

# Indian central bank hikes key interest rate for second time in a row

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MUMBAI: The Reserve Bank of India raised interest rates for the second straight meeting on Wednesday, but retained its "neutral" stance as it aimed to contain inflation while not choking growth.

The RBI's Monetary Policy Committee (MPC) raised the repo rate by 25 basis points to 6.50 percent. It is the first time since October 2013 that the rate has been increased at consecutive policy meetings. In June, the MPC also increased the key rate by 25 bps.

The rate action was in line with a Reuters poll last week, which showed 37 of 63 economists expecting a rate increase.

"The swiftness with which the central bank has responded to the jump in inflation should prevent the need for very aggressive policy changes in the future," Capital Economics analyst Shilan Shah said in a note.

The bank's decision to raise rates comes as global central banks, such as the U.S. Federal Reserve, the Bank of England and the Indonesian central bank also adopt a tightening path.

The Fed, which is expected to keep rates on hold at a two-day meeting that ends later on Wednesday, has already raised rates twice this year, while the Bank of England is poised to raise rates at a meeting on Thursday.

Indonesia's central bank has been the most aggressive in Asia this year, hiking its benchmark rate 100 basis points between mid-May and the end of June.

In Indonesia's case, the main reason to hike has been its fragile currency. For the RBI, inflation is the central concern.

While the RBI on Wednesday marginally trimmed its inflation projections for the current quarter, the central bank said its inflation projections beyond that remain "broadly unchanged".

India's annual consumer inflation hit 5 percent in June, the eighth straight month in which it topped the RBI's medium-term 4 percent target.

Global crude oil prices have surged nearly 20 percent this year and crossed \$80 a barrel in May, their highest since 2014. This has driven the prices of fuel - the biggest item on India's import bill - to record highs at a time the rupee is testing new life lows, raising the threat of imported inflation.

Indian monsoons, one of the largest determinants of the inflation path, have been erratic and patchy in several regions this year, muddying the outlook for winter-harvested crops and adding to inflationary pressures.

The MPC warned that "rising trade protectionism poses a grave risk to near-term and long-term global growth prospects by adversely impacting investment, disrupting global supply chains and hampering productivity.

"At a news conference, RBI Governor Urjit Patel said "We've already had a few months of turbulence behind us and it looks like that this is likely to continue.

For how long, I don't know. "The governor said trade skirmishes have "evolved into tariff wars and now we're possibly at the beginning of currency wars.

Given this, we have to ensure that we run a tight ship on the risks that we control to maximise the chances of ensuring macro-economic stability and continuing with the growth profile of 7-7.5 percent.

"Five of the six members on the rate panel voted for the rate increase. The reverse repo rate was also raised by 25 basis points, to 6.25 percent.

Bond markets took comfort from the RBI's less hawkish than expected statement, with yields easing sharply from the day's high while the rupee strengthened.

The 10-year benchmark bond yield fell to 7.73 percent after briefly rising to 7.84 percent soon after the decision.

It had ended at 7.77 percent on Tuesday. The Indian rupee was at 68.49 to the dollar, from Tuesday's close of 68.55.