RBI's exercises caution through its no-rate hike

The RBI's MPC stressed continuing the pause cycle with no changes over the existing 'Repo rate' (at 6.50%). Projected inflation rates increased from 5.1% to 5.4% and will continue to be above the 5% (for Q1 2024-25) range due to inflated food prices. Retail inflation levels had lowered from 5.7% (March 2023) to 4.3% (May 2023) but could touch near 8% (August 2023) in the wake of rising tomato prices. External benchmark lending rates will not change due to the paused repo rates. This also facilitates no change in EMIs for borrowers. The term deposit rates in banks won't change due to greater progress made in savings and open accounts with the return of Rs 2000 banknotes to these economic accounts. This further boosted the excess liquidity in the financial system.

Caution must be exercised for borrowers of home loans and other modes of financing required for home loans. They would have to continue their increased monthly payments. Hence, borrowers should continue looking for better alternatives keeping their respective banks in the loop in order to aid them in refinancing their debt obligations. The RBI has mentioned that they are looking forward to reducing excess liquidity in the banking system and providing it to the public in order to increase overall demand and economic activity. A move of such proportion can steer inflation targets between 6.1% and 7%. The RBI Governor in his concluding statement indicated that the forthcoming festivities will boost demand in rural areas and will carve a path for increased FMCG sales. Other benefits in the form of robust supply chain management, increased capital expenditure and healthier statement of financial position for banks and corporates could lead to a broader financial scope.

Glossary

EMI – Equated Monthly Instalment
Q1 – Quarter 1
FMCG – Fast Moving Consumer Goods.

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