

**Press Release**  
**MPC Minutes: May-22**  
**Inflation threat drives consensus on frontloading of rate hikes**  
**35 bps rate hike likely in Jun-22 MPC meet after 40 bps in May-22**

**20 May 2022**

The minutes of the out-of-turn MPC outcome held on May 4, 2022 released yesterday, clearly highlighted heightened inflation concerns among the members, with all of them voting unanimously for front loading of repo rate hike with an aim to control inflation and anchor inflation expectations. The need for the off-cycle policy meeting was triggered by anticipation of even higher CPI print for Apr-22 as compared to 6.95% YoY in Mar-22. According to Governor Das, if the MPC would have waited for Jun-22 policy meeting to hike repo rates, inflationary pressures would have accentuated further and it would have necessitated a much stronger action in Jun-22 policy. Meanwhile, Prof. Varma was in favour of a 50-bps rate as the inflation risk have become pronounced in terms of magnitude and persistence and further opined for 100 bps rate hike in the near term.

With major inflationary pressures remaining supply side driven, Dr. Patra stated that in the absence of supply-side measures or easing of supply bottlenecks, monetary policy will need to front-load their actions and compress demand. Dr. Goyal indicated that in an inflation targeting regime, it is necessary to respond to inflation persistently above tolerance bands in order to anchor expectations. She added that the policy aim should be for equilibrium real rates and large swings in real rates should be avoided which could result in overheating or slowdown. She also advocated the need for supply-side action in the form of further excise cut by the government in order to prevent rising inflationary headwinds. Governor Das articulated that "the worsening outlook of inflation warrants timely action to forestall second round effects which could lead to unanchoring of inflation expectations".

On growth front, most of the high frequency indicators have been stabilizing with improvement seen in personal consumption, revival in contact-intensive services amidst uptick in urban demand, investment activity gaining momentum and improving capacity utilization. However, high global commodity prices, prolonged supply chain bottlenecks, policy normalization by major central banks along with weaker global growth prospects have posed downside risks to domestic economic activity. Accordingly, Dr. Patra highlighted that the momentum of recovery is still below full strength, warranting policy support. Meanwhile, Dr. Bhide underscored the need to control ratcheting inflationary pressures, indicated that the monetary policy measures to contain inflation may affect growth momentum adversely in the short term.

Clearly, the bias for expeditious action is visible in the MPC minutes to address the intensifying inflationary headwinds which can lead to the average headline inflation breaching the 6.0% mark by a significant margin over three consecutive quarters. We, therefore, expect the RBI to go for an additional rate hike of 35 bps in the Jun-22 policy meeting. Overall, in our base case, we expect the RBI to raise repo rates by a cumulative 100 bps in FY23 with an aim to frontload as much as possible. Any further acceleration in global commodity prices could potentially tilt the balance in favour of additional hikes thereby taking the repo rates to the pre-pandemic level of 5.15% or higher. This is likely to be accompanied by an additional 50 bps hike in CRR to modulate liquidity conditions in line with the policy actions and stance.

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