



KAMARAJ IAS ACADEMY
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Monetary Policy Committee

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Why is in news? RBI schedules additional meeting of Monetary Policy Committee to prepare report on inflation

With recent data revealing that India's retail inflation had risen to 7.41 percent in September, the Reserve Bank is likely to assess its further course of action. The panel is likely to prepare a report on why inflation has kept climbing despite its various efforts.

Monetary Policy Committee:

Monetary policy refers to the **policy of the central bank with regard to the use of monetary instruments** under its control to **achieve the goals** specified in the Act.

The **primary objective** of the RBI's monetary policy is to **maintain price stability** while keeping in mind the objective of growth. Price stability is a necessary **precondition to sustainable growth**.

The amended **RBI Act, 1934** also provides for the inflation target (4% +-2%) to be set by the Government of India, **in consultation with the Reserve Bank, once in every five years**.

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: 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: 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".

Monetary policy instruments are of two types, namely **qualitative instruments and quantitative instruments**.

Quantitative instruments include Open Market Operations, Bank Rate, Repo Rate, Reverse Repo Rate, Cash Reserve Ratio, Statutory Liquidity Ratio, Marginal standing facility and Liquidity Adjustment Facility (LAF).

Qualitative Instruments refer to direct action, change in the margin money and moral suasion.

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