

Economists predict RBI likely to maintain policy rate at 6.5 pc

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The Reserve Bank of India is likely to maintain the policy repo rate at 6.50 per cent for the sixth consecutive meeting, economists predict as the central bank is set to have its Monetary Policy Committee (MPC) meet on Thursday.

The focus will be on whether the committee considers altering the policy stance of 'withdrawal of accommodation' and measures taken by the RBI to address the liquidity deficit in the banking system, they believe. However, there is not much excitement in the market ahead of the upcoming MPC meet. Most are expecting it to be a non-event, with traces of dovishness similar to December 2023.

"We have long maintained

that the RBI's policy has been somewhat pegged to the Fed, specifically in the last two years, even as it formally targeted inflation. The swift turn of tone and action pivots of the RBI in the last two years have been influenced purely by global causes and recall a few key hawkish pivots," said Madhavi Arora, Lead Economist at Emkay Global. The Monetary Policy Committee has kept interest rates steady since April, following a 250 basis points increase in the repo rate from May 2022 to February 2023.

Despite inflation remaining above the central bank's medium-term target of 4 per cent, most market participants anticipate the committee to maintain the repo rate for several more meetings.

Governor Das has noted that

inflation is moderating and approaching the 4 per cent target. Core inflation, excluding volatile food and fuel items, fell to 3.9 per cent in December. The primary concern for the rate-setting panel is food inflation, which has remained elevated for the past six months, reaching a four-month high of 9.53 per cent in December.

The RBI has been actively managing liquidity through Variable Reverse Repo auctions, there are speculations that it could change its policy stance from 'withdrawal of accommodation' to 'neutral' to address the liquidity deficit.

RBI's focus on managing liquidity comes as the liquidity deficit, which reached a record Rs 3.3 trillion in January, has since improved to Rs 1.4 trillion due to government month-end spending.