



## Monetary Policy Committee Decisions: RBI

**For Prelims:** [Monetary Policy Committee Decisions](#): RBI, [Reserve Bank of India \(RBI\)](#), Inflation, CPI, [Gross Domestic Product \(GDP\)](#).

**For Mains:** Monetary Policy Committee Decisions, Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment, Inclusive growth and issues arising from it, Government Budgeting.

[Source: TH](#)

### Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) in its bimonthly [Monetary Policy Committee \(MPC\)](#) Meeting has retained benchmark interest rates unchanged for the **5<sup>th</sup> time in a row**.

- The key repo rate has been paused for **five consecutive reviews at 6.5%**.

### What are the Key Highlights of the MPC Meeting?

- **Policy Rates:**
  - **Policy Repo Rate: 6.5%**
    - Repo rate is the rate at which the central bank of a country (**RBI**) lends money to commercial banks in the event of any shortfall of funds. Here, the central bank purchases the security.
  - **Standing Deposit Facility (SDF): 6.25 %**
    - The SDF is a liquidity window through which the RBI will give banks an option to park excess liquidity with it.
    - It is different from the reverse repo facility in that it does not require banks to provide collateral while parking funds.
  - **Marginal Standing Facility Rate: 6.75%**
    - MSF is a window for scheduled banks to borrow overnight from the RBI in an emergency situation when interbank liquidity dries up completely.
    - Under interbank lending, banks lend funds to one another for a specified term.
  - **Cash Reserve Ratio (CRR): 4.50%**
    - Under CRR, the commercial banks have to hold a certain minimum amount of deposit (NDTL) as reserves with the central bank.
  - **Statutory Liquidity Ratio (SLR): 18.00%**
    - SLR is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.
- **Projections:**
  - **Growth Projection Raised:**
    - The GDP growth projection for **2023-24 was raised to 7% from earlier 6.5%, buoyed by a robust 7.6% growth** in the second quarter of 2023-24 FY.
  - **Inflation Forecast:**

- The Consumer Price Index (CPI) based inflation **forecast for the fiscal year 2023-24 has been retained at 5.4%**.

## What are Other Initiatives Taken by the RBI?

- **Hiked in UPI Limit for Health and Education:**
  - RBI has hiked the UPI limit for Health and Education transactions from **Rs 1 lakh to Rs 5 lakh** per transaction in order to yield substantial operational advantages for both healthcare institutions and patients, according to industry experts.
- **Recurring e-Payment Mandates:**
  - The RBI has expanded the limit on recurring e-payment mandates for credit card, insurance premia payments, and mutual fund investments to Rs 1 lakh from Rs 15,000 allows for more substantial periodic transactions.
- **Regulatory Framework for Web-Aggregation:**
  - RBI is planning to establish a regulatory framework for **web-aggregation of loan products** to improve customer-centricity and transparency in digital lending.
- **Partnerships with Fintechs:**
  - The RBI has sought to get a better grip on the growing incidence of banks and **non-banking finance companies (NBFCs)** partnering with Fintechs by proposing the creation of a **Fintech Repository by April 2024**.
  - FinTechs would be encouraged to provide relevant information voluntarily to this Repository.

## Note

- **Inflation:** It refers to the sustained increase in the general price level of goods and services in an economy over a period of time, leading to a decrease in the purchasing power of money.
  - **Headline Inflation:** It is the total inflation for the period, comprising a basket of commodities.
    - The food and fuel inflation form one of the components of headline inflation in India.
  - **Core Inflation:** It excludes volatile goods from the basket of commodities tracking Headline Inflation. These volatile commodities mainly comprise food and beverages (including vegetables) and fuel and light (crude oil).
    - **Core inflation = Headline inflation - (Food and Fuel) inflation.**
- **Inflation Targeting:** It is a monetary policy framework aimed at maintaining a specific target range for inflation.
  - The [Urjit Patel Committee recommended CPI \(Consumer Price Index\) over WPI \(Wholesale Price Index\)](#) as a measure for inflation targeting.
    - The current inflation target also aligns with the committee's recommendation to establish a target inflation rate of 4%, accompanied by an acceptable range of deviation of +/- 2%.
    - The central government, in consultation with the RBI, sets an inflation target, and an upper and lower tolerance level for retail inflation.
- **Liquidity** refers to the ease with which an asset or security can be quickly bought or sold in the market without significantly affecting its price.
  - It signifies the availability of cash or liquid assets to meet financial obligations or make investments. In simpler terms, liquidity is to get your money whenever you need it.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### Prelims

**Q. Which of the following statements is/are correct regarding the Monetary Policy Committee (MPC)? (2017)**

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

**Select the correct answer using the code given below:**

- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 2 and 3 only

**Ans: (a)**

**Q. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? (2020)**

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

**Select the correct answer using the code given below:**

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (b)**

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**Mains:**

**Q. Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. (2019)**