Note on RBI's Monetary Policy August 24

Repo Rate	SDF Rate	MSF Rate
6.5%	**6.25%**	**6.75%**
(Unchanged)	(Unchanged)	(Unchanged)

Highlights

- **Repo Rate Unchanged:** RBI Governor Shaktikanta Das announced that the repo rate remains steady at 6.5%, unchanged for the eighth consecutive review since February 2023, marking the second-longest period of rate stability in 25 years. The Marginal Standing Facility (MSF) and Standard Deposit Facility (SDF) rates remain unchanged. This decision aligns with market expectations, though headline inflation trends may change in Q3.

- **MPC Voting and Stance:** The RBI's Monetary Policy Committee (MPC) voted 4-2 to maintain the current policy rates. Dr. Shashanka Bhide, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra, and Shri Shaktikanta Das voted to keep the policy repo rate unchanged at 6.50 percent with a 'Withdrawal of Accommodation' stance. Dr. Ashima Goyal and Prof. Jayanth R. Varma voted to reduce the policy repo rate by 25 basis points with a stance to 'Neutral'.

- **Domestic Growth and Inflation:** Domestic growth is strong, bolstered by urban consumption and manufacturing activity. The MPC emphasized the importance of focusing on inflation control to sustain economic growth, The Consumer Price Index (CPI) inflation for June stood at 5.08%, with the RBI's forecast indicating a downward trajectory.

Our view in a nutshell

- The RBI is in a wait-and-watch mode with an unchanged stance and liquidity management as the interim focus. A synchronized global growth downturn, expectation of a likely rate cut by FED in September and normal monsoon progression with contained core inflation implies that the policy focus may shift from inflation control to supporting growth gradually.

- We still maintain the same view, in fact recent data has increased our conviction. The liquidity has turned positive post-elections and has already pushed operative overnight rate below the policy rate of 6.5%.

- We recommend investors with a holding period of at least 1 year to consider investing in longer duration funds. The 10- to 15-year segment and longer end of yield curve stands to gain from any possible rate cuts in the next one year.

- Investors with lesser appetite for duration risk can consider Funds with moderate duration of 3-5 years.

RBI's Quarterly CPI inflation forecast		
Q2FY25:	4.4% from 3.8%	Raised
Q3FY25	4.7% from 4.6%	Raised
Q4FY25	4.3% from 4.5%	Lowered
Q1FY26	4.4%	Projected
RBI retains FY25 CPI inflation forecast at 4.5%		

RBI Real GDP growth estimates	
Q1FY25	7.10%
Q2FY25:	7.20%
Q3FY25	7.30%
Q4FY25	7.20%
FY2026	7.20%

Source: RBI-Monetary Policy Statement