

Monetary Policy Committee (MPC)

Prelims: Current events of national and international importance | Economy

Why in News?

The MPC of the RBI voted unanimously to reduce the policy repo rate by 25 basis points to 5.25%, citing low inflation (2.2%) and strong growth (8%) in the first half of the year.

- **MPC** - It was constituted in 2016 as a **statutory body** to formulate monetary policy in India.
- **Legal basis** - As per Section 45ZB of the **RBI Act, 1934**.
- **Composition - 6-member body** -
 - **Governor of RBI** (Chairperson, ex officio)
 - Deputy Governor of RBI in charge of Monetary Policy (Member, ex officio)
 - 1 officer of RBI nominated by the Central Board of Directors (Member, ex officio)
 - 3 members appointed by the Central Government
- The MPC is assisted by RBI's **Monetary Policy Department (MPD)** for formulating the monetary policy.
- **Tenure** - The appointed members serve for **4 years** or until further orders, whichever is earlier and are not eligible for re-appointment.
- **Meetings** - The MPC is required to meet at least 4 times in a year.
- **Quorum** - 4 members.
- **Decision** - The decision of the committee would be **binding on the RBI**.
 - It takes decision based on majority vote (by those who are present and voting).
 - In case of a tie, the RBI governor will have the **second or casting vote**.
- **Functions** - Determine the policy interest rates required to achieve the explicit inflation target set by the government, while also keeping in mind the objective of supporting economic growth

Key Highlights of recent Committee

- **Repo Rate Cut** - Reduced from 5.50% to 5.25%.
- **Inflation** - At a 2.2%, well below the RBI's target band of 4% $\pm$ 2%.
- **Growth** - GDP rose to 8.2% (Quarter 2), reflecting robust domestic demand and investment.
- **Implications**
 - **Borrowers** - With lower interest rates, loans become cheaper which boost consumption & investment.
 - **Savers** - Lower deposit rates leads to reduced savings returns, Savers shift to equities, bonds, mutual funds for higher yields.
 - **Markets** - Cheaper loans expand credit, raise company profits, and lift investor confidence (positive sentiment).
 - **Policy Flexibility** - Neutral stance keeps options open for RBI to adjust rates either way amid global uncertainties. Future rate decisions will depend on inflation and growth trends.

Various Instruments Used in Monetary Policy

Instrument	Description
Repo Rate	The rate at which RBI lends short-term funds to banks, influencing overall interest rates.
Reverse Repo Rate	The rate at which RBI borrows from banks to absorb excess liquidity.
Cash Reserve Ratio (CRR)	The portion of deposits banks must keep with RBI, controlling the funds available for lending.
Statutory Liquidity Ratio (SLR)	The percentage of deposits that banks must maintain as liquid assets (cash, gold, government securities) with themselves.
Marginal Standing Facility (MSF)	Banks borrow from RBI for overnight funds at a higher interest rate than the repo rate.
Bank rate	Rate at which the RBI provides the loan to commercial banks without keeping any security.
Qualitative Tools	Measures like credit controls and moral suasion to direct credit flow to priority sectors.

References

1. [The Hindu | MPC cuts repo rate by 25 bps](#)
2. [Shriram Finance | MPC](#)
3. [PIB | MPC](#)



SHANKAR
IAS PARLIAMENT
Information is Empowering