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Article

IMPACT OF REPO RATE ANNOUNCEMENT ON BANK NIFTY

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Abstract: Monetary policy plays a significant role in influencing liquidity, interest rates, credit availability and investor sentiment within financial markets. Among the various monetary policy instruments adopted by the Reserve Bank of India (RBI), the Repo Rate serves as one of the most important tools for regulating money supply and maintaining macroeconomic stability. Changes in Repo Rate directly influence the borrowing cost of commercial banks and indirectly affect stock market performance, particularly in interest-sensitive sectors such as banking.

The present study examines the impact of Repo Rate announcements on the volatility and returns of Bank Nifty, one of the major sectoral indices representing the Indian banking sector. The study investigates the pre- and post-announcement volatility patterns of Bank Nifty returns across multiple event windows of 3 days, 6 days, and 9 days during the period from 2018 to 2020. The study adopts a descriptive research design and uses secondary data collected from the official sources of the Reserve Bank of India and National Stock Exchange. Statistical tools including Mean Return Analysis, Variance Analysis, and F-Static Test were employed to evaluate the significance of changes in returns and volatility.

The findings reveal that Repo Rate announcements do not create immediate statistically significant changes in Bank Nifty returns in short-term windows of 3 and 6 days. However, evidence of moderate long-run influence was observed in selected 9-day post-announcement windows, indicating delayed market reaction to monetary policy changes. Although reductions in Repo Rate generally created positive market expectations and improved investor sentiment, external macroeconomic shocks such as the COVID-19 pandemic significantly altered market behavior and reduced the effectiveness of monetary transmission to stock returns.

The study concludes that Repo Rate announcements alone are insufficient to explain short-term Bank Nifty volatility and that investors should avoid making immediate trading decisions solely based on monetary policy announcements. Instead, investment decisions should consider broader macroeconomic indicators and longer observation periods. The study contributes to the growing literature on monetary policy transmission and provides practical implications for investors, policymakers, and financial analysts in understanding the behavior of banking sector indices in India.

Keywords: Bank Nifty, Banking Sector, Event Study, Monetary Policy, Repo Rate,

1. INTRODUCTION

India is considered as one of the most remarkable countries in the world for many aspects and achievements. World believes that India has taught the civilization to the many parts of the world. The world recognizes India as one of the leading Agrarian economies for the centuries. India has also made a mark on trade and business with different parts of the world. Indians have imbibed different patterns and cultures from various parts of the world. Indian economy can be considered as one of the roaring economies in the world and it is believed that Indian economy is going to be one of the leading economies by 2050. In India, we have been witnessing new patterns in all the aspects since few decades, and economic activities are also getting newer facets. In these rapid technological changes, the investor protection has become a million-dollar question. Not only the protection, but also the awareness level of investor towards various risk elements has become the need for the hour.

Capital formation through savings and investments is a necessary precondition for economic development of a country. The capital markets play an important role in the capital formation process. Indian capital markets have played a major role over the years in mobilizing and channelizing private capital for the economic development of the country. In the process, the functioning of capital markets has become efficient and transparent. The securities market has undergone a structural transformation with the introduction of computerized online trading and settlement procedures. The market has undergone a functional transformation with the introduction of derivative trading. The Derivative trading is considered as one the best investment strategies to hedge the risk prevailing in the market for both the securities and commodities.

Financial markets exhibit dramatic movements, and stock prices may appear too volatile to be justified by changes in fundamentals. Such observable facts have been under scrutiny over the years and are still being studied vigorously (LeRoyand Porter, 1981; Shiller, 1981; Zhong et al., 2003).

The investment in India has started new ideology since economic reforms in India. Since 1991, the stock market has become as one of the attractive investment alternatives of public. Investment in shares has started giving dividends and quick returns in very short tenure itself. So people started in investing stock markets. Even in that, banking sector has become interesting alternative for many of the investors.

1.1 RBI and Policy rates

Reserve Bank of India (RBI) was set up in India on 01 April, 1935 with RBI Act, 1934. RBI is apex bank and regulating authority of banks in India. The Bank, which was originally set up as a shareholder's bank, was nationalised in 1949. The Bank was constituted to Regulate the issue of banknotes, maintain reserves with a view to securing monetary stability and to operate the credit and currency system of the country to its advantage.

The primary function of RBI is to control the money flow in the country and it uses various instruments to control the money flow. The instruments are Open market operations, Bank Rate, Variable reserve requirement and Liquidity Adjustment Facility

Open Market Operations is when the RBI involves itself directly and buys or sells short-term securities in the open market. This is a direct and effective way to increase or decrease the supply of money in the market. It also has a direct effect on the ongoing rate of interest in the market.

A **Bank Rate** is essentially the rate at which the RBI lends money to commercial banks without any security or collateral. The current Bank Rate is 5.50%, In **Variable Reserve requirements**, there are two components to this instrument of monetary policy, namely – The Cash Reserve Ratio (CLR) and the Statutory Liquidity Ratio (SLR)

Cash Reserve Ratio is certain minimum amount of deposits that commercial banks have to maintain with central bank. CRR is set according to the guidelines of Central bank of the country. CRR is the tool used to the control the liquidity in the banking system. The aim is to ensure that banks do not run out of cash to meet the payment demands of their depositors. Current CRR is 3%

Statutory Liquidity Ratio is a term for reserve requirement that commercial banks are required to maintain in the form of cash, gold reserves, and RBI approved securities before providing credit to the customers. SLR is determined by RBI in order to control the expansion. Increase in SLR means banks will have fewer funds to give as loans. Current SLR is 18%.

The **Liquidity Adjustment Facility (LAF)** is an indirect instrument for monetary control. It controls the flow of money through repo rates and reverse repo rates.

Repo Rate refers to the rate at which commercial banks borrow money by pledging their securities to the Central bank to maintain liquidity, in case of shortage of funds or due to some statutory measures. It is one of the main tools of RBI to keep inflation under control. Banks will make an agreement with RBI to repurchase those securities at a later date. Current Repo rate is 5.25%.

Reverse Repo rate is the short term borrowing rate at which RBI borrows money from banks i.e. the rate at which commercial banks park their excess funds with RBI. An increase in Reverse Repo rate means commercial banks will get more incentives to park their funds with RBI thereby decreasing the supply of money in market. This is used to control the supply of money. Current Reverse Repo rate is 3.35%.

When the repo rate increases, borrowing from RBI becomes more expensive. If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate.

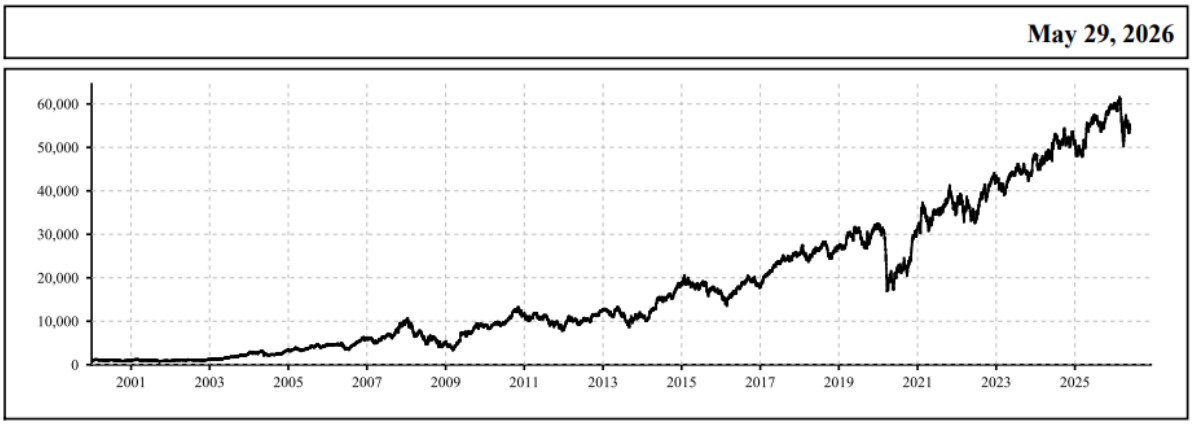
Marginal Standing facility is a liquidity adjustment facility created by RBI in May 2011. Marginal Standing facility is the rate at which commercial banks are able to borrow overnight funds from RBI against approved government securities. MSF is a short term borrowing scheme for scheduled commercial banks. Current MSF is 5.25%.

1.2 Bank nifty

Bank Nifty index is weighted index of Indian banking stock companies that are largely capitalized and fairly liquid. It is a portfolio of 14 Indian banking companies that shows the performance of included banks. Bank Nifty index includes both Private Sector banks and Public Sector banks. Bank Nifty index is also known as "Nifty Bank". In the year 2000, India Index Service and Product Limited (IISL) launched the index. 1st January, 2000 is the base date of the index with having base value of 1000 points.

Figure 1

Showing Bank Nifty Index Values from 2001 till date



Source : https://www.niftyindices.com/Factsheet/ind_nifty_bank.pdf

2. Review of literature

Chatla Umadevi and Saritha, P., (2025) have studied on the titled, "Unveiling the key factors of Financial Inclusion – An Empirical Study in Kadapa District". The authors were investigate the factors that influence financial inclusion in the kadapa district in Andhra Pradesh. Data were collected through structured questionnaire and analysed with Garatte ranking method. They found that the banks have to create more awareness on mobile banking and online services in the study area for financial inclusion.

Bank rate is impacting the Bank Nifty significantly, Repo rate and Reverse repo rates are impacting significantly, Marginal standing facility is also having a significant impact on Bank Nifty, all other rates also have a significant impact except SLR on Bank Nifty. Not only the policy rates but also some qualitative factors such as Money supply, Credit, inflation also plays a vital role in banking stock price movements **(Nikhil, 2024)**

Bank nifty index has shown Non normality property suggesting an anti-leveraging effect, which shows an indication to get advantage of arbitrage theory. Data of 17 years has been taken for the purpose of analysis. Normality of the data has been checked and GARCH model has been used for the purpose of analysis. **(Suman et al, 2023)**

Growth rates in repo has a positive impact on Bank Nifty, but there is a weak positive relationship between Bank nifty and CRR whereas SLR has a negative relation with Bank Nifty, gold prices and Bank nifty are negatively correlated and finally GDP and Bank Nifty are positively correlated. Pearson correlation has been used to analyse the relation between bank nifty and other policy rates of monetary policy, multiple regression has been used to predict the bank nifty growth. There is a considerable change in the Bank Nifty values due to change in Repo Rate, Reverse Repo rate, SLR and gold rate and also it is found that there is no significant relationship between Bank Nifty and CRR, Fiscal deficit, GDP per-capita income **(Bhandari, 2023)**

Chatla Umadevi and Saritha, P., (2022) have studied on the titled, "Marketing of Products and Services by Commercial Banks for Financial Inclusion in India – A Decennium Study". The authors were examined various marketing strategies adopted by different commercial banks for financial inclusion and financial service since 2010 in both National and International level.

Stock prices change when monetary policy is announced. Based on change in the CRR and repo rate, the prices of banking stocks are changing which is leading to profits and losses for the investors who have invested in the banking sector. Effective change in the policy rates leads to a change in stock prices of banks, except the CRR all the remaining policy rates have a significant impact on the banking stock prices **(Nikhil et al, 2021)**

It is found that repo increase, decrease, CRR increase, decrease, SLR increase and decrease have a significant impact on the bank nifty and this has lead in the abnormal returns of bank nifty stocks. Time varying analysis with beta and abnormal returns of the data 2005 to 2016. Systematic risk component and impact of monetary policy announcements has been considered **(Sushma, 2020)**

Sectoral indices like Media, consumer goods, metal, pharma, IT and FMCG are not so significantly impacted by Monetary policy whereas the banking sector and financial services sector is greatly impacted due to Monetary policy. Significant demand on housing loans and auto loans after monetary policy announcements, dominance of banking sector, especially lending will be demanded in the market, and leading to financial **liberalism (Prabhu, Bhattacharya & Partha, 2020)**

One of the most representative indicators of economy of any country is the stock market and for the smooth functioning of the respective economy, the central monetary authority plays a crucial role. Central monetary authority controls different forms of money supply with the help of Monetary policy. Macro-economic variable and one of the most popular indices in India, Nifty have positive relation. But Nifty performance will not be affected too much by the changes in the macro-economic policies such as CRR and Reverse Repo Rate. **(Kumari & Nagendra, 2019)**

The study evaluated the performance of banking stocks mainly to identify the required rate of return and risk of a particular stock based upon different risk elements prevailing in the market and other economic factors. On the basis of closing values of Bank Nifty, it was found that bank sector indices is one of the good indices among NSE indices to invest. Among the 12 banks in bank nifty HDFC bank have the highest market capitalization. The investors who were looking for a long term investment, HDFC bank stocks are ideal one. The average monthly returns of the bank stocks indicate that the returns were similar to the Bank Nifty index average returns **(Rohith, 2017)**

There is a strong relationship between monetary policy announcement and Nifty index as well as the sectoral indices. Nifty energy index has shown variations which could not be explained by the relation of monetary policy announcement, and rest of the sectoral indices were moving as per the monetary policy announcements. Relationship is considered as linear, and sectoral indices got influenced due to announcement of monetary policy where as Energy sector, FMCG sector got impact but those could not be explained by the variation in the monetary policy in the study period **(Mrutyunjaya, 2016)**

There is a significant impact of adjustment of rates on banking returns and most of the cases, the rate announcement has 95% negative correlation. The results have shown a weak significant correlation between volume of liquidity and the amount of published partnership bonds and the returns of private banks in the stock market. Panel data from 2010 to 2015 of Iranian and Tehran stock exchange has been taken and analysis has been carried out multiple regression and correlation analysis **(Kazim & Rasoul , 2015)**

Monetary policy of the country will be famed, implemented and controlled by Central bank of the country. The announcement of different policy rates such as CRR, SLR, PLR and Repo rate will influence money flow as well as the performance of banking stocks which are listed in National Stock Exchange. The announcement of changes in Reverse Repo Rate and Cash Reserve Ratio are major influencing factors of returns of the banking stocks. Reverse Repo Rate has given a positive impact on CAAR (Cumulative Abnormal Average Returns) whereas Cash Reserve Ratio change has given a negative CAAR. It is also observed that Reverse Repo Rate is more influential than Repo Rate **(Vanitha et al, 2013)**

India stock market efficiency will have an impact of RBIs monetary policy announcements. When Nifty values are observed for a period of 31 days i.e. 15 days prior to the announcement and 15 days after the announcement of monetary policy decision, certain variables like Average Return, Average Abnormal Return and Cumulative Average Abnormal Return were showing variance with Single Index Model. Some of the announcements have not shown immediate impact on the day of announcement as it is being in the discussion in market for some period, but on a whole, the Monetary policy announcements have got an impact on stock market but not efficient in semi strong form. **(Agarwal, 2007)**

3. Significance of the study

From the review of literature, there will be some changes in the Bank Nifty returns with the announcement of Repo, Reverse Repo, CRR and SLR. Due to this there will be some gains and losses to the investors. There are people who have made enormous money because of these changes in the policy rates, and there are people who have lost in the same way. The return from the stock market is like a bubble, which will be very beautiful to see from the distance, if we try to catch that, it will blast, that is what many people have witnessed practically and personally.

People have become millionaires in a day and lost millions in rupees in just a single day. People who have invested the money in stock markets and Bank Nifty rose to sky and come down to dust in fraction of minutes. The reasons are numerous, some of the major reasons are announcement of changes in the instruments of Monetary policy. Whenever there is a change in the instruments of Monetary policy, the banking sector stocks will suffer. There will be a change in the prices of banking stocks when there is a change in the decision regarding the policy rates.

3.1 Scope of the proposed study

The present study focuses on one of the instruments of Monetary policy of RBI, i.e. announcement of Repo rate, on Bank Nifty from 2018 to 2020. To study the pre and post volatility of returns in Bank Nifty for 3 days, 6 days and 9 days when there is a change in **Repo rate** in the study period 2018 to 2020. The study has been done with the help of 3 tools to analyse the data such as Mean Returns, Variance of Returns and F Static Test of Returns

3.2 Research Problem

The announcement of policy rate changes by RBI impacts not only banking stocks but also Bank Nifty. This may lead to variations in the returns expected by the investors. So there will be a dire need for identifying this impact which can minimize the loss of investors. The present study deals with the impact of Repo Rate on Bank Nifty returns and performance and helps the investors to predict future movement of Bank Nifty.

3.3 Research Methodology

Research Type : Descriptive

Data Type : Secondary data

Data Source : www.nseindia.com, www.rbi.gov.org.in

3.4 Objective of the study

- To study the pre and post volatility of returns in Bank Nifty for 3 days, 6 days and 9 days when there is a change in Repo rate.

3.5 Limitations of the study

1. The study is limited to only one instruments of monetary policies which covers Repo rate but the macroeconomic aspects such as inflation, technological changes are not considered for the study.

2. Influence of International aspects, FIIs involvement in the stock markets are not considered in the study.

3.6 Analytical tools

- F static Test,
- Variance analysis

3.7 Hypotheses

H1 = There is no significant difference in the variances before and after announcement of the Reverse Repo Rate increase

H1a : There will be a significant difference in the variances before and after announcement of the Reverse Repo Rate increase

H2 : There is no significant difference in the Mean values of Bank Nifty before and after announcement of the Reverse Repo Rate increase

H2a : There will be a significant difference in Mean values of Bank Nifty before and after announcement of the Reverse Repo Rate increase

4. Data Analysis

4.1 Overall analysis for 01-Aug2018

Table 1

Mean, Variance and F value for 01Aug2018

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	0.846	3.128	19.00	No Significant Change
6-Day	0.95	1.463	5.05	No Significant Change
9-Day	0.318	2.242	3.44	No Significant Change

Source: Authors Compilation (2026)

In all the cases of Table 1, the returns are positive which shows that the decrease in the Repo rate will attract more investors towards bank stocks, which further increased the Bank Nifty value and the Fstatistics are far below the Fcritical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.2 Overall analysis for 01-Feb2019

Table 2

Mean, Variance and F value for 01Feb2019

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	3.64	9.0	19.00	No Significant Change
6-Day	1.66	4.6	5.05	No Significant Change
9-Day	0.336	2.81	3.44	No Significant Change

Source: Authors Compilation (2026)

From Table 2, though the Repo Rate has decreased, there has been a negative return in all the instances and also the long term variance has shown significant impact with pre announcement of Repo. Fstatistics are far below the Fcritical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.3 Overall analysis for 04Apr2019

Table 3

Mean, Variance and F value for 04Apr2019

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	-0.324	3.56	19.00	No Significant Change
6-Day	0.16	1.145	5.05	No Significant Change
9-Day	-0.0247	1.253	3.44	No Significant Change

Source: Authors Compilation (2026)

Table 3 shows that in all the cases, the returns are positive which shows that the decrease in the Repo rate will attract more investors towards bank stocks, which further increased the Bank Nifty value. Fstatistics are far below the Fcritical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.4 Overall analysis for 06Jun2019

Table 4

Mean, Variance and F value for 06Jun2019

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	-0.119	2.45	19.00	No Significant Change
6-Day	0.15	1.18	5.05	No Significant Change
9-Day	0.738	2.58	3.44	No Significant Change

Source: Authors Compilation (2026)

Out of all the cases which has been displayed in Table 4, the returns are positive in two instances which shows that the decrease in the Repo rate will attract more investors towards bank stocks, which further increased the Bank Nifty value, but only in once instance there is a negative return. Fstatistics are far below the Fcritical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.5 Overall analysis for 07-Aug2019

Table 5

Mean, Variance and F value for 07Aug2019

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	-0.12	1.717	19.00	No Significant Change
6-Day	-0.089	1.183	5.05	No Significant Change
9-Day	-0.091	1.38	3.44	No Significant Change

Source: Authors Compilation (2026)

Table 5 shows the data of 07Aug2019, out of all the cases, the returns are positive in two instances which shows that the decrease in the Repo rate will attract more investors towards bank stocks, which further increased the Bank Nifty value, but only in once instance there is a negative return. F statistics are far below the F critical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.6 Overall analysis for 04-Oct2019

Table 6

Mean, Variance and F value for 04Oct2019

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	-0.217	15.348	19.00	No Significant Change
6-Day	-0.425	2.18	5.05	No Significant Change
9-Day	0.071	4.35*	3.44	Significant Change

Source: Authors Compilation (2026)

Out of all the cases in Table 6, the returns are positive in two instances which shows that the decrease in the Repo rate will attract more investors towards bank stocks, which further increased the Bank Nifty value, but only in once instance there is a negative return. F statistics are far below the F critical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.7 Overall analysis for 27Mar2020

Table 7

Mean, Variance and F value for 27Mar2020

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	0.0137	1.431	19.00	No Significant Change
6-Day	0.0415	1.96	5.05	No Significant Change
9-Day	-0.3814	2.05	3.44	No Significant Change

Source: Authors Compilation (2026)

From Table 7 of date window 27Mar2020, we can observe that though the Repo Rate has been decreased, the world has hit with Covid 19, due to which all the markets performed poor and Nifty Bank Nifty also suffered negative returns in all the instances. Fstatistics are far below the Fcritical value p-values are well above 0.05. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

4.8 Overall analysis for 22May2020

Table 8

Mean, Variance and F value for 22May2020

Window	Mean Test (t)	Variance F	F Critical	Final Conclusion
3-Day	-0.2518	4.995	19.00	No Significant Change
6-Day	-2.096	1.509	5.05	No Significant Change
9-Day	-1.333	1.178	3.44	No Significant Change

Source: Authors Compilation (2026)

In all the cases shown in Table 8, the returns are positive which shows that the decrease in the Repo rate will attract more investors towards bank stocks, which further increased the Bank Nifty value Fstatistics are far below the Fcritical value. Therefore, volatility differences before and after the repo rate change are statistically insignificant.

Table 9

Variances in the Returns of Bank Nifty for 3,6 and 9 days' post announcement of Repo Rate and 9 days pre announcement of Repo Rate

Variance values				
Date	x1	y1	y2	y3
01-Aug-18	0.000039	0.00012	0.00006	0.000074
07-Feb-19	0.000001	0.000009	0.000015	0.000037
04-Apr-19	0.000023	0.000082	0.000063	0.000087
06-Jun-19	0.000054	0.0000221	0.000064	0.00005
07-Aug-19	0.000279	0.000479	0.000213	0.00021
04-Oct-19	0.000066	0.001013	0.000423	0.00032
27-Mar-20	0.001274	0.001824	0.00397	0.002871
22-May-20	0.00022	0.001099	0.000571	0.000774

Source: Authors Compilation (2026)

Table 10

Showing F test Results comparison Variance among the Returns(Post Repo Announcement) with one another 3,6 9 days

Date	Y1 on Y2	F critical dof 5,2	Y2 on Y3	F Critical dof 8,5	Y1 on Y3	F Critical dof 8,2
01-Aug-18	2.00	19.30	1.23	4.82	1.62	19.37
07-Feb-19	1.67	19.30	2.47	4.82	4.11	19.37
04-Apr-19	1.30	19.30	1.38	4.82	1.06	19.37
06-Jun-19	2.90	19.30	1.28	4.82	2.26	19.37
07-Aug-19	2.25	19.30	1.01	4.82	2.28	19.37
04-Oct-19	2.39	19.30	1.32	4.82	3.17	19.37

27-Mar-20	2.18	19.30	1.38	4.82	1.57	19.37
22-May-20	1.92	19.30	1.36	4.82	1.42	19.37

Source: Authors Compilation (2026)

Table 9 and Table 10 shows the comparison of Variances after the announcement of Repo rate in 3 windows, 5 days, 6 days and 9 days. But none of the variances are significantly different from each other, but except in two instances, in all the instances we have observed positive returns.

Table 11

F Test Results Comparison Variance Among The Returns Post Repo Announcement And Long-Term Pre Repo Announcement

Date	X1 on Y1	F Critical dof 8,2	X1 on Y2	F Critical dof 8,5	X1 on Y3	F Critical dof 8,8
01-Aug-18	3.08	19.37	1.54	4.82	1.90	3.44
07-Feb-19	9.00	19.37	15.00	4.82	37.00	3.44
04-Apr-19	3.57	19.37	2.74	4.82	3.78	3.44
06-Jun-19	2.44	19.37	1.19	4.82	1.08	3.44
07-Aug-19	1.72	19.37	1.31	4.82	1.33	3.44
04-Oct-19	15.35	19.37	6.41	4.82	4.85	3.44
27-Mar-20	1.43	19.37	3.12	4.82	2.25	3.44
22-May-20	5.00	19.37	2.60	4.82	3.52	3.44

Source: Authors Compilation (2026)

Table11 shows that there is a significant difference in the variances in the returns in the long run after the announcement of Repo Rate, this has been reflected in the negative returns also. The X1 on Y3 model (FCritical = 3.44) rejected the null hypothesis most frequently (4 times). This shows that compared to longer-term, more stable pre-announcement baselines, repo announcements are highly likely to induce short-term operational changes in market risk profiles.

Out of the 8 repo announcement events tracked, only 4 dates (07-Feb-19, 04-Apr-19, 04-Oct-19, and 22-May-20) displayed a statistically significant difference in return variance. This implies that the stock market (e.g., Bank Nifty or Nifty 50) does not react with high volatility to every rate decision; it depends heavily on whether the announcement brings surprises or matches market expectations.

5. Conclusion

\The present study examined the impact of Repo Rate announcements on Bank Nifty returns during the period 2018–2020 by comparing pre-announcement and post-announcement return volatility across three observation windows of 3 days, 6 days, and 9 days. Using Mean Return Analysis, Variance Analysis, and F-Static Tests, the study attempted to identify whether Repo Rate announcements generated statistically significant changes in Bank Nifty performance.

The empirical findings indicate that Repo Rate announcements did not produce substantial short-term volatility changes in Bank Nifty returns across most event windows. In the majority of the cases, F-statistics remained below the critical values, suggesting that immediate market reactions to Repo Rate announcements were statistically

insignificant. This finding indicates that investors may already anticipate policy decisions before official announcements, leading to partial incorporation of information into stock prices.

However, the study identified evidence of moderate influence in certain long-term windows, particularly in the 9-day post-announcement period. This suggests that monetary policy transmission to banking stock returns may not be instantaneous and may require time for market participants to interpret, absorb, and react to policy signals. Additionally, external economic events such as the COVID-19 crisis demonstrated that broader macroeconomic uncertainty can dominate the effect of monetary policy and significantly alter investor behavior.

The study also highlights that Repo Rate announcements alone cannot fully explain Bank Nifty movements. Market performance is shaped by several interconnected variables including inflation expectations, liquidity conditions, fiscal policy, global economic developments, institutional participation, foreign investment flows, and investor sentiment.

From an investment perspective, the findings suggest that investors should avoid making short-term speculative decisions immediately after Repo Rate announcements and instead adopt a medium- to long-term investment horizon supported by broader economic indicators and market fundamentals. From a policy perspective, the results emphasize that monetary authorities should recognize the existence of delayed market transmission mechanisms and strengthen communication strategies to improve market efficiency.

6. Further research

In this paper, the research has been shown only for one aspect i.e. Repo rate increase and decrease, in the study period 2018 to 2020. This could be extended to Reverse Repo rate, Cash Reserve Ratio and Statutory Liquidity Ratio for an extended period as per the requirement of the researcher.

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