25– 07 – 2024

<u>News:</u> Repo rate

- Recently, the Reserve Bank of India (RBI) decided to keep the policy rate unchanged at 6.5% for the eighth consecutive time.

Repo and Reverse Repo Rate

- Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Here, the central bank purchases the security.
- Reverse repo rate is the rate at which the RBI borrows money from commercial banks within the country.
- At times of inflation, both repo and reverse repo rates are kept unchanged or increased. A decrease in both the rates will infuse more money flow to the economy thus increase in general price level will occur.

Bank Rate

- Bank rate is the rate charged by the RBI for lending funds to commercial banks.

Marginal Standing Facility (MSF)

- MSF is a window for scheduled banks to borrow overnight from the RBI in an emergency situation when interbank liquidity dries up completely.
- Under interbank lending, banks lend funds to one another for a specified term.

Inflation

- Inflation refers to the rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc.
- Inflation measures the average price change in a basket of commodities and services over time.
- Inflation is indicative of the decrease in the purchasing power of a unit of a country’s currency. This could ultimately lead to a deceleration in economic growth.

Types of Inflation

Demand-Pull Inflation

- Demand-Pull Inflation is caused due to an increase in aggregate demand in the economy.

Causes of Demand-Pull Inflation

- A growing economy or increase in the supply of money – When consumers feel confident, they spend more and take on more debt. This leads to a steady increase in demand, which means higher prices.
- Asset inflation or Increase in Forex reserves– A sudden rise in exports forces a depreciation of the currencies involved.
- Government spending or Deficit financing by the government – When the government spends more freely, prices go up.
- Due to fiscal stimulus.
- Increased borrowing.
- Depreciation of rupee.
- Low unemployment rate.

Cost-Push Inflation

- Cost-Push Inflation type of inflation is the increase of price in products due to defaults in supply sides.

It is caused due to various reasons such as:

- Increase in price of inputs
- Hoarding and Speculation of commodities

- Defective Supply chain
- Increase in indirect taxes
- Depreciation of Currency
- Crude oil price fluctuation
- Defective food supply chain
- Low growth of Agricultural sector
- Food Inflation
- Interest rates increased by RBI