Repo Rate Unchanged

Why in News

The **Monetary Policy Committee (MPC)** of the **Reserve Bank of India (RBI)** has decided to keep the repo rate unchanged at 5.15% in its sixth and last bi-monthly policy review meeting for the financial year 2019-20.

Key Points

- This is the second policy review meeting where the rates have been kept unchanged.
  - The **rates also remained unchanged** in the last meeting which was held in **December 2019.**
  - The RBI **last reduced the rates** by **135 basis points (bps)** between February and October 2019.
- The RBI has decided to keep the **interest rates unchanged** in the wake of a rise in **inflation.**
  - The outlook for the **consumer price index-based inflation** has been **kept at** 5.0-5.4% for the first half of 2020-21.
- However, the RBI has said that there is a **scope for further easing.**
  - The downside risks to global growth have intensified and have increased in the wake of the outbreak of **coronavirus.**
  - Thus, the policy space available for future action needs to be used appropriately and should be suitably timed to optimise its impact on growth.
- The **GDP growth** for the financial year 2020-21 is projected at 6%.
  - The growth projection for the current financial year remains unchanged at 5%.

Monetary Policy Committee

- It 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.
- The **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** (4%).
- An RBI-appointed committee led by the then deputy governor Urjit Patel in 2014 recommended the establishment of the Monetary Policy Committee.

Repo Rate

- It is the **rate at which the central bank** of a country **lends money to commercial banks in the event of any shortfall of funds** (Reserve Bank of India, in case of India).
- It is used by monetary authorities **to control inflation.**
- In the event of inflation, central banks increase the repo rate as this acts as a disincentive for banks to borrow from the central bank. This ultimately reduces the money supply in the economy and thus helps in arresting inflation.
- The central bank takes the contrary position in the event of a fall in inflationary pressures.
- Ideally, a low repo rate should **translate into low-cost loans for the general masses.** When the RBI slashes its repo rate, it expects the banks to lower their interest rates charged on loans.

Other Measures by RBI to Ease Lending Rates

- It opened a window to extend ₹1 lakh crore to the commercial banks at the **repo rate,** 5.15%.
- Banks have been exempted from maintaining the **Cash Reserve Ratio (CRR),** which is 4% of the net demand and time liabilities now, for home, auto and MSME loans that are extended from January 31 to July 31, 2020.

Cash Reserve Ratio

- 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.

Source: TH