



KAMARAJ IAS ACADEMY
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RBI cuts rate by 50 bps, interest burden to ease

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Context

- In a bid to spur growth at a time when inflation has come under control, the Reserve Bank of India's Monetary Policy Committee on Friday **voted 5:1** to slash the policy repo rate by a bigger-than-expected **50 basis points to 5.50%** with immediate effect.
- This is the RBI's third repo rate cut since February, and will further **reduce the interest burden for borrowers, but will also cut the interest earned on savings by depositors.**

Repo rate

- Repo rate (**Repurchase Agreement Rate**) is the **interest rate at which commercial banks borrow money from the central bank.**
- Purpose & Functioning: It **helps banks meet short-term liquidity needs** by borrowing funds.
- Banks provide **securities as collateral** and **agree to repurchase them later at a higher price** (including interest).

Impact on Borrowing Costs:

- Higher repo rate ? Costlier loans for banks ? Higher interest rates for consumers & businesses ? Slower borrowing & spending.
- **Lower repo rate ? Cheaper loans for banks ? Lower interest rates for borrowers ? Increased borrowing & spending.**
- Role in Monetary Policy: It is used by the **central bank to control money supply, inflation, and economic growth.**

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