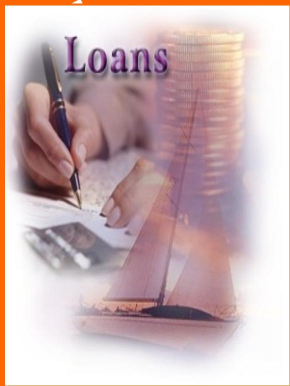
Jagan Institute of Management Studies



NEWS ALERT

Volume V, Issue 35

March 20, 2010

RBI Springs Surprise With 25bps Rate Hike

HOME loan rates may harden in April, banks will be hit by bond losses, and retail borrowers will have to cough up a little more EMI, with the Reserve Bank of India unexpectedly hiking interest rates on Friday evening, a month before the monetary policy. Rattled by a spiralling inflation, the central bank raised the benchmark short-term interest rates—repo and reverse repo—by 25 basis points.

While the RBI communiqué was issued well after market hours in India, US stocks slipped soon after the announcement as traders felt it was a signal that monetary authorities would be quick in withdrawing the post-Lehman stimulus.

INDIA'S internet community grew by a spectacular 42% in 2009 from a year ago, spurred by a rash of cheaper devices and affordable broadband plans as the country's total number of internet users grew to 71 million last year, according to an annual survey by market research agency IMRB and Internet and Mobile Association of India. The survey has traced users who have used the internet at some point in time, an indication of the number of Indians who have gone online at least once in their lifetime.

WHAT ARE REPO AND REVERSE REPO RATES?

Repo is the rate at which RBI lends to banks and reverse repo is the rate of interest RBI pays banks when they deposit funds. These overnight rates are vital tools with which RBI attempts to manage the economy

WHY HAS RBI RAISED THESE RATES?

It wants to slow the rate at which prices are rising, which is eroding living standards. Since price of money, i.e., borrowing cost, and prices of goods and services move in opposite direction, citizens may borrow less to buy goods, reducing demand.

BUT WILL THESE MEASURES WORK?

One round of increase may not be enough to cool down prices. If rate of price increase falls, subsequent increases may not be steep. If prices continue to rise, increases will get steeper.

WHO'LL BE AFFECTED IMMEDIATELY?

Holders of fixed income securities and bank deposits. Since fund-raisers will offer higher rates, bondholders will sell, depressing prices, to buy higher-yielding bonds. Government's interest cost goes up, leaving less for social welfare. Companies' earnings fall on higher interest payments, pushing stock

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