

Changes in Operating Procedure of Monetary Policy

(Based on report of the Working Group to Review the Operating Procedure of Monetary Policy, chaired by Deepak Mohanty)

- First, the weighted average overnight call money rate will be the operating target of monetary policy of the Reserve Bank.
- Second, there will henceforth be only one independently varying policy rate, and that will be the repo rate. This transition to a single independently varying policy rate is expected to more accurately signal the monetary policy stance.
- Third, the reverse repo rate will continue to be operative, but it will be pegged at a fixed 100 basis points below the repo rate. Hence, the reverse repo rate will no longer be an independent variable.
- Fourth, we will be instituting a new Marginal Standing Facility (MSF). Banks can borrow overnight from the MSF up to one per cent of their respective net demand and time liabilities or NDTL. The rate of interest on amounts accessed from this facility will be 100 basis points above the repo rate.
- As per the above scheme, the revised corridor will have a fixed width of 200 basis points. The repo rate will be in the middle. The reverse repo rate will be 100 basis points below it, and the MSF rate 100 basis points above it.

(In effect Banks can borrow from the Reserve Bank of India under LAF-repo rate, (which was fixed at 7.25%, effective 3rd May 2011), by pledging government securities over and above the statutory liquidity requirement of 24%. Though in case of borrowing from the marginal standing facility, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL), at 8.25%. However, it can be within the statutory liquidity ratio of 24%.)