
STOCK MARKET
SEBI
RBI
MoF
REGULATORS
markets
investors
stock
market
SEBI
listing
proposal
prices
days
small
company
founders
Indian
India

Regulatory Bodies

- RBI – Reserve Bank of India (1st April 1935)
- SEBI – Securities and Exchange Board of India (12th April 1992)
- IRDA – Insurance Regulatory and Development Authority (1999)
- FMC - Forward Market Commission (Regulatory Authority in India for commodity futures trading)
- PFRDA - Pension Fund Regulatory and Development Authority

RBI

- The banker to the banks
- Banker to the Government of India
- To regulate the issue of Bank notes

- Keeping of reserves with a view to securing monetary stability in India
- Decides the policy rates which influences the growth and inflation in the country

Monetary Policy

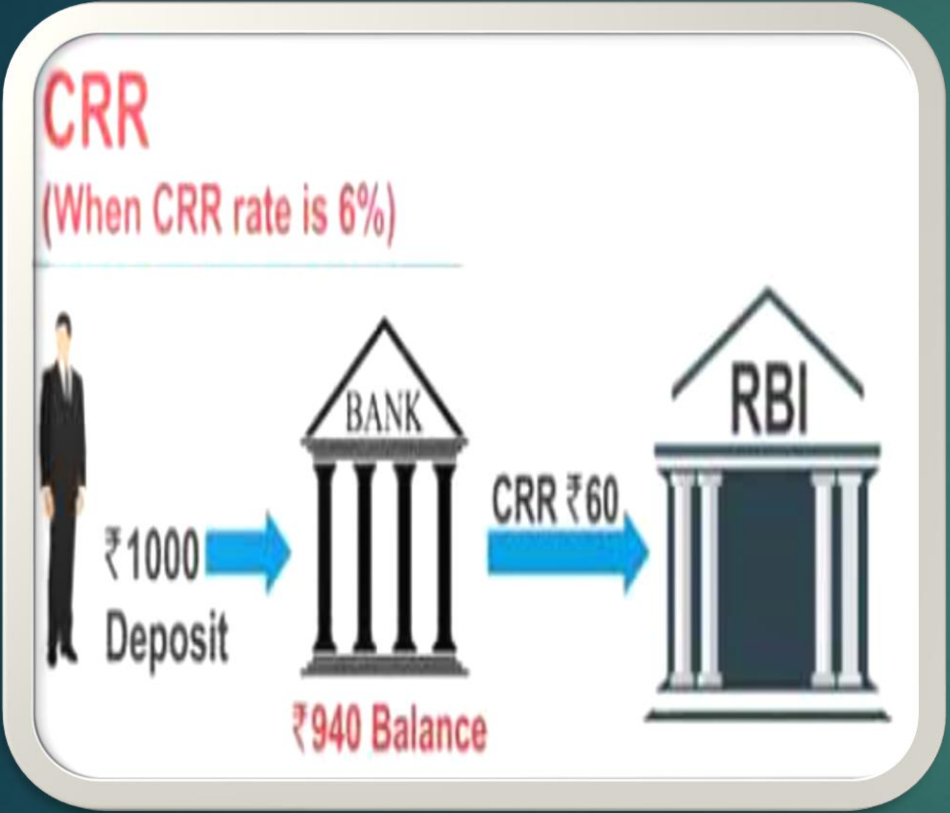
- The bank controls the supply of money in the economy by its control over interest rates in order to maintain price stability and achieve high economic growth

- The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth.

Instruments of Monetary Policy

Cash Reserve Ratio	4%
Statutory Liquidity Ratio	18%
Repo Rate	4%
Reverse Repo Rate	3.35%

CASE 1



The current CRR is 6%.

If RBI cuts CRR in its next monetary policy review then it will mean banks will be left with more money to lend or to invest.

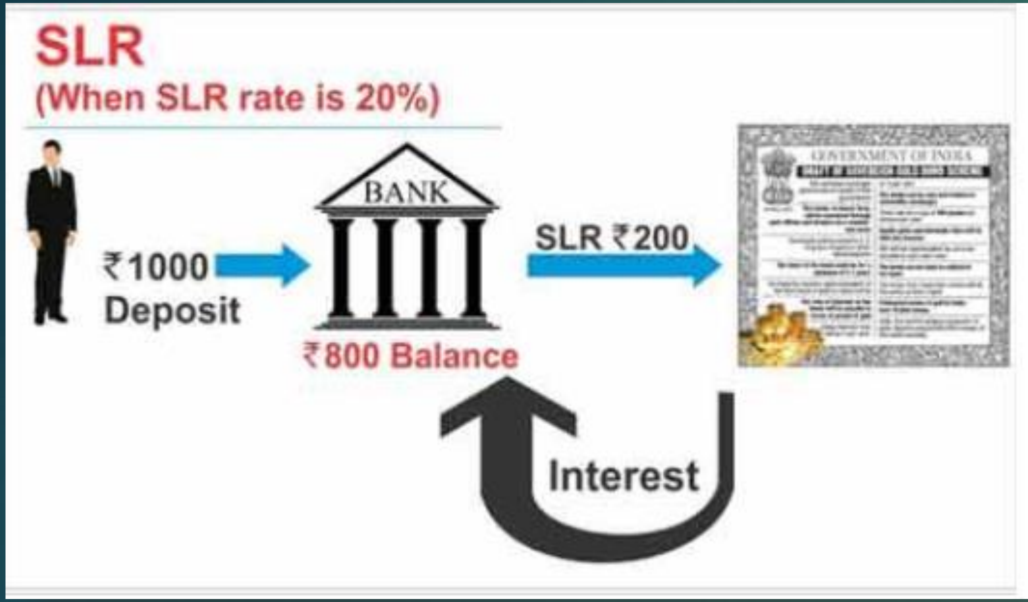
So, more money can be released into the economy which may spur economic growth.

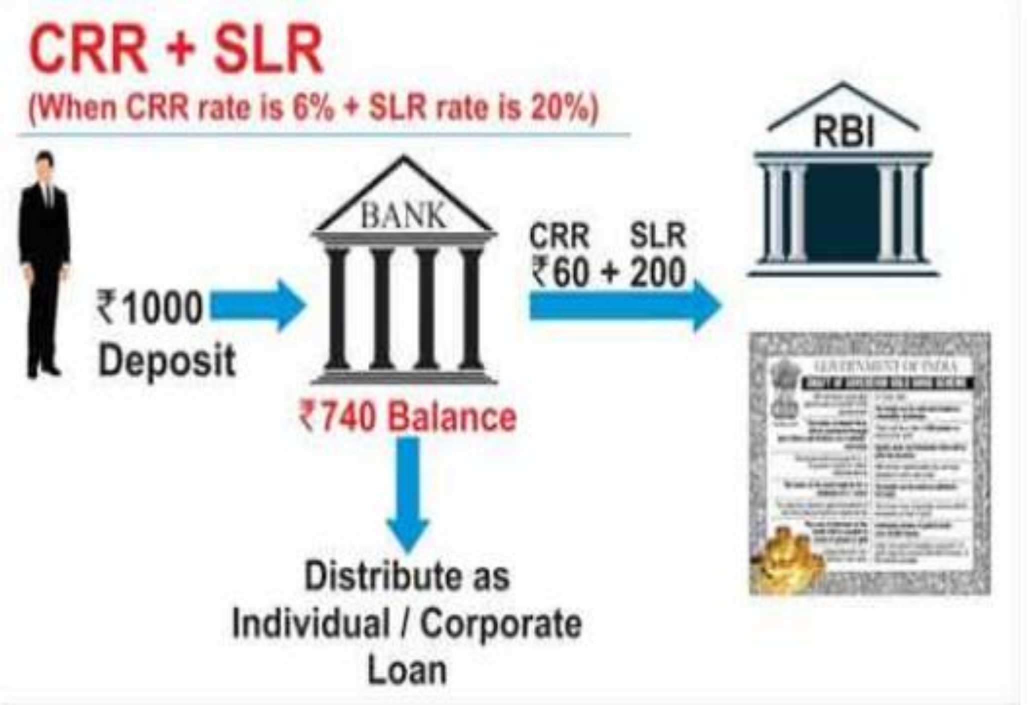
- Besides CRR, Banks have to invest certain percentage of their deposits in specified financial securities like Central Government or State Government securities. This percentage is known as SLR.

- This money is predominantly invested in government approved securities (bonds), Gold, which mean the banks can earn some amount as 'interest' on these investments as against CRR where they do not earn anything

- ***Example*** ***- An Individual deposits say Rs 1000 in bank. Then Bank receives Rs 1000 and has to keep some percentage of it with RBI as SLR. If the prevailing SLR is 20% then they will have to invest Rs 200 in Government Securities***

CASE 1 continues





So to meet both CRR and SLR requirements, bank have to earmark Rs 260 (Rs 60 + Rs 200).

REPO

- When we need money, we take loans from banks. And banks charge certain interest rate on these loans. This is called as cost of credit (the rate at which we borrow the money)

- Similarly, when banks need money they approach RBI. The rate at which banks borrow money from the RBI by selling their surplus government securities to RBI is known as "Repo Rate." Repo rate is short form of Repurchase Rate. Generally, these loans are for short durations up to 2 weeks

- It simply means Repo Rate is the rate at which RBI lends money to commercial banks against the pledge of government securities whenever the banks are in need of funds to meet their day-to-day obligations

Example

- If repo rate is 5% , and bank takes loan of Rs 1000 from RBI , they will pay interest of Rs 50 to RBI
- So, higher the repo rate higher the cost of short-term money and vice versa
- Higher repo rate may slowdown the growth of the economy
- If the repo rate is low then banks can charge lower interest rates on the loans taken by us
- So whenever the repo rate is cut, can we expect both the deposit rates and lending rates of banks to come down to some extent

Reverse Repo

- Reverse repo rate is the rate of interest offered by RBI, when banks deposit their surplus funds with the RBI for short periods
- When banks have surplus funds but have no lending (or) investment options, they deposit such funds with RBI
- Banks earn interest on such funds

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THANK YOU