
1. RBI's Monetary Policy Committee (MPC)

Why in News?

- The RBI's Monetary Policy Committee (MPC) has recently decided to pause interest rate hikes and assess the impact of previous hikes.

Highlights

- Inflation targeting in India is a monetary policy framework that was adopted by the Reserve Bank of India (RBI) in 2016.
- Under this framework, the RBI sets a target for the inflation rate and uses monetary policy instruments to achieve it.
- Currently, RBI's primary objective is to achieve the 4% inflation target. RBI has a comfort zone of +/- 2% within which inflation must remain. This means that the RBI aims to keep the inflation rate between 2% and 6%.
- The last two readings of inflation (January and February 2023) were 6.5% and 6.4%, respectively.
- RBI's strategy of hiking interest rates to control inflation has limitations. According to the RBI, under the current circumstances, monetary measures alone may not be sufficient to control inflation.
- Fiscal policy (government's taxes and spending) may be more effective in bringing down current inflation.
- Increased central bank transparency and accountability.
- Allows investors and the public to anticipate interest rate changes.
- Lowers inflation expectations.