



## RBI's Monetary Policy Review

**For Prelims:** RBI, Monetary Policy Committee (MPC), Instruments of Monetary Policy, Various Policy Stances of RBI

**For Mains:** Monetary Policy, Growth & Development, Monetary policy and its instruments

### Why in News?

Recently, the [Monetary Policy Committee \(MPC\)](#) of the [Reserve Bank of India \(RBI\)](#) unveiled its latest review of the **Monetary Policy**.

- RBI said “growth prospects across the world are dampening. Financial markets remain nervous and are characterised by high volatility and price swings.”

### What are the Highlights of the Review?

- **GDP Growth Forecast:**
  - The MPC slashed its [Gross Domestic Product \(GDP\)](#) growth estimate to **6.8% for the fiscal year 2022-23**, from 7% earlier.
    - This comes a day after the [World Bank](#) raised its growth forecast to **6.9% for financial year 2022-23** from a revised 6.5% accounted in October 2022.
  - **Real GDP growth** is projected at 7.1% for Q1:2023-24 and at 5.9% for Q2.
  - As the data shows, in September 2022, it cut the GDP forecast for the full year but raised the quarterly GDP forecast.
- **Inflation & Interest Rates:**
  - The MPC has **maintained the forecast for headline [inflation](#)** (the total inflation in an economy) in the financial year 2022-23 at **6.7%**.
  - RBI expects headline inflation to stay above the 6% mark for 15 straight months. Even after that, hitting the 4% level will likely take time.
- **Repo Rate:**
  - The MPC **increased the [repo rate](#) by 35 basis points (bps) to 6.25%**, and the [Standing Deposit Facility](#) stands raised to 6%.

### What is Monetary Policy Framework?

- **About:**
  - In May 2016, the **RBI Act was amended** to provide a **legislative mandate to the central bank** to operate the country's monetary policy framework.
- **Objective:**
  - The framework aims at **setting the policy (repo) rate** based on an assessment of the **current and evolving macroeconomic situation**, and modulation of liquidity conditions to anchor money market rates at or around the repo rate.
- **Reason for Repo Rate as Policy Rate:**
  - Repo rate changes transmit through the [money market](#) to the entire financial system,

which, in turn, **influences aggregate demand.**

- Thus, it is a key determinant of inflation and growth.

## What is Monetary Policy Committee?

- **Origin:**
  - Under **Section 45ZB of the amended (in 2016) RBI Act, 1934**, the central government is empowered to constitute a **six-member Monetary Policy Committee (MPC)**.
- **Objective:**
  - Further, Section 45ZB lays down that “the Monetary Policy Committee shall **determine the Policy Rate required to achieve the inflation target**”.
  - The decision of the Monetary Policy Committee shall be **binding on the Bank**.
- **Composition:**
  - Section 45ZB says the MPC shall consist of 6 members:
    - RBI Governor as its ex officio chairperson,
    - Deputy Governor in charge of monetary policy,
    - An officer of the Bank to be nominated by the Central Board,
    - Three persons to be appointed by the central government.
      - This category of appointments must be from “persons of ability, integrity and standing, having knowledge and experience in the field of economics or banking or finance or monetary policy”.

## What are the Instruments of Monetary Policy?

- Repo Rate
- Standing Deposit Facility (SDF) Rate
- [Marginal Standing Facility \(MSF\) Rate](#)
- [Liquidity Adjustment Facility \(LAF\)](#)
- LAF Corridor
- [Main Liquidity Management Tool](#)
- Fine Tuning Operations
- [Reverse Repo Rate](#)
- Bank Rate
- [Cash Reserve Ratio \(CRR\)](#)
- [Statutory Liquidity Ratio \(SLR\)](#)
- [Open Market Operations \(OMOs\)](#)

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### Prelims

**Q1. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do (2020)**

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

**Select the correct answer using the code given below:**

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (b)**

**Q2. With reference to Indian economy, consider the following: (2015)**

1. Bank rate
2. Open market operations
3. Public debt
4. Public revenue

**Which of the above is/are component/ components of Monetary Policy?**

- (a) 1 only
- (b) 2, 3 and 4
- (c) 1 and 2
- (d) 1, 3 and 4

**Ans: (c)**

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**Mains**

**Q.** Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. **(2019)**

**Source: IE**

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