

UPSC Civil Services Examination

UPSC Notes [GS-II]

Topic: Monetary Policy Committee (MPC)

The Monetary Policy Committee (MPC) is a committee constituted by the Reserve Bank of India and led by the Governor of RBI. Monetary Policy Committee was formed with the mission of fixing the benchmark policy interest rate (repo rate) to restrain inflation within the particular target level. The RBI governor controls the monetary policy decisions with the support and advice of the internal team and the technical advisory committee. Initially, the main decisions related to interest rates were taken by the Governor of RBI alone before the establishment of the committee. MPC was constituted under the Reserve Bank of India Act, 1934 as an initiative to bring more transparency and accountability in fixing the Monetary Policy of India. MPC conduct meetings at least 4 times in a year and the monetary policy is published after every meeting with each member explaining his opinions.

Monetary Policy Committee is an important topic for the [IAS Exam](#).

What is Monetary Policy?

Monetary Policy is the process of regulating the supply of money in an economy by the monetary authority of the country. The Monetary Policy, generally, adjusts the inflation rates or interest rates to sustain the price stability and to maintain the predictable exchange rates with foreign currencies. The Reserve Bank of India is the central banking authority of India which controls the monetary policy in conjunction with the central government's developmental agenda. The Reserve Bank of India is authorised to make monetary policy under the Reserve Bank of India Act, 1934.

Monetary policy is either contractionary or expansionary and is often seen separate from the fiscal policy which deals with taxation, spending by government and borrowing. When the total money supply is increased rapidly than normal, it is called an expansionary policy while a slower increase or even a decrease of the same refers to a contractionary policy.

Objectives of Monetary Policy

Monetary Policy was implemented with an initiative to provide reasonable price stability, high employment and faster economic growth rate. The major four objectives of the Monetary Policy are mentioned below:

1. To stabilize the business cycle.
2. To provide reasonable price stability.
3. To provide faster economic growth.
4. Exchange Rate Stability.

How was the Monetary Policy Committee formed?

Urijit Patel Committee first proposed the idea for the formation of a five-member Monetary Policy Committee. Later, the government proposed the setting up of a seven-member committee. MPC is assisted by the Monetary Policy Department (MPD) of the Reserve Bank in the formulation of the policy. Monetary Policy Committee came into force on 27th June 2016. The Financial Markets Operations Department (FMOD) operationalizes the monetary policy, mainly through day-to-day liquidity management operations.

Structure of Monetary Policy Committee

Monetary Policy Committee (MPC) was constituted as per Section 452 under the RBI Act of 1934 by the Central Government. The first meeting of MPC was conducted on 3rd October 2016 in Mumbai.

The Monetary Policy Committee consists of the following six members which are mentioned in the table below:

| Monetary Policy Committee (MPC) | |
|---|-----------------------------|
| Chairperson (Governor of the Reserve Bank of India) | Shri Shaktikanta Das |
| In-charge of Monetary Policy (Deputy Governor of the Reserve Bank of India) | BP Kanungo |
| Member 1 (Officer of the Reserve Bank of India nominated by the Central Board) | Dr. Michael Debabrata Patra |
| Member 2 | Dr. Ravindra H. Dholakia |
| Member 3 | Shri Chetan Ghate |
| Member 4 | Pami Dua |

Monetary Policy Committee forms an important part of the [UPSC Syllabus](#) and is included under the GS-II section. Candidates preparing for [UPSC 2020](#) should also keep a track on the latest current affairs topics to know about various economic developments in the country.