



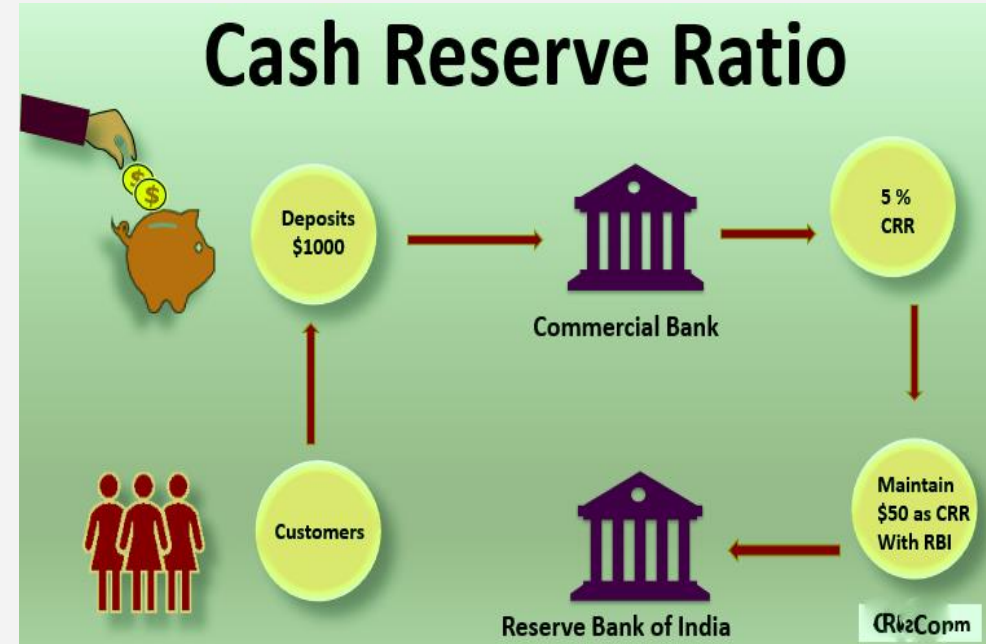
MONETARY POLICY

• CONCEPTS & DEFINITIONS

CASH RESERVE RATIO(CRR)

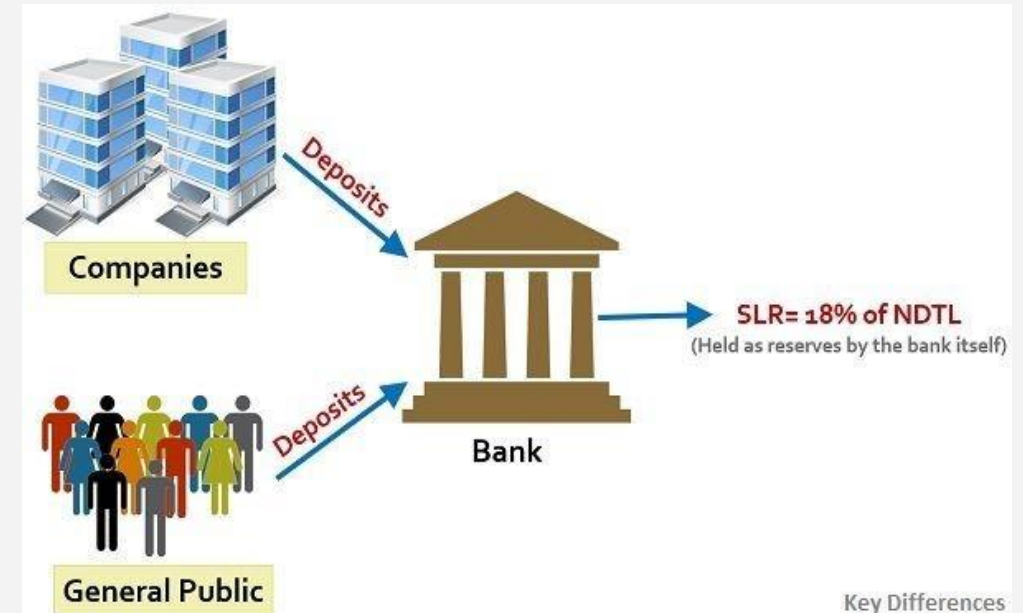
- ❑ CRR is the reserve maintained by **Scheduled Banks** as respective % of their **NDTL** .
- ❑ CRR is maintained by banks as per RBI Guidelines.
- ❑ CRR was introduced in **1937 U/S 42(1), RBI Act, 1934**.
- ❑ It is maintained by banks on **Daily Basis**.
- ❑ It is maintained in form of **CASH** only.
- ❑ It is maintained by banks to protect the Trust of Customers.
- ❑ There is **no Min./Max.** limit of CRR.
- ❑ RBI doesn't provide any rate of interest on CRR deposits.
- ❑ Current CRR is **4%** of NDTL.
- ❑ $CRR \propto \frac{1}{\text{Money flow, Demand, Inflation}}$

Money flow, Demand, Inflation



STATUTORY LIQUIDITY RATIO(SLR)

- ❑ SLR was introduced in **1951 U/S 24, B.R. Act, 1949.**
- ❑ SLR is maintained by **Commercial Banks** as per RBI guidelines.
- ❑ It is maintained by **Banks with Himself.**
- ❑ SLR is maintained in form of **Cash, Gold & Govt. Approved Secs.**
- ❑ There is **no Minimum Limit** of SLR.
- ❑ **Maximum Limit of SLR is 40%.**
- ❑ SLR is maintained by Banks on **Weekly Basis.**
- ❑ SLR is maintained as % of their respective NDTL.
- ❑ Current SLR – **18% of NDTL.**
- ❑ $SLR = \frac{\infty}{1}$
Money flow, Demand, Inflation
- ❑ SLR is maintained by Banks to Protect Himself from Crisis.



REPO RATE

Repo Rate (Repurchase Option Rate) :

Repurchase :

The process where seller sold out there asset to buyer on agreement that in future seller will reacquire the ownership of the asset against paying certain extra amount, that process is known as Repurchase.

- In Repo BANK & RBI conducting transactions of **G-Secs**. Through Repurchase.
- Repo is the process by which RBI absorb OR infuse Liquidity in the economy.
- Repo is short term Lending & Borrowing instrument for Banks & RBI.
- RBI & Banks conducting transactions of **Repurchase Agreements** through **SGL (SUBSIDIARY GENERAL LEDGER) A/C & CURRENT A/C** of Banks with RBI.
- REPO RATE is used by banks as Short Term Borrowing Instruments through RBI.
SGL A/C consists of **G-Secs**. & **CURRENT A/C** consists of **Cash** of the Banks in RBI.

REPO RATE

REPO RATE :

- ❑ REPO RATE is **Short Term Lending Rate** at which Commercial Banks borrows funds from RBI for the term of **Min. 2 days to Max. 90 days.**
- ❑ REPO RATE was introduced in 2007.
- ❑ It is defined **U/S 45C of RBI ACT, 1934.**
- ❑ In this process RBI Purchases G-Secs. from Banks .
- ❑ Present **REPO RATE is 4%.**

❑ REPO RATE \propto $\frac{1}{\text{Money Flow, Demand \& Inflation}}$

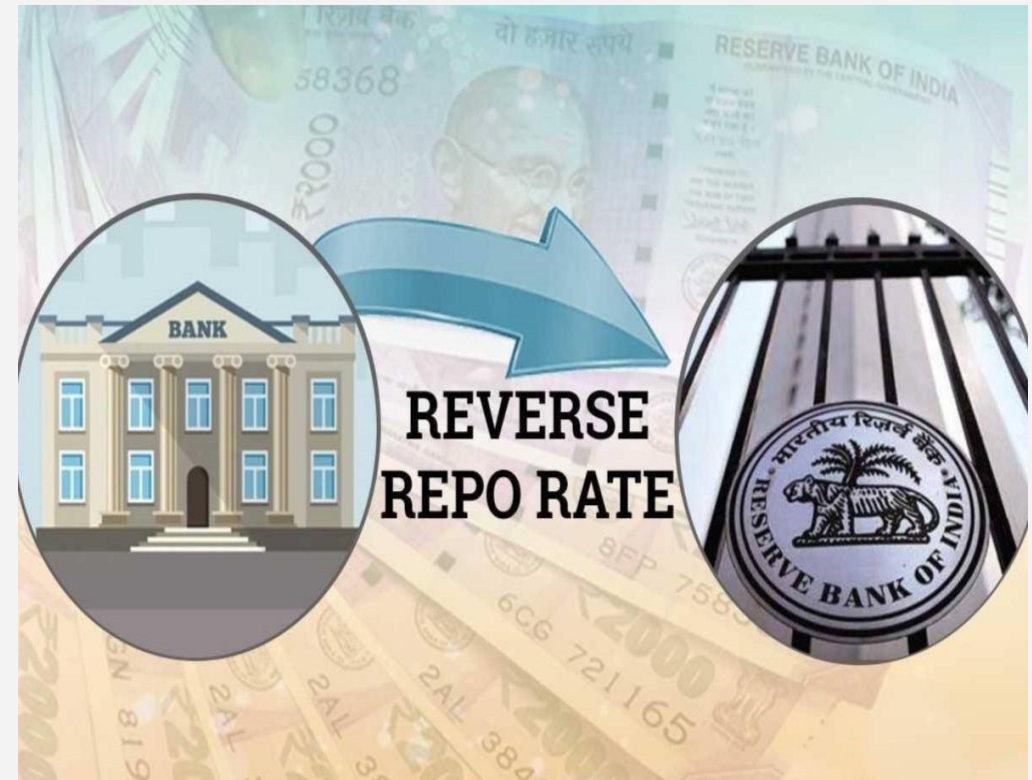


REVERSE REPO RATE

REVERSE REPO RATE :

- ❑ Reverse Repo Rate is the rate at which **RBI Accepting Deposits from Commercial Banks through Repurchase Agreements.**
- ❑ Reverse Repo Rate was introduced in 2007.
- ❑ Reverse Repo Rate is defined **U/S 45D of RBI ACT,1934.**
- ❑ Current **Reverse Repo Rate is 3.35%.**
- ❑ Difference b/w **Repo & Reverse Repo** is known as **CORRIDOR.**
- ❑ Reverse Repo Rate $\propto \frac{1}{\text{Money Flow, Demand \& Inflation}}$

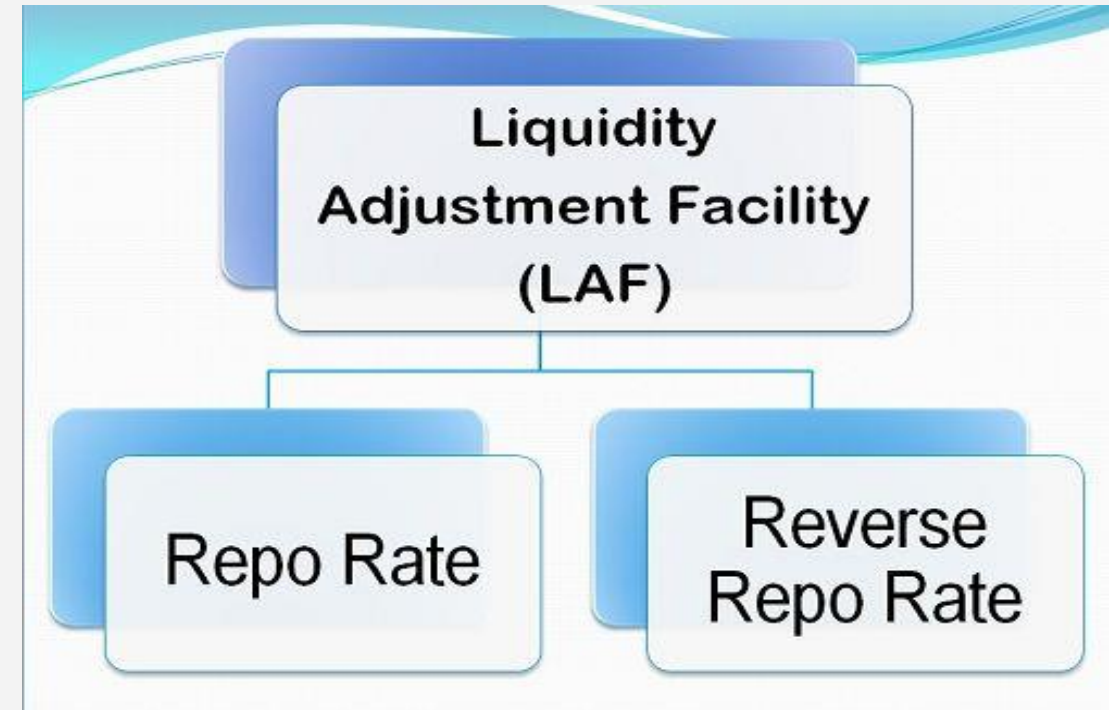
Money Flow, Demand & Inflation



LIQUIDITY ADJUSTMENT FACILITY (LAF)

LIQUIDITY ADJUSTMENT FACILITY :

- ❑ LAF is the process of conducting transactions of **Repurchase Agreements** b/w **Commercial Banks & RBI** for the purpose of controlling money flow in the economy.
- ❑ LAF was introduced in the year 2007.
- ❑ LAF is defined **U/S 17 of RBI ACT, 1934**.
- ❑ LAF having 2 Components :
 - **Repo Rate**
 - **Reverse Repo Rate**
- ❑ LAF is the process i.e. there is no rate in LAF.



BANK RATE

BANK RATE :

- ❑ The rate at which RBI lending money to **Commercial Banks** for Long Term OR for the period of Min. **91 days & Max. 364 days OR Less Than ONE Year.**
- ❑ Bank Rate was introduced in the year **1935.**
- ❑ Bank Rate is defined **U/S 49 of RBI ACT 1934.**
- ❑ Bank Rate is also known as Discounting of Bills.
- ❑ Current Bank Rate is 4.25%.
- ❑ Bank Rate $\propto \frac{1}{\text{Money Flow, Demand \& Inflation}}$

Money Flow, Demand & Inflation



MARGINAL STANDING FACILITY (MSF)

MARGINAL STANDING FACILITY :

- ❑ MSF is the facility by which RBI provides amount to Commercial Banks for OVERNIGHT BASIS & up to **2% of their respective NDTL**.
- ❑ MSF provided by RBI for **1 Day/24 Hrs./Overnight Basis**.
- ❑ MSF given by RBI for **Min. amount of rupees 1 Crore**.
- ❑ MSF given by RBI b/w **Monday to Friday only**.
- ❑ **No Security** required in MSF facility.
- ❑ From **July 2021** MSF given by RBI to **RRB's** also.
- ❑ MSF not given by RBI on **Saturday, Sunday & Holiday**.
- ❑ MSF introduced by RBI in **2011** on the recommendation of **H.R. KHAN COMMITTEE**.
- ❑ MSF defined **U/S 42 of RBI ACT, 1934**.
- ❑ Current MSF Rate is **4.25%**.



