Valuation Examination: IBBI

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Syllabus of Valuation Examination

Macroeconomics

- National income accounting: consumption, capital, intermediate and final goods, stock and flows concepts, gross investment, depreciation and net investment; income method; expenditure method; value added method; GDP and NDP at factor cost and market price; national disposal income (gross and net); nominal and real income, GDP deflator
- Basics of fiscal policy: meaning, objectives and components; revenue receipts, capital receipts, revenue expenditure, capital expenditure, government deficit, revenue deficit, effective revenue deficit, fiscal deficit, primary deficit
- Basics of monetary policy: meaning, objectives and components; credit creation; money multiplier; tools of monetary policy- open market operation, cash reserve ratio, statutory liquidity ratio, bank rate, liquidity adjustment facility, marginal standing facility, reverse repo rate, quantitative easing; fiscal responsibility and budget management
- Understanding business cycles: business cycle; phases of business cycle; yield curve as a predictor of future economic growth; real business cycle

Finance and Financial Statement Analysis

- Finance: basic concepts of finance including time value of money
- Decisions in finance - investment decision; financing decision; dividend decision; net present value; internal rate of return; payback period
- Financial statement analysis: financial statements; operating and non-operating assets; liabilities; incomes and expenses; profit and loss analysis; balance sheet analysis; ratio analysis; performance analysis; capital structure analysis; credit analysis; cash flow analysis

Macroeconomics

Introduction to Macroeconomics

- **Microeconomics** examines the behavior of individual decision-making units—business firms and households.

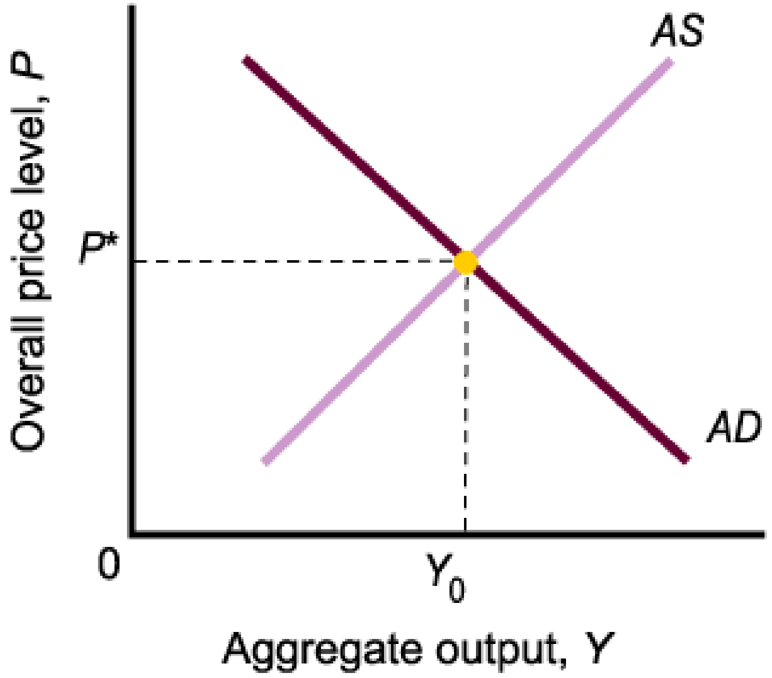
- **Macroeconomics** deals with the economy as a whole; it examines the behavior of economic aggregates such as aggregate income, consumption, investment, and the overall level of prices.

Aggregate behavior refers to the behavior of all households and firms together

Growth of Macroeconomics

- John Maynard Keynes, was a British economist, whose ideas fundamentally changed the theory and practice of macroeconomics and the economic policies.
- In 1936, John Maynard Keynes published The General Theory of Employment, Interest, and Money.
- At the individual level income determines spending and at the aggregate level spending determines the income. He also pointed out about the paradox of savings i.e. increase in autonomous saving leads to decrease in aggregate demands and thus decrease in gross output.

Aggregate Supply and Aggregate Demand



- **Aggregate demand** is the total demand for goods and services in an economy.
- **Aggregate supply** is the total supply of goods and services in an economy.
- Aggregate supply and demand curves are more complex than simple market supply and demand curves

Gross Domestic Product: Expenditure and Income

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
GDP is most often used to measure the economic growth, purchasing power, and overall economic health of a nation.

Nominal GDP is a macroeconomic assessment of the value of goods and services using current prices in its measure. Calculated by multiplying the current quantities at current year prices.

Real GDP takes nominal GDP and adjusts for inflation or deflation by comparing and converting prices to a base year's prices. The present base year for gross domestic product is **2011-12.**

Gross National Product vs. Gross Domestic Product

- Gross **National** Product (GNP):
  It measures the value of goods and services produced by only a country's citizens but both domestically and abroad.

- Gross **Domestic** Product (GDP):
  It measures the value of goods and services produced within a country's borders regardless of the nationality.

GDP is the most commonly used by global economies

GNP – GDP = factor payments from abroad minus factor payments to abroad

Examples of factor payments: wages, profits, rent, interest & dividends on assets

GDP at Factor Cost & Market Price

Input cost the producer has to incur in the process of production is factor cost. (cost of capital, interest, rent, wages, raw materials).
When factor cost is considered to calculate GDP then it is **GDP at factor cost.**

Market cost derived after adding **indirect taxes** to **the** factor cost of production .it means d cost at which d goods entered in market.

GDP (MP) = GDP (FC) + Indirect Taxes minus subsidies

GDP Deflator
It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year**.** It is a measure of inflation

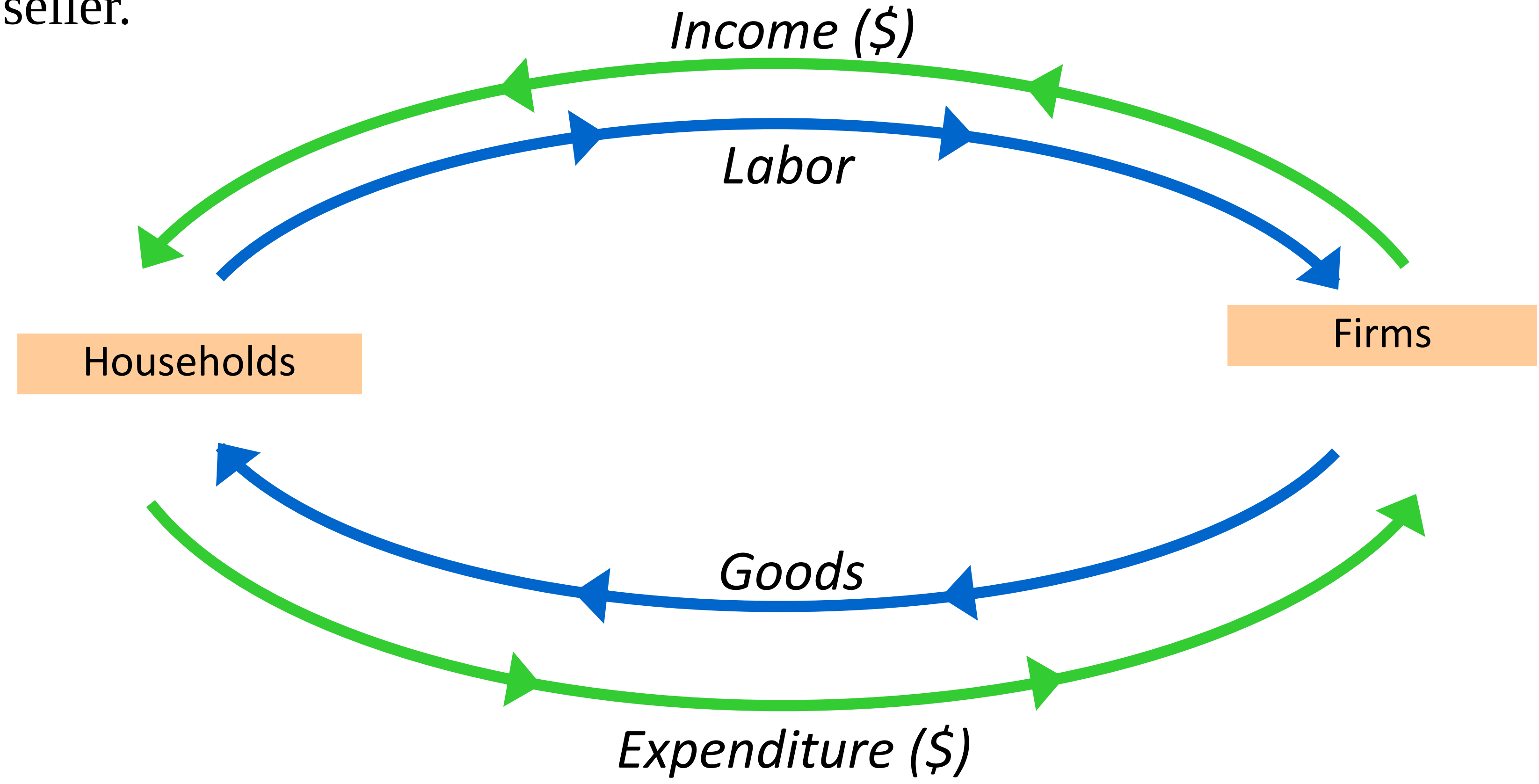
$$\text{GDP deflator} = 100 \times \frac{\text{Nominal GDP}}{\text{Real GDP}}$$

Gross Domestic Product: Expenditure and Income

Two definitions:

- Total expenditure on domestically-produced final goods and services.
- Total income earned by domestically-located factors of production.

- Expenditure equals income because every dollar spent by a buyer becomes income to the seller.



Method of calculating National Income

- **Income Method**

The Income Method measures national income from the side of payments made to the primary factors of production in the form of rent, wages, interest and profit for their productive services in an accounting year.

National Income = Rent + Compensation + Interest + Profit + Mixed income

Mixed income refers to the income of the self-employed individuals, farming units, and sole proprietorships.

- **Expenditure Method**

Expenditure approach focuses on the expenditure involved in the production of goods and services.

$$\mathbf{Y} = \underbrace{\mathbf{C} + \mathbf{I} + \mathbf{G} + \mathbf{NX}}_{\text{Aggregate Expenditure}}$$

Value of Total Output

C = Consumption

I = Investment

G = Government Spending

NX = Net Exports

- **Consumption:** It is the largest GDP component in the economy, consisting of private expenditures (household final consumption expenditure) in the economy. Personal expenditures fall under one of the following categories: durable goods, non-durable goods, and services.
- **Investment:** It includes capital expenditure on assets. It provides an indicator of the future productive capacity of the economy. It includes: Business fixed investment Residential fixed investment & Inventory investment
- **Government Spending:** It represents expenses undertaken y both State & Central Government for providing infrastructure, essential commodities, education, healthcare etc. Transfer Payments are excluded.
- **Net Exports:** The difference in exports & imports undertaken by a country in a Financial Year. Exports are considered an output for an economy whereas imports are considered as expenditure as they are not produced within an economy

Note:

- Any expenses on intermediate goods should not be considered as these are already included in the value of final goods.
- Transfer Payments are not included as they do not add value to the economy.
- Purchase of second hand goods is not included in this method. However brokerage

Value Added Method

The value-added method is also known as product method or output method, and its primary objective is calculating the national income by taking into account the value added to a product during the various stages of production.

The value of output minus the value of the intermediate goods used to produce that output .

GDP = Sum of value added at all stages of production

Stock & Flow Concept:

The concepts of stock and flow are used in macro economics or in the theory of income, output and employment.

A stock is a quantity measured at a point in time. A flow is a quantity measured per unit of time. A Stock can change due to flow, but the size of flows can be determined itself by changes in stock

Money is a stock variable, whereas the spending the money is a flow variable. The government debt is stock while the government deficit is a flow

- **Gross Investment:** The total addition made to the capital stock of economy in a given period is termed as Gross Investment. Capital stock consists of fixed assets and unsold stock. So, gross investment is the expenditure on purchase of fixed assets and unsold stock during the accounting year.

- **Net Investment:** The actual addition made to the capital stock of economy in a given period is termed as Net Investment.

Net Investment = Gross Investment – Depreciation

- **Depreciation (Consumption of Fixed Capital):** Depreciation refers to a fall in the value of fixed assets due to normal wear and tear, passage of time or expected obsolescence (change in technology).

Fiscal Policy

Fiscal Responsibility and Budget Management Act, 2003

Objective of the Act was set targets for the Government of India to establish financial discipline, improve the management of public funds, strengthen fiscal prudence and reduce its fiscal deficits.

In **2016**, a committee under N K Singh was set up to suggest changes to the Act.

Key Highlights

The Central Government shall,-

(a) Take appropriate measures to limit the fiscal deficit upto three per cent. of gross domestic product by the 31st March, 2021;

(b) Endeavor to ensure that-

   I. The general Government debt does not exceed sixty per cent.;
   II. The Central Government debt does not exceed forty per cent, of gross domestic product by the end of financial year 2024-2025
   III. Not give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of one-half per cent of gross domestic product, in any financial year

(c) Any deviation from fiscal deficit target shall not exceed one-half per cent of the gross domestic product in a year except in the case of ground or grounds of national security, act of war, national calamity, collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications, decline in real output growth of a quarter by at least three per cent points below its average of the previous four quarters

(d) The Central Government shall not borrow from the Reserve Bank but the Reserve Bank may buy and sell the Central Government securities in the secondary market

Revenue Receipt vs Capital Receipt

Government receipts are divided into two groups—Revenue Receipts and Capital Receipts.

Revenue Receipts:
Government receipts which neither (i) create liabilities nor (ii) reduce assets are called revenue receipts. These are proceeds of taxes, interest and dividend on government investment, cess and other receipts for services rendered by the government. This can be further bifurcated into Tax revenue & Non Tax Revenue.

Capital Receipts:
Government receipts which either (i) create liabilities (e.g. borrowing) or (ii) reduce assets (e.g. disinvestment) are called capital receipts. Thus when govt. raises funds either by incurring a liability or by disposing off its assets, it is called a capital receipt.

ABSTRACT OF RECEIPTS

(In ₹ crores)

	Actuals 2018-2019	Budget Estimates 2019-2020	Revised Estimates 2019-2020	Budget Estimates 2020-2021
REVENUE RECEIPTS				
1. Tax Revenue				
Gross Tax Revenue	**2080465.43**	**2461194.93**	**2163423.00**	**2423020.00**
Corporation Tax	663571.62	766000.00	610500.00	681000.00
Taxes on Income	473002.86	569000.00	559500.00	638000.00
Wealth Tax	40.86	...	...	...
Customs	117812.85	155904.00	125000.00	138000.00
Union Excise Duties	231981.90	300000.00	248012.00	267000.00
Service Tax	6903.62	...	1200.00	1020.00
Goods and Services Tax (GST)#	581559.30	663343.00	612327.00	690500.00
Taxes of Union Territories	5592.42	6947.93	6884.00	7500.00
Less - NCCD transferred to the National Calamity Contigency Fund/National Disaster Response Fund	**1800.16**	**2480.00**	**2790.00**	**2930.00**
Less - State's share	**761454.15**	**809133.02**	**656046.07**	**784180.87**
Centre's Net Tax Revenue	**1317211.12**	**1649581.91**	**1504586.93**	**1635909.13**
2. Non-Tax Revenue				
Interest receipts	12144.59	13711.23	11027.08	11042.04
Dividends and Profits	113420.51	163528.44	199892.92	155395.47
Other Non Tax Revenue	108249.75	133790.45	132499.28	216277.23
Receipts of Union Territories	1889.53	2149.00	2094.16	2302.56
Total Non Tax Revenue	**235704.38**	**313179.12**	**345513.44**	**385017.30**
I. Total Revenue Receipts	**1552915.50**	**1962761.03**	**1850100.37**	**2020926.43**
3. Capital Receipts				
A. Non-debt Receipts				
1. Recoveries of loans and advances@	18052.20	14827.72	16604.49	14966.67
2. Miscellaneous Capital Receipts	94726.87	105000.00	65000.00	210000.00
Total	*112779.07*	*119827.72*	*81604.49*	*224966.67*
B. Debt Receipts*				
1. Market Loans (Net)	422734.61	473122.01	473972.01	544869.62
2. Market Loans for Repayments	148265.39	236877.99	236027.99	235130.38
3. Market Loans for Buyback	...	50000.00	...	30000.00
4. Market Loans for Switching	28591.26	50000.00	165000.00	270000.00
5. Less Payments for Switching	-28058.99	-50000.00	-165000.00	-270000.00
6. Market Loans (Gross) (1+2+3)	571000.00	760000.00	710000.00	810000.00
7. Short Term/T-Bill Borrowings	6896.58	25000.00	25000.00	25000.00
8. External Loan (Net)	5519.28	-2952.05	4933.12	4621.65
9. Securities issued against Small Savings	124999.95	130000.00	240000.00	240000.00
10. State Provident Fund (Net)	16059.05	18000.00	18000.00	18000.00
11. Other Receipts (Net)^	73997.43	59531.61	4940.87	50848.54
12. Total Debt Receipts (1-3+4+5+7+8+9+10+11)	650739.17	652701.57	766846.00	849339.81
II. Total Capital Receipts (A+B12)	**763518.24**	**772529.29**	**848450.49**	**1074306.48**
4. Draw-Down of Cash Balance	**-1321.12**	**51059.13**	**...**	**-53002.81**
Total Receipts (I+II)	**2316433.74**	**2735290.32**	**2698550.86**	**3095232.91**
Receipts under MSS (Net)	**...**	**...**	**...**	**...**
@ excludes recoveries of short-term loans and advances from States, loans to Government servants, etc.	12204.74	51375.01	37675.00	51375.01

 # inclides GST compensation cess

** The receipts are net of payment*

^ includes receipts from reserve funds, deposits and advances, etc.

Revenue Expenditure vs Capital Expenditure

Government expenditure are divided into two groups—Revenue Expenditure and Capital Expenditure.

Revenue Receipts:
An expenditure which neither creates assets nor reduces liability is called Revenue Expenditure, e.g., salaries of employees, interest payment on past debt, subsidies, pension, etc.

Capital Receipts:
An expenditure which either creates an asset (e.g., Building) or reduces liability (e.g., Repayment of Loan) is called capital expenditure.

***STATEMENT* 1**

SUMMARY OF EXPENDITURE

(In ₹crores)

MINISTRY/DEPARTMENT	Actuals 2018-2019			Budget Estimates 2019-2020			Revised Estimates 2019-2020			Budget Estimates 2020-2021		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
1. Central Expenditure (2+3+4)	1542664.19	294481.42	1837145.61	1858501.93	330717.36	2189219.29	1740356.48	341525.69	2081882.17	1926707.51	402276.51	2328984.02
2. Establishment	514756.72	6490.51	521247.23	538759.82	7536.42	546296.24	560214.12	6918.64	567132.76	602276.49	7308.30	609584.79
3. Central Sector Schemes	364691.69	273803.18	638494.87	568660.18	302134.28	870794.46	458524.99	314671.01	773196.00	497024.69	334800.37	831825.06
4. Other Central Expenditure	663215.78	14187.73	677403.51	751081.93	21046.66	772128.59	721617.37	19936.04	741553.41	827406.33	60167.84	887574.17
5. Transfers (6+7+8)	464734.90	13232.10	477967.00	589278.41	7851.75	597130.16	609288.19	7381.78	616669.97	703437.65	9808.42	713246.07
6. Centrally Sponsored Schemes	295927.44	101.41	296028.85	331544.07	65.51	331609.58	316760.91	54.65	316815.56	339838.77	55.76	339894.53
7. Finance Commission Transfers	93703.58	...	93703.58	120466.22	...	120466.22	123709.88	...	123709.88	149924.80	...	149924.80
8. Other Transfers	75103.88	13130.69	88234.57	137268.12	7786.24	145054.36	168817.40	7327.13	176144.53	213674.08	9752.66	223426.74
9. Total Expenditure through Budget (1+5)	2007399.09	307713.52	2315112.61	2447780.34	338569.11	2786349.45	2349644.67	348907.47	2698552.14	2630145.16	412084.93	3042230.09
10. Resources of Public Enterprises	...	607955.93	607955.93	...	537639.21	537639.21	...	710564.95	710564.95	...	672663.38	672663.38
11. Total Expenditure through Budget and Resources of Public Enterprises (9+10)	2007399.09	915669.45	2923068.54	2447780.34	876208.32	3323988.66	2349644.67	1059472.42	3409117.09	2630145.16	1084748.31	3714893.47

Government Finances (₹ Crore)##				
	April-November			
	2018-19	2019-20	2018-19	2019-20
1. Revenue Receipts	870306	983214	8.1	13.0
Gross tax revenue	1164685	1174143	7.1	0.8
Tax (net to Centre)	731669	750614	4.6	2.6
Non Tax	138637	232600	31.4	67.8
2. Capital Receipts, of which	742902	836843	10.2	12.6
Recovery of loans	10467	10910	10.5	4.2
Other Receipts	15810	18099	-69.8	14.5
Borrowings and other liabilities	716625	807834	17.1	12.7
3. Total Receipts (1+2)	1613208	1820057	9.1	12.8
4.Total Expenditure	1613208	1820057	9.1	12.8
(a) Revenue Expenditure	1421778	1606215	9.8	13.0
Interest payments	348233	341812	12.4	-1.8
(b) Capital Expenditure	191430	213842	4.0	11.7
5. Revenue Deficit	551472	623001	12.6	13.0
6.Effective Revenue Deficit	416686	493783	15.3	18.5
7. Fiscal Deficit	716625	807834	17.1	12.7
8. Primary Deficit	368392	466022	21.9	26.5

Government Deficit

Deficit is the amount by which the expends in a budget overreach the earnings. The Government Deficit is the amount of money in the budget set by which the government expend overreaches the government earning amount.

Revenue deficit

Revenue deficit is the excess of its total revenue expenditure to its total revenue receipts.

Revenue deficit = Revenue expenditure – Revenue Receipts

This indicates that the Government doesn't have sufficient revenue for the normal functioning of the government department.

Effective Revenue deficit: It is the difference between revenue deficit and grants for creation of capital assets

Fiscal Deficit

It is the excess of total expenditure over total receipts excluding borrowings i.e. it is the amount needed by the Government to meet its expenses.

Fiscal Deficit = Total expenditure – (Revenue receipts + Non-debt creating capital receipts)

Fiscal Deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad

Primary Deficit

Primary deficit is the amount of money that the government requires to borrow apart from the interest payments on the formerly borrowed loans

Primary Deficit = Fiscal Deficit – Net interest liabilities

(₹ करोड़) (In ₹ crore)

		2018-2019 वास्तविक Actuals	2019-2020 बजट अनुमान Budget Estimates	2019-2020 संशोधित अनुमान Revised Estimates	2020-2021 बजट अनुमान Budget Estimates
1. राजकोषीय घाटा	1. **Fiscal Deficit**	**649418** (3.4)	**703760** (3.3)	**766846** (3.8)	**796337** (3.5)
2. राजस्व घाटा	2. **Revenue Deficit**	**454483** (2.4)	**485019** (2.3)	**499544** (2.4)	**609219** (2.7)
3. प्रभावी राजस्व घाटा	3. **Effective Revenue Deficit**	**262702** (1.4)	**277686** (1.3)	**307807** (1.5)	**402719** (1.8)
4. प्राथमिक घाटा	4. **Primary Deficit**	**66770** (0.4)	**43289** (0.2)	**141741** (0.7)	**88134** (0.4)

राजकोषीय घाटा वित्तपोषण के स्रोत Sources of Financing Fiscal Deficit

(₹ करोड़) (In ₹ crore)

		2018-2019 वास्तविक Actuals	2019-2020 बजट अनुमान Budget Estimates	2019-2020 संशोधित अनुमान Revised Estimates	2020-2021 बजट अनुमान Budget Estimates
1. ऋण प्राप्तियां (निवल)	1. **Debt Receipts (Net)**				
2. *बाजार उधार (सरकारी प्रतिभूति+ राजकोषीय हुंडी+ पीओएलआईएफ)*	2. **Market Borrowings (G-sec +T Bills+POLIF)**	**430164**	**448122**	**498972**	**535870**
3. *अल्प बचतों के बदले प्रतिभूतियां*	3. **Securities against Small Savings**	**125000**	**130000**	**240000**	**240000**
4. *राज्य भविष्य निधियां*	4. **State Provident Funds**	**16059**	**18000**	**18000**	**18000**
5. *अन्य प्राप्तियां (आंतरिक ऋण तथा लोक लेखा)*	5. **Other Receipts (Internal Debts and Public Account)**	**73997**	**59532**	**4941**	**50848**
6. *विदेशी ऋण*	6. **External Debt**	**5519**	**(-)2952**	**4933**	**4622**
7. नकदी शेष का कम आहरण	7. **Draw Down of Cash Balance**	**(-) 1321**	**51059**	**...**	**(-) 53003**
8. कुल जोड़	8. **Grand Total**	**649418**	**703760**	**766846**	**796337**

Monetary Policy

Monetary Policy: Monetary policy is the macroeconomic policy laid down by the Reserve Bank of India. It involves the management of money supply and interest rates. It is bi-monthly meeting & the committee comprises of six members including RBI Governor.

Open Market Operations (OMO): It is an activity by a RBI to buy or sell government securities on the open market. Central banks use these operations as the primary means of implementing monetary policy.

Implications:

Sale of Government Securities → **Rupee Liquidity** ↓

Purchase of Government Securities → **Rupee Liquidity** ↑

Liquidity Adjustment Facility (LAF)

LAF is a facility extended by RBI to scheduled commercial banks and primary dealers to avail liquidity in case of requirement or park excess funds with the RBI in case of excess liquidity on an overnight basis against the collateral of Government securities including State Government securities.

The operations of LAF are conducted by way of repurchase agreements **(Repos and Reverse Repos with RBI)**

Direct & Indirect Instruments by RBI

Cash Reserve Ratio (CRR):

The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL). Reduction in CRR augment primary liquidity in the banking system.

Minimum daily maintenance of the Cash Reserve Ratio was reduced from 90 per cent to 80 per cent up to September 25, 2020.

Current CRR Rate: 3%

Statutory Liquidity Ratio (SLR):

The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector. Banks has to update to RBI every alternate Friday regarding their SLR status.

The Reserve Bank of India raises SLR to control the bank credit during the time of inflation. Similarly, it decreases the SLR during the time of recession to increase bank credit.

Reserve Bank of India has the authority to increase this ratio by up to 40%

Current SLR Rate: 18%

Statutory Liquidity Ratio (SLR)	**Cash Reserve Ratio (CRR)**
In the case of SLR, banks are asked to have reserves of liquid assets which include both cash and gold.	The CRR requires banks to have only cash reserves with the RBI
Banks earn returns on money parked as SLR	Banks don’t earn returns on money parked as CRR
SLR is used to control the bank’s leverage for credit expansion.	The Central Bank controls the liquidity in the Banking system with CRR.
In the case of SLR, the securities are kept with the banks themselves which they need to maintain in the form of liquid assets.	In CRR, the cash reserve is maintained by the banks with the Reserve Bank of India.

Repurchasing Option (Repo Rate):

The interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF) i.e. banks borrow from RBI.

It is an instrument for borrowing funds by selling securities with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed.

Current Policy Repo Rate: **4.00%**

Repo Rate ↓ ⟶ Bank's Borrowing Cost ↓ ⟶ Borrowing Cost of Borrowers ↓ ⟶ Inflation ↑

Repo Rate ↑ ⟶ Bank's Borrowing Cost ↑ ⟶ Borrowing Cost of Borrowers ↑ ⟶ Inflation ↓

Reverse Repo Rate:

The interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF i.e. banks lend money to RBI.

Current Reverse Repo Rate: 3.35%

Reverse Repo Rate ↑ ⟶ Money Supply ↓

Reverse Repo Rate ↓ ⟶ Money Supply ↑

Marginal Standing Facility (MSF):
A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
Current Marginal Standing Facility (MSF) Rate: 4.25%

Bank Rate: It is the lending rate at which commercial banks can borrow from the RBI without providing any security. At this rate RBI is ready to buy or rediscount bills of exchange or other commercial papers.
Current Bank Rate: 4.25%

Repo Rate	Bank Rate
Repo Rate is charged for repurchasing the securities sold by the commercial banks to the central bank.	Bank Rate is charged against loans offered by the central bank to commercial banks
Securities, bonds, agreements and collateral is involved	No collateral is involved
Short term financial needs	Long term financial requirements of commercial banks
Repo Rate is always lower than the Bank Rate.	

Highlights of the Monetary Policy Committee 22nd May 2020

PRESS RELEASES

(501 kb)

Date : Jun 05, 2020

Minutes of the Monetary Policy Committee Meeting May 20 to 22, 2020

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty third meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from May 20 to 22, 2020; the meeting was originally scheduled from June 3 to 5, 2020, but was advanced to May 20-22 in view of the ongoing COVID-19 pandemic.

2. The meeting was attended by all the members – Dr. Chetan Ghate, Professor, Indian Statistical Institute; Dr. Pami Dua, former Director, Delhi School of Economics; Dr. Ravindra H. Dholakia, former Professor, Indian Institute of Management, Ahmedabad; Dr. Janak Raj, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Chetan Ghate, Dr. Pami Dua and Dr. Ravindra H. Dholakia joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (May 22, 2020) decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 40 bps to 4.0 per cent from 4.40 per cent with immediate effect;
- accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.25 per cent from 4.65 per cent; and
- the reverse repo rate under the LAF stands reduced to 3.35 per cent from 3.75 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Highlights of the Monetary Policy Committee 6th August 2020

PRESS RELEASES

(388 kb)

Date : Aug 06, 2020

Monetary Policy Statement, 2020-21 Resolution of the Monetary Policy Committee (MPC) August 4 to 6, 2020

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (August 6, 2020) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Quantitative Easing

It is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment.

In an open market operation the central bank primarily acquires short-dated securities from the market.

Money Multiplier

The money multiplier is the amount of money that banks generate with each rupee of reserves. Reserves is the amount of deposits that the RBI requires banks to hold and not lend. Banking reserves is the ratio of reserves to the total amount of deposits.

Money Multiplier= 1 / Reserve Ratio

Thank you

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