

## 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"> <li>• CRR (Cash Reserve Ratio)</li> <li>• SLR (Statutory Liquid Ratio)</li> <li>• Repo Rate</li> <li>• Reverse Repo Rate</li> <li>• Bank Rate</li> <li>• Open Market Operations</li> </ul>	<ul style="list-style-type: none"> <li>• Moral Suasion</li> <li>• Direct Action</li> <li>• Selective Credit Control</li> <li>• Margin Requirements</li> </ul>

Monetary Policy Committee (MPC)
<ul style="list-style-type: none"> <li>• It was <b><i>constituted in 2016 as a statutory body</i></b> to formulate monetary policy in India.</li> <li>• <b>Legal basis</b> - As per Section 45ZB of the RBI Act, 1934.</li> <li>• <b>Composition - 6-member body</b> <ul style="list-style-type: none"> <li>- Governor of RBI (Chairperson, ex officio)</li> <li>- Deputy Governor of RBI in charge of Monetary Policy (Member, ex officio).</li> <li>- 1 officer of RBI nominated by the Central Board of Directors (Member, ex officio).</li> <li>- 3 members appointed by the Central Government.</li> </ul> </li> <li>• <b>Tenure</b> - The appointed members serve for 4 years or until further orders, whichever is earlier, and are <b><i>not eligible for re-appointment</i></b>.</li> <li>• <b>Meetings</b> - The MPC is required to meet at least 4 times in a year.</li> <li>• <b>Quorum</b> - 4 members.</li> <li>• <b>Decision</b> - The <b><i>decision of the committee would be binding on the RBI</i></b>. <ul style="list-style-type: none"> <li>- <b>Voting</b> - By a majority of members present and voting.</li> <li>- <b>Tie-breaker</b> - RBI Governor has the casting vote.</li> </ul> </li> <li>• <b>Functions</b> - Determine the policy interest rates required to achieve the inflation target set by the government, while supporting economic growth.</li> </ul>

## 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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