Introduction

In the recent MPC meeting, the members have unanimously decided to hike the policy rates by 50 bps to 5.4%. Though ~~the~~ an anticipated one, it is the steepest rise in recent times

Rationale and implications of MPC decisions:

* Even though the inflation eased marginally to 7.01% in June compared to 7.04% in May, the inflation lies well above the upper band fixed by RBI which is 6%. In order to keep the inflation under control and within the upper limit, RBI is exacted to raise the repo rate.
* Growing capital outflow due to hike in fed rate and consequent depreciation of rupee has to be stopped in some way and RBI rightly uses its tool to bring stability in the market.
* Banks' credit growth is promising and the economic activity in the country has gotten pace which can be seen from the fact that RBI has kept its GDP forecast remain unchanged at 7.2% for this fiscal.

Signs of growth and green shoots:

* India's PMI hits 8-month high of 56.4 in July which shows the improving economic activity.
* More than expected rainfall, upcoming festival season (which will increase demand) and easing of crude oil price below $100/barrel augur well for the economy.

Conclusion

MPC should also be vigilant and factor in both domestic as well as global factors before deciding policy rates to check spillover effects.