

# Govt, RBI likely to retain inflation band for next 5 years

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The government is expected to retain the medium term inflation target at 4 per cent, with inflation band at 2-6 per cent, for the next five years. Consultations between the Finance Ministry and the Reserve Bank of India indicate the government will continue to retain the existing inflation band, a senior government official said.

## **Key Highlights**

- The RBI has argued for retaining the existing band. While the current medium term inflation target — Agreement on the Monetary Policy Framework — was set in August 2016 for a five-year period ending in March 2021, the pact between the government and the central bank for the next five-year period is expected to be signed soon. This institutional framework was endorsed in the amendment of the RBI Act.
- There was a proposal before the government to increase the band from the current level in the wake of the sluggish growth induced by the Covid [pandemic](#). However, the RBI was against relaxing the band to boost the growth, arguing that the inflation targeting will then lose its meaning.
- The Monetary Policy Committee (MPC) is expected to rein in the inflation within the band agreed to by the government and the RBI. If the MPC fails to keep inflation in the band for three consecutive quarters, the RBI governor would have to write to Parliament as to why it

failed and what corrective action needed to achieve the target. The RBI recently proposed modification in the definition of failure from the current three consecutive quarters norm of inflation remaining outside the tolerance band to four consecutive quarters.

- The inflation targeting agreement, formulated in line with the recommendations of the Urjit Patel committee, is expected to smoothen the monetary policy reviews, providing a predictable policy stance on inflation that will help investors, especially in the debt market. Besides, the large fiscal deficit because of the Centre's borrowings is likely to impact inflation and bond yields.
- The RBI's report on currency and finance for 2020-21 released on February 26 noted that the current inflation tolerance band should be retained for the next five years.

**SOURCE:** *The Indian Express*