


# NO OPTION BUT TO RAISE RATES: RBI'S PATRA

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

Revenge spending: Broadening inflation shows there is some demand able to afford the high prices, says Patra. 

India's central bank has no choice but to raise interest rates to keep a lid on inflation expectations as supply-side measures would take time to bring down prices, Reserve Bank of India (RBI) Deputy Governor Michael Debabrata Patra said at the last meeting of the Monetary Policy Committee that concluded on June 8 with the RBI raising its policy rate by 50 basis points, the minutes of the meeting show.

"Although the ongoing inflation surge is a supply phenomenon... mending supply always takes time," Dr. Patra noted. "To gain time for supply to respond, the blunt instrument of monetary policy has to be deployed — there is no other recourse at this juncture," he stressed.

Observing that the fact that inflation remained elevated and was broadening indicated that there was some demand that was able to afford these high prices possibly on account of 'revenge spending' in the wake of the pandemic, the RBI Deputy Governor overseeing monetary policy said, "this warrants some monetary policy front load to modulate it [demand] so that even though it is not at full strength, it does not exceed the available supply".

"The objective should be to take the repo rate to a height that is at least above the four quarters ahead forecast of inflation, knowing that monetary policy works with lags," he said. "Our endeavour should be to bring down inflation into the tolerance band by the last quarter of 2022-23 or the first quarter of 2023-24 and progressively align it to the target during the course of 2023-24," Dr. Patra added.

"This should minimise the loss of output," he added.

## 'Catching up to do'

MPC member Jayanth R. Varma, who has in the past voiced dissent with the majority view, said the MPC had a lot of catching up to do given that since April the MPC had raised the policy rate by 90 basis points while during the same period the RBI's projection of inflation for 2022-23 had risen by 100 basis points to 6.7%.

"The real policy rate, therefore, remains more or less where it was in April," he said at the latest meeting, the minutes released on Wednesday show.

"Clearly, more needs to be done in future meetings to bring the real policy rate to a modestly positive level consistent with the emerging inflation and growth dynamics," Mr. Varma stressed.

He also suggested the time was 'ripe' for the MPC to start providing projections of the future path of the policy rate as it would help anchor inflation expectations.

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