

Bank Rate

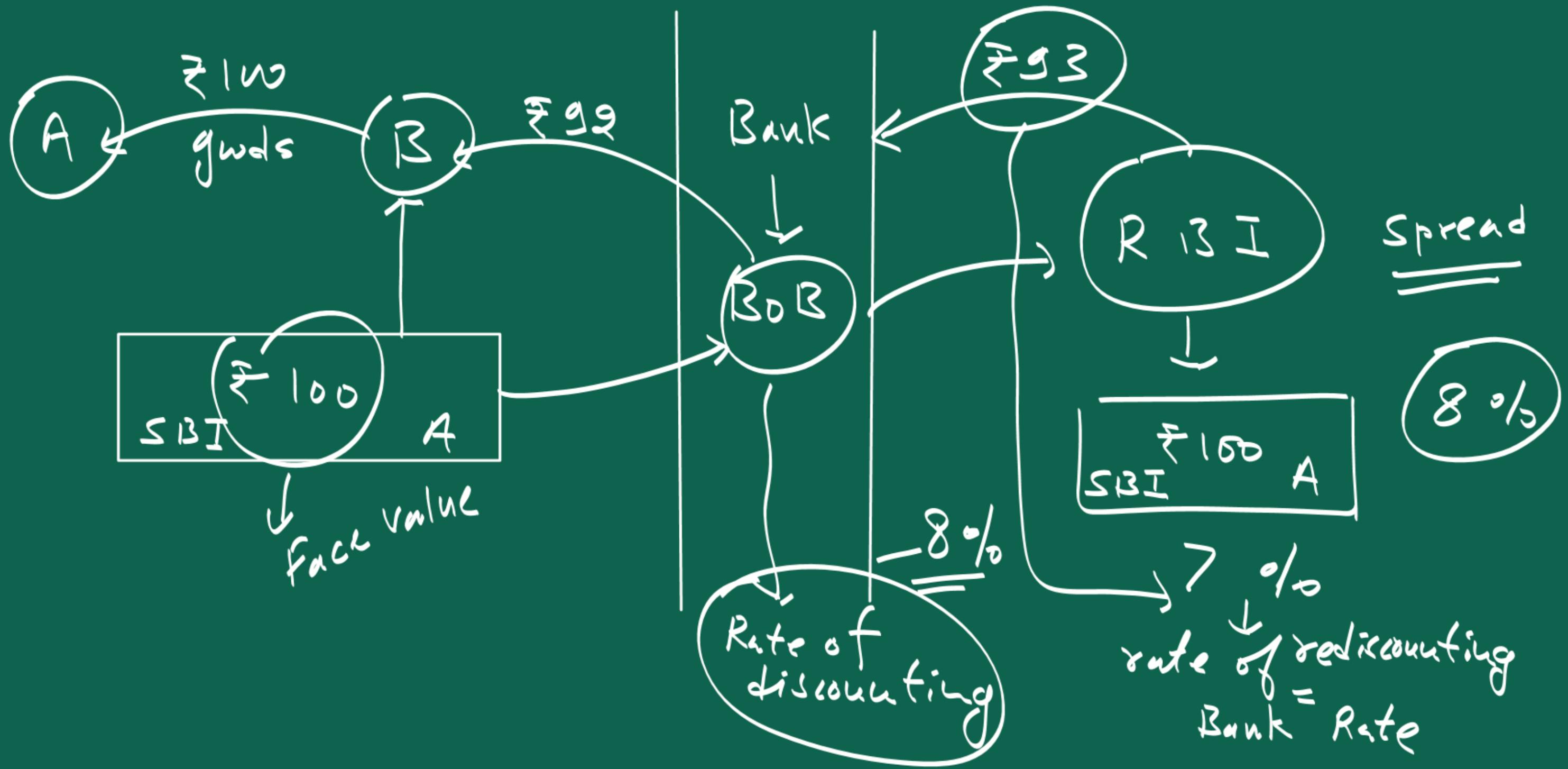


Rate of rediscounting



First category commercial bills

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Note -

In India, the bank rate is not an effective tool of monetary control.

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Why?

Because traders do not use much of commercial bills.

Since 2011, the RBI has been following the policy of keeping the bank rate equal to the MSF Rate.

Presently, the bank rate is 6.75%.

Repo Rate

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The lending rate of the RBI



to be charged from the  
Commercial banks.

Under it, banks are to submit  
G-sec as collaterals.

↓  
assets to be kept  
with the lender for  
security.

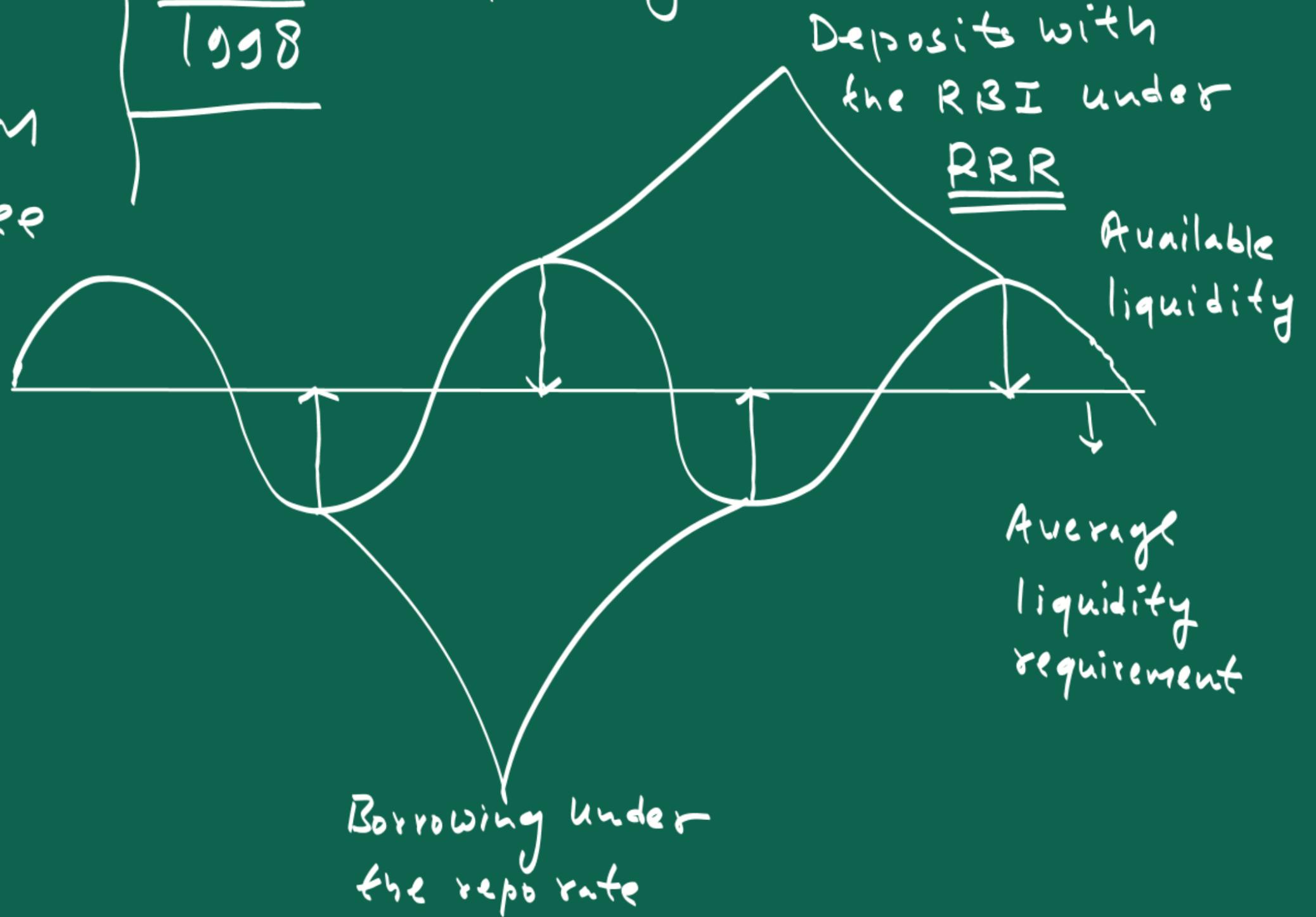
It is to be noted that banks are  
required to make the promise of repurchase  
of collaterals.

Under the repo rate, banks can borrow money from the RBI for the following time periods -

- |       |        |     |                   |
|-------|--------|-----|-------------------|
| (i)   | 1-day  | } → | Overnight<br>Repo |
| (ii)  | 3-day  |     |                   |
| (iii) | 7-day  | } → | Term<br>Repos     |
| (iv)  | 14-day |     |                   |
| (v)   | 28-day |     |                   |

Under Repo rate system, the banks try remove temporary mismatches in liquidity. This can be shown through the following figure -

Recommendations (LAF = Liquidity Adjustment Facility  
1998)  
↓  
Narsimham  
Committee



The repo rate in India



Benchmark Policy Rate



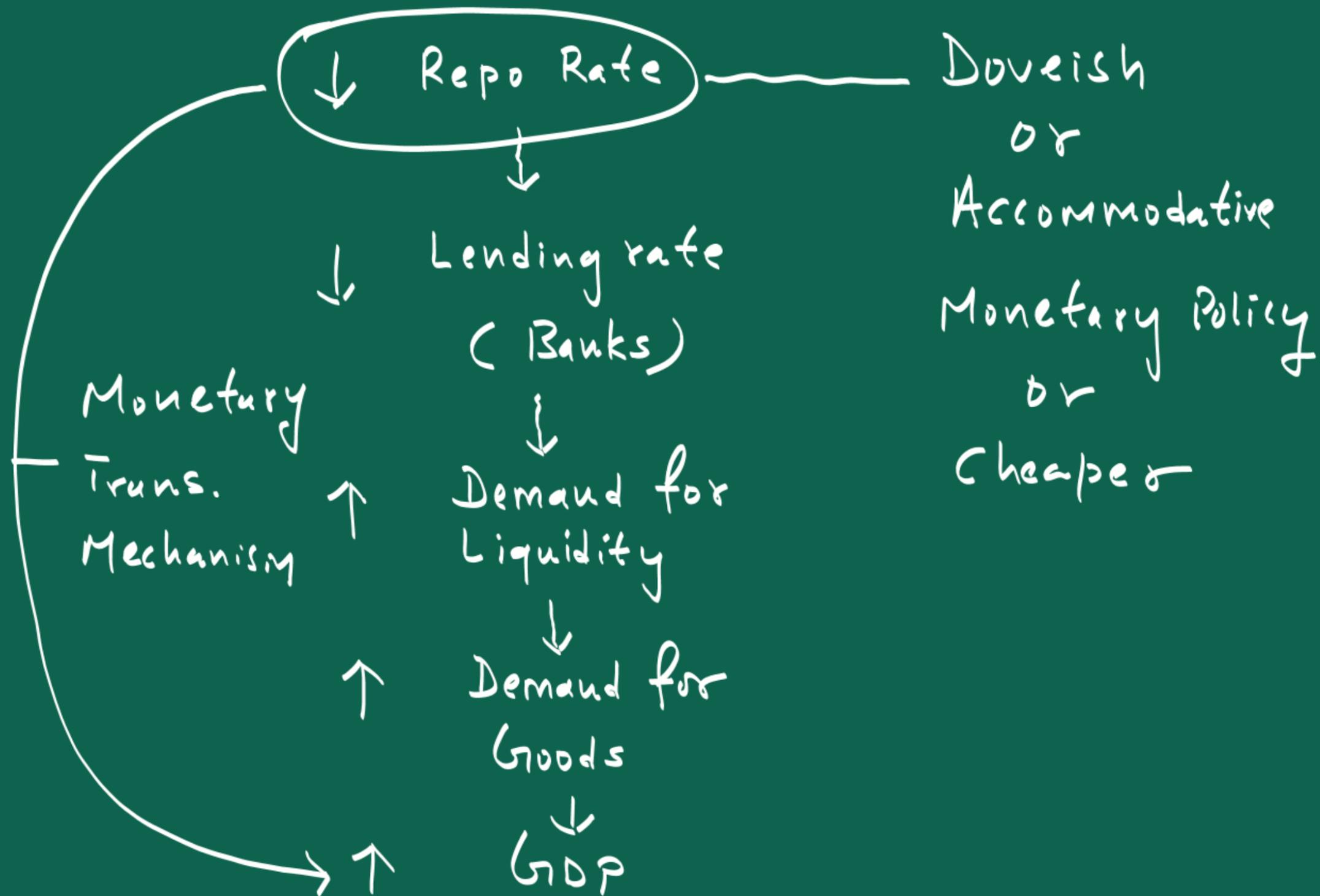
Why : Monetary transmission mechanism is conducted through it.

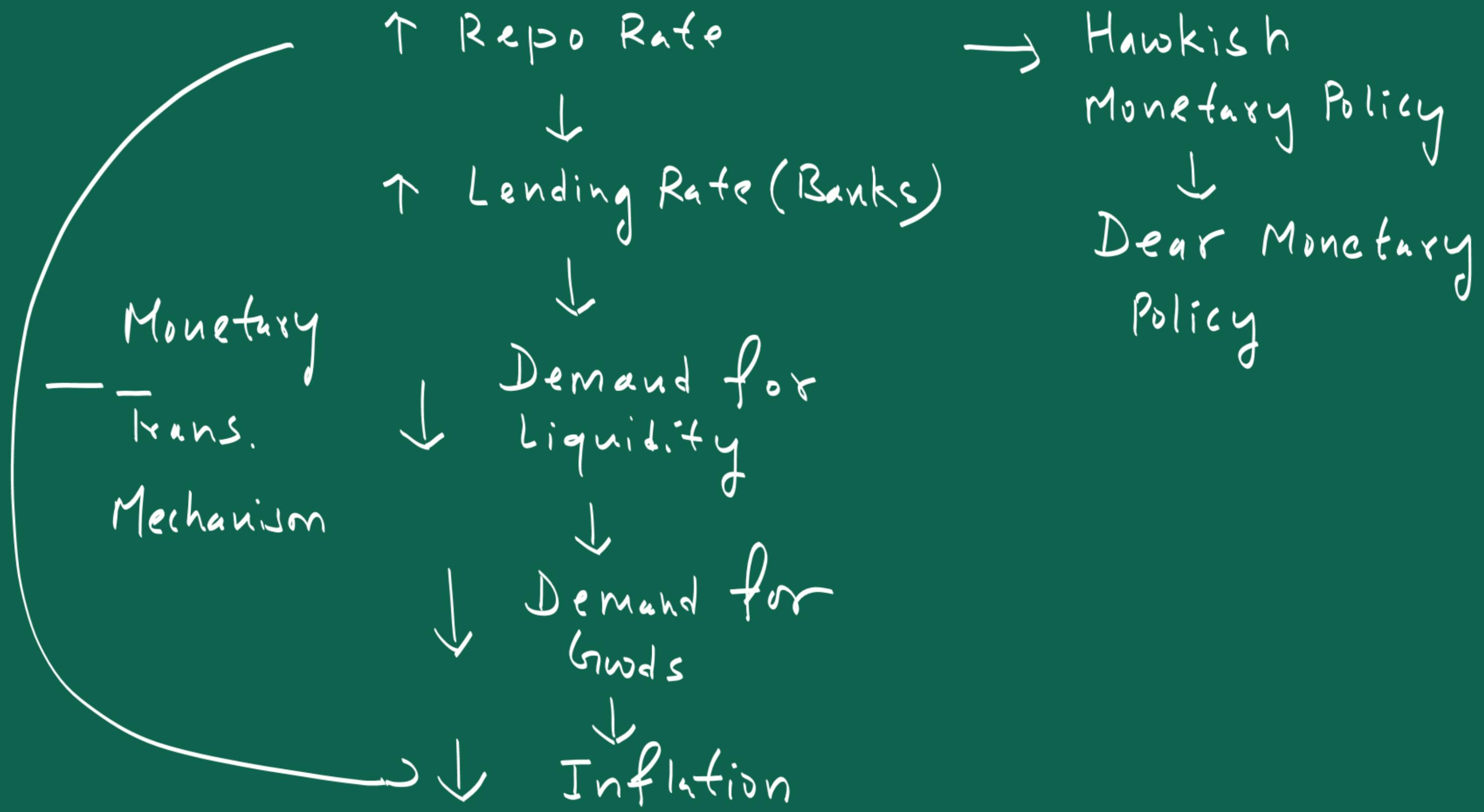
Under monetary transmission mechanism, the real sector economy is impacted

by changing monetary variables, particularly the rate of interest.

How monetary transmission mechanism  
functions ! Examples -

First Example -

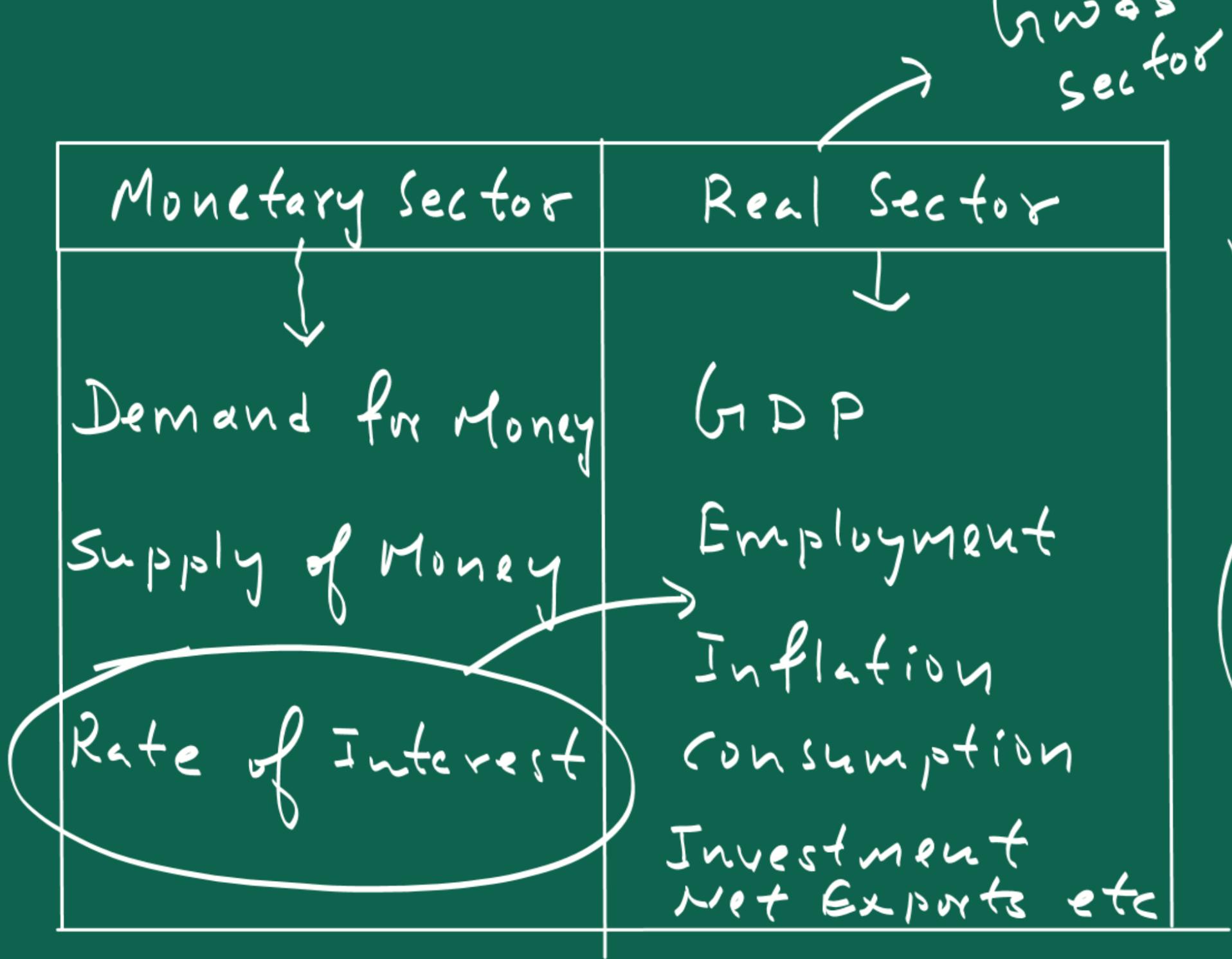




note

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The present RR is  
6.50 %.



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