

5-year inflation target to be notified soon

Target likely to remain four per cent, with a band of plus or minus two percentage points

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The government is likely to notify the five-year retail inflation target for the Monetary Policy Committee (MPC) this week, having reviewed the matter with the Reserve Bank of India (RBI). The Centre could stick to the originally proposed target of four per cent, with a band of plus or minus two percentage points, according to sources.

The government had notified the formation of the MPC in late June. It had brought into force the first part of Chapter XII of the Finance Act, which defines the MPC and the factors that would constitute failure to meet the long-term inflation target. The targets were to be notified under the new Section 45ZA of the RBI Act. That Section has not been added yet.

As *Business Standard* reported earlier, the originally proposed consumer price index-based inflation (CPI) target of four per cent (plus or minus two per cent) was under review and discussions were held between the finance ministry and RBI.

CURBING INFLATION

- Govt, RBI are said to have reviewed 5-yr inflation target
- Target to be notified soon, possibly this week
- Originally stated target of 4 (+/-2) pct could be maintained
- Govt had notified MPC formation in late June
- 5-yr inflation target have not been notified yet

“A target of four per cent, with a range of two per cent above or below, seems more likely to stay. It is what one would call an inflation sweet spot,” said a senior official aware of the deliberations.

The stated target was first proposed by a panel headed by RBI Deputy Governor Urjit Patel and was included in the Monetary Policy Framework, signed on February 20, 2015. Since then, the central bank has been following this target as part of its monetary policy review exercise.

The target set in the framework agreement was only till 2016-17. The government and RBI are of the view that setting an inflation target for five years requires a longer-term view and, hence, further deliberations are required. These deliberations have likely led to the conclusion that the original target is suited for a five-year period as well.

The MPC has been tasked with deciding benchmark interest rates, something which the RBI governor used to decide till now. After long disagreements on its composition between the ministry and RBI, it was agreed that it

would have six members. The RBI governor will head it. Three members will be from RBI — the governor, a deputy governor and an executive director. The other three will be nominated by the government after recommendations of a search-cum-selection committee, headed by the Cabinet secretary. It will also comprise the economic affairs secretary and the RBI governor.

Each MPC member will have one vote, with the governor having an additional vote in case of a tie. Three members of the MPC will be experts in the field of economics, banking, finance, or monetary policy, and will be appointed for four years. They will not be eligible for re appointment. The meetings shall be held at least four times a year and it shall publicise its decisions after each such meeting.