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What RBI's Status Quo means for Stock Investors and Borrowers

Why in news?

The Monetary Policy Committee of the RBI has emphasised on growth and kept the interest rates unchanged.

Why did RBI not raise rates?

> *Repo rate is the rate at which the central bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfall of funds.*
>
> *Reverse Repo Rate is the rate the central bank of a country pays its commercial banks to park their excess funds in the central bank.*

- **Recovery-** The Monetary Policy Committee (MPC) took the view that continued policy support (status quo on interest rates) and an accommodative policy stance is needed for a durable and broad-based recovery.
- **Uncertainties of the pandemic**- It considered the outlook for inflation and growth, and uncertainties related to Omicron and global spillovers.
- **Inflation**- Retail inflation for the next fiscal (FY23) is projected at 4.5% and the panel said inflation was likely to moderate in the first half of 2022-23 and move closer to the target rate thereafter.
- **Market borrowings**- The big FY23 market borrowings too may have nudged RBI to delay liquidity normalisation to keep the cost of borrowing under control.
- **Boost private consumption**- A key reason RBI has kept the policy interest rate at historic lows for longer is to promote the private consumption.

What does status quo mean for the economy?

- Leaving the repo rate and the reverse repo rate unchanged indicates low interest rates will continue for the time being.
- The policy statement brought relief to the markets and will accelerate the growth momentum in the economy.
- The policy is in line with the government's push for capital investment this year.
- It may also support borrowing by corporates as continuing low interest rates is well for both consumption demand and investment in the economy.
- There is a view that as a strong rabi crop boosts food supply and supply disruptions arising out of the third wave of the pandemic recede, CPI inflation will moderate.
- This will allow the policy rates to remain low for longer providing a boost to equity valuations, and help spur a broad-based recovery in consumption and investment.

What does it mean for borrowers, savers, and debt and equity investors?

- **Borrowers-** Home buyers will benefit as lending rates are unlikely to go up in the near future.
- One of the important factors driving home-buying is record low mortgage rates.
- **Savers-** Savers and depositors, on the other hand, will find their interest income unchanged.
- After taking into account the 5.59% inflation in December, depositors are making a nominal loss on one-year term deposits.
- **Debt investors-** Experts feel debt investors should ideally keep their funds liquid, and deploy them over the next one year alongside the hike in interest rates.
- Investors looking to allocate to debt strategies are advised to look at fund segments with lower duration profiles and use target maturity strategies to gradually lock in incrementally higher rates over the next 6-12 month.
- **Equity investors**- The continuing low interest rate and accommodative stance of the monetary policy means further rise in equity valuations for now.
- RBI's focus on growth will likely push up equity markets further.

References

1. https://indianexpress.com/article/explained/what-rbis-status-quo-means-for-stock-investors-and-borrowers-7766826/
2. https://economictimes.indiatimes.com/definition/Repo-rate

Quick Facts

Monetary Policy Committee

- It is a committee of the "Reserve Bank of India" that is responsible for fixing the benchmark interest rate in India.
- It usually meets once in 2 months and is mandated to meet at least 4 times a year and it publishes its decisions after each such meeting.
- **Composition**- The committee comprises six members – Three officials of the Reserve Bank of India and three external members nominated by the Government of India.
- The Governor of RBI is the ex-officio chairperson of the committee and has a casting vote while taking decisions that are tied.
- The current mandate of the MPC is to maintain inflation within the targeted range of **4%±2%.**