



Monetary Policy Committee Decisions: RBI

For Prelims: [Monetary Policy Committee](#) Decisions, [Reserve Bank of India](#), Repo Rate, [Gross Domestic Product](#), Inflation, Open Market Operations.

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

[Source: TH](#)

Why in News?

Recently, [Reserve Bank of India \(RBI\)](#) in its bimonthly [Monetary Policy Committee \(MPC\)](#) Meeting has retained **benchmark interest rates unchanged** for the 4th time in a row.

- The MPC kept the policy **Repo Rate** Unchanged at 6.50%.

What are the Key Highlights of the MPC Meeting?

- **Repo Rate Unchanged:**
 - The RBI decided unanimously to keep the policy repo rate unchanged at 6.5% to **balance economic growth and inflation control.**
- **GDP Growth and Inflation:**
 - The RBI retained its real [GDP \(Gross Domestic Product\)](#) growth forecast for 2023-24 at 6.5% and the average CPI inflation forecast for the current fiscal year FY24 at 5.4%.
 - However, the MPC raised its **headline inflation projection for the second quarter to 6.4%.**
 - The RBI Governor stressed the **commitment to the 4% inflation target** and highlighted the importance of being prepared to take timely actions to prevent spillovers from food and fuel price shocks to underlying inflation trends.
- **Liquidity Management and Financial Stability:**
 - Liquidity in the system will be actively managed in line with the monetary policy stance.
 - The RBI will undertake [Open Market Operations \(OMO\)](#) sales as necessary. Financial stability is essential for price stability and growth.
- **Gold Loan under Bullet Repayment Scheme:**
 - The RBI announced **doubling the lending limits for Gold Loans** under the Bullet Repayment Scheme (BRS) for **urban cooperative banks to Rs 4 lakh.**
 - It has been decided in respect of [Urban Cooperative Banks \(UCBs\)](#) who have met the overall target and sub-targets under the [Priority Sector Lending \(PSL\)](#) as on 31st March, 2023.
 - A **BRS** is one where a **borrower repays interest** and the principal amount at the end of a loan tenure **without worrying about repayment during the loan tenure.**
- **Accommodative Stance:**

- The RBI has **focused on its stance of 'withdrawal of accommodation'** until all risks to inflation dissipate.
 - An **Accommodative Stance** means the central bank is prepared to expand the **money supply to boost economic growth**.
- Withdrawal of accommodation will mean reducing the money supply in the system which will rein in inflation further. .

What are the Reasons for Keeping Benchmark Rates Unchanged?

- **Resilient Economic Activity:**
 - The Indian economy has **displayed resilience despite the uncertainties** and challenges posed by various factors.
 - This has led **to the decision to maintain benchmark rates**, reflecting confidence in the **economy's ability to** withstand potential shocks.
- **Previous Policy Repo Rate Hikes:**
 - The MPC considered the cumulative impact of previous policy repo rate hikes, totaling 250 basis points.
 - Given the time needed for these rate hikes to fully work through the economy, the **committee opted to hold the rates steady in the current meeting**.
 - The MPC acknowledged that the previous policy repo rate hikes are still in the process of influencing the economy.
- **Inflation Risk Management:**
 - The MPC remains committed to aligning inflation **with the 4% target on a durable basis**.
 - And the existing policy stance is needed to **achieve this objective** without the need for an immediate rate change.
 - The MPC expressed concerns about the **potential recurrence of food price** shocks affecting headline inflation.
 - Keeping rates unchanged might be a precautionary measure to closely monitor the situation and be ready to act promptly in case inflationary pressures escalate.

What are the Concerns Flagged by the RBI in its MPC Meeting?

- **High Inflation:**
 - The RBI views high **inflation as a major risk to both macroeconomic stability** and sustainable growth.
 - Despite declining core inflation (excluding food and fuel components), uncertainties **cloud the overall inflation outlook**.
 - Factors such as reduced kharif sowing for essential crops, low reservoir levels, and fluctuations in global food and energy **prices contribute to this uncertainty**.
- **Geopolitical and Economic Risks:**
 - The RBI flagged various **headwinds, including geopolitical tensions**, geoeconomic fragmentation, volatility in global financial markets, and a global economic slowdown.
 - These external factors pose risks to the economic outlook and require careful consideration.
- **Financial Stability and Surveillance:**
 - The RBI **underscored** the importance of financial stability, calling it fundamental to price stability and growth. The financial sector's robust balance sheet was acknowledged, but vigilance and strengthened internal surveillance mechanisms, especially concerning the rise in personal loans, were advised.

Note

- **CRR:** Cash Reserve Ratio, a percentage of Net Demand and Time Liabilities, banks must keep with the central bank (RBI) to control liquidity.
 - **Incremental CRR:** Additional requirement imposed by RBI on banks' liabilities to manage excess liquidity and stabilize the economy.
- **Repo Rate:** It is the interest rate set by the RBI for short-term loans to commercial banks. It's a

tool used to control inflation and stimulate economic growth.

- **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)

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)**

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