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Monetary Policy Committee (MPC)

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Context: The **Reserve Bank of India (RBI)** uses the **Monetary Policy Committee (MPC)** to set policy rates, primarily the **repo rate**, to achieve the target **inflation rate** and ensure macroeconomic stability.

What is the Monetary Policy Committee (MPC)?

Constitution: Established under the **RBI Act, 1934 (Amendment, 2016)**.

Objective: Maintain **price stability**, while keeping **growth in mind**.

Primary Mandate: Target **Consumer Price Index (CPI) inflation** at **4% ± 2%**.

Composition

Total Members: **6**

1**RBI Governor –** Chairperson

2**Deputy Governor (RBI)** in charge of monetary policy

3**One RBI officer nominated by the central board**

4–6. **Three external members** nominated by the **Government of India** for **4-year terms**

Voting: Each member has **one vote**, decisions made by **majority**. In case of a tie, **Governor's vote is decisive**.

Functions of MPC

1**Fixing Policy Rates:**

o**Repo Rate, Reverse Repo Rate, Marginal Standing Facility (MSF)**

oInfluences borrowing costs, inflation, and liquidity.

2**Inflation Targeting:**

oEnsures **CPI inflation stays within 2–6% band**.

3**Monitoring Macroeconomic Indicators:**

oGrowth, liquidity, fiscal policy, exchange rate, and global conditions.

4**Policy Reviews:**

oMeets **every two months** to review and announce the **monetary policy stance**.

Significance

- Brings **transparency, accountability, and collective decision-making** to RBI’s monetary policy.
- Reduces the influence of individual discretion, ensuring a **rules-based approach**.
- Aligns India with global practices of **inflation-targeting committees** (e.g., UK, Brazil, South Africa).