RBI’s Monetary Policy Report

What is the issue?

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RBI has left the repo rate unchanged in order to keep inflation under check.

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What transpired at the last MPC meet of the fiscal?

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- RBI’s “Monetary Policy Committee” met for its regular bi-monthly to consider and review the monetary direction ahead.
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- **The Policy Outlook -** Vigilance on price stability was stressed amid fresh price uncertainties and it was decided to leave the Repo Rates unchanged.
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- As inflation is at the fastest pace in 17 months, there wasn’t much ambiguity expected on the outcomes of the MPC meet.
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- Significantly, the MPC retained a ‘neutral stance’, which gives it the flexibility to change gears in either direction.
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- **Inflation Stats -** Consumer Price Index (CPI), which is the parameter on which inflation targeting is done, has accelerated for the 6th straight month.
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- The RBI had in December made a projection for inflation in the range of 4.3-4.7% in the six months through March 2018.
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- But as fuel prices having risen sharply in January, the estimates for the 4th quarter have been raised to 5.1%.
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How does the scenario ahead look?

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- Projections beyond the current fiscal indicate a worsening inflation scenario, which is also clouded in multiple uncertainties.
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- **The uncertainties -** Staggered impact of increase in "House Rental Allowance" by various State governments, which may induce 2nd order effects.
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- The Budget's proposed changes to the "minimum support price" norms for crops as well as the proposals to increase customs duty on a range of goods.
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- Fiscal slippage could also fan inflation and increase borrowing costs.
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- **Optimism -** The normalisation of monetary policy by advanced economies could spell a decisive end to global 'easy money' conditions.
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- While this may trigger some flight of capital from emerging markets like India, there are positives for the economy in term of pickup in global growth.
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- RBI also looks optimistic in its prediction that CPI inflation for the first half of the next fiscal will be in the 5.1-5.6% range before moderating to 4.5-4.6%,
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- But this is with the assumption that 2018 will have a normal monsoon, which one can only hope and never say with certainity.
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Quick Facts

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- **Monetary Policy Committee -** It is a committee of the "Reserve Bank of India" that is responsible for fixing the benchmark interest rate in India.
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- 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.
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- The committee comprises six members – Three officials of the Reserve Bank of India and three external members nominated by the Government of India.
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- The Governor of RBI is the ex-officio chairperson of the committee and has a casting vote while taking decisions that are tied.
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- The current mandate of the MPC is to maintain inflation within the targeted

range of 4%±2%, which is to be adhered till March 2021.
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Source: The Hindu

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