



51st meeting of RBI Monetary Policy Committee

For Prelims: [Monetary Policy Committee](#), [Reserve Bank of India](#), [Repo Rate](#), [Consumer Price Index](#), [UPI123PAY](#), [Non-Banking Financial Companies \(NBFCs\)](#), [Microfinance Institutions \(MFIs\)](#), [Housing Finance Companies \(HFCs\)](#), [Deposit Insurance and Credit Guarantee Corporation](#), [Securities and Exchange Board of India \(SEBI\)](#), [Insurance Regulatory and Development Authority](#).

For Mains: Monetary Policy Committee Decisions, Issues related to NBFCs

[Source: BS](#)

Why in News?

Recently, the 51st [Monetary Policy Committee \(MPC\)](#) meeting of the [Reserve Bank of India \(RBI\)](#) was chaired by the RBI Governor.

What are the Key Decisions Taken at the 51st MPC Meeting?

- **Unchanged Repo Rate:** Monetary Policy Committee (MPC) decided to keep the [repo rate](#) unchanged at 6.5% for the 10th consecutive time.
- **Change in Monetary Policy Stance:** The MPC changed the policy stance to 'Neutral' from 'withdrawal of accommodation'.
 - **Neutral stance** allows the MPC **greater flexibility** to adjust monetary policy as needed while "withdrawal of accommodation" means **restrictive monetary policy** stance where the RBI aims to **reduce the money supply** in the economy (curb inflationary pressures).
 - When the **RBI withdraws accommodation**, it signals that it is **less inclined to support economic growth through lower rates**, focusing instead on stabilising prices.
- **Inflation Targets:** The RBI has retained its [Consumer Price Index \(CPI\)](#) inflation forecast for FY2025 at 4.5%.
 - **Flexible Inflation Targeting (FIT)** was introduced in 2015 to control inflation with a **target of 4% (±2%)** while allowing temporary deviations to support economic growth.
- **Real GDP Growth Projections:** The RBI kept its real **GDP growth projection** for FY25 at 7.2%. India's **growth story remains strong**, driven by private consumption and investment demand.
- **Hike in UPI123PAY Transaction Limit:** The RBI has hiked the [UPI 123PAY](#) per transaction limit to **Rs 10,000** from **Rs 5,000**.
 - RBI announced a hike in the [UPI lite](#) per transaction limit to **Rs 1,000** from **Rs 500**. RBI also hiked the **UPI lite wallet limit to Rs 5,000** from currently Rs 2,000.
 - **UPI 123PAY** is a payment system mainly for **non-smart phone/feature phone** users by which they can make payment **using UPI without internet connectivity**.
- **Reserve Bank-Climate Risk Information System (RB-CRIS):** RBI has proposed to create a **data repository** namely RB-CRIS to bridge the **gap in climate-related data** that is currently available in a fragmented manner.

- It will undertake **climate risk assessments** for ensuring **stability of balance sheets** of financial entities and that of the **financial system**. It will be in **two parts**.
 - The first part will be a **web-based directory** listing various publicly accessible **meteorological and geospatial data** sources on the RBI's website.
 - The second part will be a data **portal with standardised datasets**, accessible only to **regulated entities** in a phased manner.
- **Direction of NBFCs:** RBI issued a strong advisory to **non-banking financial companies (NBFCs)**, **microfinance institutions (MFIs)** and **housing finance companies (HFCs)**, to follow a '**compliance first**' culture and take a sincere approach to customer grievances.
 - Compliance first culture prioritises adherence to **laws, regulations, and internal policies** above other business considerations.

Note:

The **MPC determines** the policy **repo rate** required to achieve the inflation target while **other decisions** are taken by the **RBI**.

- **UPI Lite** is a new payment solution that leverages the trusted **NPCI Common Library (CL) application** to process **low value transactions**.
- UPI lite wallet is a **digital wallet** where you **load money from your bank account** to make online transactions.

What is RBI's Stance on NBFCs in the 51st meeting of RBI MPC?

- **Growth at Any Cost Approach:** RBI Governor expressed concerns regarding the "**growth at any cost**" mentality prevalent among some NBFCs while **ignoring sustainable business practices** and robust risk management frameworks.
- **Review of Compensation Practices:** RBI has directed NBFCs to reassess how they structure their **employee compensation**, especially regarding **bonuses and incentives** linked to short-term performance goals.
 - The RBI is concerned that such practices may encourage **risky or unsustainable behaviours** focused solely on immediate results.
- **Usurious Practices:** Concerns were raised about NBFCs charging **high-interest rates** and imposing unreasonably **high processing fees and penalties**.
- **Push Effect of Growth Targets:** RBI Governor highlighted that aggressive growth targets could lead to **retail credit growth** that does not align with actual demand.
 - It could potentially lead to **high indebtedness** posing financial stability risks.
- **Investor Pressure:** Some NBFCs, including MFIs and HFCs are driven by **investor pressure** to achieve excessive **returns on equity (RoE)**.
 - RBI urged NBFCs to adopt **sustainable business goals** and asked not to compromise long-term sustainability for short-term gains.

What are Non-Banking Financial Companies (NBFCs)?

- **About NBFCs:** A **Non-Banking Financial Company (NBFC)** is defined as a company that operates under the **Companies Act, 1956** and is primarily involved in **providing loans and advances**, acquiring **financial securities** such as shares, bonds, and debentures, as well as engaging in **leasing and hire-purchase transactions**.
 - However, **NBFCs do not** encompass institutions whose **principal business** involves **agriculture, industrial activities**, the purchase or sale of goods (except securities), providing services, or dealing with **immovable property**.
- **Criteria for Classification:** NBFC must conduct financial activities as its principal business. This means that more than **50% of its total assets** should be in financial assets, and similarly, income from financial assets must exceed **50% of its gross income**.
 - This classification criteria is often referred to as the **50-50 test**.
- **Differences Between Banks and NBFCs:** Although NBFCs perform functions similar to banks,

several key differences exist.

- NBFC **cannot accept demand deposits.**
- NBFCs **do not form part of the payment and settlement** system and **cannot issue cheques** drawn on itself.
- **Deposit insurance facility** of [Deposit Insurance and Credit Guarantee Corporation](#) is **not available** to depositors of NBFCs, unlike in case of banks.
- **Registration Requirements for NBFCs:** Under the **RBI Act, 1934**, it is **mandatory** for every NBFC to obtain a **certificate of registration** from the RBI before commencing its operations.
 - Additionally, an NBFC must maintain a **minimum Net Owned Funds (NOF) of Rs 25 lakhs (or Rs 2 crore since April 1999)** to qualify for registration.
- **Exemptions from Registration:** Certain categories of NBFCs are **exempt** from registration with the RBI because they are regulated by other authorities. E.g.,
 - **Venture Capital Funds:** Regulated by the [Securities and Exchange Board of India \(SEBI\)](#).
 - **Insurance Companies:** Regulated by the [Insurance Regulatory and Development Authority \(IRDA\)](#).
 - **Housing Finance Companies:** Regulated by the **National Housing Bank (NHB)**.
- **Recent Trends in NBFCs:** In FY24, NBFCs' **assets under management (AUM)** grew **18% to Rs 47 trillion** while **NPA ratio** stood at **2.6%** as of June 2024.
 - It is **growing** at a healthy rate of **18% annually**.

What is the Monetary Policy Committee?

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Monetary Policy Committee



Monetary Policy

- It is formed and managed by **Reserve Bank of India** to control a nation's overall money supply and achieve economic growth
- It is **different from Fiscal Policy** which is managed by the **Ministry of Finance** that measures the spending and taxation in Indian Economy

Monetary Policy Committee (MPC):

- **Ex-officio Chairperson:** RBI Governor
- **Objective:** To determine the policy rate required to achieve the inflation target (4+/- 2%, Urjit Patel Committee)

- **Legal Framework:** Under Section 45ZB of the amended RBI Act, 1934, the Central Government is empowered to constitute a six-member Monetary Policy Committee (MPC)
 - The MPC is required to meet at least four times in a year. Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.
- **Monetary Policy Report:** RBI once in every six months, releases Monetary Policy Report to explain the sources of inflation and the forecast of inflation for 6-18 months ahead



Conclusion

The 51st MPC meeting of the RBI emphasised a **neutral monetary policy stance** while maintaining the **repo rate**. It highlighted the need for NBFCs to adopt **sustainable practices** over aggressive growth strategies, underscoring the importance of compliance, responsible lending, and risk management to ensure long-term financial stability. Additionally, it announced **increased transaction limits** for UPI and stressed compliance among NBFCs to ensure sustainable growth.

Drishti Mains Question:

What are Non-Banking Financial Companies (NBFCs)? Explain the role of the RBI in regulating NBFCs.

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. Which one of the following is not the most likely measure the Government/RBI takes to stop the slide of Indian rupee? (2019)

- (a) Curbing imports of non-essential goods and promoting exports
(b) Encouraging Indian borrowers to issue rupee denominated Masala Bonds
(c) Easing conditions relating to external commercial borrowing
(d) Following an expansionary monetary policy

Ans: (d)

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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