



Focus on Inflation Control

Source: TH

The **RBI's Monetary Policy Committee (MPC)** maintains its focus on **curbing inflation** by keeping the **repo rate unchanged at 6.5%** in February 2024 to align **inflation with the 4% target**.

- The MPC aims to achieve a **medium-term target of 4% inflation within a band of +/- 2%**.
- The MPC aims to **withdraw accommodation** gradually to align inflation with the target while supporting growth.
 - An **accommodative stance** means the central bank is prepared to expand the **money supply to boost economic growth**.
 - Withdrawal of accommodation will mean **reducing the money supply in the system** which will rein in inflation further.
- A recent RBI Bulletin states that **Headline inflation** rose to 5.7% in December 2023, primarily driven by **food inflation**, emphasising the need for continued vigilance.
- The MPC determines the **policy interest rate required to achieve the inflation target**. The RBI controls **inflation and deflation** by employing a variety of monetary policy tools such as:
 - Repo rate, **Reverse repo rate**, **Bank rate**, **Open market operations**, **Statutory liquidity ratio (SLR)**, **Cash reserve ratio (CRR)**, **Liquidity adjustment facility (LAF)**, and **Market stabilization scheme**.

QUANTITATIVE INSTRUMENTS OF MONETARY POLICY



LIQUIDITY ADJUSTMENT FACILITY (LAF)

- Repo Rate (RR): The rate at which the RBI lends money to commercial banks. Here, RBI purchases securities.
- Reverse Repo Rate: The rate at which the RBI borrows money from commercial banks within the country. Opposite of Repo.
- If RBI wants to signal tight monetary policy, it will increase the repo rate; banks will increase their lending rates.



BANK RATE

- It is a long-term rate (RR is short-term) at which the central bank lends money to other banks.
- Increase in Bank rate will increase the interest rates on the Loans / Deposits and vice versa.



STATUTORY LIQUIDITY RATIO (SLR)

- SLR is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.
- If RBI wants to tighten the monetary policy, it will raise the SLR.



CASH RESERVE RATIO (CRR)

- Banks are required to hold a certain proportion of their deposits in the form of cash with RBI.
- With the increase in CRR, banks increase the lending rates.



OPEN MARKET OPERATIONS (OMOS)

- These include purchase/sale of government securities by the Central Bank for injection/absorption of durable liquidity in the banking system.



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Read more: [RBI Keeps Policy Rates Unchanged](#)

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