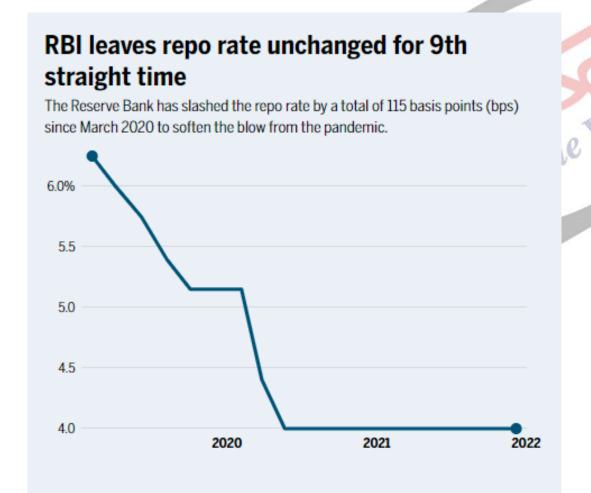


# **Monetary Policy Report: RBI**

### Why in News

The <u>Reserve Bank of India (RBI)</u> has released the <u>Monetary Policy Report (MPR)</u> for the month of December 2021.

 It kept the policy rate unchanged for the Ninth time in a row maintaining an <u>accommodative</u> <u>stance.</u>



## **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 retained the projection for Consumer Price Index (CPI) inflation at 5.3 %.
- Variable Reverse Rate Repo (VRRR):
  - It increased the amount of money it will absorb VRRR to Rs 7.5 lakh crore by the end of December 2021.
    - 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.

#### Accommodative Stance:

- RBI decided to continue with an accommodative stance until there is sustainable recovery in the economy.
  - An accommodative stance means the MPC is willing to either lower rates or keep them unchanged.
- Significance:
  - It encourages more spending from consumers and businesses by making money less expensive to borrow through the lowering of short-term interest rates.
  - When money is easily accessible through banks, the **money supply in the economy increases.** This leads to increased spending.
  - It allows the **fiscal reserve to increase in relation to national income** and the positive function of money demand.
  - It helps energize the national money stock and prevent a weak aggregate demand obviating an **economic recession**.
  - Therefore it can be said that an accommodative stance will **help improve India's growth.**
- No Permission for Infusing Capital:
  - The RBI allowed banks to infuse capital in their overseas branches as well as repatriate profits without seeking its prior approval, subject to fulfilling certain regulatory capital requirements.
    - **At present**, banks incorporated in India can infuse capital in their overseas branches and subsidiaries, retain profits in these centres and repatriate/ transfer the profits with prior approval of the RBI.
  - With a view to providing operational flexibility to banks, it has been decided that banks need not seek prior approval of the RBI if they meet the regulatory capital requirements.

#### **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.

#### **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<u>scheduled banks</u> 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.

Source: IE

PDF Reference URL: https://www.drishtiias.com/printpdf/monetary-policy-report-rbi-4