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RBI weighs inflation risks as India-G7 interest rate gap draws focus

A report by YES Bank highlighted that India's interest rate gap with G7 economies has become crucial for attracting foreign debt capital amid rising domestic inflation risks.

The relationship between domestic interest rates, central bank monetary policy decisions, inflation targets, and foreign capital inflows in India.

KEY EXAM POINTS

- The **Reserve Bank of India** faces rising inflation risks, making the interest rate gap with major developed economies a key monetary policy consideration according to a **YES Bank** report.
- Maintaining a specific interest rate difference between India and **G7 nations** is essential to attract foreign debt capital, especially as the **US Federal Reserve** continues its rate-hiking cycle.
- RBI MPC external member **Saugata Bhattacharya** emphasized the significance of maintaining this interest rate gap for capital flows.
- The RBI's third-quarter inflation projection for **FY27** reached **6 per cent**, touching the upper limit of its 2-**6 per cent** tolerance band.
- **September** inflation data indicated a broader increase in prices, encompassing both core inflation and core inflation excluding precious metals.
- The report also noted rising household inflation expectations and businesses passing higher **input costs** directly onto consumers.

DID YOU KNOW..!?

The Monetary Policy Committee (MPC) in India was established under **Section 45ZB** of the **Reserve Bank of India Act, 1934**.

The statutory inflation-targeting framework requires the RBI to maintain consumer price inflation at **4 percent** with a tolerance band of **+/- 2 percent**.

The Monetary Policy Committee consists of **6 members**, including the **RBI Governor** as its ex-officio chairperson.

The Reserve Bank of India was established on **April 1, 1935**, in accordance with the provisions of the **Reserve Bank of India Act, 1934**.

The Reserve Bank of India was **nationalized** on **January 1, 1949**, following the Reserve Bank (Transfer to Public Ownership) Act, 1948.

The **G7** (Group of Seven) comprises Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

REVISION FLASHCARD

India's MPC is a 6-member body established under Section 45ZB of the RBI Act, 1934, mandated to maintain CPI inflation at 4% (+/- 2%).

Syllabus Relevance: Highly relevant for TNPSC Group 1 and Group 2 Economics questions covering RBI functions, monetary policy committee, and inflation management.

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