RBI’s changes in policy rates

Why in news?

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The Reserve Bank of India (RBI) kept the key policy rate, or the repo rate, unchanged in the first bimonthly policy review of 2017-18 but narrowed the policy corridor by 25 bps by raising the reverse repo rate to 6%, from 5.75%.

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What are the reasons?

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- The central bank said the policy decision was consistent with the neutral policy stance with the objective of achieving the medium-term target for retail inflation, which is 4%.
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- The RBI governor said that the MPC saw the path of inflation in 2017-18 challenged by upside risks and unfavourable base effects towards the second half of the year.
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- Accordingly, inflation developments have to be closely monitored with food price pressures can be checked so that inflation expectations can be anchored.
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- The central bank said the future course of monetary policy would largely depend on incoming data on how macroeconomic conditions are evolving.
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Is Inflation a challenge?

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- RBI said the path to achieving 4% inflation would be challenging.
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- The central bank has set its inflation projection to an average of 4.5% in the

first half of 2017-18 and 5% in the second half, while keeping its GVA growth projection unchanged at 7.4% for FY18 as compared with 6.7% in FY17.
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- The central bank said while surplus liquidity in the banking system had fallen from close to Rs 8 lakh crore in January to Rs 4.8 lakh crore in March.
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- The central bank said it had proposed a standing deposit facility to the government in November 2015, approval for which was still awaited.
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- SDF is a mechanism to drain surplus cash at a rate lower than the repo rate without the need for any collateral.
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- Analysts said there were upside risks to the 4% target and there was a possibility of an increase in the cash reserve ratio, going forward.
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Source: The Hindu

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