



WB/ KP SI & CONSTABLE



ECONOMICS

MONETARY POLICY

PART-2

BY SANJIB MAHENDRAS



LIVE

| 06:15 PM





MONETARY POLICY

- **IT IS AN POLICY RELATED WITH MONEY SUPPLY IN AN ECONOMY.**
- **TO CONTROL –**

- 1)INFLATION CONTROL.**
- 2)LIQUIDITY CONTROL.**
- 3) CREDIT CONTROL**



Monetary policy

- **Monetary policy is the process by which the Monetary Authority of a country controls the supply of money often targeting an inflation rate and interest rate to ensure price stability and general trust in the currency, economic growth and lower unemployment**



NDTL (Net Demand and Time Liability)

- **Demand Liability-**
- **CASA**
- **Term Liability-**
- **RAFA**



CRR (Cash Reserve Ratio)

- **4.5% OF NDTL**
- **MAINTAIN BY SCBS.**
- **MAINTAIN WITH RBI**
- **NO MIN AND NO MAX LIMIT OF CRR RATE**
- **RBI DOES NOT PROVIDE ANY RATE OF RETURN ON CRR.**
- **IN FORM OF CASH**
- **UNDER RBI ACT 1934 SEC 42**

SLR (Statutory Liquidity Ratio)

- **18.00 % OF NDTL**
- **MAINTAIN BY SCBS.**
- **MAINTAIN WITH BANK ITSELF.**
- **NO MIN BUT MAX IS 40%**
- **MAINTAIN IN FORM OF CASH / GOLD / GOVT SEC.**
- **UNDER BR ACT 1949 SEC 24**

MSF (Marginal standing Facility)

- **IT IS A RATE AT WHICH BANKS ARE BORROWING MONEY FROM RBI FOR OVER NIGHT BASIS.**
- **IT WAS INTRODUCED 09MAY 2011, BY RBI.**
- **SCBS HAVING CURRENT A/C AND SGL A/C WITH RBI.**
- **IT CAN BE AVAILED UP TO 2% OF NDTL AT THE END OF 2ND PRECEDING FORTNIGHT.**
- **MSF LOAN AMOUNT SHOULD BE 1CR OR MULTIPLE THEREOFF.**
- **Timing: 3.30 to 4.30. ALL WORKING DAY EXCEPT SATURDAY.**

REPO RATE

- **IT IS A RATE AT WHICH BANKS ARE BORROWING FROM RBI FOR SHORT PERIOD OF TIME (2 DAYS TO 90 DAYS) TO MEET THEIR SHORT TERM FUND REQUIREMENT.**



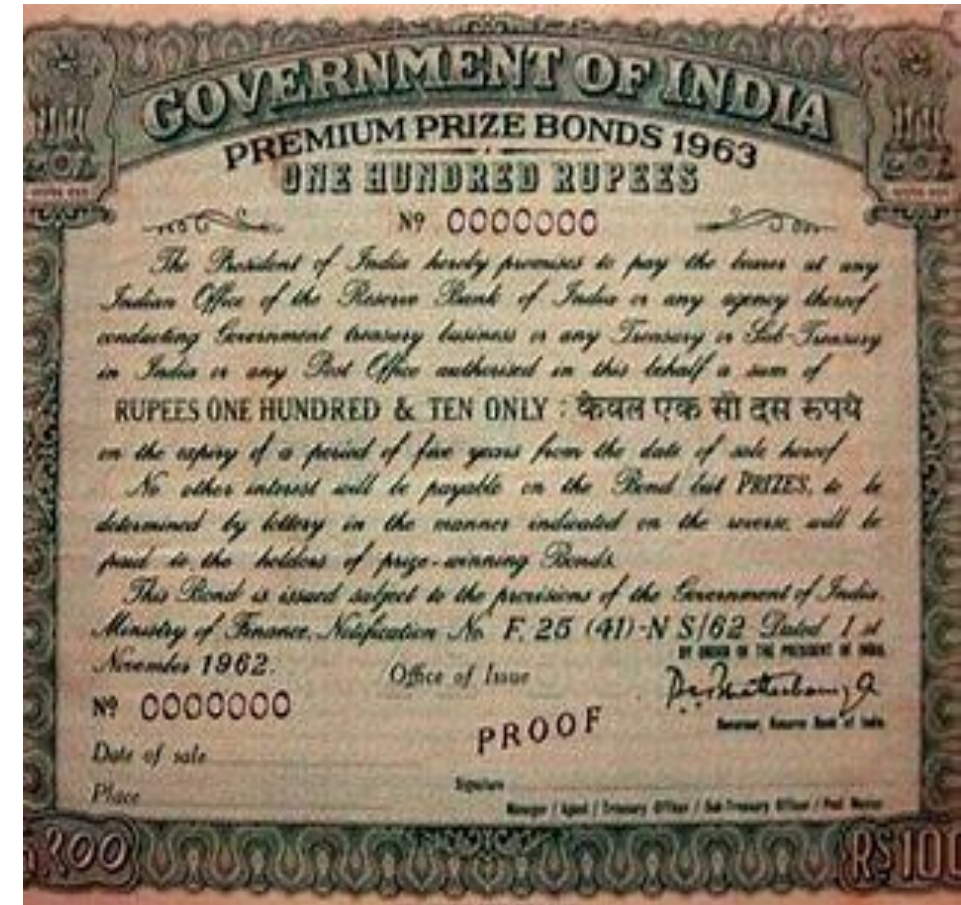
Reverse Repo Rate

- **WHEN BANKS DEPOSIT EXCESS OR SURPLUS MONEY WITH RBI FOR SHORT PERIOD OF TIME TO GET SOME RATE OF INTEREST IS KNOWN AS REV REPO.**



BANK RATE

- The rate at which bank are borrowing from RBI for more than 90 days is called Bank rate and such loans are given out either by direct lending or by rediscounting(buyback) the bills of commercial banks and treasury bills.



MSS (Market Stabilization scheme)

It is a monetary policy intervention by the RBI to withdraw excess liquidity or money supply by selling short term government securities (treasury bills) in the economy.



OMO (Open Market Operation)

It refers to buying and selling of government securities in the Open Market. In order to inject money flow into the banking system, securities are purchased by RBI and for absorption RBI issue Govt securities.



LAF (Liquidity Adjustment Facility)

- It was introduced by RBI during June 2000.
- It was used by the banks for their day to day mismatches in liquidity .
- Reverse repo for absorption of liquidity.
- Repo auctions for injection of liquidity.



QUESTION & ANSWERS

Q. Review of monetary and credit policy is conducted by RBI on:

- 1. Bi-monthly basis**
- 2. Quarterly basis**
- 3. Half-yearly basis**
- 4. Yearly basis**
- 5. None of the above**

Q. Statutory Liquidity Ratio is maintained by banks on which of the following:

- 1. Demand and Time deposit**
- 2. Net demand and time deposits (i.e. excluding inter-bank transactions)**
- 3. Net Demand and time liabilities**
- 4. Demand and time liabilities**
- 5. Demand and time liabilities and net worth of the bank**

Q. RBI's open market operation transactions are carried with a view to regulate which of the following?

- 1. Liquidity with the banking system**
- 2. Prices of essential commodities**
- 3. Control the inflation by purchase of goods and services**
- 4. Affect the borrowing capacity of the banks**
- 5. All of the above**

Q. Which of the following is not included as part of SLR assets:

- 1. Cash in hand**
- 2. Gold owned by the bank**
- 3. Investment in un-encumbered approved govt. securities**
- 4. Investment in quoted shares**
- 5. None of the above**

Q. When RBI wants to reduce liquidity in the banking system :

- 1. it increases the Cash Reserve Ratio**
- 2. it increases the MSF rate**
- 3. it increases the Repo Rate**
- 4. it increases the reverse repo rate**
- 5. None of the above**

Q. What is the-minimum and maximum extent of CRR -that RBI can prescribe:

- 1. 3% and 20%,**
- 2. 5% and 15%,**
- 3. 5% and 20%,**
- 4. discretion of Bank**
- 5. None of the above**

Q. Which of the following bank is a housing finance regulator?

1. NABARD

2. SIDBI

3. NHB

4. RBI

5. Finance ministry

Q. Bank Rate means the rate of interest:

- 1. Paid by banks to depositors**
- 2. Charged by banks from borrowers**
- 3. Charged on interbank loans**
- 4. Charged by RBI on loans given to commercial banks**
- 5. None of the above**

Q. Which among the following is the core method of stabilizing the markets under market stabilization scheme (MSS):

- 1. Issuing T-bills and / or dated securities**
- 2. Purchasing T-bills and / or dated securities**
- 3. Conducting Open Market Operations**
- 4. All of these**
- 5. None of the above**

Q. In which year, Marginal Standing Facility (MSF) was introduced?

- 1. 2010**
- 2. 2011**
- 3. 2012**
- 4. 2013**
- 5. None of these**

Which of them is/are part of Monetary Policy?

Bank rate

Open market operations

Public debt

Public Revenue

A) 1 only

B) 2, 3 and 4

C) 1 and 2

D) 1, 3 and 4

THANK YOU