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Repo rate remains unchanged at 5.15 percent

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Following five reductions in the repo rates, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) in its sixth bi-monthly policy review of the current financial year, announced that the repo rate will remain unchanged at 5.15 percent. What could this mean for the struggling real estate industry? Find out -

The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) declared, in its sixth bi-monthly policy review of the current financial year, that it would keep the repo rate unchanged. The repo rate, the RBI's short-term lending rate, remains at 5.15 percent in this review, bringing no respite to the dwindling real estate industry. This has come right after the Union Budget 2020-21, which too failed to cheer the realty segment.

The GDP growth for FY 2020-21 is projected at six percent, hovering in the range of 5.5-6 percent in H1 and reaching 6.2 percent in Q3.

With this announcement, the RBI has continued its stand from the previous policy review, where the repo rate was not changed. Shaktikanta Das, the RBI Governor, explained that with no change in the repo rate, it would allow the Central bank to ensure that the transmission of the current rate takes effect uniformly across public sector banks - nationalised as well as commercial banks.

The MPC observed that the national economy is currently weak with a negative output gap, while there is uncertainty over the inflation outlook. The previous spike in prices in December 2019 led to a surge in inflation past the upper tolerance band. The intent of the committee is to achieve the medium-term target of four percent Consumer Price Index (CPI) inflation within a bracket of +/- 2 percent.

Impact on real estate

With no change in the repo rate, there is no apparent relief in sight for the real estate sector. Home loan EMIs linked to external benchmark rates will remain unchanged, with no softening of home loan rates and ultimately, no boost in housing sales. There were five successive repo rate cuts in 2019 to bolster growth and infuse liquidity into real estate, but this time around, the MPC adopted a cautious approach.

Keeping a close eye on the inflation trajectory, the RBI needs to take complete account of the trickle down effects of the past rate cuts, before it can take a decision on introducing further repo rate reduction.

Giving his two cents on the move, Kaushal Agarwal, Chairman, The Guardians Real Estate Advisory, states, "The announcement is in consonance with expectations, keeping in mind the inflation and the key policy rate reduction of 135 basis points that were announced over the last year. The banks should now be pushed to pass on the benefits of the previous rate cuts that were announced by RBI to the consumers. This is essential to bring down the cost of borrowing for the homebuyers and provide an impetus to demand generation across the real estate sector. After a Union Budget session that was perceived to be neutral, the revival of credit growth needs to be the government's top priority as it will play a significant role in demonstrating a resurgence of growth in economic activity."

Manoj Gaur, MD, Gaurs Group and Chairman, Affordable Housing Committee, CREDAI

The decision by RBI to allow banks to deduct incremental lending that banks provide to productive sectors including residential real estate from net demand and time liabilities for the purpose of CRR is a welcome move. It implies that banks will have to more funds and it will also encourage them to lend more particularly to productive sector, which will have significant impact both on GDP and employment generation.