



India's central bank raises repo rate by 50 bps to control inflation

MUMBAI, Aug. 5 (Xinhua) -- India's Central Bank on Friday raised the repo rate by 50 bps (basis points) to 5.4 percent, slightly above market expectation of 25-35 bps.

The repo rate, raised for the third consecutive time at the three-day monetary policy meeting (MPC) on Friday, is now back to pre-pandemic levels and the highest since August 2019 in a bid to keep the surging inflation under control.

The meeting also decided to remain focused on withdrawal of accommodation stance to ensure that inflation remains within the target going forward, while supporting growth, the Reserve Bank of India (RBI) statement said.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent, RBI said.

"Consumer price inflation has eased from its surge in April but remains uncomfortably high and above the upper threshold of the target. Inflationary pressures are broad-based and core inflation remains at elevated levels. The volatility in global financial markets is impinging upon domestic financial markets, including the currency market, thereby leading to imported inflation," said RBI Governor Shaktikanta Das.

"With inflation expected to remain above the upper threshold in Q2 and Q3, the MPC stressed that sustained high inflation could destabilise inflation expectations and harm growth in the medium term," said the governor, adding that the RBI retained the real GDP growth projection for 2022-23 at 7.2 percent.

Welcoming the RBI policy decision to hike repo rate, Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai - an international trade promotion organization, said, "Despite the recent softening of metal and crude oil prices in the global market, RBI has not revised down its CPI forecast for current year, which reflects that inflation continues to be a major concern. The Central Bank has also not revised down GDP growth forecast for the current year, despite global recessionary fears, which reflects RBI is confident of strong economic growth; but it is worried about persistently high inflation."

All these indicate that RBI will raise policy rates by at least 50 basis points in its October policy meeting as well, Kalantri said. ■

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05 August 2022, 03:25 PM IST



Mumbai: The monetary policy committee of the Reserve Bank of India (RBI) has decided to raise the repo rate by 50 basis points to 5.40 per cent in order to contain the persistently high inflation. Today's hike takes the repo rate above pre-pandemic levels of 5.15 per cent.

Raising interest rate typically suppresses demand in the economy, thereby helping inflation to decline. India's retail inflation has been over the RBI's upper tolerance band of 6 per cent for the sixth consecutive month in a row now.

In line with the global trend of monetary policy tightening to cool off inflation, the RBI has so far hiked the key repo rate – the rate at which the central bank of a country lends money to commercial banks – by 140 basis points in three instances.

Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai

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