

Despite announcement of poll dates, RBI to go ahead with policy review

Shishir Sinha New Delhi | Updated on March 12, 2019 Published on March 12, 2019



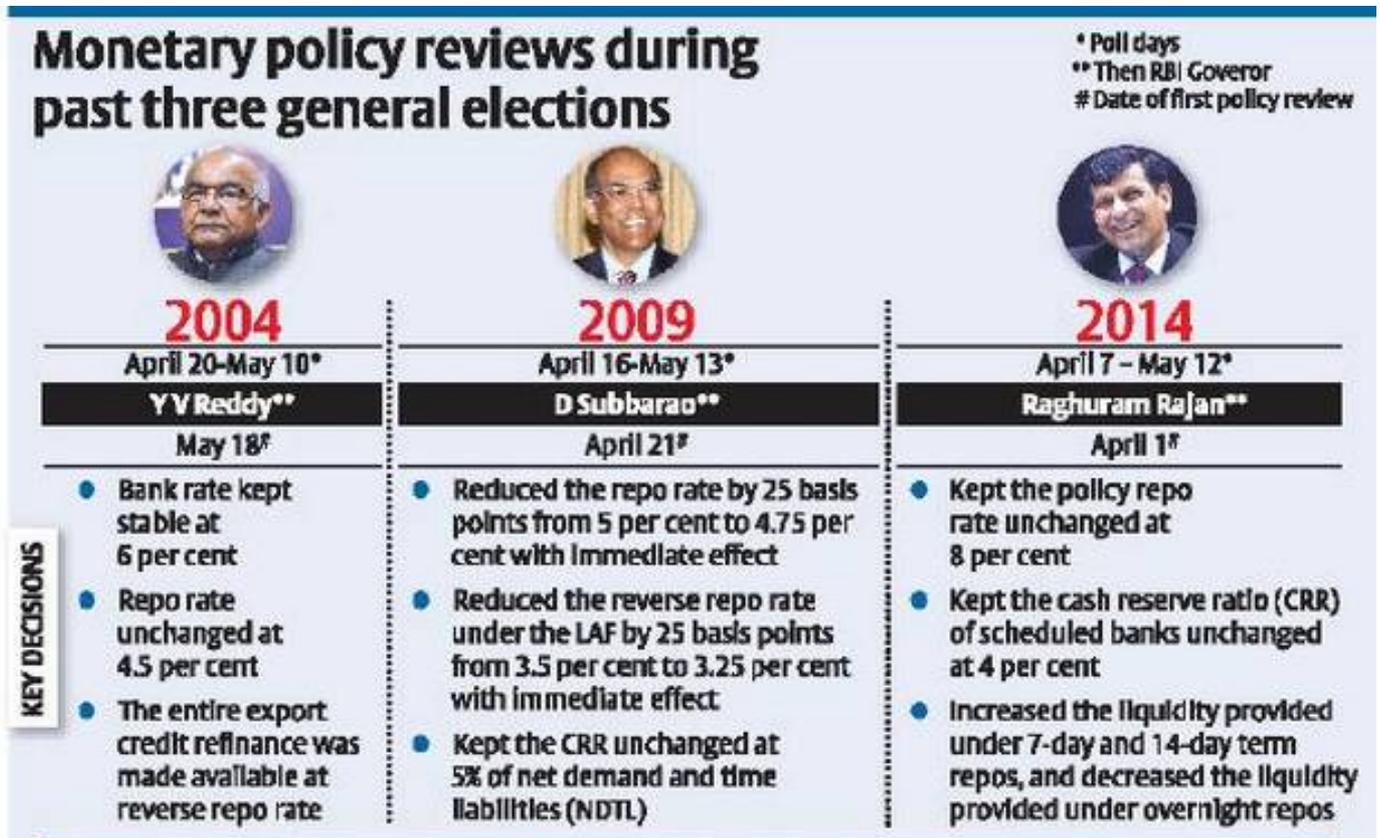
The central bank will continue to take decisions unhindered when the MPC meets early next month

The announcement of General Election 2019 will not affect the review of monetary policy as the Monetary Policy Committee, under the chairmanship of the RBI Governor, will meet early next month.

The RBI will continue to take decisions unhindered on monetary policy issues, says the Model Code of Conduct. The model code came into effect on March 10 and will remain in operation till the completion of the election process, according to the election notification. Polling will take place in seven phases from April 11 and counting on May 23.

Normally, the Monetary Policy Committee reviews monetary policy six times in a financial year – April, June, August, October, December, and February. Though all bi-monthly reviews are important, April is considered more important as it is the first in a financial year and also lays out the agenda for the whole fiscal.

Along with the policy review, the RBI also publishes the ‘Statement on Developmental and Regulatory Policies’. Meanwhile, the central bank is yet to



announce the calendar for monetary policy reviews for fiscal 2019-20.

Consumer Price Index

At present, the situation appears to be quite conducive for a policy rate cut. Policy rate refers to the repo rate, or the rate at which the RBI lends money to commercial banks for a short period. Any revision in such a rate prepares the ground for revision of interest rate on home, vehicle, and industrial loans. The revision of repo rate depends on the movement in retail inflation, as represented by the Consumer Price Index (CPI), beside many other factors. At present, CPI is below 3 per cent, which means the MPC may consider cutting the rate again.

In a surprise move, the MPC cut the policy rate in February by 25 basis points to 6.25 per cent. After this, the RBI Governor met bank chiefs to press upon them the need to transmit the rate cut. Some of the banks did cut the rate, but only up to 10 basis points. Experts feel that if there is another rate cut now, there will be more pressure on banks to cut interest rates. There is a feeling that the political system in power is keen to publicise this for electoral gains.

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