Monetary Policy

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Monetary Policy

- Monetary policy is the macroeconomic policy laid down by the central bank of an economy.
- The policy involves an operational framework which uses certain instruments and targeting mechanisms to achieve macroeconomic objectives like price stability, reviving co
- The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy nsumption, growth and liquidity.

- **Expansionary Monetary Policy:** This is known as loose monetary policy, expansionary policy increases the supply of money and credit to generate economic growth. A central bank may deploy an expansionist monetary policy to reduce unemployment and boost growth and investment during hard economic times. The overall goal of any expansionary policy **is to encourage spending and borrowing.** This is done by reducing the interest rate, subsequently providing easier and **cheaper loans to the borrowers**. According to economic theory, more money available to individuals and businesses at lower cost will result in the increased purchase of goods and services, thus stimulating growth.

- **Contractionary Monetary Policy**

Tight or contractionary monetary policy is used to prevent inflation due to economy growing too fast (over-heating). It aims at reducing the money supply, raising the interest rates and therefore, discouraging borrowing in the economy. Business investment will decline because it is less attractive for firms to borrow money. In addition, higher interest rates will also discourage consumer borrowing for big-ticket items like houses and cars.

1. Bank Rate: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. **6.75%**

2. 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).The Reserve Bank may notify CRR from time to time in the Gazette of India. : **4.50%**

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. **18.00%**

4. Repo Rate: The (fixed) 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) **6.50%**

- Reverse Repo Rate: The (fixed) 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. **3.35%**

- Liquidity Adjustment Facility (LAF): The LAF consists of overnight as well as term repo auctions. It is used to make temporary and swift adjustments in liquidity within the banking system mainly using the repo and reverse repo rates.

- Marginal Standing Facility (MSF): A facility under which scheduled commercial banks can **borrow additional amount of overnight money from the Reserve Bank**. This provides a safety valve against unanticipated liquidity shocks to the banking system. **6.75%**
- Marginal Cost of Funds based Lending Rate (MCLR) is the minimum lending rate below which a bank is not permitted to lend. MCLR replaced the earlier base rate system to determine the lending rates for commercial banks.

CURRENT RATES

Repo Rate	: 6.50%
Standing Deposit Facility Rate	: 6.25%
Marginal Standing Facility Rate	: 6.75%
Bank Rate	: 6.75%
Fixed Reverse Repo Rate	: 3.35%
CRR	: 4.50%
SLR	: 18.00%
MCLR (Overnight)	: 7.95% - 8.50%
Savings Deposit Rate	: 2.70% - 3.00%
Term Deposit Rate > 1 Year	: 6.00% - 7.25%