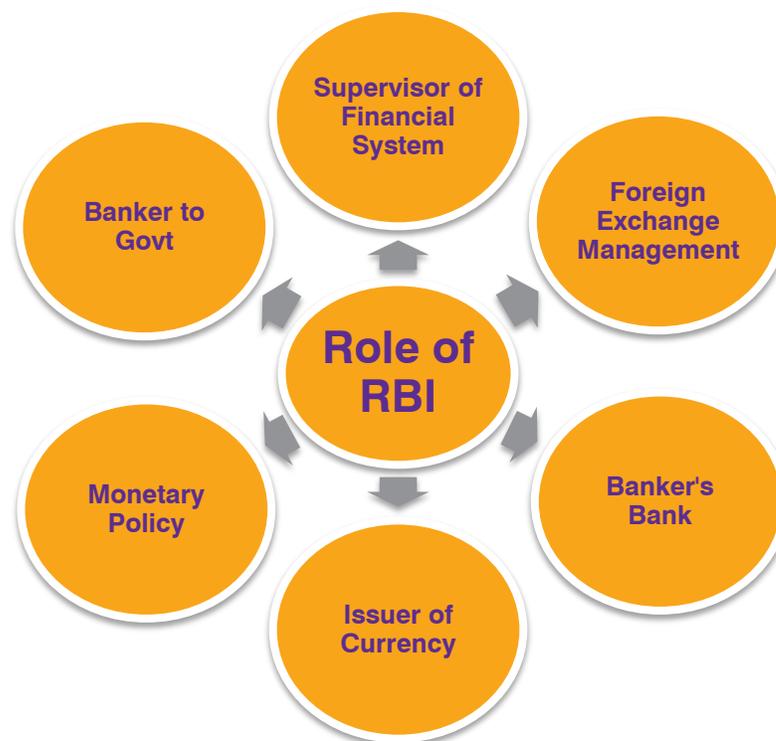


# ReWISE

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## Monetary Policy

- RBI commenced its operations in 1935 in accordance with the provision of RBI Act, 1934.



- As banker to government, RBI performs merchant banking function and maintains account of central and state government.
- RBI role as banker's bank is to help maintain liquidity in the system and acts as lender of the last resort for banks facing liquidity issues.
- RBI also maintains accounts of all scheduled banks.
- RBI's role as supervisor of financial system is to set regulations for smooth functioning of banks and financial institutions including Non Banking Financial Companies (NBFC).
- RBI also needs to maintain public confidence in the financial system and protect depositor's interest.

- One of the most important functions of RBI is money supply management which is done through monetary policy.
- Monetary Policy is a process by which RBI controls money supply in the economy and influences liquidity cost in the financial system.
- RBI uses different monetary policy tools at different times based on assessment of macroeconomic and financial developments in the economy.
- Chart below gives a snap shot on monetary policy.

## Monetary Policy snap shot

RBI broad Objective when announcing Monetary Policy	Monetary Policy Instruments	Factors influencing RBI stance to make changes in Monetary Policy
<ul style="list-style-type: none"> <li>• Maintain Price Stability</li> <li>• Enhance Economic growth</li> </ul>	<ul style="list-style-type: none"> <li>• Cash Reserve Ratio (CRR)</li> <li>• Statutory Liquidity Ratio (SLR)</li> <li>• Liquidity Adjustment Facility (LAF) which includes Repo and Reverse Repo rate</li> <li>• Marginal Standing Facility (MSF)</li> <li>• Bank Rate</li> <li>• Open Market Operations (OMO)</li> </ul>	<ul style="list-style-type: none"> <li>• Macroeconomic Factors- GDP, Inflation, Current Account Deficit, Rupee depreciation &amp; appreciation etc</li> <li>• Financial developments in the economy- Liquidity conditions, Credit Deposit growth etc</li> </ul>

- Prevalent macroeconomic or financial situation in the economy determines RBI's direction of monetary policy.
- RBI either takes a contractionary (tighten money supply) or expansionary (loosen money supply) monetary policy measures.
- RBI takes a contractionary monetary policy measure by raising policy rates like CRR, Repo rate, MSF or conducts OMO sales thereby reducing money supply.
- RBI expands money supply by lowering the policy rates or by buying OMOs.

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