



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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February 13, 2012

RBI raises Bank Rate as a Technical Adjustment

The Reserve Bank of India has decided to change the Bank Rate with immediate effect by realigning it with the Marginal Standing Facility (MSF) rate, which in turn is linked to the policy repo rate under the Liquidity Adjustment Facility (LAF). Accordingly, the Bank Rate shall be 9.5 per cent with effect from the close of business today. This should be viewed and understood as one-time technical adjustment to align the Bank Rate with the MSF rate rather than a change in the monetary policy stance. Henceforth, whenever there is an adjustment of the MSF rate, the Reserve Bank will consider and align the Bank Rate with the revised MSF rate. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised.

Background

Section 49 of the Reserve Bank of India Act, 1934 requires the Reserve Bank to make public (from time to time) the standard rate at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under that Act. Since discounting/rediscounting by the Reserve Bank has remained in disuse, the Bank Rate has not been active.

Being the discount rate, the Bank Rate should technically be higher than the policy repo rate. The Bank Rate has, however, been kept unchanged at 6 per cent since April 2003. This was mainly for the reason that monetary policy signalling was done through modulations in the reverse repo rate and the repo rate under the Liquidity Adjustment Facility (LAF) (till May 3, 2011) and the policy

repo rate under the revised operating procedure of monetary policy (from May 3, 2011 onwards). Moreover, under the revised operating procedure, marginal standing facility (MSF), instituted at 100 basis points above the policy repo rate, has been in operation, which more or less served the purpose of the Bank Rate.

While the policy repo rate and the MSF rate have become operational, the Bank Rate continues to remain at 6 per cent. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is also used by several other organisations as a reference rate for indexation purposes.

The Reserve Bank consulted various organisations/stakeholders that rely on Bank Rate as a reference rate. Based on the feedback received, it is determined that the Bank Rate should normally stay aligned to the MSF rate. Accordingly, it has been decided that with effect from the close of business today (February 13, 2012), the Bank Rate will stand increased by 350 basis points, i.e., from 6.00 per cent per annum to 9.50 per cent per annum. As noted above, this should be viewed and understood as one-time technical adjustment to align the Bank Rate with the MSF rate rather than a change in the monetary policy stance.

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Alpana Killawala
Chief General Manager

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