

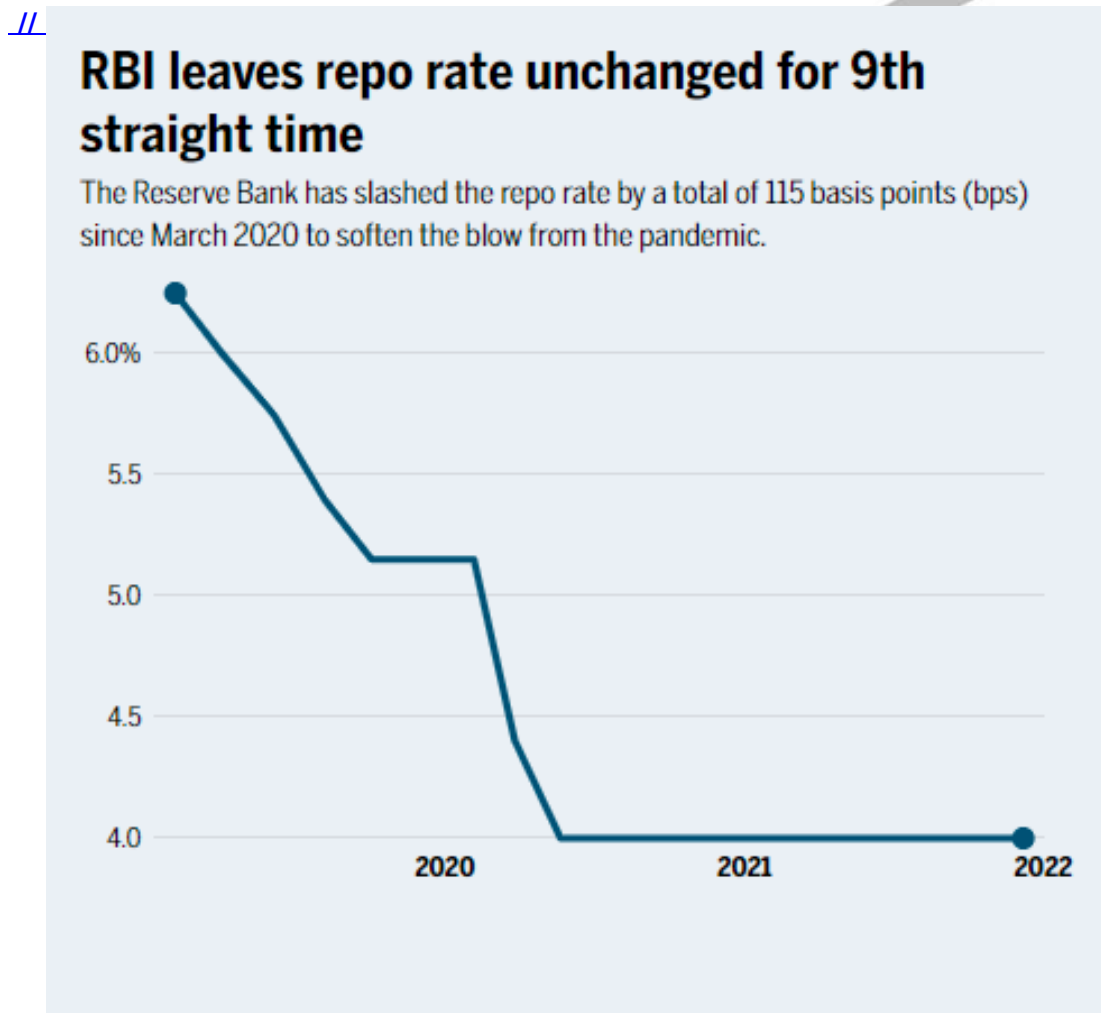


Monetary Policy Report: RBI

Why in News

The [Reserve Bank of India \(RBI\)](#) has released the [Monetary Policy Report \(MPR\)](#) for the month of December 2021.

- It kept the policy rate unchanged for the Ninth time in a row maintaining an [accommodative stance](#).



Key Points

- **Unchanged Policy Rates:**
 - **Repo Rate** - 4%.
 - **Reverse Repo Rate** - 3.35%.

- **Marginal Standing Facility (MSF)** - 4.25%.
- **Bank Rate**- 4.25%.
- **GDP Projection:**
 - Real **Gross Domestic Product (GDP)** growth for 2021-22 has been retained at 9.5%.
- **Inflation:**
 - RBI has retained the projection for **Consumer Price Index (CPI)** inflation at 5.3 %.
- **Variable Reverse Rate Repo (VRRR):**
 - It increased the amount of money it will absorb VRRR to Rs 7.5 lakh crore by the end of December 2021.
 - In order to absorb additional liquidity in the system, the RBI announced conducting a VRRR program in August 2021 because it has higher yield prospects as compared to the fixed rate overnight reverse repo.
- **Accommodative Stance:**
 - RBI decided to continue with **an accommodative stance until there is sustainable recovery in the economy.**
 - An accommodative stance means the MPC is willing to either lower rates or keep them unchanged.
 - **Significance:**
 - It encourages **more spending from consumers and businesses by making money less expensive** to borrow through the lowering of short-term interest rates.
 - When money is easily accessible through banks, the **money supply in the economy increases.** This leads to increased spending.
 - It allows the **fiscal reserve to increase in relation to national income** and the positive function of money demand.
 - It helps energize the national money stock and prevent a weak aggregate demand obviating an **economic recession.**
 - Therefore it can be said that an accommodative stance will **help improve India's growth.**
- **No Permission for Infusing Capital:**
 - The RBI allowed **banks to infuse capital in their overseas branches** as well as repatriate profits without seeking its prior approval, subject to fulfilling certain regulatory capital requirements.
 - **At present,** banks incorporated in India can infuse capital in their overseas branches and subsidiaries, retain profits in these centres and repatriate/ transfer the profits with prior approval of the RBI.
 - With a view to **providing operational flexibility to banks,** it has been decided that banks need not seek prior approval of the RBI **if they meet the regulatory capital requirements.**

Monetary Policy Report

- It is **published by the Monetary Policy Committee (MPC) of RBI.** It is a statutory and institutionalized framework under the **RBI Act, 1934,** for maintaining price stability, while keeping in mind the objective of growth.
- It **determines the policy interest rate (repo rate) required to achieve the inflation target of 4% with a leeway of 2% points on either side.** The Governor of RBI is ex-officio Chairman of the MPC.

Key Terms

▪ **Repo and Reverse Repo Rate:**

- **Repo rate** is the rate at which the central bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfall of funds. Here, the central bank purchases the security.
- **Reverse repo rate** is the rate at which the RBI borrows money from commercial banks within the country.

▪ **Bank Rate:**

- It is the **rate charged by the RBI for lending funds to commercial banks.**

▪ **Marginal Standing Facility (MSF):**

- MSF is a window for scheduled banks to borrow overnight from the RBI in an emergency situation when interbank liquidity dries up completely.

▪ **Open Market Operations:**

- These are **market operations conducted by RBI by way of sale/purchase of government securities** to/from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis.

▪ **Government Security:**

- A G-Sec is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the government's debt obligation.

▪ **Consumer Price Index:**

- It measures price changes from the perspective of a retail buyer. It is released by the National Statistical Office (NSO).
- The CPI **calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc**, which Indian consumers buy for use.

Source: IE

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