



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 **5th 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)

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)