

India's April trade deficit widens to 20.1 billion USD

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MUMBAI, May 3 (Xinhua) -- India's trade deficit for April widened to 20.1 billion U.S. dollars from 15.3 billion dollars in the same month last year, official data showed on Tuesday.

However, trade deficit declined marginally from 20.9 billion dollars reported in the preceding month of March.

During the month under review, exports led by engineering goods, petroleum products, and gems and jewellery jumped 24.22 percent year-on-year to 38.19 billion dollars while imports jumped by over 26 percent to 58.26 billion dollars due to rising crude oil prices.

Unless commodity prices recede substantially, merchandise trade deficit is expected to print above 20 billion dollars in several months of the current fiscal year of 2022-23 (April-March), said Aditi Nayar, chief economist at ICRA, a credit rating agency.

Although non-oil trade deficit remained stable, there was a shift in its composition, with a plunge in gold imports being offset by a rise in non-oil non-gold imports such as coal and chemicals, Nayar said.

Repo Rate Hike By 40 Bps: What Experts Say



Das said that MPC will retain its accommodative monetary policy stance at a time when globally inflation is rising alarmingly even as investment activity is showing some traction in the country



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The Reserve Bank of India's monetary policy committee raised the key lending rate by 40 basis points on Wednesday, citing persistent inflationary pressures in the economy, governor Shaktikanta Das announced.

The MPC raised the key lending rate or the repo rate by 40 basis points to 4.40 per cent, Das said.

The RBI's repo rate has been kept unchanged at 4 per cent since May 2020.

Let's understand more about the rate hike from the industry experts:

Upasna Bhardwaj, Senior Economist at Kotak Mahindra Bank

RBI has shifted towards hawkishness acknowledging the increasing upside risks to inflation. The withdrawal of accommodation tilt is clear by the normalisation of the effective policy corridor to pre covid levels of 50bps. We expect the MPC to change the policy stance to neutral in the June policy. The repo rate hikes will follow from August. We see 50bps repo rate hike in FY23.

Dr. Niranjana Hiranandani is Vice Chairperson NAREDCO and MD Hiranandani Group

Terming the hike in the repo rate by 40 bps to 4.40 per cent with immediate effect as 'the obvious fallout of the impact which the Ukraine conflict has had on global inflation'; which in turn, has also impacted the Indian economy, Dr Niranjana Hiranandani described the move as a short-term reaction to crude prices and impact of inflation on commodities. In some places, this will be seen as a pro-active step, in expectation of the US Fed's expected move tomorrow, he added.

From a real estate perspective he said he hoped the hike in repo rates will not impact home loan interest rates; and that the regulator will ensure that inflationary pressure on the individual does not get exacerbated by hiked rates of home loans.

The RBI move comes with the backdrop of India's inflation rates soaring to a high, with retail inflation in March being on a 17-month high.

Inflation rates in India have been beyond the RBI's upper band of tolerance, which is 6 per cent, and the rationale of the move makes sense – the hope being that home loans would not get impacted," he concluded.

Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai

Even though the policy rate hike may increase borrowing cost for industry, this is an appropriate action given the relentless rise in inflation and likely interest rate hike by US Federal Reserve in a crucial policy announcement later today.

India's WPI inflation has been in double digits for the last more than 12 months and CPI inflation is above the RBI target for the last three consecutive months.

We expect RBI to unwind the accommodative policy stance in the coming months due to sustained inflation pressure and hence the onus of supporting economic growth will fall on the central government.

Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities

The combination of 40 bps hike in repo rate and 50 bps hike in CRR is an attempt by the RBI to preempt the rising inflationary pressures and be ahead of the curve. The bigger surprise was the CRR hike which indicates the RBI's intent on withdrawing liquidity at a sharper pace. While inflation is unlikely to decline in the near term, today's move should help in pushing real rates towards neutral over the next few quarters. Rates across the curve will reprice factoring in a markedly more hawkish RBI. We continue to expect cumulative 100-125 bps of repo rate hikes in FY2023.

Umesh Revankar, Vice Chairman & MD, Shriram Transport Finance

We had expected the RBI to hike rates from second half of the fiscal and hence the timing and quantum of RBI repo rate hike by 40bps and hike CRR by 50bps mid-cycle was a bit of surprise. The RBI has hiked rates, owing to the rise in fuel costs and food inflation on account of geo-political concerns which has turned out to be a long term issue. The supply chain related inflation is another challenge altogether. We believe that the lending rates may go up gradually, and since there is enough liquidity in the system, our borrowing cost may go up only gradually.

Most of the borrowing for us is fixed in nature and hence the rate hike will not have an immediate impact on borrowing cost. I still believe that the economy is recovering & growing, and I don't think a 40bps rate hike will dampen demand. Most of the high frequency indicators do indicate the Indian economy is gradually recovering and given the ongoing geo-political situation, it was prudent to manage the evolving growth-inflation dynamics.

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George Alexander Muthoot, MD, Muthoot Finance

Given that the RBI Governor had already highlighted his concerns over inflation and downside risks to growth emerging on account of escalation in geopolitical tensions during his last monetary policy announcement, thus the hike in rate was expected, but the timing was a surprise. The RBI has hiked the repo rate by 40bps to 4.4 per cent and hiked CRR by 50bps to 4.5 per cent. We understand that the uncertainty evolving around geopolitical tensions, high inflation rate due to hike in global oil prices and food prices are likely to elevate the input cost pressure and further pose a challenge.

However, since we are witnessing signs of recovery in the economy, the RBI rate hike may not dampen overall demand scenario. There is adequate liquidity for productive requirements of the economy and as such borrowing cost in the system may go up at a gradual pace. We believe this is surely the beginning of the RBI rate hike cycle, although in a calibrated manner to respond to the evolving growth-inflation situation. The RBI has also reiterated that they will ensure adequate liquidity in the system to meet the productive requirements of the economy in support of credit offtake and growth.

Raghvendra Nath, Managing Director – Ladderup Wealth Management Private Limited

RBI's change in view from an accommodative stance in Feb'22 to a hawkish statement couple of weeks back and sudden rate hike today has taken the market by surprise. Somewhere it makes us wonder whether RBI knows more than they are letting on in their statement. This surprise move by RBI has dampened the market mood and may impact the divestment target of the government."

Ramani Sastri - Chairman & MD, Sterling Developers Pvt Ltd

The increase in repo rate will likely have an impact on the industry as residential demand has been positively revived in the post pandemic context and needs to be fostered. It also goes without saying that the real estate industry's perennial hope is fixed on lower interest rates as it improves affordability and also provides the required fuel for the growth of the economy along with the real estate sector, which is allied with several other industries. We remain positive and hope that the government continues to provide the required support that the industry requires.

Vinay Pai - Head Fixed Income, Equirus

Geopolitical tensions have led to oil and food supply disruptions resulting in high crude and food prices further resulting in a higher rate of inflation globally posing challenges to Central Bankers across the world. The rising inflation is here to stay for some more period now, impacting longer-term sustained growth with India being no exception. Central Banks feel that the inflation is no longer transitory.

Clearly the priorities have changed. Inflation risk emanating from global factors has taken center stage from earlier accommodative supportive policies for sustained growth.

While the markets anticipated rate hikes for some time now, the announcement of a REPO rate hike by 40 Bps will enable the banks to re-priced credit linked to the REPO rates, which enables the regulator to meet its objective of reasonably taming inflation.

A hike in CRR by 50 Bps shall absorb approximately Rs 87000 crore of liquidity from the system This is a reasonably a medium-term measure by the regulator ending the softer interest rate regime. This measure will continue till the rate of inflation comes down and stabilises at a lower expected rate for a longer period.

It was important to impact the REPO rates by meaningfully reducing the liquidity in the market and making money costlier to contain inflation.

We see the benchmark security to trade between 7.72 per cent to 7.87 per cent in the next couple of months.

Prasenjit Basu – Chief Economist, ICICI Securities

The persistence of high crude oil prices, and uncertainty over the length of the Russia-Ukraine war, have resulted in sustained inflationary pressure globally. With the Chinese and Japanese currencies depreciating 4 per cent and 6 per cent respectively last month, emerging market currencies are under pressure. Although the rupee has depreciated only 1.1 per cent in the past month, any further downward pressure on the rupee would spark greater worries about imported inflation, so a timely rate hike was needed ahead of the inevitable US rate hike expected this week.

If the Russia-Ukraine war persists beyond May and June, more rate hikes will be needed. If there is an early end to the war (within the next 5-6 weeks), global inflationary pressures will ease, reducing pressure for further rate hikes.

The whole structure of interest rates will harden, implying that loans will be costlier and fixed deposits more attractive. The equity markets will take a negative hit, especially since this was a surprise inter-meeting hike. We were expecting a hike at the next MPC meeting, after the hawkish hints at the last MPC meeting a month ago, but today's

RBI hikes repo rates: Higher costs of borrowing, price rise in commodities to slow consumer spending, say analysts

Not just new borrowers but also existing borrowers with floating interest rates will be affected

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RBI Governor Shaktikanta Das announced a hike in the benchmark lending rate by 40 basis points (bps) to 4.40 percent in a bid to contain inflation. /File photo | Screengrab/ YouTube

In an unscheduled meeting held on May 4, the Reserve Bank of India (RBI) governor Shaktikanta Das announced a hike in the benchmark lending rate by 40 basis points (bps) to 4.40 percent in a bid to contain inflation, which has remained stubbornly above the target zone of 6 percent for the last three months.

RBI Governor said the monetary policy committee (MPC) held an unscheduled meeting from May 2-4 and voted to increase repo rates by 40 basis points.

The decision follows an unscheduled meeting of the Monetary Policy Committee (MPC), with all six members unanimously voting for a rate hike while maintaining the accommodative stance.

While the inflation has remained above the targetted 6 percent since January, RBI Governor Shaktikanta Das said the inflation print in April is also likely to be high.

The retail inflation print for March stood at 6.9 percent.

The RBI has done the first rate hike since August 2018.

The governor said the decision of MPC reversed the May 2020 interest rate cut by an equal amount.

Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai - a trade facilitating body

Even though the policy rate hike may increase borrowing cost for industry, this is an appropriate action given the relentless rise in inflation and likely interest rate hike by US Federal Reserve in a crucial policy announcement later today.

India's WPI inflation has been in double digits for the last more than 12 months and CPI inflation is above the RBI target for the last three consecutive months. We expect RBI to unwind the accomodative policy stance in the coming months due to sustained inflation pressure and hence the onus of supporting economic growth will fall on the central government.