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Expert view: RBI raises key policy rate by 35 basis points



Credit: Reuters

The Reserve Bank of India's key repo rate was raised by 35 basis points (bps) on Wednesday as widely expected, the fifth straight increase as inflation remains elevated, and the central bank says that there will be no let-up in flight to tame inflation.

The monetary policy committee (MPC), comprising three members from the RBI and three external members, raised the key lending rate or the repo rate to 6.25% in a majority decision. Five of the six members voted in favour of the decision.

The standing deposit facility rate and the marginal standing facility rate were also increased by the same quantum to 6.00% and 6.50%, respectively.

COMMENTARY

MARZBAN IRANI, CIO (DEBT), LIC MUTUAL FUND, MUMBAI

"On initial thoughts is that today's MPC sounds hawkish – rate hiked by 35 bps, no change in stance and 5:1 voting are hawkish news. However, the pace of rate hikes is reducing from 50 bps to 35 bps, in line with expected global hikes."

"Yields are range bound between 7.25% to 7.35%. This calls for an investment opportunity in long-duration fixed income funds depending on risk appetite. Going ahead, we are expecting a 25 bps hike by April. The market needs to keep a close watch on global rate hikes and sticky core inflation."

DIPANWITA MAZUMDAR, ECONOMIST, BANK OF BARODA, MUMBAI

"We expect that going forward, demand pressure to continue and this would indeed escalate price pressure. Even the pass-through of firms to consumers is yet to materialize as highlighted in the Q2 corporate results. In Nov '22 as well, price pressure in cereals, milk, pulses and spices persist, so considerable risk to headline CPI print cannot be ruled out completely."

"We expect RBI to go for another 25 bps hike in its next policy, with the terminal rate at 6.5%. Our CPI forecast stands at 6.8% and growth also at 6.8% for FY23."

LAKSHMI IYER, CEO-INVESTMENT ADVISORY, KOTAK INVESTMENT ADVISORS LIMITED, MUMBAI

"The RBI MPC raised the repo rate by 35 basis points to 6.25% with a 5-1 vote. The stance remained focused on the withdrawal of accommodation. While this was ours as well as market consensus, it seems like we may not be fully done with the rate hiking cycle. The inflation guard continues to remain."

The U.S. Federal Reserve's FOMC outcome in the coming week remains key, Iyer said. "Expect bond markets to give up some gains and trade rangebound as global growth concerns dominate."

SAKSHI GUPTA, PRINCIPAL ECONOMIST, HDFC BANK, NEW DELHI

"The statement was slightly more hawkish than perhaps expected by markets, with no indication that the central bank is coming to the end of its rate hiking cycle for now."

"The reiteration of the fact that growth continues to be resilient while there are upside risks to inflation suggests the central bank's resolve to not let up its fight against inflation continues. This, at the margin, could provide soft support for the rupee — especially ahead of the U.S. Federal Reserve meeting next week. We continue to expect another rate hike in the Feb policy of 25 bps."

ANUJ PURI, CHAIRMAN, ANAROCK GROUP, MUMBAI

"The 35 bps rate hike by the RBI - the fifth consecutive rate hike this year - comes as no surprise. With repo rates now at 6.25%, there may be some repercussions on housing uptake. This hike will undoubtedly push up home loan interest rates, which had already crept up after four consecutive rate hikes this year."

"However, as long as interest rates remain in single digits (mainly within 9.5%) the impact on housing will at best be moderate. If they breach this point, we will see some real pressure on residential sales volumes in the months to come, especially in the affordable and lower mid-range housing segments. The impact of the last four consecutive rate hikes early this year was minimal."

MADHAVI ARORA, LEAD ECONOMIST, EMKAY GLOBAL FINANCIAL SERVICES, MUMBAI

"The MPC expectedly delivered a 35 bps hike, with a 5-1 vote, and kept its stance unchanged at 'withdrawal of accommodation'. The tone was still cautious and data-dependent, and with the governor emphasizing the need to calibrate the policy."

"At this point, we still think that the RBI would not turn too restrictive. However, the extent of global disruption will remain key. We are closely watching the global pace of inflation deceleration and how the impending recession will shape DM central bank policies, which could influence the RBI's reaction. The still-fluid global situation might require frequent adjustments in macro and policy assessments ahead as far as terminal rates are concerned."

UPASNA BHARDWAJ, CHIEF ECONOMIST, KOTAK MAHINDRA BANK, MUMBAI

"The MPC delivered the 35 bps hike as expected while retaining the stance as 'withdrawal of accommodation.' We continue to expect the focus of MPC to remain in a watchful mode as uncertainties on inflation settle down. We see a possibility of another 25 bps rate hike before a prolonged pause."

