**BUSINESS STANDARD POLL**

# RBI likely to hold rates for 6th time

## Liquidity in focus; few expect neutral stance

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Mumbai, 4 February

The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) might maintain the status quo for a sixth consecutive policy review, said all 10 respondents in a *Business Standard* poll. The RBI will announce its decision after a review of its policy on February 8.

After raising the repo rate by 250 basis points (bps) to 6.5 per cent between May 2022 and February 2023, the MPC hit a pause in the April review of the monetary policy. "There has been no dramatic change in global dynamics since the last policy, giving little reason for the RBI to move and tighten amid global calm," said Madhavi Arora, lead economist at Emkay Global Financial Services.

One of the key aspects of the meeting is going to be how the central bank responds to the liquidity tightness in the system.

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MPC meting is scheduled for Feb 6–8

| Respondent | Do you expect the RBI to keep repo rate unchanged? | Do you expect a change in stance to neutral? | How do you expect RBI to address the liquidity tightness? |
|---|---|---|---|
| SBI | Yes | No | VRR |
| Bank of Baroda | Yes | No | VRR |
| IDFC First Bank | Yes | No | VRR |
| CRISIL | Yes | No | - |
| Emkay Global | Yes | Not too sure | - |
| YES Bank | Yes | No | VRR |
| ICICI Securities | Yes | Yes | VRR |
| Karur Vysya Bank | Yes | No | VRR |
| PNB Gilts | Yes | Yes | VRR |
| ICRA | Yes | No | VRR |

**BANKER'S TRUST**

### No change in rate; will the stance change?

Both the US Fed and Bank of England have taken the tightening bias off the table. Will the RBI follow the same path?
TAMAL BANDYOPADHYAY writes

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All respondents were unanimous in saying that RBI will continue with variable rate repo (VRR) auctions to infuse liquidity and will resort to open market purchase of bonds or reduction in the cash reserve ratio.

"The liquidity tightness has now extended for a prolonged period since September with an overhang of government cash balances. While VRR is a perfect tool to inject temporary liquidity in lieu of temporary liquidity, the open market operation is not appropriate as it injects permanent liquidity. But what needs to be done on a continuous basis is to initiate a countercyclical liquidity buffer into the system, as such liquidity tightness is injecting an asymmetric transmission bias," said Soumya Kanti Ghosh, group chief economic advisor, State Bank of India.

While all the respondents were in agreement that the MPC would maintain a status quo on the repo rate, opinions varied when it came to the stance.

"If the RBI changes the stance to neutral in February, it would need to be accompanied by more liquidity infusion measures (larger VRR) to bring the weighted average call rate to the repo rate on a sustained basis. Seasonal pick-up in currency leakage will keep liquidity conditions tight until March," said Gaura Sengupta, economist at IDFC First Bank.

"Hence in our base case, we don't expect the RBI to change its stance in February. We expect the stance to be changed to neutral in April," she added.

Meanwhile, a set of respondents believes that lower borrowing for 2024-25 gives room to the central bank to ease the monetary policy.

"Given that fiscally the government has been very prudent with the borrowing programme coming in less than expected, which means the supply will be limited. Essentially, it needs to be responded to by a slight easing of monetary policy, which requires a change in stance," said Vikas Goel, managing director and chief executive officer at PNB Gilts.

"They are already in the process of reinstating accommodation. So they should go to neutral. Saying that we are withdrawing accommodation when you are reinstating by coming out with VRR and so on. Earlier it was also a fine-tuning operation, but it is no longer a fine-tuning operation. That itself indicated a change in stance, which will formally be announced, hopefully," he added.

**FORECAST ANALYSIS**

**RBI's review of monetary policy**

| Respondent | When do you expect the RBI to start cutting repo rate? |
|---|---|
| SBI | Q2FY25 |
| Bank of Baroda | Q3FY25 |
| IDFC First Bank | June-August 2025 |
| CRISIL | June 25 |
| Emkay Global | H2FY25 |
| YES Bank | August 24 |
| ICICI Securities | June-August 2024 |
| Karur Vysya Bank | Q3FY24 |
| PNB Gilts | August 24 |
| ICRA | August 24 |

The government aims to borrow ₹14.13 trillion through dated securities in the next financial year, against the current financial year's gross borrowing estimate of ₹15.43 trillion. The net borrowing for the next financial year, starting April 1, is pegged at ₹11.75 trillion.

A majority of the respondents expect the committee to begin cutting the repo rate between June and August 2024 on the back of consistent moderation observed in core inflation across goods and services, culminating in the anticipation of headline inflation averaging around 4.5 per cent in 2024-2025.

Beyond domestic considerations, the timing of the rate cut is contingent upon the US Federal Reserve's (Fed's) policy. Forecasts indicate that the RBI is likely to trail behind the Fed both in terms of the timing and the magnitude of rate adjustments. This projection is based on the narrowing of interest rate differentials to historically low levels.

"The RBI is unlikely to precede the Fed in the hiking cycle and will likely follow suit. So mostly towards the latter half of this year is a more probable case of easing," said Arora of Emkay Global.

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The company added: "In the past, certain merchants/users on our platforms have been subject to enquiries and on those occasions, we have always cooperated with the authorities."

The company has called the RBI action an "ongoing supervisory engagement and compliance process".

On January 31, the RBI said no further deposits or credit transactions or top-ups would be allowed in customer