



## Repo Rate Unchanged

**For Prelims:** RBI, Repo Rate, Reverse Repo Rate, Monetary Policy, Monetary Policy Committee (MPC).

**For Mains:** Monetary Policy, Growth & Development, RBI and its Monetary Policy Tools.

### Why in News?

Recently, the six-member [Monetary Policy Committee \(MPC\)](#) of the [Reserve Bank of India \(RBI\)](#) kept key policy rates - [Repo rate](#), [Reverse repo rate](#) and the **Bank rate** - unchanged and retained the **accommodative policy stance**.

- This is the **tenth consecutive time** that the repo rate has **remained unchanged**. The central bank had last revised the policy rate on **22<sup>nd</sup> May 2020**.
- Global central banks, including the **US Federal Reserve and the European Central Bank (ECB)** have turned hawks and are also [expected to hike rates soon](#).

### What is the Monetary Policy Committee?

- It is a **statutory and institutionalized framework** under the Reserve Bank of India Act, 1934, for maintaining price stability, while keeping in mind the objective of growth.
- The **Governor of RBI** is ex-officio Chairman of the committee.
- The MPC determines the policy interest rate (repo rate) required to achieve the inflation target (4%).
- An RBI-appointed committee led by the then deputy governor Urjit Patel in 2014 recommended the establishment of the Monetary Policy Committee.

### What are the Key Announcements?

- **Repo Rate:**
  - It has been retained at **4% to boost growth**.
  - This means banks won't hike lending and deposit rates and EMIs on loans will remain unchanged.
    - 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:**
  - It has been retained at **3.35%**.
    - Reverse repo rate is the rate at which the RBI borrows money from commercial banks within the country.
- **Bank Rate:**
  - The **Bank Rate** unchanged at **4.25%**.

- It is the rate charged by the RBI for lending funds to commercial banks.
- **Marginal Standing Facility (MSF) Rate:**
  - This rate has also been retained at **4.25%**.
  - MSF is a **window for scheduled banks** to borrow overnight from the RBI in an emergency situation when interbank liquidity dries up completely.
- **Inflation:**
  - The RBI has projected a **5.3% consumer price (retail) inflation** for the current financial year 2021-22 (FY22) despite [rising crude oil prices](#).
    - The [Consumer Price Index \(CPI\)](#) monitors retail prices at a certain level for a particular commodity; price movement of goods and services at rural, urban and all-India levels. The change in the price index over a period of time is referred to as **CPI-based inflation, or retail inflation**.
  - **Retail inflation for the next fiscal (FY23)** is projected at **4.5%**, below the earlier projections.
    - The MPC noted that **inflation is likely to moderate** in the first half of 2022-23 and move closer to the target rate, thereafter providing room to remain accommodative. Timely and apposite supply side measures from the government have substantially helped contain inflationary pressures.
    - An **accommodative stance** means the **MPC is willing to either lower rates or keep them unchanged**.
- **Growth Forecast:**
  - The central bank has projected the **real GDP growth at 7.8%** for the next financial year (2022-23).
    - Real GDP is a **measurement of economic output** that accounts for the effects of inflation or deflation.
    - The **difference between nominal GDP and real GDP** is the **adjustment for inflation**. Since nominal GDP is calculated using current prices, it does not require any adjustments for inflation.

## Why were Rates kept Unchanged?

- MPC was of the view that **continued policy support** – status quo on interest rates – was warranted for a **durable and broad-based recovery** after taking into consideration the outlook for inflation and growth, in particular the comfort provided by the improving inflation outlook, the uncertainties related to [Omicron](#) and global spill-overs.

[Source: TH](#)

PDF Refernece URL: <https://www.drishtias.com/printpdf/repo-rate-unchanged-2>