

Bank Rate UPSC

Bank Rate policy and Marginal Standing Facility (MSF) rate have a link, and when the MSF rate changes, so do the Bank Rate. The Reserve Bank of India decides the Bank Rate. This rate is slightly higher than Repo Rate. The **bank rate meaning** states that the interest rate charged to the commercial and financial banks of India by the head of the financial institutes, Reserve Bank of India.

The RBI, in its monetary policy review, determines the Bank Rate based on the entire situation of the overall economy. The Reserve Bank of India lends large funds to commercial banks at this rate.

The Reserve Bank of India is the main authority determining the bank rate, it is altered frequently. Though, there is no prescribed or fixed schedule for the alteration of the Bank Rate.

What Is Bank Rate In India?

As of the December 2021 monetary policy, the latest Bank Rate from RBI is 4.25%. The RBI determines this rate and other rates such as Repo Rate and Reverse Repo Rate. The current Repo Rate is 4.00%, and the Reverse Repo Rate is 3.35%. These rates may change due to changes in the MSF rate and prevailing economy from time to time. Section 49 of the Reserve Bank Of India Act 1934 regulates and determines the Bank Rate. The Reserve Bank Of India executes the monetary policy review bi-monthly in which the bank rate is declared by the officials depending on the macroeconomic situation of the country.

Impact Of Bank Rate

The Bank Rate policy depends on the MSF rate, and when the Reserve Bank of India increases the Bank Rate, the commercial bank borrows the funds at a higher price and reduces the credit volume. When the Bank Rate rises, banks experience a decline in the money supply. The Bank Rate is determined keeping into consideration the primary goals of attaining the inflation targets. If the bank rate is reduced then the economic flow in the country increases, on the other hand, if the bank rate surges the economic flow in the country decreases.

Bank Rate Vs Repo Rate

The significant difference between the Bank Rate and Repo Rate is that Bank Rate directly impacts customers since it impacts long-term funds lending. In contrast, Repo Rate doesn't impact the customer directly.

The Reserve Bank Of India applies Repo Rate to the repurchase of securities sold by commercial banks and the Bank Rate to loans that the RBI gives to commercial banks.

The Repo Rate is lower than the Bank Rate due to the collateral and repurchase obligation. The Reserve Bank of India provides Repo Rate on short-term financial lending to banks while Bank Rates issues to long-term requirements of domestic banks.

Why is the Bank Rate in the News?

The RBI, in its Monetary Policy Committee (MPC) recently, kept the key policy rates, including Repo Rate, Bank Rate, and Reverse Repo Rate, unchanged. It was the tenth consecutive time in which Bank Rates remained unchanged. As of May 22, 2020, the Bank Rate is 4.25%.

These rates are more likely to rise due to the current inflation level. The Bank Rate is the central bank's interest rate when a financial institution borrows money from them. When banks are unable to reserve requirements and preserve liquidity, it goes to central banks for loans.

