

## Repo Rate Unchanged

### Why in news?

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The Reserve Bank of India has kept the benchmark interest rate unchanged at 6.5%. Click [here](#) to read on the latest rate hike.

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### What is the decision?

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- The RBI's rate setting Monetary Policy Committee (MPC) has kept the repo rate unchanged at 6.5%.

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- The RBI has also changed its stance from 'neutral' to 'calibrated tightening'.

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- This indicates that there will not be a rate cut in the near future.

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- So rates could either go up or stay steady in the coming months.

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### What was expected?

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- It was highly expected that the RBI would raise rates by at least 25 basis points.

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- It was anticipated in the backdrop of the weakening trend in rupee.

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- The rupee weakened past the 74-mark to the U.S. dollar for the first time ever after the RBI's decision on interest rate.

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### Why is the decision justified?

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- **Inflation** - The Monetary Policy Committee has decided to stick to its inflation-targeting mandate.
- The RBI has kept the rates unchanged to keep domestic inflation just around 4%.
- The decision, notably, comes in spite of other risks facing the economy.
- **Stability** - The rate pause allows the MPC to respond to other important objectives like financial stability.
- There are already concerns over the ability of NBFCs (Non Banking Financial Company) and HFCs (Housing Finance Company) to meet their liabilities.
- Given this, the assurance of stable rates and sufficient liquidity was required to calm the markets.
- The change in stance from neutral to “calibrated tightening” also puts to rest any speculation about cut in rates.
- **Government** - The decision to keep rates steady might also work in favour of the government.
- As, the government would prefer to borrow at cheaper rates in the run-up to the general elections next year.

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## **What is the shortfall?**

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- It is uncertain if the MPC factored in the impact of duty cuts on oil products on the fiscal deficit.
- The MPC has assumed that the government will stick to the deficit target as recently assured, despite the duty cut.
- Shifting of government borrowing from the market to small savings may have some impact on bond yields. Click [here](#) to know more.
- But the impact of overall borrowing on crowding out will be the same.

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- Moreover, the government will have to pay the higher cost of moving market borrowing to small savings.

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## What lies ahead?

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- The challenge now for RBI is to parallelly manage the various other risks to financial stability.

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- For now, the RBI seems to prefer piecemeal measures, such as easing foreign investment norms and mild intervention in the forex market.

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- This is in terms of addressing the financial risks posed by the weakening rupee.

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- The biggest challenge facing the RBI will be the prospect of further rate hikes by the U.S. Federal Reserve and central banks in other developed economies. Click [here](#) to know more

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- This could possibly force the central bank to look beyond its inflation mandate.

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**Source: The Hindu, BusinessLine**

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## Quick Facts

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- **Repo rate (Repurchase rate)** is the rate at which the RBI lends money to commercial banks which avails it in the event of any shortfall of funds.

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- **Reverse repo rate** is the rate at which the RBI borrows money from commercial banks within the country.

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