



Monetary Policy Report: RBI

Why in News

The [Reserve Bank of India \(RBI\)](#) has released the [Monetary Policy Report](#) (MPR) for the month of October 2021.

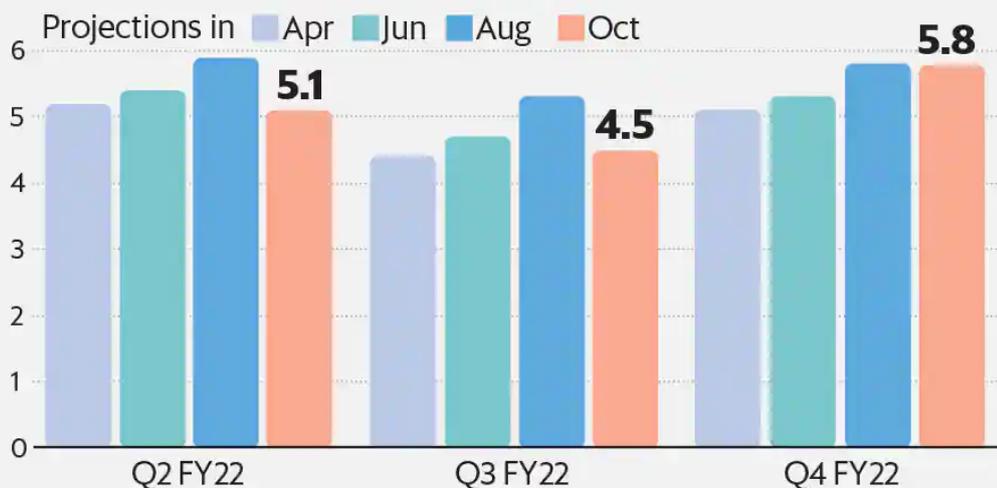
- It kept the **policy rate unchanged for the Eighth time in a row** maintaining an **accommodative stance** till the recovery is durable.

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Glide path

RBI is more comfortable now about the inflation path than it was in August, despite the recent increases in commodity prices.

RBI's estimates on CPI inflation (y-o-y in %)



Key Points

- **Unchanged Policy Rates:**
 - **Repo Rate** - 4%.
 - **Reverse Repo Rate** - 3.35%.
 - **Marginal Standing Facility (MSF)** - 4.25%.
 - **Bank Rate** - 4.25%.
- **GDP Projection:**
 - Real [Gross Domestic Product \(GDP\)](#) growth for 2021-22 has been retained at 9.5%.
- **Inflation:**
 - RBI has revised the projection for [Consumer Price Index \(CPI\)](#) inflation to 5.3% from

5.7% in [August 2021](#).

▪ **Government Bond Acquisition Programme (GSAP):**

- It has **shut down the GSAP** citing the liquidity overhang (Excess liquidity), increasing liquidity due to government spending and absence of higher borrowing for [Goods and Services Tax](#) compensation.
 - It is part of RBIs [Open Market Operations](#), where it commits to a specific amount of **Open Market Purchases of government securities**.
 - The first purchase for an aggregate amount of Rs. 25,000 crore under G-SAP 1.0 was conducted in April, 2021.
- But has assured that it would **continue to flexibly conduct other liquidity management operations**, including [Operation Twist \(OT\)](#) and regular [Open Market Operations \(OMOs\)](#).
 - OT is when the central bank uses the proceeds **from the sale of short-term securities to buy long-term government debt papers**, leading to **easing of interest rates** on the long term papers.

▪ **Accommodative Stance:**

- It decided to continue with an **accommodative stance** as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of [Covid-19](#) on the economy, while ensuring that inflation remains within the target going forward.
 - An **accommodative stance** means a central bank will cut rates to inject money into the financial system whenever needed.

▪ **Variable Reverse Rate Repo (VRRR):**

- VRRR **auction size has been enhanced to Rs 6 trillion** by early December 2021 and opened itself up to increasing the VRRR duration to 28 days if need be.
 - In order to **absorb additional liquidity in the system**, the RBI announced conducting a VRRR program in August 2021 because it has **higher yield prospects as compared to the fixed rate** overnight reverse repo.

Key Terms

▪ **Repo and Reverse Repo Rate:**

- Repo rate is the rate **at which the central bank of a country (RBI in case of India) lends money** to commercial banks in the event of any shortfall of funds. Here, the central bank **purchases the security**.
- Reverse repo rate is the rate **at which the RBI borrows money from commercial banks** within the country.

▪ **Bank Rate:**

- It is the **rate charged by the RBI** for lending funds to commercial banks.

▪ **Marginal Standing Facility (MSF):**

- MSF is a window for scheduled banks to borrow overnight from the RBI in an emergency situation when interbank liquidity dries up completely.

▪ **Open Market Operations:**

- These are market operations conducted by RBI by way of **sale/purchase of government securities to/from the market with an objective to adjust the rupee liquidity conditions** in the market on a durable basis.

▪ **Government Security:**

- A G-Sec is a **tradable instrument** issued by the Central Government or the State

Governments. It acknowledges the **government's debt obligation**.

▪ **Consumer Price Index:**

- It **measures price changes from the perspective of a retail buyer**. It is released by the **National Statistical Office (NSO)**.
- The CPI **calculates the difference in the price of commodities and services** such as food, medical care, education, electronics etc, which Indian consumers buy for use.

Monetary Policy Report

- It is published by the **Monetary Policy Committee (MPC) of RBI**. It is a statutory and institutionalized framework under **the RBI Act, 1934, for maintaining price stability**, while keeping in mind the objective of growth.
- It determines the **policy interest rate (repo rate)** required to achieve the inflation target of **4% with a leeway of 2% points** on either side. The **Governor of RBI is ex-officio Chairman of the MPC**.

[Source: IE](#)

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