



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)

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)**

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