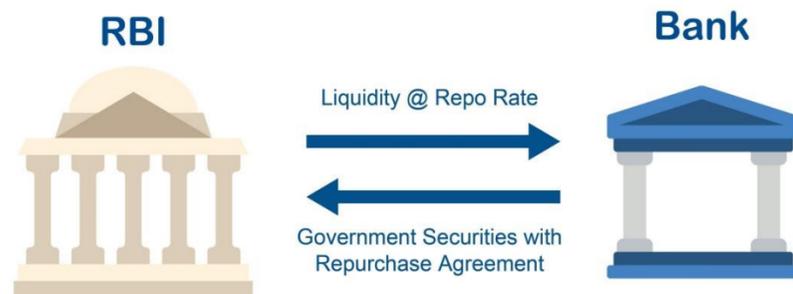


1. RBI slashes repo rate by 25 bps

- ❑ What are the implications of recent policy initiatives by RBI?
- ❑ What is repo rate? What is reverse repo rate?
- ❑ What is Marginal Standing facility?



WHAT IS REPO RATE?

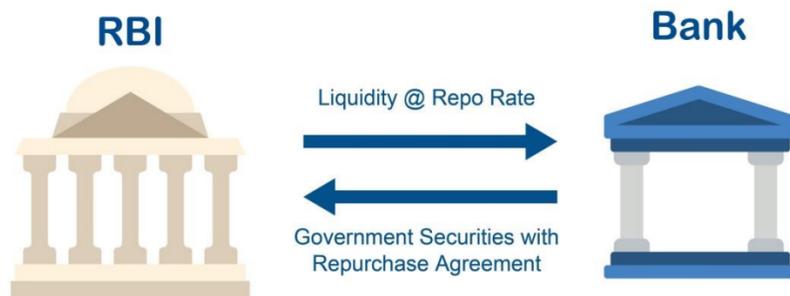


GS paper 3(Indian Economy)

In this video, you can find detailed answers for all the above questions.



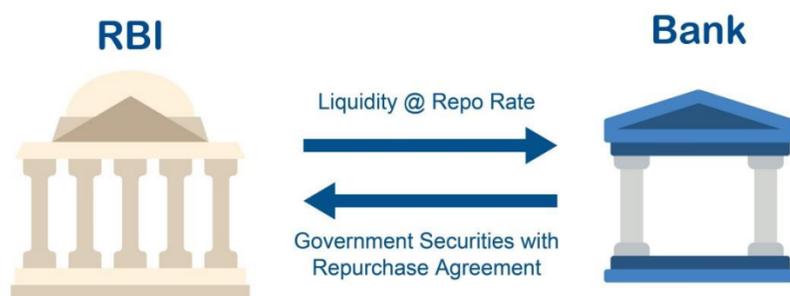
WHAT IS REPO RATE?



The above article has been retrieved from:

Manojit Saha. (2019, June , 07). RBI cuts interest rate by 25 bps, revises GDP growth to 7%. The Hindu. Retrieved from <https://www.thehindu.com/business/Economy/rbi-cuts-interest-rate-by-25-bps-revises-gdp-growth-to-7/article27545823.ece>

WHAT IS REPO RATE?



What is the context about?

—● The Reserve Bank of India has slashed its repo rate by 25 basis points for the third time in a row.

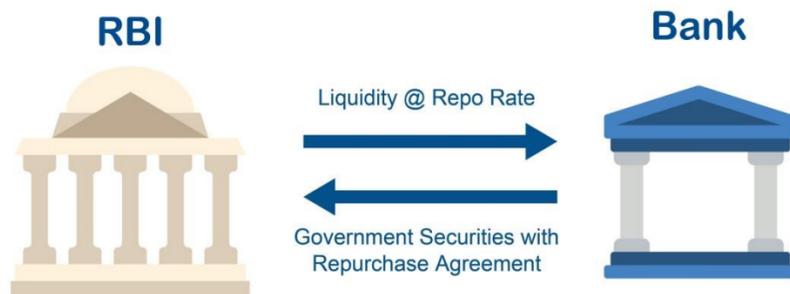
—● The repo rate, which now stands at 5.75 per cent, is the rate at which Reserve Bank of India lends to the banks.

—● With subdued inflation and weak economic growth, the move to lower the key rate was on expected lines. For the first time since September 2010, the repo rate is below the 6.00 mark.

What are the implications of recent policy initiatives by RBI?



WHAT IS REPO RATE?

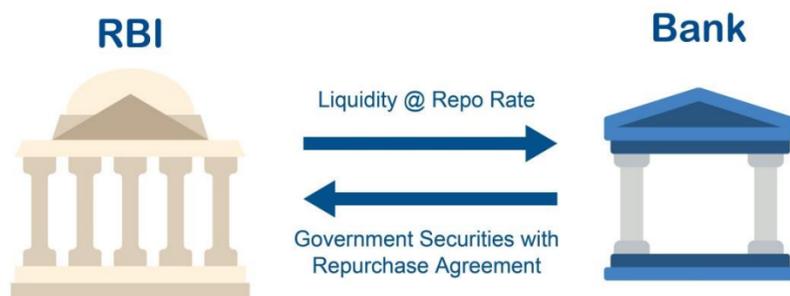


● **Cheaper Borrowings:** The move by the RBI makes it cheaper for commercial banks to borrow short-term funds from the RBI.

● **Cheaper Loans:** Commercial banks will have more room to pass on the benefit of lower lending rates to loan borrowers.

● **Low EMIs:** The equated monthly installments (EMIs) that borrowers pay on home, car, personal and other categories of loans are set to come down in the near term.

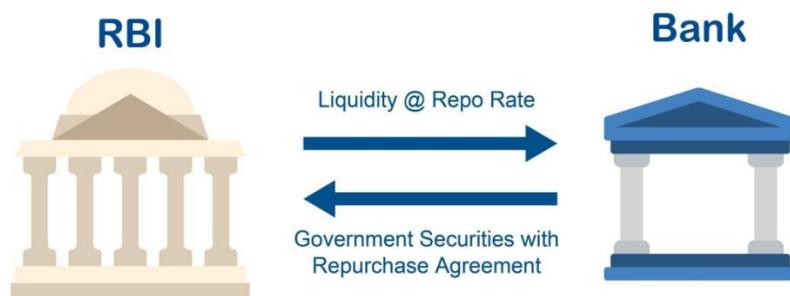
WHAT IS REPO RATE?



● **Low interest on Deposit Schemes:** At the same time, the interest rate earned by customers in fixed deposit (FD) and other term deposit schemes will also come down as the commercial banks will have to maintain the spread between the interest rate at which it lends to public and at which it borrows from RBI and pays interest on those deposits.

● **Lending Growth:** A rate cut will boost lending growth as well as consumer and investor sentiment as India heads to the polls.

WHAT IS REPO RATE?



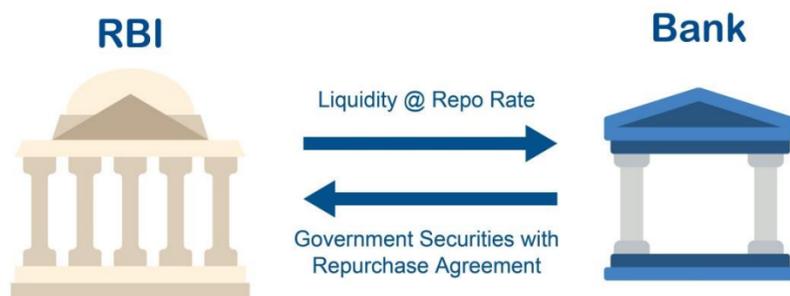
What is repo rate?

Repo rate, also known as the benchmark interest rate is the rate at which the RBI lends money to the banks for a short term.

When the repo rate increases, borrowing from RBI becomes more expensive. This in turn, raises the interest rate in the economy and therefore reduces the total money supply.

If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate. Similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate.

WHAT IS REPO RATE?



What is Reverse Repo rate?

Reverse Repo rate is the short term borrowing rate at which RBI borrows money from banks. The central bank uses this tool to change the money supply in the economy.

An increase in the reverse repo rate means that the banks will get a higher rate of interest from RBI. As a result, banks prefer to lend their money to RBI which is always safe instead of lending it to others (people, companies etc) which is considered risky.

What is Marginal Standing facility?

● Marginal Standing facility (MSF) – It is a special window for the commercial banks to borrow from the RBI against approved government securities, in case of an emergency such as an acute cash shortage. MSF rate is generally higher than Repo rate.

● An increase in the MSF rate leads to higher borrowing cost for the banks and thus, reduces money supply in the economy.

WHAT IS REPO RATE?

