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tightening in future: Analysts

The market was expecting a rate hike by RBI but at a slower pace

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The Reserve Bank increased the benchmark lending rate by 40 basis points (bps) to 4.40 percent in a bid to contain inflation. / Representative image | Photo Credit: PTI

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- RBI's repo rate hike accompanied by an increase in the cash reserve ratio
- was a "double whammy" for the markets, and more such tightening moves
- can be expected from the central bank, analysts said on Wednesday.

The Reserve Bank increased the benchmark lending rate by 40 basis points (bps) to 4.40 percent in a bid to contain inflation. It also hiked the cash reserve ratio (CRR) by 50 basis points to 4.5 percent, effective May 21, which will take out Rs 87,000 crore liquidity from the system.

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The six-member Monetary Policy Committee, which had an off-calendar meeting to deliver the actions, will hike the repo rate -- at which the central bank lends to the system -- by a further 0.50 percent, multiple watchers said.

Referring to the over 2 percent correction in the benchmark indices, Abhishek Goenka, chief executive of IFA Global, said there were "bloodbath" inequities because of the "double whammy" delivered by Governor Shaktikanta Das.

"The market was expecting a rate hike by RBI but at a slower pace," he added, pointing to the discomfort on inflation as a key factor influencing the move.

Rahul Bajoria, Chief India Economist at British brokerage Barclays, said he expects the RBI to go for at least a 0.50 percent hike at the next scheduled meeting in early June to 4.90 percent, and take a breather only when it touches 5.15 percent.

"Looking ahead, given the hawkish rhetoric and high likelihood of an elevated inflation print for April, the RBI will be front-loading further hikes," he noted.

Sujan Hajra, Chief Economist at Anand Rathi Shares and Stock Brokers, said he expects an immediate increase in money market rates and some transmission in the long-term bond market as well.

"The impact on the equity market is likely to be negative in the short-term," he added.

Ratings agency Care Ratings' Chief Economist Rajani Sinha said the hike in the repo rate as announced by RBI was much required at this point.

"It is very critical at this point to anchor inflationary expectations to avoid wage-price spiral in the economy," she said.

(With inputs from PTI)

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