GS-3 - Economy

3. Aggressive rate hikes by western central banks is bad news for India's merchandise and services trade. Explain.

Major economies are 'Tightening' their policies, with goal of fighting. Inflation, which indirectly will affect India's merchandise & Services trade.

Aggressive rate hikes

1. US Fed hike recently increased by 50 basis points to 4.25-4.5%. It is about to increase and reach point of 5.1%, strengthening 'tightening'.

2. Bank of England → also performs similar tightening policies to reduce their growing energy prices & inflation

3. European unions US - mentioned 'Regressive' in their policies → That is to curb the demand through tightening & address demand-supply mismatch.

Price stability at cost of growth rates

These, Major economies, are ready to sacrifice their growth rate

1. US - due to tightening policies - reduced the growth projection from 1.2% to 0.5%.

2. England → the GDP is likely to decrease till 2024.

3. European union - similar drop -0.5% GDP.

India - Impacts on Aggressive Rate hike

Economic Survey 2021
↳ US → India's largest trading partner - (11.5%), while European union - 3rd largest trade partner (10.8%); UK - 6th largest investor in India & trade volume of $31bn in 2022. when such major economies are slowing down it directly impacts India.

1. challenges to domestic IT services which fuelled domestic consumption

2. External finances to Indian corporates will go down

3. Rate hike → Increasing Interest rate and weakening rupee also increases Foreign investment outflows.

Hence Reserve bank of India has to consider these factors, and take appropriate measures