Upcoming MPC meeting

Why in news?

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Monetary Policy Committee is likely to meet soon to decide on the repo rate.

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What is repo rate?

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- **Repo rate** is the rate at which RBI lends to its clients generally against government securities.
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- Reduction in Repo rate helps the commercial banks to get money at a cheaper rate and increase in Repo rate discourages the commercial banks to get money as the rate increases and becomes expensive.
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- **Reverse Repo** rate is the rate at which RBI borrows money from the commercial banks.
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- The increase in the Repo rate will increase the cost of borrowing and lending of the banks which will discourage the public to borrow money and will encourage them to deposit.
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- As the rates are high the availability of credit and demand decreases resulting to decrease in inflation.
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- This increase in Repo Rate and Reverse Repo Rate is a symbol of tightening of the policy.
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What are expected areas to be discussed?

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- Raising Inflation - There was a upside in October CPI inflation, CPI is likely to remain at 4 per cent over the next six-to-nine months .
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- MPC is mandated to keep CPI at 4 per cent on a medium-term basis, a status quo on rates would not be surprising.
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- Focus on core CPI a key metric watched by the MPC which hit the 5 per cent mark for the first time after a gap of eight months.
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- Revenue loss - Likely revenue shortfall on GST implementation, lower-than-expected dividend inflows from the Reserve Bank of India to the Government.
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- Telecom sector-related proceeds are likely to lead to a temporary reversal in the fiscal consolidation process.
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- Fiscal deficit - The FY18 fiscal deficit (Centre and States) is expected to be 6.3 per cent of GDP,this is wider than 6.2 per cent in FY17 (and much wider than the budgeted 5.9 per cent of GDP).
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- US Quantitative easing - US monetary policy outburstis uppermost in policymakers' minds.
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- The MPC is likely to stay cautious as major central banks normalise their monetary policy (especially tapering of its QE programme by the European Central Bank).
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What are the areas of concern?

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- The MPC is unlikely to provide hawkish policy guidance amid rising inflation.
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- CPI is primarily driven by higher house rent allowance for Central government employees, the asymmetrical impact of GST implementation and adverse base effects needs balanced guidance.
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- Average CPI inflation in FY19 is unlikely to breach the MPC's comfort level of 4 per cent amid a gradual growth recovery, excess capacity and

limited pricing power.
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Source: Business Line

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