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Moderation in rate hike factored in by markets

Times News Network

Mumbai: Announcing an increase in key interest rates, Reserve Bank of India governor Shaktikanta Das said on Wednesday the inflation battle is yet to be won.

External monetary policy committee (MPC) member Jayanth Varma and his colleague Ashima Goyal voted against the MPC's majority decision to reduce surplus liquidity from the markets. Das said that while the 35-basis point hike was lower than the four earlier hikes, there was no room for complacency. "We stand out as an island of resilience in an otherwise volatile and gloomy world," he said.

The moderation in the rate hike was factored in by the money markets and the yield on 10-year bonds rose marginally from 7.25% to 7.27%. The rupee however settled marginally higher at 82.48 against the dollar. "Most banks have fully passed on the repo rate increase of 190bps to the consumers of home loans till date. This rate hike of 190bps has resulted in a loan tenor increase of around 13 years for borrowers who had initially opted for 20 years loan period, assuming they had taken a home loan at 6% at the time of home purchase,"" said Shrikant Shrivastava, chief risk officer, IMGC (India Mortgage Guarantee Corporation).

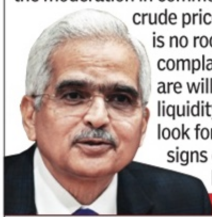
Small home loan borrowers from the unorganised segment who raised loans at 10-11% for a long duration will be particularly hit as their original EMIs would not be enough to cover the interest costs and lenders would demand more. But banks are not seeing any stress among borrowers yet as interest rates are still below the 10-year average.

Besides increasing rate, RBI announced that all market trading hours would be extended to pre-Covid-19 levels from December 12. The RBI also gave banks more time to provide for loss in value of government bonds due to the rise in interest rates.

"Extension of timelines for holding higher G-secs under held-to-maturity category will create additional headroom for G-secs and partly mitigate marked-to-market risks for FY24. We expect the incremental appetite for G-secs by banks to remain limited given strong credit growth environment," said Anil Gupta, senior vice president, Icra.

'THERE IS NO ROOM FOR COMPLACENCY'

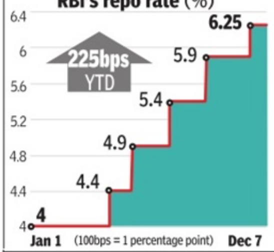
On economy | GDP growth is resilient in a world of slowing growth and possibilities of recession. The worst of inflation is behind us and the same trend is visible with the moderation in commodity and crude prices but there is no room for complacency. We are willing to inject liquidity but will look for durable signs of turn in the liquidity cycle



On rupee | The story of the Indian rupee is one of resilience and stability. The current account deficit is eminently manageable. The world bank is projecting a 12% growth in remittances to over $100bn but our first quarter growth is 21%. Services exports are picking up and there is data to show that global IT expenditure is also rising

Shaktikanta Das | GOVERNOR, RBI

RBI's repo rate (%)



Rate hikes in 2022 (bps)