



## 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 51<sup>st</sup> [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)**

PDF Reference URL: <https://www.drishtias.com/printpdf/51st-meeting-of-rbi-monetary-policy-committee>

