



**Financial Literacy 360 Degree  
endeavour for Learners**

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# RATE CUT

## WHAT IS RATE CUT?

According to Cambridge dictionary - Rate cut is a decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institutions. This decision is taken by the central bank of a country such as -

Bank	Country
Federal Bank	United States
Reserve Bank of Australia	Australia
Bank of Canada	Canada
Bank of Japan	Japan
China Central Bank	China
Reserve Bank of India	India

## INDIAN CONTEXT

Rate cut is a reduction in the rate of interest at which banks get money from the Reserve Bank of India (RBI). Once this rate goes down, the banks are in a position to give loans at lower interest rates to individuals and the industry.

Rate cut is decided by the RBI monetary Policy Committee headed by the RBI Governor. In other words, it refers to the rate of interest at which RBI lends money to the banks for a short period of time. It is also defined as REPO Rate Cut. Here REPO stands for Re Purchase Option, that is used to control inflation. Precisely, repo rate is used by the central bank to signal its monetary policy stance to the banks, businesses, government and people at large.



## EVOLUTION OF REPO RATES IN THE BANKING SYSTEM

Worldwide banking system was brought into practice in early 2000BC. Countries like US, Federal Bank introduced Repo transactions in the 1920. Central Bank of Canada started Repo in 1953. England and Japan introduced in 1997 and Switzerland in 1998. It was introduced in India, since 1949.

Since 1960, US Federal bank has cut rates around 140 times. According to the RBI archives, Reserve Bank of India has cut repo rates 59 times since 2005.



## WHY REPO RATE CUT?

A country's central banking institutions cut rates, to boost growth by putting money in the economy. In short this tool is applied to boost the economic growth. Due to lower lending rates, businesses and individuals borrow more money for housing loans, business expansion, car loans etc. This consumption leads to more money flow in various sector of the economy. Rate cut also translates into a reduction in fixed deposit rates which shifts the investments towards the higher return investment proposition such as stock market.



## REPO RATE AND REVERSE REPO RATE

Repo rate and reverse repo rate are the tools used by central banking institution to control the money supply in the economy. As mentioned above repo rate means repurchase agreement, it is a rate at which central bank of country (For example- in India it is Reserve Bank of India) gives money to commercial banks against government securities. Reverse repo rate is opposite to the repo rate meaning, Central bank borrows funds from the commercial banks in the country.

Repo rate tool is applied to manage the deficiency of funds in the economy. On the other hand, reverse repo rate is applied to reduce overall supply of money in the economy.

Commercial bank use government bonds as collateral to obtain funds from central bank (for example RBI). In the reverse repo rate process, commercial bank deposits its excess

money with central bank (example RBI) and receives interest against the deposited money.



## RATE CUT DECISIONS TAKEN BY ASIAN COUNTRIES IN 2019

(Source-<https://tradingeconomics.com>):

Country	Last		Previous	Range	
<b>Yemen</b>	27.00	Aug/19	27	27 : 10	%
<b>Iran</b>	18.00	Aug/19	18	22 : 10	%
<b>Bhutan</b>	7.04	Aug/19	7.04	7.04 : 6	%
<b>Maldives</b>	7.00	Aug/19	7	7 : 4.46	%
<b>Sri Lanka</b>	7.00	Aug/19	7.5	10.5 : 6	%
<b>Vietnam</b>	6.25	Aug/19	6.25	15 : 4.8	%
<b>Bangladesh</b>	6.00	Aug/19	6	8.75 : 4.5	%
<b>Nepal</b>	6.00	Aug/19	6	8 : 5.5	%
<b>Indonesia</b>	5.50	Aug/19	5.75	12.75 : 4.25	%
<b>India</b>	5.40	Aug/19	5.75	14.5 : 4.25	%



Country	Last		Previous	Range	
<b>Qatar</b>	4.75	Aug/19	5	5.85 : 1.53	%
<b>Jordan</b>	4.50	Aug/19	4.75	9 : 2.5	%
<b>China</b>	4.25	Sep/19	4.25	5.77 : 4.25	%
<b>Iraq</b>	4.00	Aug/19	4	20 : 4	%
<b>Kuwait</b>	3.00	Aug/19	3	7.25 : 2	%
<b>Malaysia</b>	3.00	Aug/19	3	3.5 : 2	%
<b>Saudi Arabia</b>	2.75	Aug/19	2.75	7 : 1.5	%
<b>Oman</b>	2.64	Aug/19	2.73	5 : 1	%
<b>Bahrain</b>	2.50	Aug/19	2.5	5 : 0.5	%
<b>Hong Kong</b>	2.50	Aug/19	2.75	8 : 0.5	%
<b>United Arab Emirates</b>	2.50	Aug/19	2.5	4.75 : 1	%
<b>Singapore</b>	1.74	Aug/19	1.94	20 : -0.75	%

Country	Last		Previous	Range	
<b>South Korea</b>	1.50	Aug/19	1.5	5.25 : 1.25	%
<b>Thailand</b>	1.50	Aug/19	1.75	5 : 1.25	%
<b>Israel</b>	0.25	Aug/19	0.25	17 : 0.1	%
<b>Japan</b>	-0.10	Aug/19	-0.1	9 : -0.1	%



## RATE CUT DECISIONS TAKEN BY EUROPEAN COUNTRIES IN 2019

(Source-<https://tradingeconomics.com>):

Country	Last		Previous	Range	
<b>Turkey</b>	19.75	Aug/19	19.75	500 : 4.5	%
<b>Ukraine</b>	16.50	Sep/19	17	300 : 6.5	%
<b>Russia</b>	7.00	Sep/19	7.25	17 : 5	%
<b>Iceland</b>	3.50	Aug/19	3.75	18 : 3.5	%
<b>Poland</b>	1.50	Aug/19	1.5	24 : 1.5	%
<b>Norway</b>	1.25	Aug/19	1.25	11 : 0.5	%
<b>Hungary</b>	0.90	Aug/19	0.9	28 : 0.9	%
<b>United Kingdom</b>	0.75	Aug/19	0.75	17 : 0.25	%
<b>Austria</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Belgium</b>	0.00	Aug/19	0	4.75 : 0	%

Country	Last		Previous	Range	
<b>Bulgaria</b>	0.00	Sep/19	0	5.77 : 0	%
<b>Cyprus</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Estonia</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Euro Area</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Finland</b>	0.00	Aug/19	0	4.75 : 0	%
<b>France</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Germany</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Ireland</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Italy</b>	0.00	Aug/19	0	4.75 : 0	%
<b>Netherlands</b>	0.00	Aug/19	0	4.75 : 0	%

Country	Last		Previous	Range	
Portugal	0.00	Aug/19	0	4.75 : 0	%
Spain	0.00	Aug/19	0	4.75 : 0	%
Sweden	-0.25	Sep/19	-0.25	8.91 : -0.5	%
Denmark	-0.65	Aug/19	-0.65	15 : -0.75	%
Switzerland	-0.75	Aug/19	-0.75	3.5 : -0.75	%



## RATE CUT DECISIONS TAKEN BY AMERICAN COUNTRIES IN 2019

(Source-<https://tradingeconomics.com>):

Country	Last		Previous	Range	
<b>Argentina</b>	85.98	Sep/19	85.83	1390 : 1.2	%
<b>Venezuela</b>	27.87	Jul/19	28.82	83.73 : 12.79	%
<b>Mexico</b>	8.00	Aug/19	8.25	9.25 : 3	%
<b>Brazil</b>	6.00	Aug/19	6	45 : 6	%
<b>Colombia</b>	4.25	Aug/19	4.25	32 : 3	%
<b>Costa Rica</b>	4.00	Aug/19	4	10 : 1.75	%
<b>Peru</b>	2.50	Aug/19	2.75	8.9 : 0.9	%
<b>Cuba</b>	2.25	Aug/19	2.25	2.25 : 2.25	%
<b>United States</b>	2.25	Aug/19	2.25	20 : 0.25	%

Country	Last		Previous	Range	
<b>Canada</b>	1.75	Sep/19	1.75	16 : 0.25	%
<b>Jamaica</b>	0.50	Aug/19	0.75	33 : 0.5	%



## Evaluate your learning

1. What do you understand by rate cut?
2. Name the decision authority for rate cut in the following countries:

Switzerland, Japan, South Korea,  
Bangladesh, United Kingdom, India, China,  
Germany, Singapore

3. Name five countries with lowest interest rates.
4. Name five countries with highest interest rates.



