



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](#).

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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.



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

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