

RBI likely to raise repo

PRESS TRUST OF INDIA
MUMBAI, 1 OCTOBER

The Reserve Bank of India is likely to increase the repo rate by 25 basis points in the upcoming monetary policy review as inflation is expected to accelerate further due to higher crude prices and the weakness in rupee.

The monetary policy committee will start its three-day meeting from 3 October to decide on the fourth bi-monthly monetary policy.

After two successive hikes, the repo rate currently stands at 6.50 per cent.

"With petrol and diesel prices moving up, there is a strong expectation that inflation will also move up. So, they (RBI) may take a pre-emptive action. I feel there will be an increase of 25 basis points in the repo rate," Union Bank of India man-

aging director and chief executive Rajkiran Rai G said. Despite the rise in oil prices, the headline inflation number came down to 3.69 per cent for August as against 4.17 per cent for July.

"Given where currency level is at this point of time, I think they will increase the interest rate by 25 basis points," HDFC vice-chairman and chief executive Keki Mistry said.

Tracking global developments, the rupee has become weak and is hovering around 73 against the dollar.

The SBI, in its research report Ecwrap, said the RBI should raise the policy repo rate at least 25 basis points to arrest the rupee's fall.

"We rule out a hike of 50 basis points, as it may spook the market. However, there is a probability of change in neutral stance too, as three

successive rate hikes with a neutral stance could contradict RBI message," the research report said. Morgan Stanley in a report said it expects the RBI to hike the short-term rates at its October meeting.

"The default has led to a rise in corporate spreads and increases the refinancing pressure on domestic financial institutions at a time when our economist expects the RBI to hike at its October meeting," the Morgan Stanley report said.

A Kotak Economic Research report said the MPC will likely increase the repo rate by 25 bps in the October policy based on the implied impact of expected cyclical recovery in growth, rupee depreciation, and crude price movement on the medium term inflation trajectory.