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Interest rate hike to hit real estate sector say experts

Reserve Bank to announce monetary policy on Aug 5

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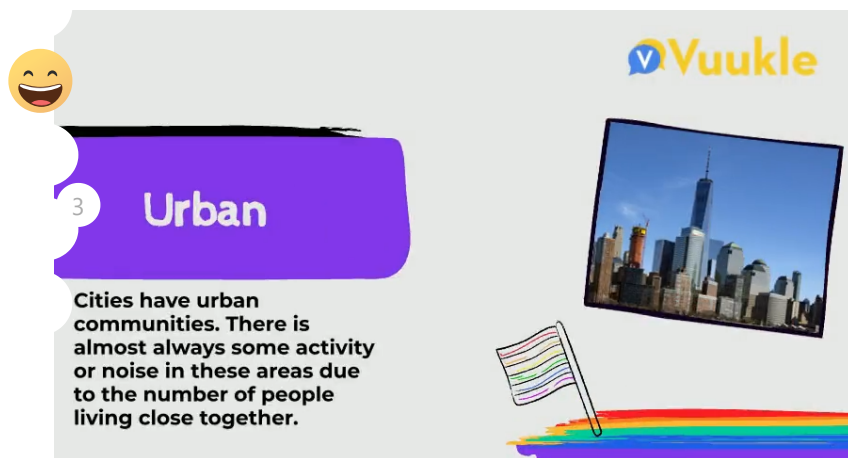
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As the RBI is set to announce hike in interest rates in its monetary policy on August 5, analysts fear it will impact the real estate sector. “From the real estate sector’s standpoint, an upward revision will impact the sentiments of home buyers, who have remained positive despite the last set of revisions that led to a rise in home loan interest rates. A further increase in repo rates will lead to a proportionate erosion of affordability, thereby possibly impacting sales momentum,” said Shishir Baijal, CMD, Knight Frank India.

Speculation hinges on the quantum of the rate hike. With consumer inflation still above tolerance level though some key components like crude oil have improved, the RBI’s priority will be to keep a check on liquidity and expenditure. “Given this, we anticipate an upward revision to be in the range of 35-40 basis points, taking the total change since May 2022 to 125-130 bps higher,” he added.

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Another analysing agency, CareEdge, expects the RBI to hike the policy interest rate by another 100 basis points in the remainder of the current fiscal. This will take the terminal rate to 5.90%. While the current CPI inflation is still around 7%, the easing of many commodity prices is attributed as a major factor of influence towards a lower inflation trajectory by the fourth quarter of fiscal 2023.

With the softening of many commodity prices, inflation seems to have broadly peaked at the current levels and expected to witness a downward movement to below 6% by the fourth quarter. CareEdge expects the RBI to continue with front-loading of rate hiking cycle with 50 bps of repo rate **Without at least one wholesome meal a day they're at risk** 50 bps rate hike later.

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Upward revision to impact sales momentum

An upward revision will impact the sentiments of home buyers, who have remained positive despite the last set of revisions that led to a rise in home loan interest rates. A further hike in interest rates will lead to proportionate erosion of affordability, thereby possibly impacting sales momentum. — Shishir Baijal, chairman and managing director, Knight Frank India

