

Monetary Policy Committee (MPC)

Current Context:

The 29th meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from June 2 to 4, 2021.

What is Monetary Policy Committee?

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 conducts meetings at least 4 times a year and the monetary policy is published after every meeting with each member explaining his opinions.

Use of 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 authorized 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.

Instruments of Monetary Policy

There are both direct and indirect instruments used for implementing monetary policy. Few include:

- [Repo rate](#)
- Reverse Repo rate
- Liquidity Adjustment Facility (LAF)
- [Marginal Standing Facility \(MSF\)](#)

- Corridor
- [Bank Rate](#)
- [Cash Reserve Ratio \(CRR\)](#)
- [Statutory Liquidity Ratio \(SLR\)](#)
- [Open Market Operations \(OMOs\)](#)
- Market Stabilisation Scheme (MSS)

Objectives of Monetary Policy

Monetary Policy was implemented with an initiative to provide reasonable price stability, high employment, and a 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?

Urjit 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 the Monetary Policy Committee

- Monetary Policy Committee (MPC) was constituted as per Section 45ZB under the RBI Act of 1934 by the Central Government. The first meeting of MPC was conducted on 3rd October 2016 in Mumbai.
- The committee determines the policy interest rate required to achieve the inflation target.
- The MPC is required to meet at least four times in a year.
- The quorum for the meeting of the MPC is four members.
- Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.
- Once every six months, the Reserve Bank is required to publish a document called the **Monetary Policy Report** to explain the sources of inflation and the forecasts of inflation for 6-18 months ahead.

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	Dr. Michael Debabrata Patra
Member 1	Dr. Shashanka Bhide
Member 2	Dr. Ashima Goyal
Member 3	Prof. Jayanth R. Varma
Member 4	Dr. Mridul K. Sagar

Monetary Policy Committee forms an important part of the [UPSC Syllabus](#) and is included under the GS-III section.