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RBI hikes Repo rate by 25 bps to 6.5%, what impact will this have?

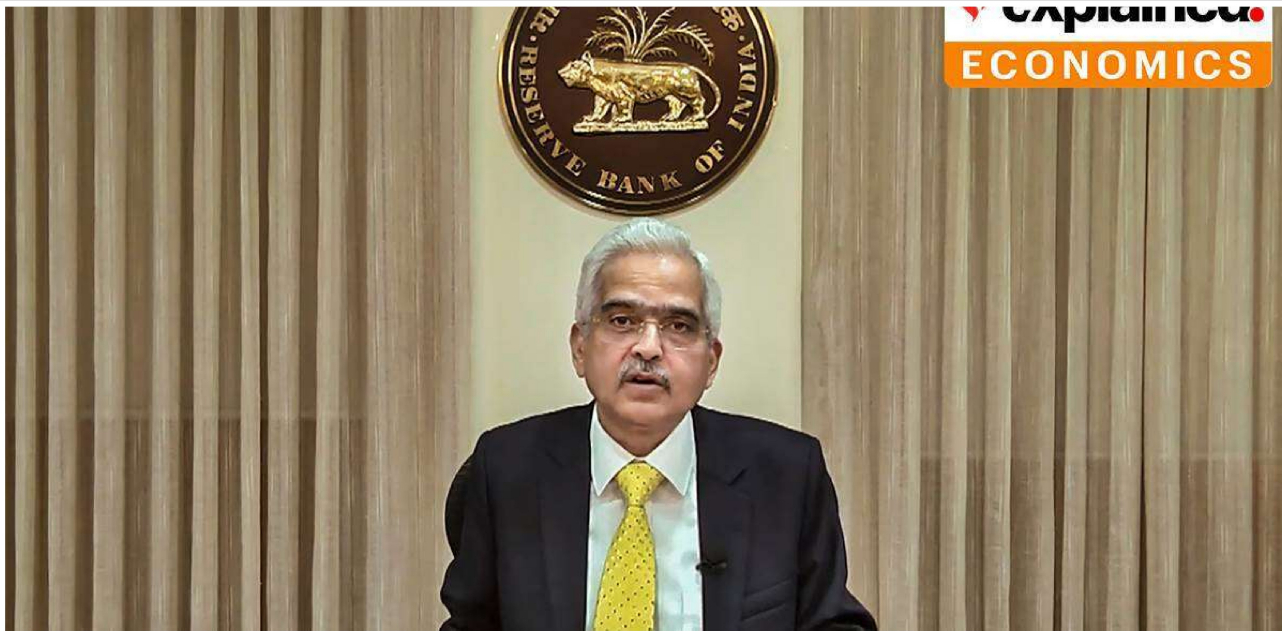
RBI Monetary Policy Committee: In a 4:2 majority decision, the MPC of the Reserve Bank of India has hiked the Repo rate to 6.5 per cent. It has also projected a GDP growth for the next fiscal at 6.4 per cent.

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 **NewsGuard**

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Reserve Bank of India Governor Shaktikanta Das speaks during a press conference announcing the central bank's monetary policy statement, in Mumbai, Wednesday, Feb. 8, 2023. (PTI Photo)

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The Monetary Policy Committee (MPC) of the Reserve Bank of India on Wednesday **hiked the key policy rate**, the Repo rate or the rate at which the RBI lends funds to banks, by 25 basis points to 6.50 per cent in a bid to rein in retail inflation. The RBI decision is expected to make all external benchmark linked (based on the Repo rate) loans costlier immediately.

The RBI has also projected a GDP growth for the next fiscal at 6.4 per cent. Retail inflation is expected to be 5.3 per cent in FY24, the MPC said.

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Was the decision to hike rates unanimous?

It was a 4:2 majority decision by the RBI's policy panel to hike the Repo rate, the sixth since May 2022, with MPC members Ashima Goyal and Jayanth R. Varma voting against the increase.

accommodation to ensure that inflation remains within the target going forward, while supporting growth. Goyal and Varma also voted against the withdrawal of accommodation.

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What will be the impact?

Lending rates of banks are expected to go up as the cost of funds is expected to rise further. EMIs on vehicles, home and personal loans will also rise. The external benchmark linked lending rate (EBLR) of banks will rise by 25 bps — one basis point is one-hundredth of a percentage point— as such loans are linked to the Repo rate. As much as 43.6 per cent of the total loans are now linked to the Repo rate.

Marginal cost of funds-based lending rates (MCLR), which accounts for 49.2 per cent of the loans portfolio of banks, are also expected to move up. The hike will help in moderating inflation in the country.

Deposit rates are also expected to witness some realignment, said an SBI official.

The hike so far

The RBI has increased the repo rate by a cumulative 250 basis points to 6.50 per cent since May this year.

In December 2022, **the MPC hiked the Repo rate by 35 basis points** in a bid to rein in retail inflation. The MPC hiked the repo rate by 40 bps in May and then by 50 bps in each of the three successive meetings.

LIVE: Reserve Bank Of India Hikes Repo Rate To 6.5%, Projects GDP ...



Growth projection

The RBI has projected GDP growth for the next fiscal (FY2024) at 6.4 per cent. The MPC had slashed the GDP forecast for fiscal 2023 to 6.8 per cent in the December policy review from an estimate of 7 per cent earlier as risks continue to emanate from protracted geopolitical tensions, global slowdown and tightening of global financial conditions.

Inflation forecast

The central bank has lowered the inflation target for FY23 from 6.7 per cent to 6.5 per cent – which is still above the RBI's comfort level of four per cent. Inflation is expected to be 5.3 per cent in FY24.

Inflation for Q4 of FY23 at 5.7 per cent as against 5.9 per cent.

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The benchmark Sensex was trading around 261 points, 0.43 per cent, higher at 60,547.32, and the NSE Nifty by 96 points at 17,817 at 10.55 am IST.

“This (hike) is known to the market and is unlikely to have any meaningful impact on the market. The important trends impacting markets globally are the developments in the US economy and rate action by the Fed,” said V K Vijayakumar, Chief Investment Strategist at Geojit Financial Services.

Federal Reserve chief Jerome Powell’s remarks on Tuesday were taken positively by the market. His comment that the “disinflationary process will take a bit of time” is taken as confirmation of the disinflationary process underway.

“Also, the fact that the disinflationary process is happening even while the economy is creating a record number of jobs is regarded as positive. The unabated FII selling – Rs 7,774 crore in the last 3 sessions – is the biggest drag on the market now,” he said.

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