# Asia Economics Data Flash

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## India: First take on the Reserve Bank of India policy meeting: The RBI hikes the cash reserve ratio (CRR) of banks by 75 bp

**The RBI hiked the cash reserve ratio (CRR) of banks to 5.75% from 5.00%, but left the repo and reverse repo rates unchanged at 4.75% and 3.25% respectively**. This was higher than market expectations of a 50 bp hike on the CRR. We were expecting more tightening than the market, 50 bp through the CRR and 25 bp from the reverse repo. The CRR hike will sequester about US$7.8 billion of liquidity. Banks were parking, on average, about US$15 billion in excess liquidity at the RBI this week.

**The move was more hawkish than market expectations**. We think it correctly emphasizes the inflationary risks, and will go some way in reducing excess liquidity and anchoring inflationary expectations. The RBI raised its end-March WPI inflation target to 8.5% from 6.5% earlier, in line with our forecast of 9%.

**The policy move constitutes a removal of monetary accommodation and in our view is necessary to sustain the cycle**. We expect the RBI to continue to normalize policy rates. The CRR hikes will enable the policy rate to move from the floor of the corridor (reverse repo) to the ceiling (repo). We expect a cumulative increase in policy rates of 300 bp in 2010, with 150 bp of hikes in policy rates, and 150 bp by moving the policy rate from the reverse repo to the repo. We believe the INR will strengthen against the USD. Our 3, 6 and 12-month USD/INR targets are at 44, 43.4, and 43 respectively.

We will send out a more detailed note shortly.

We, Pranjul Bhandari and Tushar Poddar, hereby certify that all of the views expressed in this report accurately reflect personal views, which have not been influenced by considerations of the firm's business or client relationships.