RBI Monetary Policy Highlights

April 11, 2022

In news– The Monetary Policy Committee(MPC) of the Reserve Bank of India has released the first monetary policy statement of FY 2023 recently.

Key highlights of the policy-

- **RBI has kept the repo rate and reverse repo rate unchanged at 4%** and **3.35% respectively** in its first monetary policy statement of FY 2023.
- This is the **11th time in a row that the MPC headed by the RBI Governor has maintained the status quo (**RBI had last revised its policy repo rate or the short-term lending rate on May 22, 2020).
- **MPC revised FY23 GDP forecast to 7.2%** from earlier guidance of 7.8%.
- **Inflation projections** have also been **raised to 5.7%, higher than previous expectation of 4.5%**, primarily due to war induced factors.
- Marginal standing facility, i.e. **MSF rate & bank rate remain unchanged at 4.25%.**
- Further, it has been decided by **RBI to restore the width of liquidity adjustment facilities, i.e. LAF corridor to 50 basis points –** the position that prevailed before the pandemic.
- As global **crude oil prices** remain volatile, **RBI will maintain orderly financial condition in the market** and will take steps to contain the impact of global spillovers.
- RBI has said that the Indian economy is comforted by large forex reserves.

New initiatives-

- **The RBI's MPC has proposed to make cardless cash withdrawal facility available at all ATMs**, irrespective of banks, through the Unified Payment Interface (UPI).
    - With this ATMs soon will show an option to withdraw cash using UPI.
    - Upon selecting that option, a user would have to add the amount they wish to withdraw following which a QR code would be generated on the ATM machine.
    - The user would then have to scan that code on their UPI app and enter their pin following which the ATM will dispense cash.

- **Currently, a few banks such as ICICI Bank, Kotak Mahindra Bank, HDFC Bank and SBI, allow their users to withdraw cash from their ATMs without a card,** a feature introduced in the wake of the Covid-19 pandemic.
- RBI has also introduced the **Standing Deposit Facility (SDF), an additional tool for absorbing liquidity,** at an interest rate of 3.75 per cent.
- The main **purpose of SDF is to reduce the excess liquidity** of Rs 8.5 lakh crore in the system, and control inflation.
- **In 2018, the amended Section 17 of the RBI Act empowered the Reserve Bank to introduce the SDF** – an additional tool for absorbing liquidity without any collateral.
- By removing the binding collateral constraint on the RBI, **the SDF strengthens the operating framework of monetary policy.**
- The **SDF is also a financial stability tool in addition to its role in liquidity management.**
- **The SDF will replace the fixed rate reverse repo (FRRR**) as the floor of the LAF corridor.
- Both the standing facilities – the MSF (marginal standing facility) and the SDF will be available on all days of the week, throughout the year.
- **The SDF rate will be 25 bps below the policy rate (Repo**

rate), and it will be applicable to overnight deposits at this stage.

- The RBI's plan is to restore the size of the liquidity surplus in the system to a level consistent with the prevailing stance of monetary policy.
- **The fixed rate reverse repo (FRRR) rate which is retained at 3.35 per cent will remain part of the RBI's toolkit,** and its operation will be at the discretion of the RBI for purposes specified from time to time.
- **The FRRR along with the SDF will impart flexibility to the RBI's liquidity management framework.**

The Monetary Policy Committee (MPC)-

- Under **Section 45ZB of the amended RBI Act, 1934, the central government is empowered to constitute a six-member Monetary Policy Committee (MPC)** to determine the policy interest rate required to achieve the inflation target.
- The **MPC shall determine the Policy Rate** required to achieve the inflation target, and that the decision of the MPC shall be binding on the Bank.
- The primary objective of the RBI's monetary policy is to maintain price stability while keeping in mind the objective of growth.
- **MPC shall consist of the RBI Governor as its ex officio chairperson,** the **Deputy Governor** in charge of **Monetary Policy Department**, an officer of the Bank to be nominated by the Central Board, and three persons to be appointed by the central government.
- **The last 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". (Section 45ZC).

- The MPC **fixes the key policy interest rates and monetary policy stance** of the country **as well as the inflation target.**

- **The first MPC meeting was held on October 4, 2016** when Urjit Patel was the RBI Governor. Prior to October 2016, the RBI Governor used to decide on policy rate.
- **A Technical Advisory Committee (TAC) on monetary policy** with specialists from fiscal economics, financial markets, central banking, and public finance advised on the stance of the monetary framework.
- **The RBI's Monetary Policy Department (MPD) supports the MPC in framing the monetary policy** and the Financial Markets Operations Department (FMOD) operationalises the financial policy through the daily liquidity management operations.
- The Financial Market Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of monetary policy (weighted average lending rate) is kept close to the policy repo rate.

- **Under the modified RBI Act, the monetary framework making is as under:**

    - The MPC should meet at least four times a year.
    - The minimum number of members for the meeting of the MPC is four.
    - Each MPC member gets one vote, and in case of an equality of votes, the Governor has a casting or second vote.