RBI Keeps Policy Rates Unchanged

RBI has decided to keep the benchmark policy rate unchanged at 6.5% and has shifted its instances from neutral to calibrated tightening i.e. rates will either go up or stay steady in the future.

Monetary Policy Committee:

- The monetary policy committee is a **statutory and institutionalized framework** under the Reserve Bank of India Act, 1934, for maintaining price stability, while keeping in mind the objective of growth.
- **MPC consists of 6 members**. Out of 6, 3 members are from RBI and 3 are appointed by the government.
- **Governor of RBI is ex-officio Chairman of the committee.**
- The MPC determines the policy interest rate (repo rate) required to achieve the inflation target.
- An RBI-appointed committee led by the then deputy governor **Urjit Patel in 2014 recommended** the establishment of the monetary policy committee.

Instruments of Monetary Policy

Repo Rate

- The interest rate at which the Reserve Bank lends money to banks against the collateral of government and other approved securities under Liquidity Adjustment Facility (LAF).
- It is also the benchmark policy rate.

Reverse Repo Rate

The interest rate at which the Reserve Bank borrows money from banks against the collateral of eligible government securities under LAF

Liquidity Adjustment Facility (LAF)

- LAF is a tool by which Reserve Bank adjust money supply in the economy.
- It is a monetary policy tool which allows the bank to borrow money through repurchase agreements (repo and reverse repos).

Marginal Standing Facility (MSF)

- It is a special window for banks to borrow from RBI against approved government securities in an emergency situation like an acute cash shortage.
- MSF rate is higher than the Repo rate.

Bank Rate

- This is the long-term rate(Repo rate is for short term) at which central bank (RBI) lends money to other banks or financial institutions. Bank rate is not used by RBI for monetary management.
- This rate has been aligned to the MSF rate and, therefore, changes automatically when the MSF rate changes.

Cash Reserve Ratio (CRR)

- Banks are required to hold a certain proportion of their deposits in the form of cash. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI and is known as the CRR.
- It means that banks do not have access to that much amount for any economic activity or commercial activity.
- Banks can't lend the money to corporates or individual borrowers, banks can't use that money for investment purposes. CRR remains in the current account and banks don't earn anything on that.

Statutory Liquidity Ratio (SLR)

- The share of Net Demand and Time Liabilities that a bank is required to maintain safe and liquid assets, such as government securities, cash, and gold.
- SLR is the amount of money that is invested in certain specified securities predominantly central government and state government securities.
- The banks earn some amount of interest on SLR investment as against CRR where it earns zero.

Open Market Operations (OMOs)

These include both, purchase and sale of government securities, for injection and absorption of liquidity, respectively by Reserve Bank of India.

Market Stabilisation Scheme (MSS):

- This instrument for monetary management was introduced in 2004.
- Surplus liquidity arising from large capital inflows is absorbed through the sale of short-dated government securities and treasury bills.
- The cash so collected is held in a separate government account with the Reserve Bank.