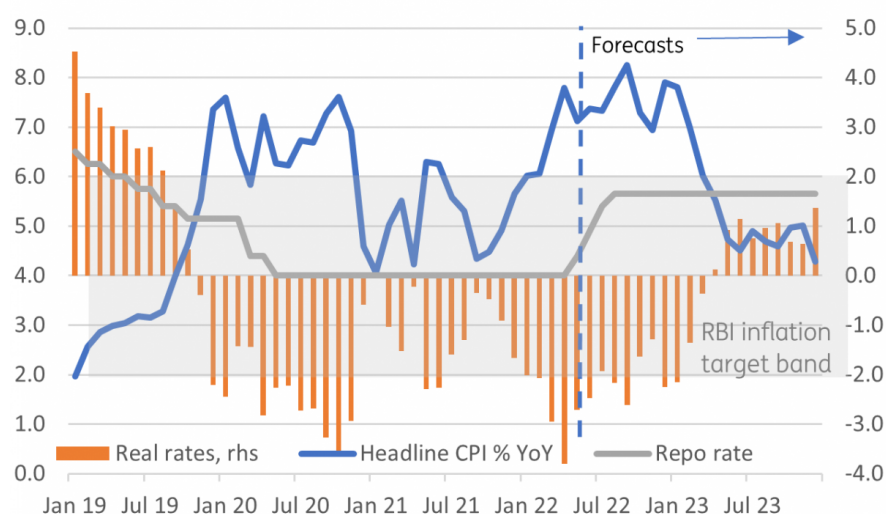
**4.90%** Repurchase rate

Higher than expected

### 50bp, the mode not the median

While more forecasters were expecting the RBI to hike by 50bp today than by any other number, the median, which is what is usually referred to as the consensus expectation, was for a hike of only 40bp. Even so, the market response has been relatively muted. USD/INR started today trading at about 77.69, slightly stronger than at the end of trading yesterday, but it weakened throughout the day and experienced only the most fleeting of rallies on the announcement.

## India inflation and policy rates



Source: CEIC, ING  
india inflation

## Governor's statement indicates more to come

[The governor's statement](#) is well worth a read and contains a number of useful pointers about the path ahead. Here are some of the highlights we note, together with our interpretation:

- *"The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. It may be noted in this context that the repo rate still remains below its pre-pandemic level".* The pre-pandemic repo rate was 5.15%, so today's hike still leaves it 25bp lower than it was then. At a minimum, there is this much more tightening to come.
- *"There are growing signs of a higher pass-through of input costs to selling prices. The MPC noted that inflation is likely to remain above the upper tolerance band of 6 per cent through the first three quarters of 2022-23".* We are likely to see policy being moved steadily towards a much less accommodative setting over the remainder of the year, but rates could start to come down in 2023.
- *"Available information for April and May 2022 indicates that the recovery in domestic economic activity remains firm, with growth impulses getting increasingly broad based."* The economy is resilient, and can weather tighter monetary policy.

## Where will this end?

Figuring out where and when all this will end is something of a wet-finger waving exercise. But at a very simplistic level, we would expect policy interest rates to rise to a point where by the end of the year, they are at or slightly higher than the inflation rate, so delivering a modestly positive real rate. We currently have rates peaking at 5.80 in 1Q23, though it would probably make sense to bring that forward to 4Q22. That in no way would mark a restrictive policy rate, but would remove much of the extraordinary accommodation that is still present today. It is of course subject to considerable uncertainty - the path of the Russia-Ukraine war and its ongoing impact on global commodity prices, China's on-off lockdowns, as well as the impact of international interest rates on the global economy (growing recession concerns).

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.