07 – 05 – 2022

<u>News:</u> RBI hikes Repo Rate and Cash Reserve Ratio (CRR)

- The Reserve Bank of India's Monetary Policy Committee (MPC) has increased the policy Repo Rate by 40 basis points to 4.40%, with immediate effect and Cash Reserve Ratio (CRR) of banks by 50 basis points to 4.5% of Net Demand and Time Liabilities (NDTL).

Repo and Reverse Repo Rate

- Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Here, the central bank purchases the security.
- Reverse repo rate is the rate at which the RBI borrows money from commercial banks within the country.

Cash Reserve Ratio (CRR)

- Cash Reserve Ratio (CRR) is the ratio of Net Demand and Time Liabilities (NDTL), that a bank is mandatorily necessitated to deposit with the Reserve Bank of India in currency itself.

Monetary Policy Committee

- Monetary Policy Committee (MPC) is instituted under Section 45ZB of RBI Act, 1934 constituted by Central government.
- MPC is tasked with framing monetary policy using tools like repo rate, reverse repo rate, bank rate and CRR.
- In India, Monetary policy is based on Headline CPI Inflation.
- RBI has to organise at least four meetings of the MPC in a year. (More meetings can be held if the RBI Governor is of that opinion).
- Usually, MPC meets 6 times a year. But in FY20, it had an extra meeting in view of pandemic and the urgent need to assess the current and evolving macroeconomic situation.
- As per the provisions of the RBI Act, out of the six Members of Monetary Policy Committee, three Members are from the RBI and the other three Members of MPC are appointed by the Central Government.
- Governor of RBI acts as the ex-officio chairman of MPC.
- The Members of the Monetary Policy Committee appointed by the Central Government shall hold office for a period of four years, with immediate effect or until further orders, whichever is earlier.
- Quorum for the MPC is 4 members.

- Decisions are based on majority with each one having a vote. RBI governor will not have a VETO power, but will have a casting vote in case of a tie.

Impact of the recent changes in Repo Rate and CRR

Repo Rate

- It is expected to push up interest rates in the banking system. Equated Monthly Installments (EMIs) on home, vehicle and other personal and corporate loans are likely to go up.
- Deposit rates, mainly fixed term rates, are also set to rise.
- Consumption and demand can be impacted by the Repo rate hike.

Cash Reserve Ratio (CRR)

- The hike in CRR will suck out Rs 87,000 crore from the banking system. The lendable resources of banks will come down accordingly.
- It also means the cost of funds will go up and banks' net interest margins could get adversely impacted. Net interest margin (NIM) is a measure of the difference between the interest income earned by a bank or other financial institution and the interest it pays out to its lenders (for example, depositors), relative to the amount of their assets that earn interest.

<u>News:</u> Purchasing Managers Index (PMI)

- According to the S&P Global India Manufacturing Purchasing Managers' Index (PMI), India's manufacturing sector recorded a slight acceleration in new orders and output which rose to 54.7 in April 2022 from 54 in March 2022.

Purchasing Managers Index (PMI)

- Purchasing Managers Index is a survey-based measure that asks the respondents about changes in their perception about key business variables as compared to previous month.
- It is calculated separately for manufacturing and services and then a composite index is constructed.
- PMI is a number from 0 to 100. PMI above 50 indicates an expansion compared to previous month and PMI below 50 indicates a contraction and PMI score of 50 means no change.
- It is usually released at the start of every month.
- PMI is released by Institute for Supply Management.

News: Pradhan Mantri Formalisation of Micro food processing Enterprises (PMFME) Scheme

- Recently, the Ministry of Food Processing Industries and NAFED (National Agricultural Cooperative Marketing Federation of India Limited) launched Three One District One Product (ODOP) brands under the Pradhan Mantri Formalisation of Micro food processing Enterprises (PMFME) Scheme.

Pradhan Mantri Formalisation of Micro food processing Enterprises (PMFME) Scheme

- Pradhan Mantri Formalisation of Micro food processing Enterprises (PMFME) Scheme is a Centrally Sponsored Scheme implemented by Ministry of Food Processing Industries (MFPI).
- The PMFME Scheme is currently being implemented in 35 States and Union Territories (UTs).
- Recently, it was decided by the Government of India to merge PM Formalisation of Micro-food processing Enterprises (PMFME) with Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM) scheme.

- The merging of schemes would help the Self Help Groups (SHGs) who are involved in micro-entrepreneurship activities will make them financially empowered and help families of SHGs live a dignified life.

Features

One District One Product (ODOP) Approach

- The States would identify food products for districts keeping in view the existing clusters and availability of raw material.
- The ODOP could be a perishable produce based or cereal based or a food item widely produced in an area. E.g. mango, potato, pickle, millet based products, fisheries, poultry, etc.

Other Focus Areas

- Waste to wealth products, minor forest products and Aspirational Districts.
- Capacity building and research: Academic and research institutions under MoFPI along with State Level Technical Institutions would be provided support for training of units, product development, appropriate packaging and machinery for micro units.
- Upgradation of Individual Micro Food Processing Units: Existing individual micro food processing units desirous of upgrading their units can avail credit-

linked capital subsidy at 35% of the eligible project cost with a maximum ceiling of Rs.10 lakh per unit.

- Seed Capital to SHG: Initial funding of Rs. 40,000- per Self Help Group (SHG) member would be provided for working capital and purchase of small tools.
- It is to be implemented over a period of five years from 2020-21 to 2024-25.
- It is a centrally sponsored scheme with an outlay of Rs. 10,000 crore.
- The expenditure under the scheme would be shared in 60:40 ratios between Central and State Governments, in 90:10 ratios with North Eastern and Himalayan States, 60:40 ratio with UTs with legislature and 100% by Centre for other UTs.