



CHANGES AND MODIFICATION

RBI Increases Repo Rate By 25 Bps To 6.5%

- By Rohit Sharma

Reserve Bank of India (RBI's) monetary Policy committee (MPC) on Wednesday increased repo rate by 25 basis points (bps) to 6.5 per cent. This is the second time where RBI has raised the repo rate. In June it increased by 25 bps which come to 6.25 per cent.

Consequently, the reverse repo rate under is been raised to 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.75 per cent. Whereas in June the reverse repo rate was 6 per cent.

The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent while supporting growth, the statement said.

The next meeting of the MPC is scheduled from October 3 to 5, 2018, it said.

The official release from RBI said, "Economic activity in major emerging market economies (EMEs) has slowed somewhat on volatile and elevated oil prices, mounting trade tensions and tightening of financial conditions."

In the second bi-monthly resolution of 2018-19, consumer price index (CPI) inflation for 2018-19 was projected at 4.8 - 4.9 per cent in H1 and 4.7 per cent in H2, including the HRA impact for central government employees, with risks tilted to the upside. Excluding the impact of House Rent Allowance (HRA) revisions, CPI inflation was projected at 4.6 per cent in H1 and 4.7 per cent in H2.

According to the statement, Dr Chetan Ghate, Dr Pami Dua, Dr Michael Debabrata Patra, Dr Viral V. Acharya and Dr Urjit Patel voted in favour of the decision and Dr Ravindra H. Dholakia voted against the decision. The minutes of the MPC's meeting will be published by August 16, 2018.

Here's what industry leader had to say about the RBI monetary policy:

Amit Modi, Director, ABA Corp and Vice President CREDAI Western UP - "This is the second time in last two months that the RBI hiked key policy rates. It's an exponential increase from 6.25% to now another 25 bps at 6.5% bps. It is the huge blow for real estate sector which is yet to recover from the impacts of demonetization and the



implementation of GST even after a whole year. The move will end up hitting the Indian middle class and first time genuine home buyers across the nation, due to an increase in the EMI for the home loan, and in the process also hampering the Prime Ministers vision for Housing for All. We hope that banks are not in hurry to implement these changes at least on the home loans since while the auto sales have been steadily growing, the housing sector is still very in the stage of recovery."

Khushru Jijina, MD, Piramal Capital & Piramal Housing Finance

"Monetary Policy statement underlines confidence in a strong economic recovery amidst high geopolitical risks. The rise in the policy rates to 6.5% whilst maintaining a neutral stance by the RBI was a prudent move, especially as the output gap narrows with rising economic momentum. Tighter output gap can stoke core inflation thus pushing overall inflation beyond RBI's comfort range."



Additionally, we also view that the new policy allowing co-origination of loans for priority sector lending by Scheduled Commercial banks and NBFCs as a positive move to further enhance credit availability to small businesses as well as affordable housing. We eagerly await the detailed guidelines."

Arvind Hali, MD and CEO, ART Affordable Housing Finance - "With the RBI announcing a 25 basis points hike in repo rate to 6.5%, this becomes the second increase in the repo rate this year. While this is in line with RBI's focus on curbing inflationary pressures in the economy, it also translates into an increase in the cost of funds for borrowers. While the immediate impact may be marginal, it is coming immediately on the back of previous rate hike in June and may further slowdown activity in the realty market. We would have to see as to how the banks react to this, as an increase in the Home Loan rates will affect the existing consumers as their loan repayment tenors would increase. In case of new customers, this will be about relooking at their budgets, further delaying their purchase and impacting the developer's sales velocity or offtake."



Md. Zulquer Nain, GM- Engineering, REPL

"The Repo Rate hike in two successive monetary policies of the central bank is defiantly going to have the direct impact on EMI and hence the buyer's sentiments. The real estate market is already facing challenges in demand side. This may also impede the affordable housing momentum that the government is generating since few years. We hope that the effective GST rates and stamp duties in housing will be particularly looked into for neutralizing the effect. The real estate sector is currently going through the recovery phase and it needs all policy level support from the government. The vision of 'Housing-for-All' needs stimulus for industry players, while these rate hikes act in contrary."



Amit Wadhvani, MD, Sai Estate Consultants Chembur Private Limited

"This is for the first time since October 2013 that the RBI has again raised its repo rate by 25 basis points to 6.50 per cent in the span of two months. The banks are likely to follow the decision by RBI making home and other loans costlier for consumers. The various initiatives implemented to make 'Housing For All' a success will go through a doomed phase due to the raised rates, thus making the overall real estate market/industry more expensive than ever. As consultants, we will also alter our strategy to find ways to help minimize the impact of this on buyers."

Shishir Bajjal, Chairman & Managing Director, Knight Frank India - "The 25 bps increase in the policy rate was on expected lines given the current inflationary trend. However, looking at the challenging residential market scenario, we were hoping that the RBI would have paused the rate hike thereby providing a fillip to the buyer sentiment."

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Ashok Mohanani, Chairman EKTA World and Vice President NAREDCO WEST - "In its third bi-monthly monetary policy held on Wednesday, the Reserve Bank of India (RBI) hiked the rate by 25 basis points which were expected. Although the rise and fall in repo rates do have a cascading effect on interest rates home or auto, hence even though it may be marginal, the impact would be seen."



Rahul Shah, CEO of Sumer Group

"The RBI's decision to hike the repo rate by 25 bps point was in line with the expectations. While the real estate industry would have cheered a reduction or a status quo from the central bank, it would be really unfair to have that expectation from the central bank especially considering the rising inflationary pressures and the uncertainty about the growth recovery. The decision might also not have a much of an impact in the short term as far as real estate sales are concerned as typically monsoon tends to be a flat season for the industry. In the long term, we expect the growth to recover which will prompt the RBI to bring down the rates. However, the home loan rate might go up thus impacting customers sentiments."

Dhaval Ajmera, Director, Ajmera Group - "This is the second consecutive hike by the RBI as far as the repo rates is a concern. This move will make further dampen the already low spirits of the real estate sector, making the home loan more expensive for potential seekers. On one hand where the Government is gunning big for 'Housing for All' and affordable housing, such moves are totally out of sync with the vision at centre"

