Key Decisions

- The Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 6.5%, with a 4:2 majority
- Consequently, the Marginal Standing Facility (MSF) and Standard Deposit Facility (SDF) rates remain at 6.75% and 6.25%, respectively.
- The policy stance was maintained as withdrawal of accommodation to ensure that inflation progressively aligns to the target of 4%, while supporting growth.
- Inflation estimates for FY 2024-25 remain unchanged at 4.5%
- Real GDP growth estimate for FY 2024-25 maintained at 7.2%

Our take

The Reserve Bank of India (RBI) has maintained an absolute status quo. The policy tone remains consistent with previous statements, emphasizing that economic growth is robust, and the primary focus is on reducing inflation.

The RBI seemed to not be significantly concerned about recent global financial market volatility or the global growth outlook, despite fluctuations in economic data across many advanced economies. Additionally, the RBI has maintained its stance despite recent policy shifts in several advanced economies, particularly by the US Federal Reserve.

Before the policy announcement, there were speculations that the RBI might conduct Open Market Operations (OMO) to absorb excess liquidity in the banking system (currently around Rs. 3 lakh crores). However, the RBI seems comfortable with the existing surplus liquidity and will continue using Variable Rate Reverse Repo (VRRR) and Variable Rate Repo (VRR) operations to manage liquidity which, in our opinion, will have only temporary impact on overall liquidity.

We expect the current surplus liquidity condition to persist for longer period. Consequently, short-term money market rates will likely remain near or below the policy repo rate. Perhaps the RBI, through its liquidity stance, is aiming to support growth in bank deposits which has been lagging credit growth for a long time.

From the market's perspective, the policy was neutral. Going ahead, market's focus will remain on the structural shift in the demand supply balance and the cyclical turn in the inflation and monetary policy globally.

Growing demand for long-term bonds by domestic insurers and pension funds, along with foreign investors' index-driven inflows, will bolster the bond market. Furthermore, easing monetary policies in advanced economies should lead to declining bond yields.

In this declining interest rate environment, investors should consider dynamic bond funds. These funds can allocate to long-duration bonds while maintaining flexibility to adjust portfolio positions if market conditions become unfavourable. This adaptability allows investors to remain invested for a longer period.

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