

IV. Monetary and Liquidity Measures

43. On the basis of the current assessment and in line with the policy stance outlined in Section III, the Reserve Bank announces the following policy measures.

Repo Rate

44. It has been decided to retain the repo rate under the liquidity adjustment facility (LAF) at 8.0 per cent.

Reverse Repo Rate

45. The reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, stands at 7.0 per cent.

Marginal Standing Facility (MSF) Rate

46. The MSF rate, determined with a spread of 100 basis points above the repo rate, stands at 9.0 per cent.

Bank Rate

47. The Bank Rate stands at 9.0 per cent.

Cash Reserve Ratio

48. The cash reserve ratio (CRR) of scheduled banks has been retained at 4.75 per cent of their net demand and time liabilities (NDTL).

Statutory Liquidity Ratio

49. It has been decided to:

- reduce the statutory liquidity ratio (SLR) of scheduled commercial banks from 24.0 per cent to 23.0 per cent of their NDTL with effect from the fortnight beginning August 11, 2012.

Guidance

50. The primary focus of monetary policy remains inflation control in order to secure a sustainable growth path over the medium-term. While monetary actions over the past two years may have contributed to the growth slowdown – an unavoidable consequence – several other factors have played a significant role. In the current circumstances, lowering policy rates will only aggravate inflationary impulses without necessarily stimulating growth. As the multiple constraints to growth are addressed, the Reserve Bank will stand ready to act appropriately.

51. Meanwhile, managing liquidity within the comfort zone remains an objective and the Reserve Bank will respond to liquidity pressures, including by way of OMOs.

52. In a turbulent global environment, the risks of external shocks are high and the Reserve Bank stands ready to respond to any such shocks swiftly, using all available instruments.

Expected Outcomes

53. The policy actions taken are expected to:

- anchor inflation expectations based on the commitment of monetary policy to inflation control; and