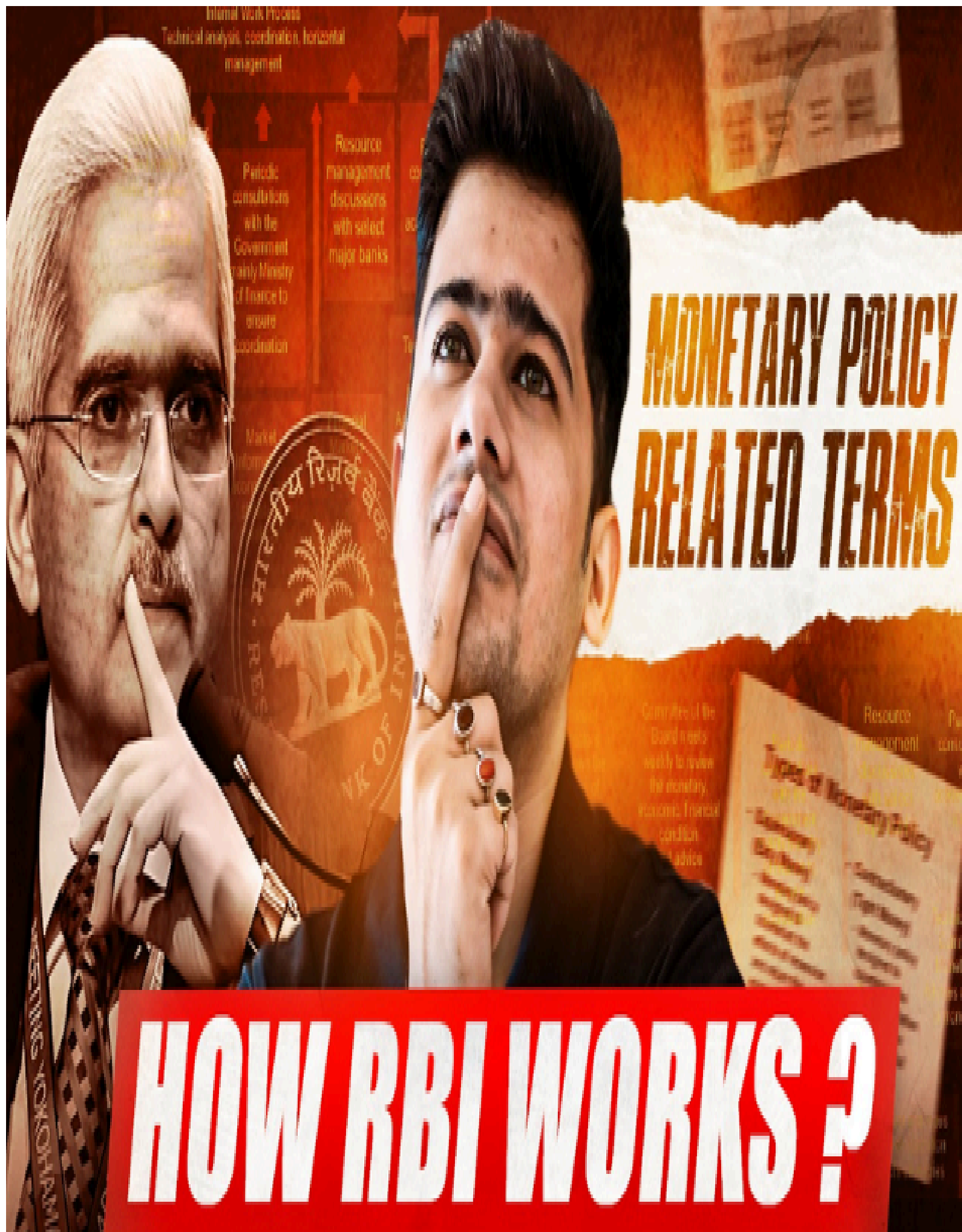


MONETARY POLICY BY KUSH PANDEY SIR



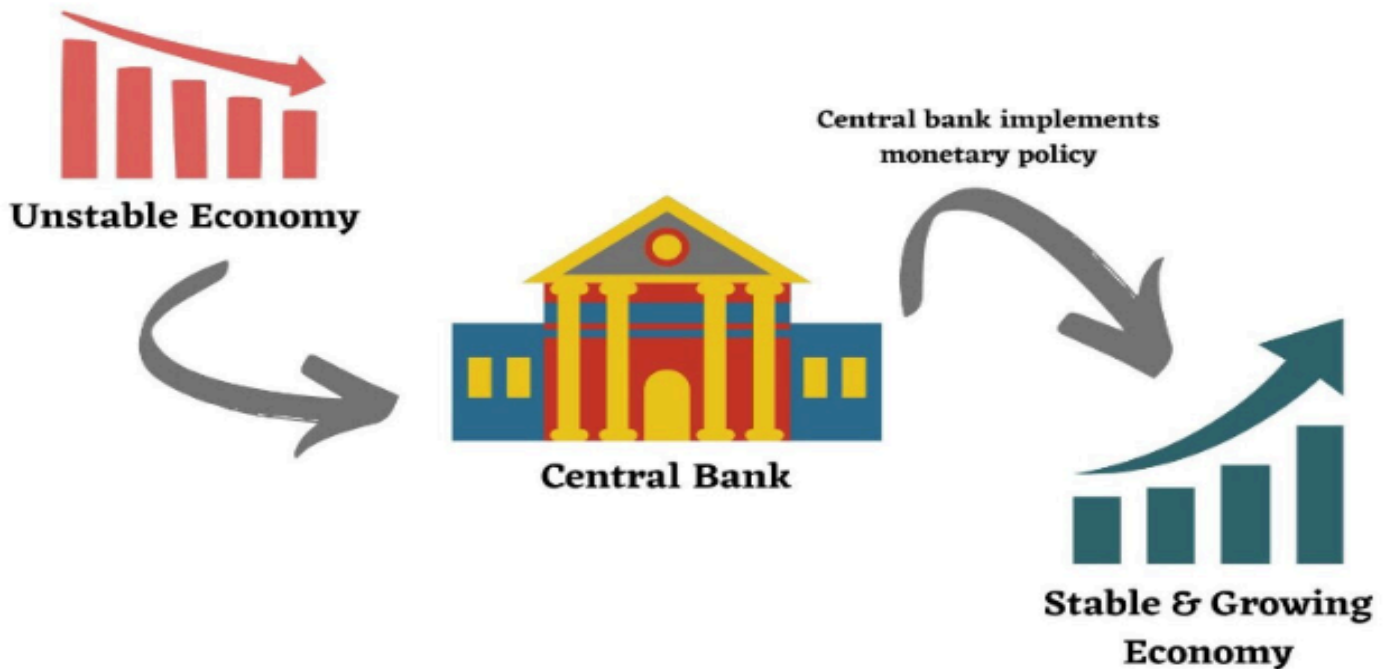
MONETARY POLICY RELATED TERMS

HOW RBI WORKS?

MONETARY POLICY BY KUSH PANDEY SIR

What is Monetary Policy?

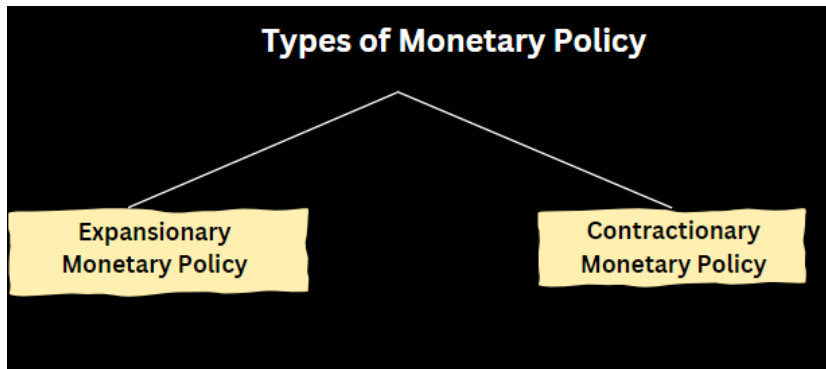
- Macroeconomic policy tool
- Used by the Central Bank
- Reason: To influence the money supply in the economy to achieve certain macroeconomic goals.



Objectives of Monetary Policy

- ✓ Price Stability
- ✓ Full Employment
- ✓ Economy Growth
- ✓ Exchange rate stability
- ✓ Interest-rate stability
- ✓ Financial stability

MONETARY POLICY BY KUSH PANDEY SIR

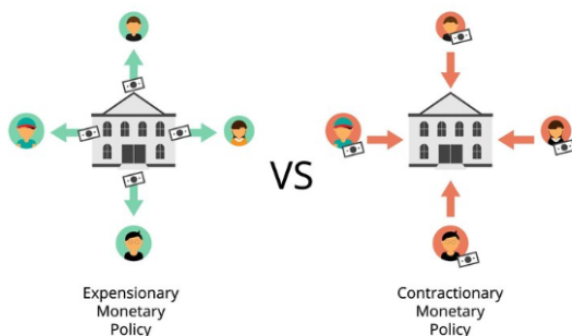


Expansionary Monetary Policy:

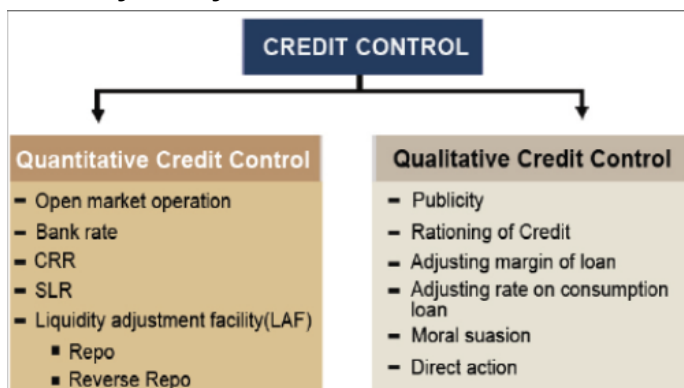
- Aim: To increase the money supply in the economy through measures such as:
- Decreasing interest rates
- Lowering reserve requirements for banks
- Purchasing government securities by central banks

Contractionary Monetary Policy:

- It is used to decrease the amount of money supply in the economy through measures such as:
- Raising interest rates
- Increasing the reserve requirements for banks
- Selling government bonds



Monetary Policy Tools in India



MONETARY POLICY BY KUSH PANDEY SIR

Bank Rate

A rate at which the RBI is ready to buy or rediscount Bills of Exchange or other Commercial Papers from the Scheduled Commercial Banks (SCBs).

Cash Reserve Ratio (CRR) is the minimum percentage of a bank's total Demand and Time Liabilities (DTL) that a Scheduled Commercial Bank is obligated to deposit with the RBI in the form of cash.

Liquidity Adjustment Facility (LAF)

It allows banks to borrow money from the RBI through repurchase agreements (repos) or to make loans to RBI through reverse repo agreements.

Quantitative Tools of Monetary Policy

Repo Rate is the rate of interest at which the RBI provides short-term loans to SCBs against approved securities.

Reverse Repo Rate is the rate of interest at which the RBI borrows funds from the SCBs.

Statutory Liquidity Ratio (SLR) is the percentage of Net Demand and Time Liabilities (NDTL) that a Scheduled Commercial Bank (SCB) has to keep with itself, in the form of: Cash, or Gold, or SLR Securities

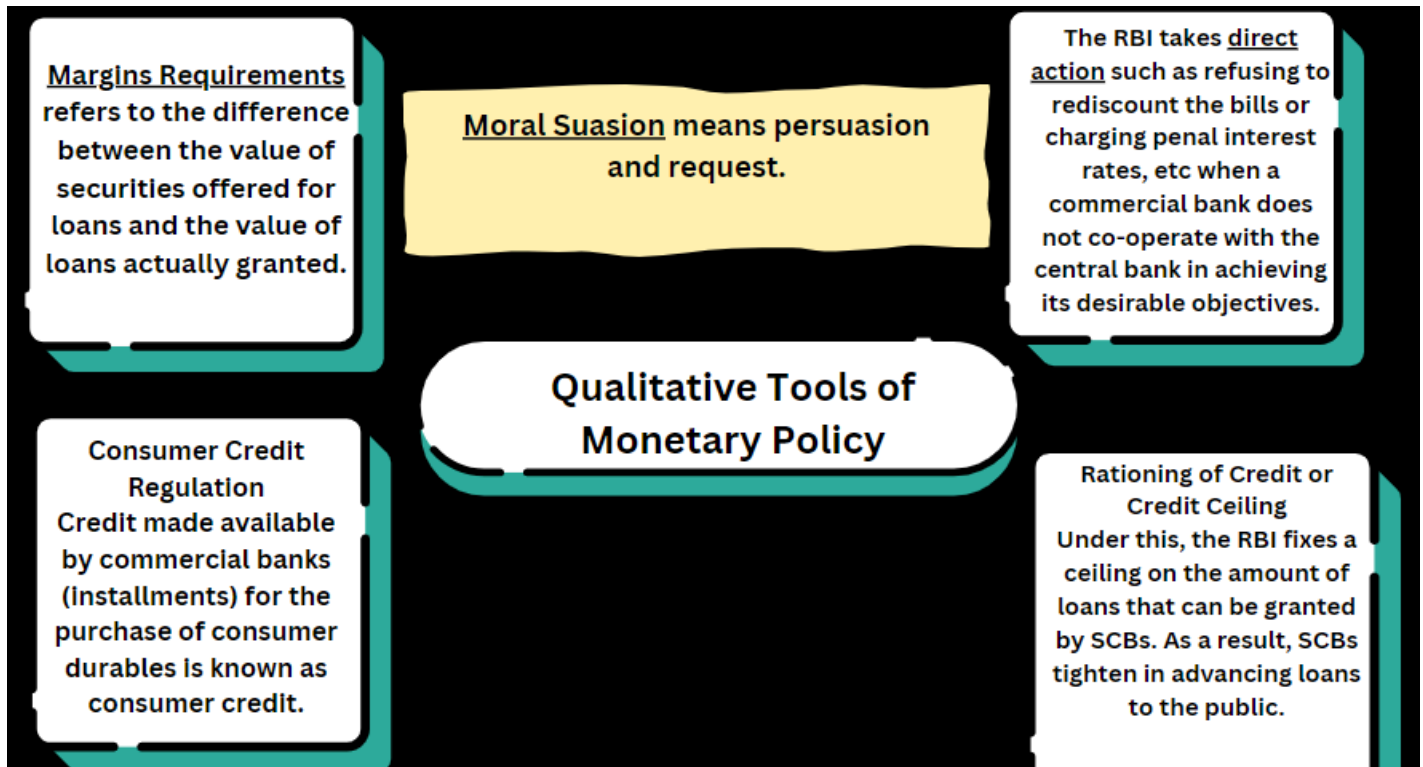
MSF stands for Marginal Standing Facility. It is a provision made by the Reserve Bank of India through which scheduled commercial banks can obtain liquidity overnight, if inter-bank liquidity completely dries up.

Open Market Operations (OMOs) refer to the buying and selling of government securities by RBI to regulate the short-term money supply.

Quantitative Tools of Monetary Policy

Market Stabilization Scheme (MSS) refers to intervention by the RBI to withdraw excess liquidity by selling government securities in the economy.

MONETARY POLICY BY KUSH PANDEY SIR



Parameter	CRR (Cash Reserve Ratio)	SLR (Statutory Liquidity Ratio)
Definition	Percentage of total deposits that banks must maintain as cash.	Percentage of total deposits that banks must maintain in the form of gold, cash, or approved securities.
Purpose	CRR is used by the RBI to control the flow of money in the economy. It regulates the amount of funds that banks can lend.	SLR is used to ensure that banks have sufficient funds to meet the demands of their customers. It ensures the solvency of banks and encourages them to invest in government securities.
Impact on Interest Rate	Increased CRR leads to a decrease in the amount of money available for lending, thus, leading to an increase in interest rates.	Increased SLR reduces the funds available for lending, thus, leading to an increase in interest rates.
Penalty for Non-compliance	Banks failing to maintain the required CRR have to pay a penalty to the RBI.	Banks failing to maintain the required SLR have to pay a penalty to the RBI.
Form of Reserve	CRR is maintained as cash.	SLR is maintained as cash, gold, or approved securities.

MONETARY POLICY BY KUSH PANDEY SIR

LAF:

1. This is for short term
2. Minimum bidding amount is 5 cr.
3. All clients of RBI are eligible to bid.
4. Bank cannot sell Government security to RBI that is part of bank's SLR quota.
5. Bank can borrow any amount of money as long as it has the securities to sell.

MSF:

1. This is for long term
2. Minimum bidding amount is 1 cr.
3. Only scheduled commercial banks can bid.
4. Bank can sell the Government security from its SLR quota to RBI.
5. Bank can maximum borrow upto 2% of its NDTL.

Standing Deposit Facility :

- In 2018, the amended Section 17 of the RBI Act empowered the Reserve Bank to introduce the SDF – an additional tool for absorbing liquidity without any collateral.
- The SDF will replace the fixed rate reverse repo (FRRR) as the floor of the liquidity adjustment facility corridor.
- Both the standing facilities — the MSF (marginal standing facility) and the SDF will be available on all days of the week
- The SDF rate will be 25 bps below the policy rate (Repo rate)

Inflation Target:

- Under Section 45ZA, the Central Government, in consultation with the RBI, determines the inflation target in terms of the Consumer Price Index (CPI), once in five years and notifies it in the Official Gazette.
- Accordingly, on August 5, 2016, the Central Government notified in the Official Gazette 4% Consumer Price Index (CPI) inflation as the target for the period from August 5, 2016 to March 31, 2021 with the upper tolerance limit of 6% and the lower tolerance limit of 2%.
- On March 31, 2021, the Central Government retained the inflation target and the tolerance band for the next 5-year period – April 1, 2021 to March 31, 2026.

The Monetary Policy Committee

- Section 45ZB of the amended RBI Act, 1934 provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government by notification in the Official Gazette.
- The first such MPC was constituted on September 29, 2016.

Composition

- The MPC is made up of the RBI Governor, the Deputy Governor in charge of monetary policy, an RBI officer nominated by the Central Board, and three people appointed by the central government.

Meetings

- The MPC meets at least four times a year, and publishes its decisions after each meeting.

Frequency

- The RBI holds six bi-monthly MPC meetings annually

MONETARY POLICY BY KUSH PANDEY SIR

Current members of MPC: Current members of MPC:

- 1. Governor of the Reserve Bank of India—Chairperson, ex officio;
- 2. Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy—Member, ex officio;
- 3. One officer of the Reserve Bank of India to be nominated by the Central Board—Member, ex officio;
- 4. Dr. Nagesh Kumar, Director and Chief Executive, Institute for Studies in Industrial Development, New Delhi — Member;
- 5. Saugata Bhattacharya, Economist — Member; and
- 6. Prof. Ram Singh, Director, Delhi School of Economics, University of Delhi —Member

51st meeting of RBI MPC Highlights October 2024

1. Current Rates	1. Current Rates
Policy Rates	Policy Rates
Policy Repo Rate : 6.50%	Reserve Ratios
Standing Deposit Facility Rate : 6.25%	Exchange Rates
Marginal Standing Facility Rate : 6.75%	Lending / Deposit Rates
Bank Rate : 6.75%	Base Rate : 9.10% - 10.40%
Fixed Reverse Repo Rate : 3.35%	MCLR (Overnight) : 8.15% - 8.45%
	Savings Deposit Rate : 2.70% - 3.00%
	Term Deposit Rate > 1 Year : 6.00% - 7.25%

Reserve Ratios
CRR : 4.50%
SLR : 18.00%

- 1. Keep the repo rate unchanged at 6.5% for the 10th consecutive time.
- 2. The MPC changed the policy stance to 'Neutral' from 'withdrawal of accommodation'.
- 3. The RBI has retained its Consumer Price Index (CPI) inflation forecast for FY2025 at 4.5%.
- 4. The RBI kept its real GDP growth projection for FY25 at 7.2%
- 5. The RBI has hiked the UPI 123PAY per transaction limit to Rs 10,000 from Rs 5,000.
- 6. A hike in the UPI lite per transaction limit to Rs 1,000 from Rs 500.
- 7. RBI also hiked the UPI lite wallet limit to Rs 5,000 from currently Rs 2,000.
- 8. RBI has proposed to create a data repository namely RB-CRIS to bridge the gap in climate-related data that is currently available in a fragmented manner.