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**
• CRR (Cash Reserve Ratio) • SLR (Statutory Liquid Ratio) • Repo Rate • Reverse Repo Rate • Bank Rate • Open Market Operations	• 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% ± 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

IE | RBI's MPC Status Quo on Liquidity

