

RBI's MPC Status Quo on Liquidity

Prelims: Current events of national and international importance | Economy

Why in News?

Economists expect the RBI to pause further rate cuts and maintain the current repo rate, as inflation is likely to rise and liquidity conditions remain tight.

- **Monetary Policy** - Monetary policy refers to the actions undertaken by a central bank to manipulate the money supply and credit conditions to stimulate or restrain economic activity.

Key Components of Monetary Policy	
Quantitative Tools	Qualitative Tools
<ul style="list-style-type: none"> • CRR (Cash Reserve Ratio) • SLR (Statutory Liquid Ratio) • Repo Rate • Reverse Repo Rate • Bank Rate • Open Market Operations 	<ul style="list-style-type: none"> • Moral Suasion • Direct Action • Selective Credit Control • Margin Requirements

Monetary Policy Committee (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.
- **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**.
 - **Voting** - By a majority of members present and voting.
 - **Tie-breaker** - RBI Governor has the casting vote.
- **Functions** - Determine the policy interest rates required to achieve the inflation target set by the government, while supporting economic growth.

Recent Highlights

- **Repo Rate Cut** - Reduced from 5.50% to 5.25%, bringing the cumulative cuts in 2025 to 125 basis points (bps).
 - **Impact** - It makes loans cheaper.
- **Inflation** - India follows **Flexible Inflation Targeting (FIT)** with a target band of $4\% \pm 2\%$.
 - **Current inflation** - It is at 2.2% and is near the lower bound (2%).
- **Projection - RBI** - GDP Projection for FY26 is 7.3%
- **Govt Estimate** - Real GDP projected at 7.4% per the first advance estimates.

Reference

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