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2. MPC Retains Repo Rate At 5.25- Economy

The Monetary Policy Committee (MPC) voted unanimously to keep the policy repo rate under the Liquidity Adjustment Facility (LAF) unchanged at 5.25%, reflecting a cautious stance amid heightened geopolitical tensions in West Asia and supply-side shocks in energy and commodity markets. The Standing Deposit Facility (SDF) rate remains at 5%, and the Marginal Standing Facility (MSF) rate and Bank Rate at 5.50%. Real GDP growth for 2026-27 is projected at 6.6% (revised down from 6.9%), while CPI inflation is projected at 5.1% — 50 basis points higher than earlier projection — reflecting supply-side pressures within the 2-6% tolerance band.

1. Key Policy Decisions

Interest Rates (Unchanged)

1. **Policy Repo Rate -** 5.25% (unchanged)
2. **Standing Deposit Facility (SDF) Rate -** 5.00%
3. **Marginal Standing Facility (MSF) Rate -** 5.50%
4. **Bank Rate -** 5.50%
5. Unanimous decision by all 6 MPC members

Growth Projections (2026-27)

1. **Real GDP growth -** 6.6% (revised down from 6.9%)
2. Q1 - 6.6% | Q2 - 6.3% | Q3 - 6.5% | Q4 - 6.8%

Inflation Projections (2026-27)

1. **CPI Inflation -** 5.1% (50 basis points higher than earlier projection)
    1. Q1 - 4.2% | Q2 - 5.1% | Q3 - 5.9% | Q4 - 5.4%
2. Within 2-6% tolerance band

2. What is the Repo Rate?

Definition

1. Rate at which RBI lends short-term money to commercial banks against collateral
2. Key policy tool used by RBI to control liquidity, inflation, economic growth

Transmission Mechanism

1. **Lower repo rate** → Banks borrow from RBI at cheaper rates → Banks lower lending rates →
    1. Easier credit access for consumers, businesses
    2. Boost in investment, consumption, economic activity
    3. Increased liquidity, money supply
    4. Stimulates growth during economic slowdowns
2. **Higher repo rate** → Reverse effect → Controls inflation, reduces liquidity

3. What is the Monetary Policy Committee (MPC)?

Establishment

1. **Statutory body** established under **RBI Act, 1934 (amended 2016)**
2. Responsible for fixing benchmark interest rate (repo rate)
3. Mandate - Maintain price stability while keeping growth in mind

Composition (6 Members)

1. 3 from RBI (including Governor as **Chairperson**)

2. 3 external members appointed by Government

Functioning

1. Meets **at least four times a year** (usually bi-monthly)
2. Decisions made by **majority vote;** each member has one vote
3. **In case of tie -** RBI Governor has casting vote

4. Flexible Inflation Targeting Framework (FITF)

1. India adopted FITF in **2016**
2. **Mechanism -** Government sets inflation target every five years in consultation with RBI
3. **Current mandate -** CPI inflation target of **4%** with tolerance band of **±2%** (range - 2% to 6%)
4. Current mandate effective until **March 31, 2026**
5. If inflation remains outside 2-6% band for three consecutive quarters, RBI must explain to government

5. Monetary Policy Tools in India

Quantitative Tools (Control Cost and Quantity of Credit)

Tool	Function
Repo Rate	Rate RBI lends short-term funds to banks against collateral
Reverse Repo Rate	Rate RBI absorbs liquidity from banks
Cash Reserve Ratio (CRR)	Portion of deposits banks must keep with RBI in cash
Statutory Liquidity Ratio (SLR)	Portion of deposits kept in liquid assets (gold, cash, government securities)
Open Market Operations (OMO)	Buying/selling government securities controlling liquidity
Marginal Standing Facility (MSF)	Emergency borrowing by banks at penal rate (above repo rate)
Liquidity Adjustment Facility (LAF)	Framework for repo/reverse repo operations managing short-term liquidity
Market Stabilisation Scheme (MSS)	Bonds issued to absorb excess liquidity

Qualitative Tools (Control Use and Direction of Credit)

1. **Margin Requirement -** Controls loan-to-value ratio
2. **Consumer Credit Regulation -** Regulates credit terms (down payment, repayment period)
3. **Rationing of Credit -** Limits sectoral lending concentrations
4. **Moral Suasion -** Persuasive guidance by RBI to banks
5. **Direct Action -** Penal action against non-compliant banks

6. Reasons Behind the Policy Decision

Geopolitical Uncertainty

1. Heightened tensions in West Asia worsening global economic uncertainty
2. Oil price volatility, shipping disruptions affecting India's import costs
3. Strait of Hormuz tensions impacting energy supply chains

Supply-Side Shock

1. Indian economy facing supply-side shock from disruptions in energy, commodity markets
2. Supply-side inflation not amenable to monetary policy tightening (demand-side tool)
3. Rate hike would harm growth without addressing supply-side inflation causes

Inflation Within Target Range

1. Retail inflation within 2-6% target band

2. Core inflation (excluding food, fuel) contained
3. Limiting need for immediate policy action

Impact of Trade Agreements

1. India recently signed trade agreements with - US, EU, Oman, New Zealand
2. Expected to - Boost exports, investments; reduce external vulnerabilities; support medium-term growth
3. Positive medium-term growth signal reducing urgency of stimulus

7. Impact on the Indian Economy

Impact on Borrowers and Households

1. Stable interest rates reducing financial uncertainty for middle-class households
2. Housing loan borrowers benefiting from rate stability
3. EMI burdens remaining manageable

Impact on Investment and Credit Growth

1. Stable interest rates + strong demand conditions + trade agreements = predictable environment for private investment
2. Credit growth maintained without overheating
3. Business planning easier with rate stability

Macroeconomic Stability

1. Reinforces credibility of India's Flexible Inflation Targeting framework
2. Demonstrates institutional stability in monetary policymaking
3. Investor confidence in RBI's measured approach

8. Way Forward

Safeguard External Sector Stability

1. Active liquidity management
2. Prudent forex reserve deployment
3. Monitoring global financial conditions to cushion against external shocks
4. India's forex reserves (~$650+ billion) providing adequate buffer

Enhance Fiscal-Monetary Coordination

1. Continued fiscal consolidation alongside targeted public spending
2. Complementing monetary policy sustaining long-term growth
3. Avoiding inflationary pressures from excessive fiscal expansion

9. Conclusion

MPC's unanimous decision to retain repo rate at 5.25% reflects calibrated monetary management balancing supply-side inflation pressures (5.1% CPI projection, 50 bps upward revision) against moderating growth (6.6% GDP, down from 6.9%) amid West Asia geopolitical uncertainty — maintaining credibility of India's Flexible Inflation Targeting Framework while supporting medium-term growth through trade agreements with US, EU, Oman, and New Zealand.

Source - https -//www.thehindu.com/business/Economy/rbi-mpc-policy-repo-rate-unchanged-june-5-2026/article71064055.ece