

Pillar1A2: 💰 Money Supply (M0-M4) & Monetary Policy- CRR, SLR, Repo

Previous Years' official UPSC MCQs also given in this handout. You can see that UPSC is not going into microscopic details of RBI's Operational/technical guidelines. Very simple-broad-overview type MCQs asked. So, 🤪 Donot live in 😨 imaginary fear that.... काल्पनिक डर मे मत जियो के ...

⇒ Inexperienced Pvt Mock Test-walla asking random/technical Qs so I must do PHD 🎓 🤪

⇒ EconomicTimes / Financial Express/ Hindu-BusinessLine columnist are writing long winded columns on RBI's Operation Twist or TLTRO so I must do PHD 🎓 🤪

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11 💳 MONEY'S DEMAND, SUPPLY & CREATION

11.11 💳 DEMAND OF MONEY: LIQUIDITY PREFERENCE THEORY (तरलता अधिमान)

British Economist John Maynard Keynes (Book: *The General Theory of Employment, Interest and Money*, 1936) noted - people prefer to keep a part of assets in liquid form (cash money) with 3 motives: (लोग अपना कुछ पैसा नकदी में हाथ में रखेंगे. सारे का सारा पैसा बैंकों में जमा नहीं कर देंगे. क्योंकि तीन कारण होते हैं)



- ⌚ **Transaction motive (संव्यवहार उद्देश्य):** For using money as a medium of exchange e.g. for buying daily milk, vegetables and fruits. (रोजाना की खरीद के लिए कुछ पैसा हाथ में रखा जाता है सारा पैसा बैंक में नहीं जमा करते)

2. **Precautionary motive (एहतियाती)**: To protect against sudden / unforeseen expenditure e.g. medical emergency or impulsive purchase during a holiday trip. (घर में कोई बीमार हो गया, प्रवास में जाना है)
3. **Speculative motive (सट्टा-उद्देश्य)**: Investors hold cash to make the best use of any investment opportunity that arises later e.g. waiting for gold / land prices to fall, then "I will use my cash to buy it". Also known as "**Asset Demand of Money**". (जो संपत्ति मुझे खरीदनी है उसका दाम थोड़ा गिर जाए उसकी राह देख रहा हूँ)

The amount of money held in cash form **vary inversely with (deposit) interest rates**. If higher interest available in Bank Deposits etc. → people would invest money in banks, instead of keeping money in liquid form (cash). (बैंक वाला अगर बचत खाते पर अच्छा ब्याज देगा तो लोग हाथ में नकदी पैसा कम रखेंगे बैंक में निवेश ज्यादा करेंगे)

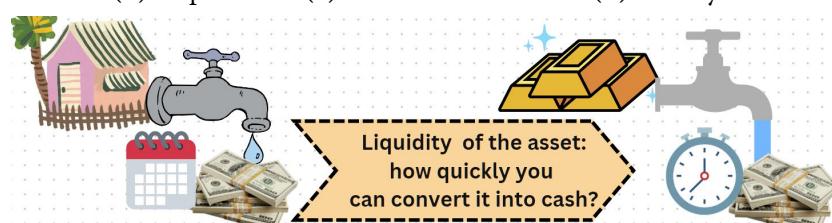
11.12 SUPPLY OF MONEY (मुद्रा की पूर्ति)



Time Liabilities of a Bank (FDRD) समय / मीयादी देयताएँ	Demand Liabilities of a Bank (CASA) मांग देयताएँ
<ul style="list-style-type: none"> - Fixed deposits, Cumulative/ recurring deposits, Staff security deposit etc. - Bank legally not required to pay customer before maturity. But bank may pay after deducting penalty/ interest. (वक्त से पहले पैसा निकाला तो दंड लगेगा) 	<ul style="list-style-type: none"> - Current Account - Savings Account - Demand Draft - Overdue balance in Fixed Deposits - Unclaimed deposits. (What does it mean ? Ans. Explained in Video Lecture.) - What is Nostro/Vostro account? Ans. Refer Pillar3A. ELSE This YouTube Video: https://youtu.be/UwYqP84l1AQ?t=49
Public parks more money here, because better returns / higher interest rates.	LESS (ऐसे बचत खातों पर ब्याज कम मिलता है इसलिए जनता कम मात्रा में पैसा रखती है यहाँ पर)
LESS liquid.	More liquid because easily convertible into cash on demand.

? ____ is not included in the assets of a commercial bank in India? (Prelims-2019)

- (a) Advances (b) Deposits (c) Investments (d) Money at call and short notice



11.12.1 Liquidity of assets

- **Liquidity**= ease of converting an asset into cash. Cash is the most liquid asset.
- **Highly liquid assets** = Gold, Demand deposits, G-Sec/T-Bill, shares/bonds of reputed companies. (अत्यधिक तरल संपत्ति: तुरंत खरीदार मिल जाते हैं। आप संपत्ति को नगदी धन में आसानी से परिवर्तित कर सकते हैं)
- **Relatively illiquid assets**= Home/Real estate, Paintings/Sculptures etc. Because difficult to find buyers at right price instantly. खरीदार आसानी से नहीं मिलता इसलिए इन संपत्तियों की तरलता थोड़ी कम है
- **Liquidity injection / infusion** refers to phenomenon when RBI buys Bank/NBFCs' G-Sec/T-bill/financial assets to give them cash. (HOW? Ans. Watch Video) (तरलता अन्तःक्षेपण)

11.12.2 Liquidity Trap (तरलता जाल)

- To be covered separately in Pillar-4Z: *Microeconomics* handout.

11.12.3 Measures of Money Supply (मुद्रा आपूर्ति के परिमाण)

- (Objective) To make a good nutrition scheme for India, the government will have to first find the weight of the citizens. Similarly, to make a good monetary policy, RBI will have to find the quantity of money in the system. (कुपोषण के खिलाफ अच्छी योजना बनाने से पहले सरकार ने लोगों का वज़न नापना होगा। उसी तरह देश के लिए अच्छी मौद्रिक नीति बनाने के लिए रिझर्व बैंक ने सबसे पहले तो देश में पैसों का जट्ठा नापना होगा)
- (Definition) Money supply means the total amount of money in an economy at any given time. (दिए गए समय पर अर्थतः में कुल मिलाकर कितना पैसा है उसकी मात्रा या जट्ठे को कहते हैं “मुद्रा आपूर्ति”)
- (Significance) Money supply plays a crucial role in 1) price level (=inflation) and 2) interest rates on deposits & loans. (मुद्रा की आपूर्ति → महंगाई दर और ब्याज दरों पर असर करती है)
- (Types) RBI measures the money supply through indicators: M0, M1, M2, M3, M4

Table 1: *CU: Coins & Currency with Public

Measure संकुचित, व्यापक		* CU	Commercial Banks		Post Office Savings Bank		Liquidity तरलता	Qty मात्रा
			Demand Deposits (CASA)	Time Deposits (FDRD)	Demand Deposits (SA)	Time Deposits		
Narrow Money	M1	✓	✓	✗	✗	✗	☆☆☆☆	☆
	M2	✓	✓	✗	✓	✗	☆☆☆	☆☆
Broad Money	M3	✓	✓	✓	✗	✗	☆☆	☆☆☆
	M4	✓	✓	✓	✓	✓	☆	☆☆☆☆

Apply logic to derive formula e.g. $M3 = M1 + \text{Time deposits with banks}$. (स्वयं से फार्मूला बनाइए)

- M3 is the most commonly used measure of money supply, also known as **Aggregate Monetary Resources / Aggregate Money Supply**” (समस्त मौद्रिक संसाधन) because out of all the money supply indicators (M0-M4) this is the indicator RBI will focus the most for its analysis while designing of monetary policy. (अपनी मौद्रिक नीति बनाते वक्त, विश्लेषण के लिए रिझर्व बैंक इस आंकड़े पर खास ध्यान रखती है)
- In above formulas for money supply, we are only counting the “NET Demand / NET Time deposits” i.e. only public's deposits in bank. We are not counting inter-bank deposits i.e. one

commercial bank's deposit in other commercial banks. एक बैंक से दूसरे बैंक में पैसा डिपॉजिट किया हो तो उसे इधर नहीं गिनते.

- Corona-2020: Initial months of lockdown (May 2020) → deposit because people withdrew money in panic / precautionary motive. Although in the later months → Unlockdown and normalcy → bank deposit by Dec-2020. तालाबंदी के शुरुआती महीनों में लोगों ने एहतियाती कारणों से बैंकों से अपनी डिपॉजिट निकाली हालांकि परिस्थिति सामान्य होने पर, बाद के महीनों में वापस बचत की मात्रा में बढ़ोतरी होने लगी है

FAQ1: Why M3 is Aggregate Money Supply? Ans. Watch video.

FAQ2: Why is the liquidity of M4 less than M3? Ans. Watch video.

FAQ3: What is Narrow Money and Broad Money?

M1 and M2 are called Narrow money. Because of their smaller size (since they only cover demand deposits) M3 and M4 are called broad money, because of their relatively larger size than M1 and M2. since these terms are given in the NCERT so we have to prepare & accept. It is not some great thing worthy of mains exam that we have to spend more time than that 1 word association.

FAQ: What is Hard Money vs Soft Money? Definition differs from website to website besides All such random terms mentioned on Investopedia.com are not automatically important for exam. My boundary for this money-supply/indicator topic is “NCERT textbook, not the entire internet.”

FAQ4: As per NCERT class 12: “ $M4 = M3 + \text{Total deposits with Post Office savings organisations (excluding National Savings Certificates)}$ ”. So why you revision table doesn't talk about National Savings Certificates. Ans. This much pedantry I find it less imp for exam so don't want to overcomplicate my revision friendly table.

MCQ. If you withdraw Rs. 1 lakh in cash from your Demand Deposit Account at your bank, the immediate effect on aggregate money supply in the economy will be ___. (UPSC-Prelims-2020)

- [a] to reduce it by ₹ 1,00,000 [b] to increase it by ₹ 1,00,000
 [c] to increase it by more than ₹ 1,00,000 [d] to leave it unchanged

FAQ: I've 500 jaat-ke doubts in above MCQ Ans. Watch entire pillars' videos.

11.13 MONEY SUPPLY [M3]

Indicator	Situation in 2021
M_0 = also known as reserve money /high powered money <formula in separate section>	Quantity increased but % growth lower than 2020. वृद्धि दर पिछले साल की अपेक्षा कम रहा
M_3 = “Aggregate Monetary Resources / Aggregate Money Supply” (समस्त मौद्रिक संसाधन).	Quantity increased but % growth lower than 2020
Money multiplier = M_3 divided by M_0 (मुद्रा गुणक)	5.6 in 2020 and 5.2 in 2021. So, Money Multiplier decreased than 2020 . (Reason: Bankers couldn't find enough loan taker, so,

 Indicator	Situation in 2021
<more explanation in next section>	parked large quantity of deposits with RBI under Reverse Repo Window.)

11.14 MONEY MULTIPLIER (मुद्रा गुणक)

RBI's Cash Reserve Ratio (CRR) leads to *Fractional Reserve Banking & Credit Creation* by the commercial banks, which creates money multiplier effect as following:

Table 2: this process is called 'Fractional Reserve Banking & Credit Creation'

High Powered money (M0) = 100	Deposits	Loaning	10% Reserve ('R')
Bank#1	100	90	10
Bank#2	90	81	9
Bank#3	81	72.9	8.1
Bank#..
Total Money (here M3)		Total sum = ₹1000**	

$$\text{Money Multiplier} = \frac{\text{Stock of Total Money (M3)}}{\text{Stock of High Powered money(M0)}} = \frac{1000}{100} = 10$$

► FAQ: How is this possible/ I didn't understand? Ans. Watch the video.

- In above example, 10% CRR (CRR) generated 10x times of M0 money. [बैंक कर्ज देने से पहले यदि 10% रकम आरक्षित रखती है तो 10 गुना ज्यादा पैसों का निर्माण]
- 4% reserve ratio will generate $[1/(1/25)] = 25x$ times (in theory). See formula below:

$$CRR\ 4\% = \frac{4}{100} = \frac{1}{25}$$

$$\text{money multiplier effect} = \frac{1}{(CRR)} = \frac{1}{(4\%)} = \frac{1}{(\frac{1}{25})} = 25 \text{ times}$$

when CRR: 100%

money multiplier effect = $\frac{1}{(CRR)} = \frac{1}{(100\%)} = \frac{1}{(1)} = 1x$

100% CRR means i can't give loans to anyone from deposits!

लोन ही नहीं मिलेंगे तो फिर मैं क्या करूँ, मर जाऊँ? (non-functional) हो जाऊँ?

Shaktikanta Das

• no no. CRR should not be 100%
• let's keep CRR <100% e.g. 4%
• then money multiplier will be greater than >1 in a functional economy

when CRR: 4%

money multiplier effect = $\frac{1}{(CRR)} = \frac{1}{(4\%)} = \frac{1}{(\frac{1}{25})} = 25x$

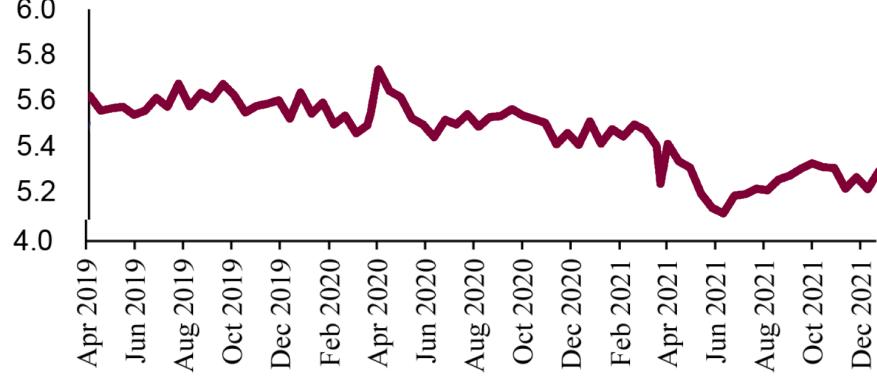
CRR 4% < 100% (is less than)

Multiplier 25 means >1 (greater than)

Indian Economy

- however in reality the multiplier may be lower than 25x, due to poor banking penetration.
(गांव गांव तक बैंक की सुविधा नहीं है इसलिए वास्तविक जीवन में इतना मुद्रा गुणक नहीं होगा)
 - In a functional economy, money multiplier (MM) is always greater than 1 & CRR will always be less than 100%. WHY? Ans. Watch video.
 - MM directly improves with reduction in CRR. (सीआरआर घटेगा तो मुद्रा गुणक बढ़ेगा)
 - MM indirectly improves as economy develops, consumption / loan demand increases, banking penetration, digital economy, less-cash economy etc.
 - MM improves with the in banking penetration, financial inclusion (वित्तीय समावेशन)
 - Boom period, Whenever loan demand (तेजी का माहौल → लोन ज्यादा लिए जा रहे हों)
 - When RBI adopts Cheap / Easy / Dovish / Expansionary monetary policy to combat deflation.
(जब सस्तापे/ अपस्फीति से लड़ने के लिए रिझर्व बैंक लोन के ब्याज दर सस्ते कर दे)
 - In 1960s = less than 2x, 90s = more than 3x, At present = more than 5x.
- FAQ: What will be the impact of SLR changes on Money Multiplier? Ans. Can't be written mathematically. Reason given in Video.

11.14.1 Money Multiplier From 2019 to 2021: why fallen?

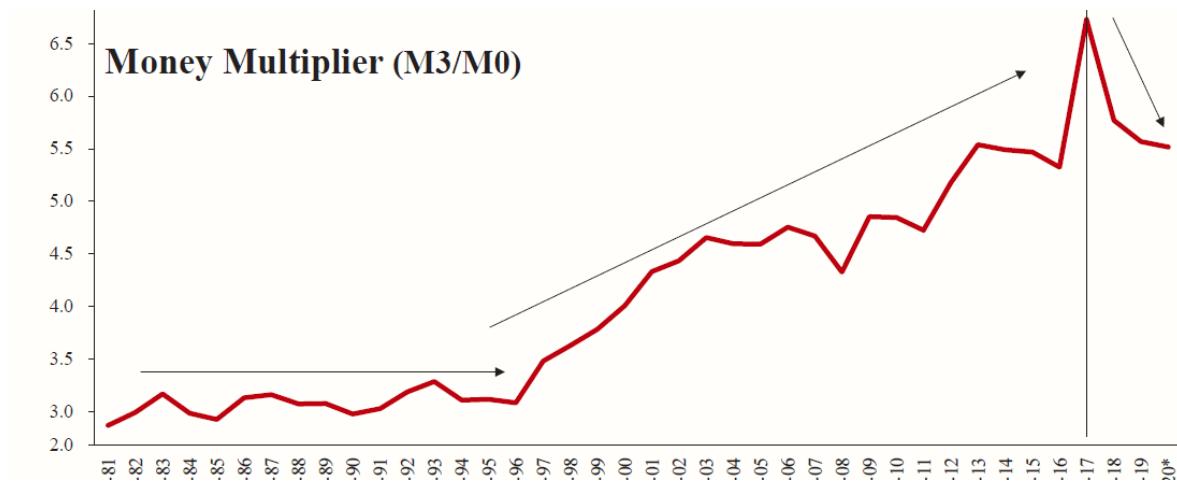


Money multiplier (MM) fallen from 5.6 on 31/3/20 to 5.2 on 31/3/21 because

- ⇒ if banks kept loaning to households & business firms then $(M_3/M_0) = \text{Money Multiplier}$ would grow thru lending-deposit activity from One bank account to another bank account.
- ⇒ But this deposit-to-lending activity seems to have slowed down in Corona & afterwards so MM did not improve.
- ⇒ Then between 2021-22, the money multiplier remained stable in the range of 5.2 (2021) → 5.1 (2022). (मुद्रा गुणक में कुछ खास बदलाव नहीं आया)

Note: There may be 500 other factors as well affecting these indicators but gives poor:cost benefit learning all those things from MCQ point of view. वास्तविक जिंदगी में और भी 500 कारकों के चलते इन आंकड़ों पर असर होता है लेकिन उन सब की पंचात करने बैठे तो परीक्षा के लिए उपयोगी नहीं # थोड़ा-पढ़ो-आगे-बढ़ो

11.14.2 💰 ↘ Money Multiplier From 1981 to 2020



- ES20 observed that between mid-1990's to 2016-17: Money multiplier (measured as a ratio of M3/M0) was mostly **↑**.
- But 2017-18 onwards: Money Multiplier is **↓**. Could be attributed to the lack of growth in loaning activities & slowdown in economy.

Ques ? MCQ. Money Multiplier in an economy increases with ___? (UPSC-Prelims-2019)

- A) Increase in the cash reserve ratio B) Increase in the banking habit of the population
 C) Increase in the statutory liquidity ratio D) Increase in the population of the country

↳ Same above MCQ also repeated in Prelims 2021

11.15 💰 💼 M0: CREATION OF MONEY (मुद्रा का निर्माण)

M0 / Reserve Money / Government Money / High Powered Money (उच्च शक्ति मुद्रा) is issued under RBI Act, by RBI's ISSUE DEPARTMENT, with condition that ISSUE DEPARTMENT's assets must match its liabilities. (आरबीआई केवल उतना ही पैसा छाप सकता है जितनी परिसंपत्तियां उसके इश्यू-विभाग के पास हों)

Assets of Issue Department (परिसंपत्तियाँ)	Liabilities of Issue Department [M0]
<ol style="list-style-type: none"> 1. Rupee coins [RBI 'buys' coins & ₹1 notes from Govt and circulates it as the 'Agent of govt'] 2. Gold coins [Min. ₹ 200 crores] सोने के सिक्के 3. Gold bullion [Min. ₹ 115 crores] सोने की इंटे 4. Foreign Securities, incl. IMF [Earlier Min. ₹ 400 crores but Post-1995 no such requirement.] 5. (Indian) Govt. Securities [through which Govt borrows money from RBI & returns Principal + Interest at later date] सरकारी प्रतिभूतियां 	<p>Total Bank notes in circulation, which consists of:</p> <ol style="list-style-type: none"> 1. Held by Public 2. Held by other Banks in "Vault cash" (i.e. amount kept by banks for day to day Operations.) 3. Other Deposits in RBI (of Public*, Banks & Governments)
Total = suppose 100 Cr @ "X" date	Total = 100 Cr @ "X" date.

- * such as PM Garib Kalyan Yojana (2016) under which Blackmoney holder was required to deposit 25% of his blackmoney in RBI for a lock-in period of 4 years. More in Pillar#2B
- M0 increases when RBI's asset side increases e.g. Govt borrowing more from RBI using G-sec. जब सरकार रिझर्व बैंक से ज्यादा पैसा कर्जे में ले तब रिझर्व बैंक की परिसंपत्तियों में बढ़ोतरी होती है

FAQ: Whose responsibility is it to exchange the public's torn / soiled ₹ 1 note ?

Ans. RBI will do it as the agent of the Govt.

FAQ: Whose responsibility is it to exchange broken coins ?

Ans. First of all it is difficult to break a coin unless with a metal cutter. And secondly I'd not loose sleep over such JAMES-Bond-Babu-Shona Qs. for UPSC exam point of view. Commonsense suggests that if RBI is exchanging torn ₹1 Note, then RBI would be exchanges coins as well.

FAQ: All coins and ₹1 paper-note is whose liability ? RBI or Govt

- ⇒ All coins and ₹1 paper-note are issued by Government. (Ref: Pillar1A1 Handout)
- ⇒ RBI circulate them as “agent of the government”.
- ⇒ However these items are liability of government. As per RBI Website.
- ⇒ So, All coins & ₹1 paper-note are liability of Govt.
- ⇒ However, some books interpret that since 1) RBI is circulating them 2) RBI is responsible for getting torn ₹1 rupee notes exchanged, so it is RBI's liability.
- ⇒ If in Doubt for MCQ → then tick “Govt.” as Answer.

FAQ: Can Govt borrow as much ₹₹ as they want via G-Sec ? Ans. No ! There are legal limits on govt borrowing under the Fiscal Responsibility And Budget Management act (FRBM).

(More in Pillar#2D) (सरकार अंधाधुंध तरीके से उधारी नहीं कर सकती FRBM कानून के अंतर्गत उस पर कुछ सीमाएं हैं।)

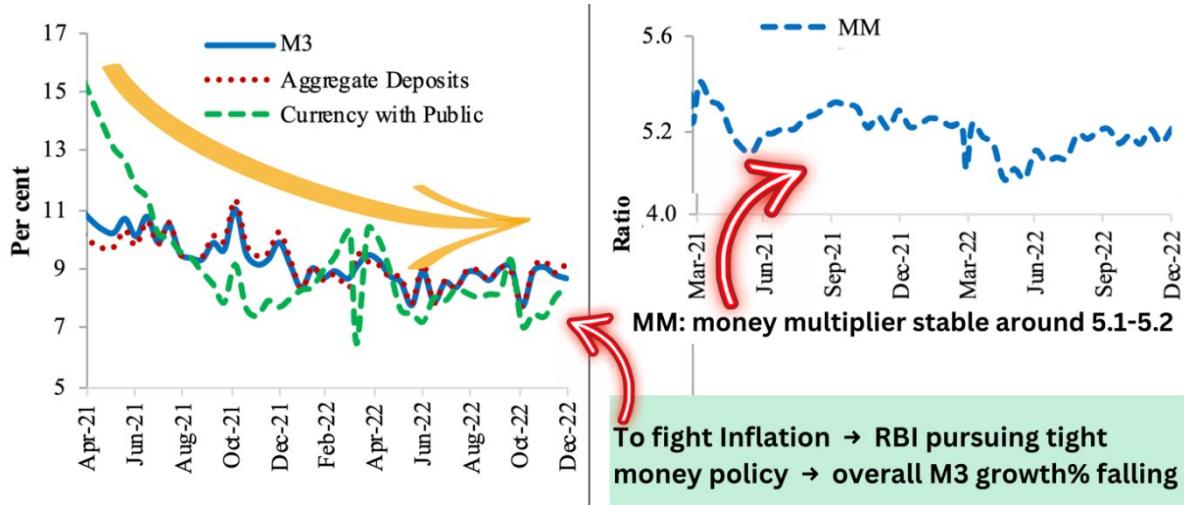
FAQ: RBI's money supply is limited by above Asset-liability balance method. But what if govt issues large number of coins and one rupee notes before election to keep voters happy? Will it not create problems in the M0 & economy? Ans. Too much money supply without enough goods-supply → inflation. So, a sensible govt will not do such drama. Beyond that I've no interest in engaging in further PHD-intellectual debates. Not important for exam. Move to next topic. (झंडे वाले बाबूशोनों को ये खास प्रश्न होता है यदि सरकार अपनी तरफ से अंधाधुंध तरीके से सिक्के छाप देगी तो क्या M0 पे खराब असर नहि होगा? जवाब: अगर बहुत सिक्के छापे लेकिन बाज़ार में माल सामान की किललत होगी तो महँगाई बढ़ी जाएगी इसलिए एक ज़िम्मेदार सरकार ऐसी नौटंकी नहीं करेगी। इससे ज्यादा मेरे को इसकी चर्चा नहीं करनी है क्योंकि वो परीक्षा के लिए काम की नहि है।)

FAQ: How did RBI print money in British times? Ans. Watch the lecture videos

FAQ: Where is the repo, where is the RBI's profit in above table? Ans. Watch the videos

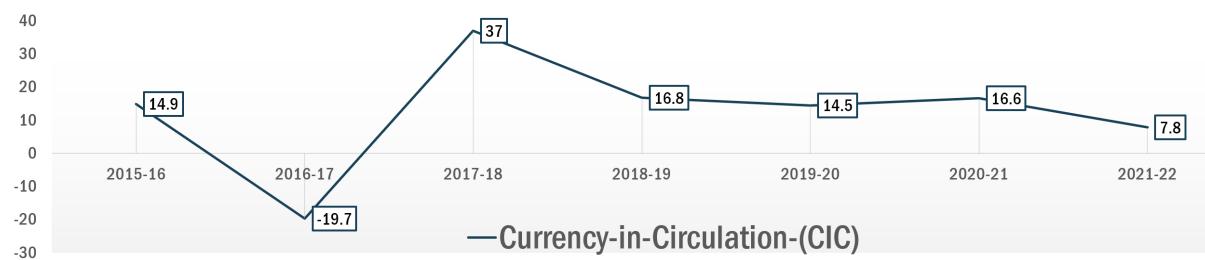
- ⓘ FAQ: If RBI's gold/G-sec gets stolen/burned/lost then will M0 decrease? Watch the videos
- ⓘ FAQ: I've 500 jaat-ke other doubts. Ans. then u keep looking for answers on Google until Saif's son Taimur grows up & gets married. I am done with this topic from Exam point of view. #⌚ થોડા-પછો-આગે-બઢો

11.15.1 💰 📈 Money Supply: observation by EcoSurvey23



Indicator	Year 2022's observations by 📈 ES23 (published on 31/Jan/23)
M0	Since RBI ⚡ CRR → Bankers deposit in RBI ⚡ → M0 ⚡ . What / how? Ref: Wait till CRR section is over.
Money Multiplier	5.2 (2021) → 5.1 (2022). So broadly remained stable / not much changed. (મુદ્રા ગુણક મેં કુछ ખાસ બદલાવ નહીં આયા)

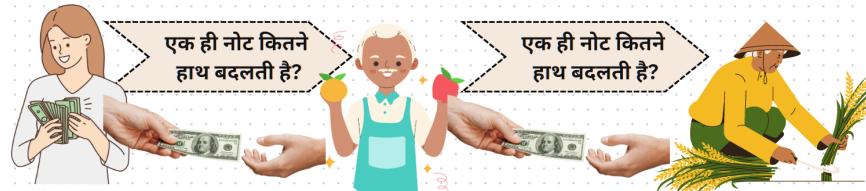
11.15.2 💰 ⚡ : Currency in Circulation (CIC)



- What is CIC's exact formula? Ans. Economic Survey didn't give, so I didn't bother to Google.
- CIC is an indicator to measure cash as a payment instrument i.e. instead of other payment instruments such as Cheque, NEFT/RTGS, Card etc. (ભુગતાન કે લિએ નકદી કા કિતના પ્રયોગ હો રહા હૈ)
- 2021: Currency in Circulation (CIC) growth (%) declined from Reason: Corona-led precautionary demand for cash has reduced/subsided → People are keeping less qty of cash in hand, and depositing more qty in Banks. (લોગો મેં કોરોના કા ખૌફ કમ હુંથા હૈ ઇસલિએ જનતા અબ એહતિયાદી રૂપ મેં હાથ મેં નકદી કમ માતા મેં રહતી હૈ !)

- 2022: Russia-Ukraine war → temporary increase in \uparrow precautionary cash holdings → Currency in Circulation (CIC) increased. (रूस यूक्रेन के युद्ध के चलते एहतियाद/सावधानी के लिए लोगों ने हाथ में नगदी /रोकड़ा रखना ज्यादा मुनासिब/उचित समझा।)

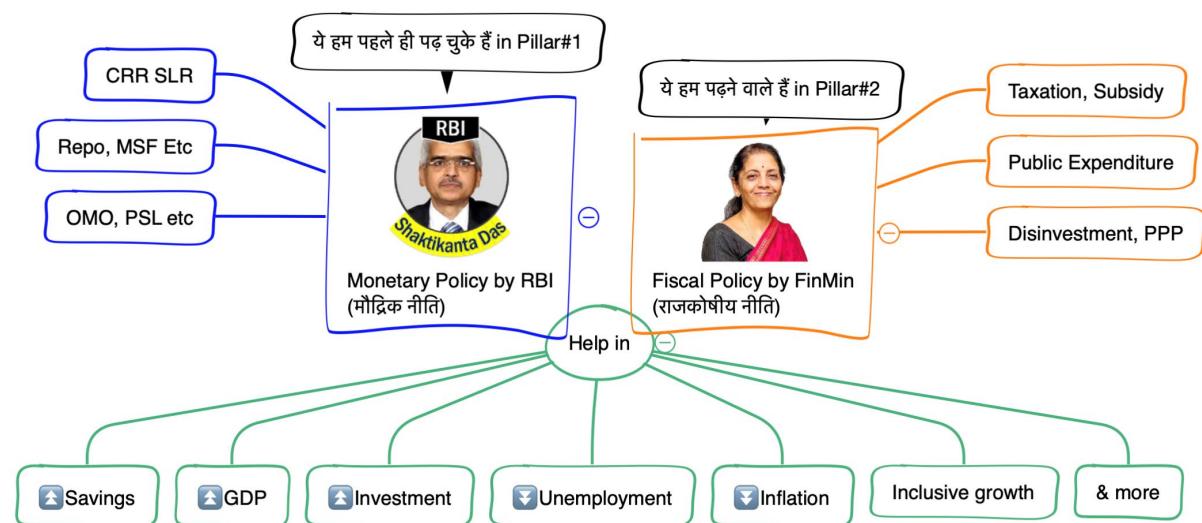
11.15.3 📈 Misc. topic: Velocity of Money Circulation (मुद्रा संचालन का वेग)



It is the average number of times money passes from one hand to another, during given time period.
e.g. you bought pen worth Rs.10 from shopkeeper, he uses same ₹10 note to buy tea from another shop → same currency note performed function of Rs.20. कितनी बार एक नोट एक हाथ से दूसरे हाथ में जाता है?
This “Velocity of money circulation” is affected by following factors:

- **Income distribution:** Money in the hands of poor people has higher velocity than the rich people. Why/HOW? Ans. Watch Video.
- If more people borrow money for purchase → higher velocity. Hence developed countries => higher velocity, because people save less and spend more because of consumerist lifestyle and confidence in Government's social-security e.g. USA. (जब लोगों में बचत की भावना कम हो)
- Boom period in economy = more raw material purchase & hiring = higher velocity. (तेजी का माहौल)
- ~~Other 500-jaat-ke permutation-combination-PHD = poor cost:benefit for exam~~
- ~~What is its scene in Corona? Answer not given in ES21 so no point in SELFPHD.~~

12 📈 🔊 MONETARY POLICY (मौद्रिक नीति)



- [Definition] Monetary Policy is a macroeconomic policy (समष्टि आर्थिक नीति), designed by Central bank of a country, to manage money supply & interest rates. It helps shaping variables such as inflation, consumption, savings, investment, & capital formation (मुद्राआपूर्ति व ब्याजदरों को नियंत्रित कर

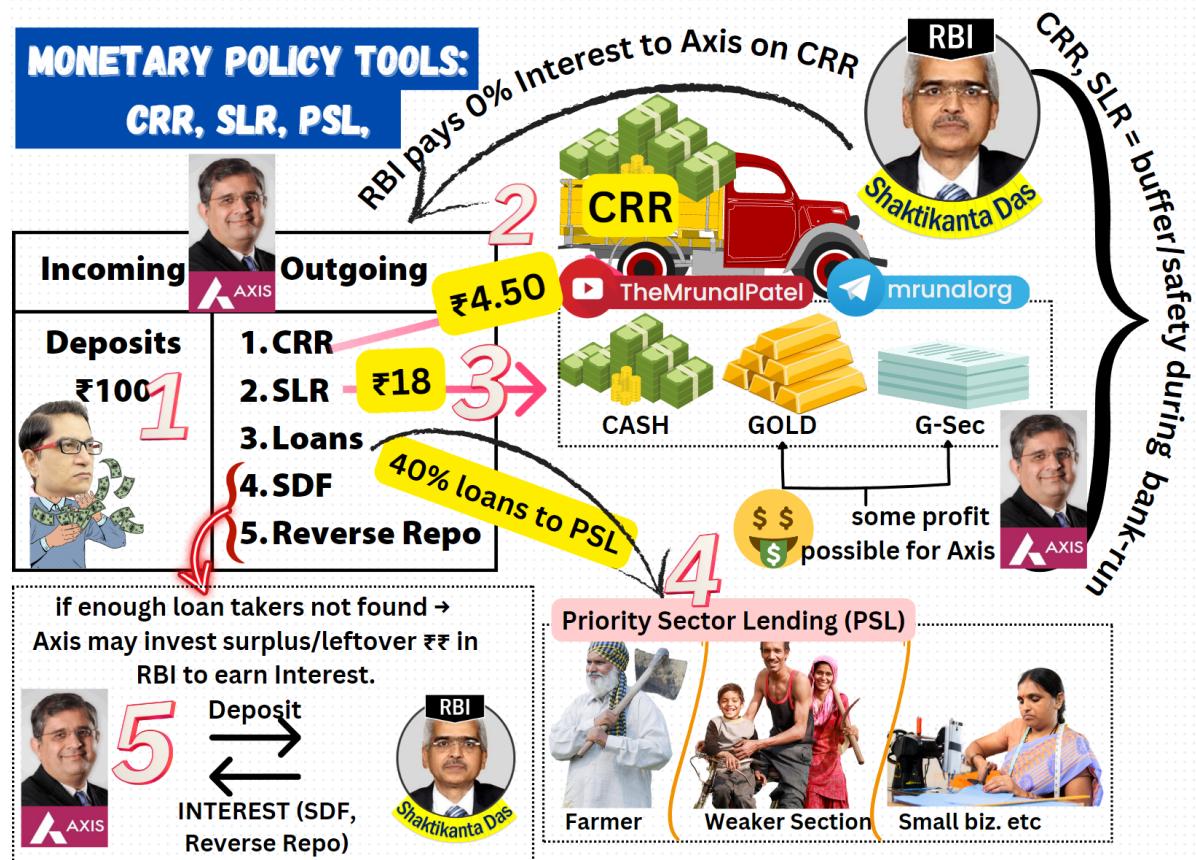
मुद्रास्फीति/महंगाई, मांग/खपत, बचत, निवेश, पूँजी निर्माण को आकार देना- केंद्रीय बैंक द्वारा बनाई गई इस प्रकार की नीति को मौद्रिक नीति कहते हैं).

- [Significance] Monetary policy plays an important role in price stability [inflation control], economic growth, job creation and social justice in any economy. (महंगाई-नियंत्रण, आर्थिक वृद्धि, रोजगार सृजन, सामाजिक न्याय के लिए महत्वपूर्ण साधन है ये मौद्रिक नीति)
- **Milton Friedman:** This American economist's research on monetary policy made this subject more popular, he also won a Nobel in Economics in this regard (1976).
- **Philip Curve:** Inflation \uparrow = unemployment \downarrow (and vice versa). मंहगाई बढ़ेगी तो बेरोजगारी घटेगी. मंहगाई कम होगी तो बेरोजगारी बढ़ेगी. (More in Pillar#4C)
- So, stable & moderate inflation is good for the economy. (स्थिर व मध्यमस्तर मंहगाई अर्थतंत्र के लिए अच्छी) So, RBI tries to keep inflation with 2-6% Consumer Price Index (CPI: All India) using its bi-monthly monetary policy made by its 6- member statutory Monetary Policy Committee. (छ:-सदस्यवाली वैधानिक समिति द्वारा द्वि-मासिक मौद्रिक नीति निर्माण करके रिजर्व बैंक मंहगाई दर को उपभोक्ता मूल्य सूचकांक के हिसाब से 2-6% में नियंत्रित करने की कोशिश करता है)

12.11 MONPOLICY: QUANTITATIVE TOOLS (परिमाणात्मक साधन)

Also known as (aka) General or Indirect Tools as they affect the entire economy, and not just a particular sector. (ये साधन / हथियार / उपकरण सामान्य या अप्रत्यक्ष हैं क्योंकि यह किसी एक क्षेत्र-विशेष को नहीं, किंतु पूरी अर्थव्यवस्था को असर करते हैं)

12.11.1 Statutory Reserve Requirements: CRR, SLR (Fight inflation: \uparrow , deflation: \downarrow)



- CRR and SLR are collectively known as “**Variable Reserve Ratios**” or “**Statutory Reserve Ratios**”
(इन दोनों को परिवर्तनीय आरक्षित अनुपात / वैधानिक आरक्षित अनुपात भी कहा जाता है)

CRR	SLR
Full form: Cash Reserve Ratio (नकद कोष अनुपात)	Full form: Statutory Liquidity Ratio (वैधानिक तरलता अनुपात)
Banks must keep this much deposits (or balance) with RBI. RBI doesn't pay interest on this deposit, except in extraordinary circumstances like 1999's Banking slowdown. (बैंक ने जमाकर्ताओं से हांसील की हुई रकम का कुछ हिस्सा रिजर्व बैंक में जमा करना पड़ेगा।)	Banks must keep this much deposits in liquid assets such as cash, gold, G-Sec, T-Bills, State Development Loan Bonds and other securities notified by RBI. (बैंक ने जमाकर्ताओं से हांसील की हुई रकम का कुछ हिस्सा, रिजर्व बैंक द्वारा मान्य तरल परिसंपत्ति में निवेश करना होगा)
Bank earns no profit / interest, as such.	Some profit may be involved. (मुनाफा हो सकता है)
<ul style="list-style-type: none"> - CRR: first suggested by British economist J.M. Keynes & first introduced in US Federal Reserves (=Central Bank of USA). - Mandated under RBI Act, 1934 	Mandated under Banking Regulation Act, 1949 (बैंकिंग विनियमन अधिनियम के अनुसार इसे लागू किया जाता है)
<p>⇒ RBI can fix any amount of CRR, legally there is no minimum or maximum limit. Although in real life, RBI will not keep CRR@100% otherwise, no bank can give loans then economy will stop functioning.</p> <p>⇒ Corona-2020: it was 3% of Net Demand & Time Liabilities of a bank (NDTL: निवल मांग और समय देयताएँ)</p> <p>⇒ 2021: CRR be gradually increased to 4%</p> <p>⇒ 2022: CRR increased to 4.50%</p>	<p>⇒ Presently it is 18.00% of NDTL.</p> <p>⇒ Legally, SLR can't be made more than 40%. (कानून रूप से रिजर्व बैंक इसे 40% से ज्यादा नहीं रख सकतीं.)</p>
<ul style="list-style-type: none"> - All Banks must keep CRR. - However, RBI may prescribe separate % norms/slabs for Regional Rural Banks (RRBs) and Cooperative Banks. - More in  Pillar 1B1: classification 	Similar to left cell of this table. (सभी प्रकार के बैंक के लिए अनिवार्य. हालांकि क्षेत्रीय ग्रामीण बैंक तथा सहकारी बैंकों के लिए इसकी प्रतिशत मात्रा रिजर्व बैंक, अन्य बैंकों की तुलना में थोड़ी भिन्न रख सकती है)

► 🧐 🙌 Difference between NDTL, ODTL, Total DTL? = NOT IMP4IAS. If you want to satisfy your curiosity, do google search yourself but I don't think it as best use of time.

- CRR-SLR are counted on fortnightly basis. If not maintained, bank will have to pay penalty interest rate to RBI. This Penalty rate is linked with **Bank Rate%**. (हर 15 दिनों के लिए गिना जाता है. यदि बैंक ने नहीं माना तो जुर्माना लगेगा.)
- CRR-SLR ensure monetary stability of India through **two primary functions:**
 - 1) CRR assists in money multiplier effect. (HOW? Watch lecture video.)

- 2) CRR-SLR provide buffer/protection during a Bank Run (बैंकों में से जमाराशि वापस लेने की दौड़) i.e. an emergency when every depositor wants to pull out money from his bank account at once, mainly due to fake news / rumours sometimes due to war e.g. in Russia-Ukraine
- While in theory CRR/SLR can be used for inflation control but RBI primarily relies on REPO Rate (=its Policy Rate) to combat inflation, and not CRR/SLR. (हालांकि, सीआरआर और एसएलआर महंगाई नियंत्रण के मुख्य साधन नहीं हैं। रिजर्व बैंक महंगाई से लड़ने के लिए मुख्यता रेपो रेट का इस्तेमाल करती है)

▶ 🧐 FAQ: What will be the impact of SLR changes on Money Multiplier? Ans. Can't be written mathematically. Reason given in Video.

12.11.2 🌎 🚩 : 📈 💳 CRR SLR on Foreigners/NRI's deposits in Indian Banks ?

▶ 🧐 FAQ: does CRR and SLR also apply to the deposits made by foreigners / NRIs / FCNR Accounts? Has RBI changed any rules regarding this?

Ans. Wait till we reach Pillar3A: Currency Exchange Rate. Presently we are in Pillar1A2.

12.12 🐻 📈 💳 📆 CRR, SLR: DEVELOPMENT IN RECENT YEARS

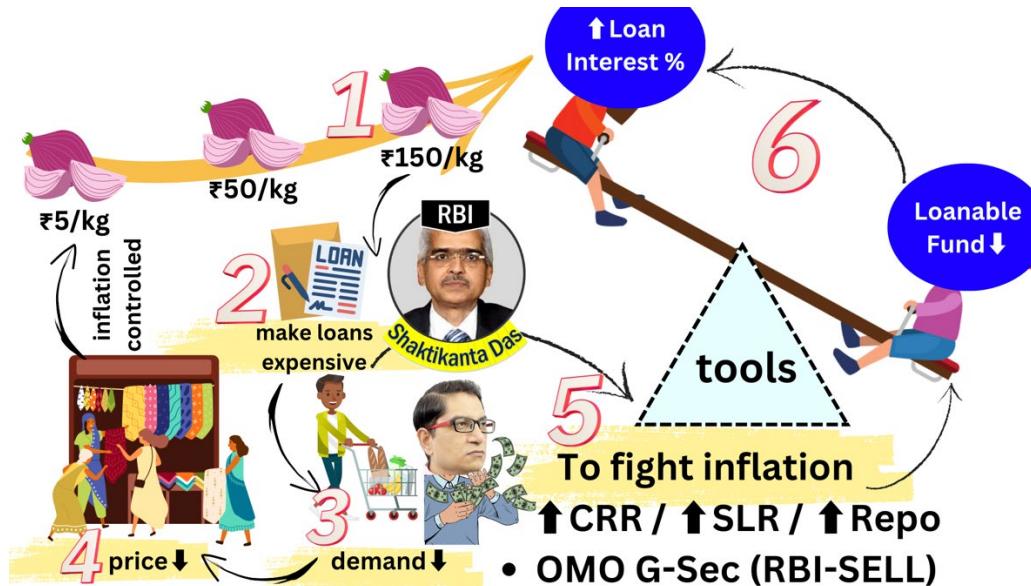
12.12.1 🐻 📈 💳 📆 (2016): Incremental CRR during Demonetization (नोटबंदीमें वृद्धिशील सीआरआर)

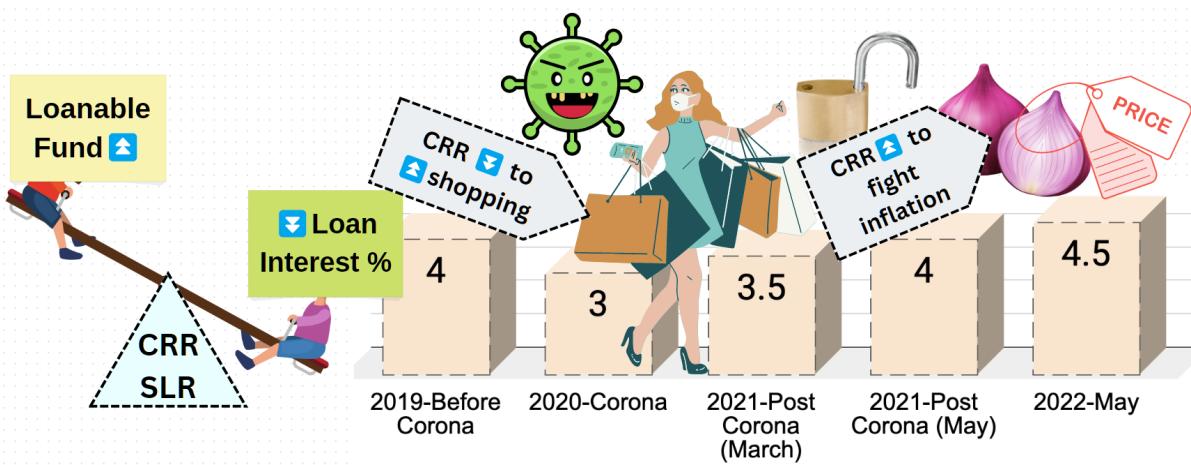
⇒ Outdated / technical stuff for 2023-24 exam so removed from handout

12.12.2 🐻 📈 💳 📆 (2020-Feb) CRR Exemption for 5 yrs, depending on loans (सीआरआर में छूट)

⇒ Outdated / technical stuff for 2023-24 exam so removed from handout

12.12.3 🐻 📈 💳 📆 (2020-Mar) CRR during and after Corona





Graph is self-explanatory. Not adding any text-explanation. IF not understood then watch video.

12.12.4 ► 🤓 🖐️: 🛍️ 📈 🚩 📆 CRR Technical things NOTIMP

Following technical operational aspects of CRR not imp / poor cost benefit in studying for exam

- What is Automated sweep-in and sweep-out (ASISO) facility? = NOT-IMPORTANT.
<https://www.youtube.com/watch?v=qGNbExdTIA&t=2094s> (Although explained here)
- What is Flexible Automated Option for Managing CRR? = NOT-IMP
- Banks are required to calculate CRR on a fortnightly (15 days) basis. They have to maintain at least 90% of that amount in CRR on daily basis. RBI also ↴ minimum daily CRR balance maintenance from 90% to 80% upto 2020-June. = NOTIMP. परीक्षा के लिए काम की नहीं

► 🤓 🖐️ Above type of information is not really important for the scope of civil service exam. So, don't lose sleep if some inexperienced private Mocktest quiz master framing MCQs like this.

[AB] ? Cash Reserve Ratio refers to _____ . (UPSC-CDS-i-2020)

- (a) the share of Net Demand and time liabilities (NDTL) that banks have to hold as liquid assets
- (b) the share of NDTL that banks have to hold as balances with the RBI
- (c) the share of Net demand and time liabilities that banks have to hold as part of their cash reserves
- (d) the ratio of cash holding to reserves of banks

[AB] ? Find correct statements about SLR: (UPSC-CDS-2011-II)

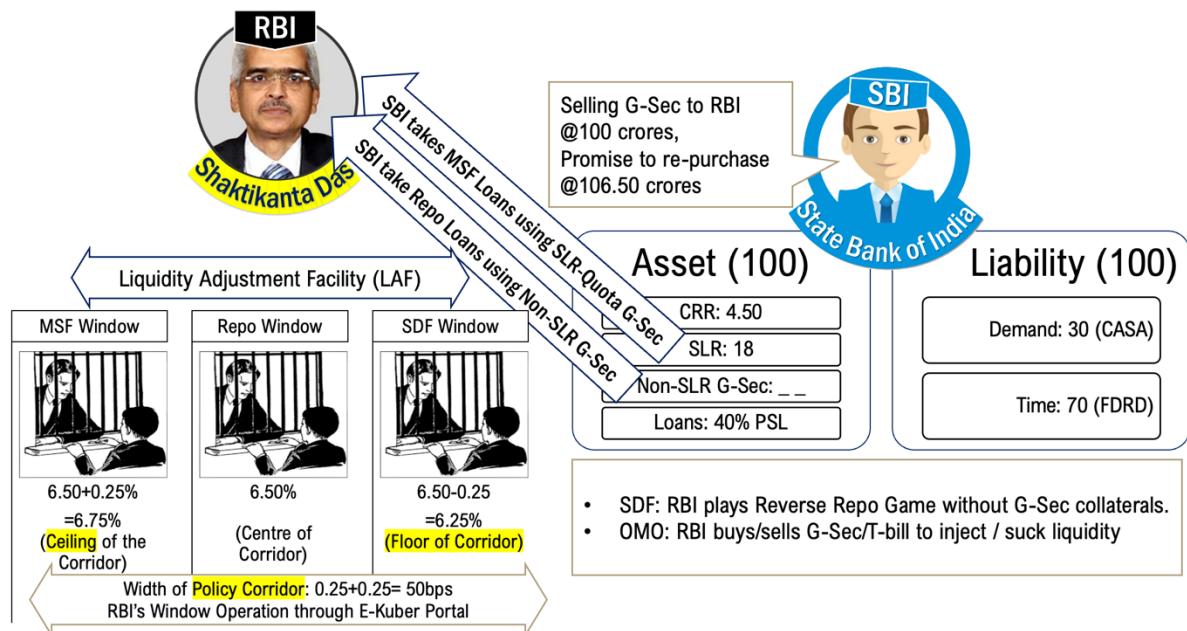
1. To meet SLR, Commercial banks must keep cash only.
2. SLR is maintained by the banks with themselves.
3. SLR restricts the banks leverage in pumping more money into the economy.

Answer codes:(a) 1, 2 and 3 (b) 1 and 3 (c) 2 and 3 (d) only 2

[AB] ? When RBI reduces SLR by 50 basis points which is likely to happen? (UPSC-Pre-2015)

- (a) India's GDP growth rate increases drastically.
- (b) Foreign Institutional Investors may bring more capital into our country.
- (c) Scheduled Commercial Banks may cut their lending rates.
- (d) It may drastically reduce the liquidity to the banking system.

12.13 📈 🔊 💳 MONPOLICY → QUANT TOOLS → RATES → LAF REPO



RBI's Liquidity Adjustment Facility (LAF, तरलता समायोजन सुविधा): has two windows:

° LAF-Repo Rate (रिपो दर/पुनः क्रय-अनुबंध)	° ° LAF-Reverse Repo Rate (उलट रिपो/ पुनः क्रय-अनुबंध)
<p>The Interest rate at which RBI lends short-term loans to its clients, keeping their G-Sec as collaterals. (रिजर्व बैंक अपने ग्राहकों को लघु अवधि के ऋण देता है। उसपर लागू ब्याज दर को रिपो दर कहते हैं। ग्राहक ने अपनी सरकारी प्रतिभूतियों को रिजर्व बैंक में गिरवी रखना पड़ता है)</p>	<p>It's the interest rate that clients earn when parking their surplus funds with the RBI for short periods, to earn interest. (ग्राहक अपना अतिरिक्त धन, रिजर्व बैंक में लघु अवधि के लिए जमा कर जो ब्याजदर कमाते हैं, उसे उलट-रिपो-दर कहते हैं)</p>
<ul style="list-style-type: none"> ⇒ Clients enter into an agreement with RBI to repurchase their G-sec at a future date at a (higher) pre-determined price. ⇒ Banks can't pledge their SLR-quota-G-Secs for this borrowing. ✌ 	<p>Mechanism similar to Repo, RBI gives its G-Sec as a collateral to client.</p>
<ul style="list-style-type: none"> ⇒ Repo also called 'Ready Forward Transaction'. ⇒ Repo Rate is our Policy Rate to control inflation. (मौद्रिक नीति दर) 	<p>Reverse Repo Rate = Repo% MINUS x%</p>

- ⇒ Repo = RBI lends short term loans to its clients, & demands G-Sec/T-bill as collateral. ✌ At every place, I've not mentioned T-bill, as it just reduces the speed of revision.
- ⇒ **Market Repo** = Players other than RBI (such as bank, NBFCs) loaning short money to other Banks/NBFCs/Corporate Companies, and demanding financial securities (G-Sec/T-

Bill/shares/bonds/commercial paper etc.) as collateral. What do those terms mean? Ans. Ref the table given in topic Operation Twist.

12.14 📈 💰 🔊 📈 REPO → SPECIAL WINDOWS UNDER ATMA NIRBHAR

12.14.1 📈 💰 🔊 📈 REPO → TLTRO, SLTRO, On-Tap Windows

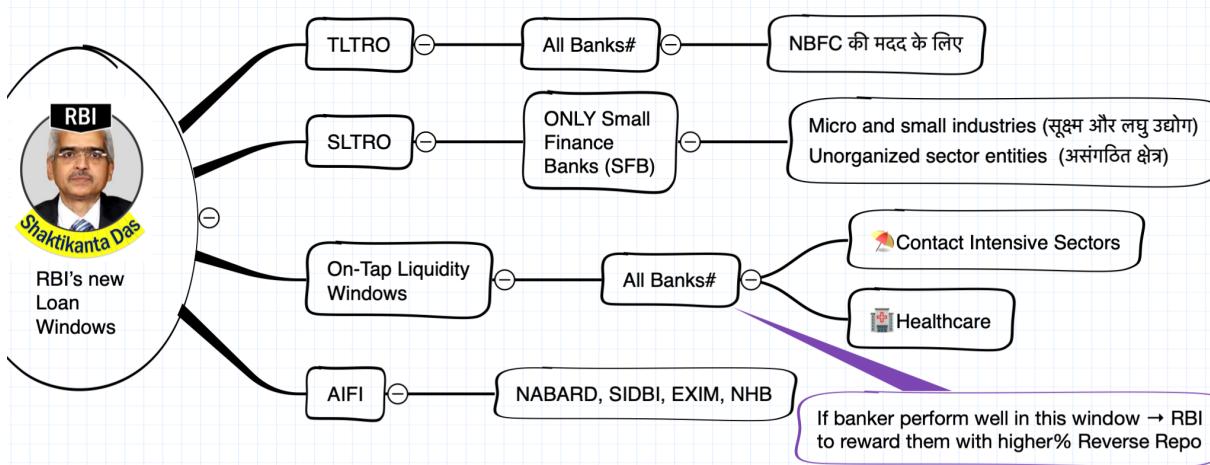


Figure 2: कोरोना पश्चात लोन में ज्यादा पैसा धुमाके अर्थतः बैंकों को वापस खड़ा करने के लिए रिजर्व बैंक ने ये नई लिङ्कियाँ लोली हैं।

#In above chart, All Banks doesn't include Payment Banks. PB can't give loans (Ref: 📈 Pillar#1B1)

Tools	Changes in Corona-2020 upto 2022-Feb
Repo	RBI's short term loan interest rate to clients while using non-SLR-quota G-Sec as collateral. Repo Interest ↘ from 5.15 to 4.00% = 1.15% = 115 basis points cut= Cheaper loans to revive economy
LTRO	Long Term Repo Operations (LTROs: दीर्घ अवधि के रेपो ऋण) for 1 year to 3 years. MORE PHD NOT REQ For 2023.
TLTRO	Targeted Long Term Repo Operations (TLTRO): Up to 3 years loans@Repo% to Banks with condition that they must invest x% of it in NBFC companies' Bonds etc.
Special LTRO Window (SLTRO)	RBI loan for 3 years @Repo% to ONLY Small Finance Banks (SFB) → Loans to A) Micro and small industries (सूक्ष्म और लघु उद्योग) B) Unorganized sector entities (असंगठित क्षेत्र)
⌚ 💉 On-Tap Liquidity Windows for Healthcare	RBI loan for 3 years @Repo% to Banker → loans to Hospitals, vaccine manufacturer, vaccine importers, medical device makers, oxygen suppliers etc (अस्पताल, टीका उत्पादक, आयात करने वाले चिकित्सा साधन बनाने वाले इत्यादि)
₹ 💉 On-Tap Liquidity Windows for Contact-Intensive Sectors	RBI loan for 3 years @Repo% to Banker → Hotels, Restaurants, Tour Operators, Bus Operator, Car Repair Service, Beauty Parlours/Spa/Saloons, Event/Conference Organisers बैंकर ने ये पैसा स्पर्श-संवेदनशील उद्योग क्षेत्र जैसे प्रवासन उड्डयन इत्यादि को कर्जे में देना होगा।

Tools	Changes in Corona-2020 upto 2022-Feb
AIFI	RBI loaned large amount of money to All India Financial Institutions (AIFI) i.e., NABARD, NHB, SIDBI, EXIM, NaBFID (Ref: Pillar#1B1)

12.14.2 RBI's Special Windows: Useless Doubts by flag-carrying Babushonas

1. FAQ: Why would bank borrow ₹₹ in TLTRO / On-Tap windows, when many conditions are imposed on it? Ans. maybe the bank feels it will earn profit from such loan/investment. (बैंकर को जरूरत होगी तो लेंगे, वरना नहीं लेंगे. रिज़र्व बैंक के गवर्नर उसको बंदूक दिखाकर ज़बरदस्ती नहीं दे रहे)
2. FAQ: Why would bank borrow ₹₹ in REPO rate (Short term) when LTRo offering long term loans? Ans. depends on the requirement of the bank. RBI not point gun on them.
3. FAQ: How does LTRo/TLTRO involve “flight of foreign investors & its impact on exchange rate & bond yield” etc.? Ans. Such long-winded-financial-cause-effect = no importance in UPSC, even though private mock-test-walla design useless MCQs from it. इतनी दूर की बीरबल की खिचड़ी अपने को पकाने की जरूरत नहीं है!
4. FAQ: I want to do PHD on this until Saif son Taimur grows up & gets married. Ans. Good luck to you! But, I'm finished teaching this topic here. शुभकामनाएँ, आप लेके बैठे रहो.

12.14.3 (2020) Reverse Repo Rate cut



Figure 3: sir, जब तक आप loan के लिए हाँ नहीं कहेंगे, हम आपको telemarketing spam-calls करते रहेंगे!

Corona led Economic Slowdown → Loan demand → banks parking their excess funds in RBI to earn interest in the form of reverse repo rate. (कोरोना महामारी के दौरान बैंक वाले अपना अतिरिक्त धन रिज़र्व बैंक में डाल के बैठे बिठाये व्याज कमा रहे थे. ग्राहकों में लोन का पैसा घुमाने की मेहनत नहीं कर रहे थे.)

- ⇒ By 2020-March: banks parked ₹~3 lakh crores in RBI in Reverse Repo.
- ⇒ So, RBI has drastically reduced the reverse repo rate to 3.35% to discourage such laziness of banks. (बैंकों के इस आलसीपन को दूर करने के लिए रिज़र्व बैंक ने रिवर्स रेपो रेट में कटौती की)
- ⇒ Benefit of reverse repo reduction?
 - ✓ IF SBI offers 5.9% Fixed deposit interest rate to depositors, and parks it in the RBI reverse repo rate (3.35%) then SBI will actually make losses.
 - ✗ So, RBI hopes SBI will now be ‘forced’ to give loans in a proactive manner (through SMS-spam, email-spam and unwanted telemarketing calls etc)

Although as per ES21, Banks still continued to park their surplus funds in Reverse repo because there were not enough loan takers due to Corona slowdown. (हालांकि कुछ खास फायदा नहीं हुआ ऐसा आर्थिक सर्वेक्षण का कहना है)

12.14.4 MonPolicy → Quant Tools → Variable Rate Reverse Repo (VRRR)

Outdated/technical for 2023-exam cycle, so removing from latest handout.

12.14.5 Enhanced Reverse Repo Rate for Hardworking Bankers

Outdated/technical for 2023-exam cycle, so removing from latest handout.

12.14.6 MonPolicy → Quant Tools → Rates → MSF (2011)

- Marginal Standing Facility (MSF: सीमांत स्थायी सुविधा) is the Interest rate at which RBI lends short-term loans to Scheduled Commercial Banks (SCB) & Regional Rural Banks (RRB) with their SLR-quota G-Sec as collaterals. (ऐसी खास खिड़की है जहाँ से रिजर्व बैंक द्वारा अनुसूचित वाणिज्यिक बैंकों को तथा क्षेत्रीय ग्रामीण बैंकों को, उन बैंकों के एसएलआर कोटा की प्रतिभूतियों को गिरवी लेकर रिजर्व बैंक उन्हें लघु अवधि के कर्ज देता है)
 - MSF higher than Repo Rate. $MSF = Repo\% + 0.25\%$
 - What is the difference/meaning of SCB/RRB/SFB/UCB etc? Ans: ( Ref: HDT-Pillar#1B1:)
-  FAQ: Which types of banks can access MSF facility? Ans. It is given in above note itself.

12.14.7 MonPolicy → Quant Tools → Rates → Bank rate (बेंक दर):

	Bank Rate	MSF	Repo Rate
Introduced in	RBI Act, 1934**	2011	2000
What is the % rate?	Since 2012: Bank Rate% = MSF%	$MSF = Repo\% + "x"\%$	Monetary Policy Committee decides
Who can borrow from the RBI?		Only banks	All clients of RBI: bank, non-bank, Union & State Govt
Collateral required?	**Yes and No	Bank can pledge securities from its SLR quota	Yes, G-Sec/T-bill. But not from SLR
Loan duration	Longer than repo	Short term usually overnight to 14 days	
Primary Utility?	Nowadays mainly for deciding penalty on errant banks	Emergency borrowing by bank, using their securities from SLR quota subject to certain limits.	Short term borrowing by all clients of RBI.

⇒ **RBI Act, 1934: “Bank rate is the standard rate at which RBI buys or **rediscounts** first class securities, bills of exchange or other commercial papers.(-NCERT)” *rediscounting basically means the “repo-walla game= RBI buys @x price, re-sells@y price where y>x”*

⇒ But, since the introduction of the Repo rate in the 2000s, the Bank rate has become a dormant tool (निष्क्रिय उपकरण) =not frequently used by RBI for lending or by banks for borrowing).

⇒ So, **reference books/websites differ** in its present operational status e.g. some of them would say:

⇒ Bank rate requires no collateral and is meant for long term loans.

⇒ Bank rate accepts collateral which can be both GSec/T-bill as well as private companies' securities.

► 🧐 🖐️ So, in the real exam, it depends on which book/web source the examiner has copied the statement(s) and accordingly you've to take a judgement call in ticking the answer. (विभिन्न और किताबों और वेब साइटों पर बैंक दर की व्याख्या/अर्थ गठन अलग अलग है इसलिए असल परीक्षा में जो पूछा जाए तो स्थिती/विवेक के हिसाब से आपने जवाब tick करना है.)

12.14.8 📈 🔊 ⚒️ Quanti. Tools → SDF (=Reverse Repo walla game Without Collaterals)

- ⇒ 2013: Urjit Patel Committee on Monetary policy proposed standing deposit facility (SDF)
- ⇒ SDF = Clients park/deposit their extra money in RBI. RBI pays them interest. RBI doesn't give any collateral (unlike in REVERSE REPO). (स्थायी जमा/डिपॉज़िट सुविधा = रिज़र्व बैंक के ग्राहक अपना अतिरिक्त पैसा रिज़र्व बैंक में जमा करेगा। रिज़र्व बैंक ग्राहकों को डिपॉज़िट के लिए ब्याज देगा। रिज़र्व बैंक ग्राहक के पास गिरवी कुछ नहीं रखेगा।)
- ⇒ 🎯 Benefit of SDF: To combat inflation → RBI can suck extra money supply via SDF window. RBI will not have to pledge G-Sec as collateral to clients. (महँगाई से लड़ने वास्ते बाज़ार में से पैसों की अतिरिक्त आपूर्ति को चूसने/हटाने/कम करने के लिए रिज़र्व बैंक एसडीएफ का इस्तेमाल कर सकता है- बिना कुछ गिरवी रखे।)
- ⇒ 2018: RBI act amended to add SDF facility. (रिज़र्व बैंक कानून में सुधार किया गया)।
- ⇒ 2022-April: RBI started/launched SDF. RBI also made changes in Policy corridor. <REF: NEXT SECTION>

► 🧐 FAQ: SDF is launched so does it mean Reverse Repo discontinued?

> Reverse Repo rate not discontinued. Reverse Repo will remain as part of RBI's toolkit. RBI will continue to use it at its discretion from time to time. Presently Reverse Repo is 3.35%

► 🧐 FAQ: what is the deposit time duration of SDF and Reverse Repo ?

> Sufficient to know these are for short-term. Now what exactly is short-term? Is it 1 day, 7 day, 14 day? = Not important for exam. Why overburden the memory card of the brain with unnecessary information?

► 🧐 FAQ: IF SDF and Reverse Repo both present, then why would Bankers go for SDF where no collateral given?

> The time period and interest rate offered on SDF and Reverse Repo are different. So, it depends on bankers' business-requirement, cash-flow management. RBI is not pointing in gun their head to use it. (बैंकर को ज़रूरत होगी तो इस्तेमाल करेगा। रिज़र्व बैंक उसकी कनपटी पर पिस्तौल नहीं रखा है।)

12.14.9 💰 MSF Repo vs Reverse Repo vs SDF

Tool	MSF	Repo	Reverse Repo	SDF
Present rate (2023-Feb)	6.75%	6.50	3.35% Fixed Reverse Repo Rate (FRRR)	6.25

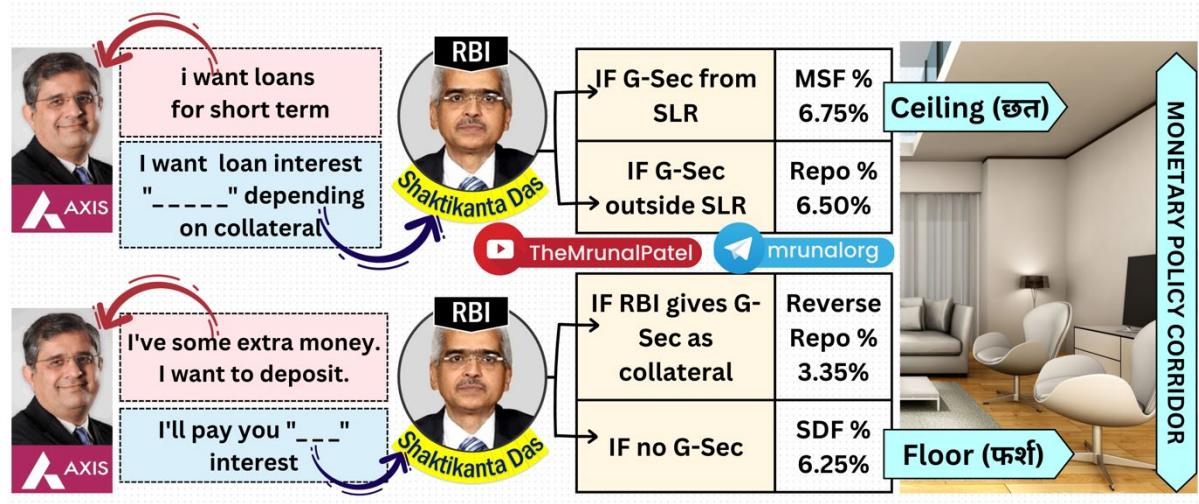
Tool	MSF	Repo	Reverse Repo	SDF
Lender	RBI	RBI	Banks+some NBFCs	Banks+some NBFCs
Borrower	ONLY Scheduled Commercial Banks (SCB) & RRB	Banks+some NBFCs	RBI	RBI
Borrower need to give Collateral?	Yes	Yes	Yes	Not required.
##Facility available at Discretion of	Client (SCB)	RBI	RBI	Client (Banks+Some NBFC)

⇒ ## Discretion = here means suppose a client (Bank/NBFC) comes for Reverse Repo= It's not compulsory for RBI to entertain him. (रिजर्व बैंक की मर्जी की बात है कि उसको सेवा देगा या नहीं देगा.)

⇒ But, If client (Banker) comes for MSF = RBI will not say "NO" to him. RBI will help him.

⇒ What is SCB? Ans. Refer Pillar1B1: Classification of Banks

12.14.10 Policy Corridor / LAF Corridor



⇒ Policy Corridor also known as Liquidity Adjustment Facility (LAF) corridor. (नीति गलियारा / तरलता सुविधा गलियारा)

⇒ BEFORE 2022-April: Policy Corridor = total width between: MSF <→ REPO <→ Reverse Repo. (इन तीनों उपकरणों के बीच की कुल चौड़ाई)

⇒ After 2022-April: Policy Corridor = MSF (Repo+0.25%) <→ REPO <→ SDF (Repo-0.25%)

⇒ Thus total width is $0.25 + 0.25 = 0.50\%$

	Upper end of Corridor / Ceiling (छत/ऊपरी सीमा)	Center	Lower end of Corridor / Floor (फर्श)	Total width
Tool?	MSF	REPO	Before: Reverse Repo. (RR) After: SDF	
Before Corona	MSF= R+25 bps	R%	RR = Repo-25 bps	25+25=50bps
In Corona 2020-21	MSF= R+25 bps	R%	RR = Repo - 65bps	25+65=90bps
2022-Apr	MSF = Repo + 25bps	R%	SDF = Repo-25bps	25+25=50bps

Note: 100 base point system (BPS) = 1% So 25 bps = 0.25%. 50 bps = 0.50%

- ⇒ SDF has replaced the Reverse Repo Rate as the floor of the Policy corridor.
- ⇒ However, Reverse Repo was not discontinued.
- ⇒ Reverse Repo will remain as part of RBI's toolkit
- ⇒ Reverse Repo will be used as per the mood/discretions of the RBI from time to time

12.14.11 Tri-Party Repo (त्रि-पक्षीय पुनः क्रय-अनुबंध):

- ⇒ Outdated topic. I find it not important for exam anymore. So DELETED from handout.
- ⇒ Sufficient to know **this is not a tool of Monetary Policy**. It is a method to help companies to borrow money from the market.(ये मौद्रिक नीति का हिस्सा नहीं है।)

12.14.12 BPLR, MCLR, External Benchmarks, etc:

Terms related to how individual banks decide their loan rates. Ref: End section of present handout.

12.14.13 Market Operations (OMO): (Inflation → Sell G-Sec, Deflation → Buy)



Figure 4: Aloo Lelo, Pyaaz Lelo, G-Sec Lelo...

- I. **Open Market Operations** (खुले बाजार की क्रियाए): RBI buys and sells Union & State Govts' securities to control money supply.
 - RBI buying= Money supply  increased/liquidity injected in the market.
 - RBI selling = Money supply  decreased/liquidity absorbed from the market.
- II. **Market Stabilization Scheme** (बाजार स्थिरीकरण योजना): RBI sells special type of G-sec, T-Bill & Cash Management Bills (CMB) to suck excess liquidity.  How it works? How is it similar or different than OMO? Ans. NOTIMP. Very low profile thing for scope of UPSC.

- III. **Sterilization / Forex Swap:** Their primary objective is to control the currency exchange rate volatility (e.g. \$1=₹65,70,80... मुद्रा विनिमय दर के स्थिरता के साथ जुड़ा हुआ मामला). <More in Pillar#3>
- IV. **Operation Twist (2019):** a special type of OMO. Explained in next segment.

12.15 MONPOLICY: QUANTI TOOLS: OMO → OPERATION TWIST

Before that, you've to be aware of some many basic concepts:

12.15.1 : Security → Debt → G-Sec & Bonds (ऋण के लिए जारी की गई प्रतिभूतियाँ)

A ‘Security’ means a certificate/document indicating that its holder is eligible to receive a certain amount of money at a particular time. This could be a...

Table 3: प्रतिभूतियों के विभिन्न प्रकार

Borrower	Govt	Corporate (निगम)
Short term (less than 1 year) →	Treasury bills, Cash Management bills	Bill of Exchange, Commercial Papers, Promissory Notes.
Long term (1 year/>) →	G-Sec, Sovereign Bonds	Bonds / Debentures
Interest rate	Usually lower than Corporates' because risk is low	Depends on following factors →

12.15.2 (:) Deepening of G-Sec market- Retail investors' RDAG @RBI

- RBI launched “Retail Direct Scheme” in 2021.
- Under this scheme, RBI permits “Retail Direct Gilt (RDG) account” for retail investors on its E-Kuber online platform. (आम निवेशक रिजर्व बैंक में आरडीजी नामक खाता खोल पाएंगे)
- Both Resident Indians & non-resident Indians (NRIs) can open this account. (गैर निवासी भारतीय भी)
- Then Retail investors can directly buy Treasury Bills (T-Bill), G-Secs (of Union Government), State Development Loans (SDL are ‘G-secs’ of State Govts) and Sovereign Gold Bonds, from RBI directly. (आम निवेशक सीधा रिजर्व बैंक से इन प्रतिभूतियों को खरीद सकता है.)
- Application fees to open the account = ₹ ZERO
- **Benefit?** 1) Earlier retail investors bought G-sec “indirectly” through mutual funds wherein mutual fund manager (MF) charged commission/fees. Now retail investor can buy directly so does not have to pay such commission/fees to MF managers. (बिचैलियों को ढलाली/कमीशन नहीं देना होगा)
- (More in Pillar#1C- SEBI Share market, DEMAT account etc)

12.15.3 : Corporate Bonds: factors that determine its interest rate

If companies want to borrow money, they may issue bonds to investors. e.g. “Whoever buys this Reliance Bond worth ₹1000, we will pay him 9.40% interest rate per year and return the principal after 15 years.” Usually the interest rate offered on such bonds depends on

Factor (कारक)	How it determines corporate bond interest rate?
(Risk) Credit rating of company	Lower credit rating (e.g. CCC or D) → higher interest rate needs to be offered because risk of default is high. जब दिवालियेपन का जोखिम ज्यादा हो
Inflation	why/how: Ans. Ref: Pillar 1C → Inflation Indexed Bonds
Bank deposit interest rates	Higher the (Bank) deposit interest rate, higher bond interest rate needs to be offered to attract households to shift money from bank savings/FD to corporate bonds. (अगर बैंक जमाकर्ताओं को अच्छा ब्याज दे रहा है तो कंपनी ने ज्यादा ब्याज ऑफर करना होगा)
Yield on G-Sec	If G-Sec yield , then corporate will have to offer even higher bond interest rate to attract the investors from G-Sec investment towards C-Bond investment.

12.15.4 Bond Yield (बांड में निवेश करने पर होने वाली आय या मुनाफा)

1 Srilankan Govt Bonds : Rs.100 @7% interest

2 Bond Yield = $\frac{\text{Interest}}{\text{Cost Price}} * 100 = \frac{7}{100} * 100 = 7\%$

3 Srilankan economy collapse, riots, Prez runs away

4 plz buy my ₹100 face value ka bond. I want to exit.

5 i'll pay only ₹63 for this junk bond!

6 Bond Yield = $\frac{\text{Interest}}{\text{Cost Price}} * 100 = \frac{7}{63} * 100 = 11\%$

⇒ Bond yield is the profit an investor earns on a bond investment.

12.15.5 Bond Yield \propto 1/Price (सस्ते में खरीदा= तो मुनाफा ज्यादा)

⇒ Bhide bought @100, his yield is 8%; Jethalal bought @90, his yield is 20%.

⇒ Thus, Bond yield is **inversely related** to the current selling price of the bond in the secondary market.

⇒ If a bond's demand → its selling price will → bond yield (Because of inverse relation)

12.15.6 📈 💰 Bond yield: other factors affecting it (अन्य कारक)

- ⇒ If the economy is booming (तेजी), companies are making great profit, investors may sell bonds at lower prices in a hurry to unlock their money to invest it in shares of companies, because they think it'll get them more dividend. Then bond's current selling price in the secondary market  → yield .
- ⇒ If the economy is facing recession (Continuous decline in growth rate: मंदी) → companies will NOT make great profit → investors sell shares, and prefer to buy bonds hoping they'll get secured fixed interest. Then bond's demand  in the secondary market → selling price  → yield .
- ⇒ Inflation. (How? Explained in video).
- ⇒ Political instability. (Self-explanatory from SriLanka example.)
- ⇒ Actions of the central bank. (Explained below).

12.15.7 📈 🔊 💰 Operation Twist: why?

- ⇒ Commercial banks were reluctant to lend money to private sector companies because of the problem of Bad Loans /Non-Performing assets (NPA: More in  Pillar1B2). दिवालियेपन की घटनाओं के चलते, बैंकवाले निजी क्षेत्र की कंपनियों को कर्ज देने से डर रहे थे। आर्थिक वृद्धि और रोजगार सृजन के लिए यह अच्छी बात नहीं थी.
- ⇒ If such companies could borrow money by issuing corporate bonds (at cheaper interest rate) → more factories, more jobs, more production, more GDP.
- ⇒ RBI decided to attack the third factor: “If the yield on long term G-Sec decreased, then automatically Corporate Bond interest rates could also decrease.”

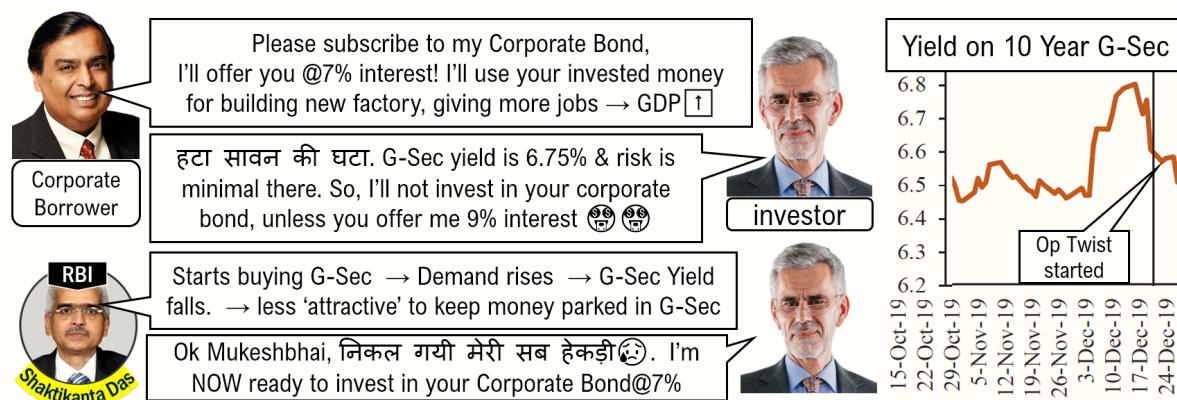


Figure 5: figures are only for illustration. 📈 No need to memorize numbers.

12.15.8 📈 🔊 💰 RBI's Operation Twist: methodology (2019-Dec)

Since RBI's existing monetary policy tools had failed to make loans cheaper for corporates / boost the economy. So in 2019-Dec, RBI started a “special OMO” wherein:

- ⇒ Since RBI started buying long-term G-Sec, their demand will  → price will  → yield is .
- ⇒ The 10YearGSec's yield lowered from 6.75% to 6.60%

⇒ And we've already learned, Corporate bonds are priced (benchmarked) keeping G-sec yields in mind.

So, Op Twist → Lower G-Sec yield means →

- ✓ Cheaper borrowing for Private sector Companies. Because
 - They can borrow money by issuing their (long term) Corporate-Bonds at much cheaper interest rate than before. (निजी क्षेत्र की कंपनियों के लिए बॉन्ड जारी कर- ऋण लेना हुआ सस्ता 😊)
 - When a private company meets a bank manager to borrow money, it can negotiate the loan price, “*If your bank does not lend me money at this cheaper interest% then I will issue my own corporate bonds.*” → Even the bank lending rates for corporate loans could be reduced.
- ✓ Cheaper borrowing for Government. For reasons similar to above. (How? Explained in Video)
- ✓ Investor of long term G-Sec will feel discouraged to hold the G-Sec till maturity (10-14 years), He will try to sell it to another party/RBI and pull out his money, then he may park ₹ it a Corporate Bond / Bungalow / car / Goa-vacation etc. Thus, it helps boost the consumption → economy grows.

समज में आ गया हो तो बढ़िया है, नहीं तो रद्दा मारो जिंदाबाद (if not understood then memorize by Rot-learning)

1. 1961: "Operation Twist" was first used by the US Federal Reserve.
2. 2019: RBI used also done it. Officially called "Special Open Market Operation (OMO) wherein the Central bank simultaneously buys and sells G-sec of varying maturities to adjust their yields. Which helps reduce interest rates on corporate bonds/debentures → easier to mobilize investment → factory expansion → jobs, GDP growth. (यह एक खास किस्म की खुले बाजार की क्रिया है, जहाँ अगल अलग मियादी की सरकारी प्रतिभूतियाँ खरीद-व-बेच कर रिजर्व बैंक उनकी उपज को कम करता है, ताकि कॉर्पोरेट कंपनियां सस्ते ब्याज मे पैसा बाजार से हासिल कर सके, ताकि रोजगार और आर्थिक वृद्धि मे मदद मिले)
3. Objectives of Op-Twist=
 - a. To make borrowing cheaper for Companies and Govt. कंपनीओं/निगमों और सरकार के लिए कर्ज सस्ता करवाना (HOW? Ans. Explained in Video).
 - b. It was NOT MEANT For fighting inflation. महंगाई से लड़ना इसका उद्देश्य नहीं है
4. It ensures better Monetary Policy transmission for economic growth. (because, earlier, simply reducing the repo rate has not helped much in making loans cheaper, for corporates. इससे पहले रेपो दर कम करने पर भी बाजार में लोन सस्ते नहीं हो रहे थे, तो रिजर्व बैंक ने सोचा ये ऑपरेशन द्विस्ट नामक नया साधन आजमाते हैं)

   Beyond this, further PHD on what/why/how = poor cost:benefit for MCQs.

12.15.9 : Bond Yield & Inverted Yield Curve: poor benefit for exam

1. Inverted Yield curve =   इस मुददे को पढ़ने में हम वक्त बर्बाद नहीं करेंगे
2. Negative Bond Yield =   इस मुददे को पढ़ने में हम वक्त बर्बाद नहीं करेंगे
3. Chinese Bond Yield ki News, Italian Bond Market crisis =   NOT IMP.

Q ? India Government Bond Yields are influenced by which of the following? (Prelims-2021)

1. Actions of the United States Federal Reserve [अमेरिकी फेडरल रिजर्व की क्रियाओं द्वारा]
2. Actions of the Reserve Bank of India. [रिजर्व बैंक की क्रियाओं द्वारा]
3. Inflation and short-term interest rates [महंगाई और लघु अवधि के ब्याज दर]

Answer Code: a) 1 and 2 Only b) 2 Only c) 3 Only d) 1, 2 and 3

Q ? MCQ. 'Open Market Operations' refers to: (Prelims-2013)

- a) borrowing by banks from the RBI
- b) lending by commercial banks to industry and trade
- c) purchase and sale of government securities by the RBI
- d) None of the above

Q ? MCQ. Which would result in an increase in money supply in economy? (Prelims-2012)

1. Purchase of G-Sec from the public by the Central Bank.
2. Deposit of currency in commercial banks by the public.
3. Borrowing by the government from the Central Bank.
4. Sale of government securities to the public by the Central Bank.

Answer Codes: (a) 1 only (b) 2 and 4 only (c) 1 and 3 (d) 2, 3 and 4

Q ? MCQ. Which of them is/are part of Monetary Policy? (Prelims-2015)

- 1) Bank rate
- 2) Open market operations
- 3) Public debt
- 4) Public Revenue

Answer Codes: (a) 1 only (b) 2, 3 and 4 (c) 1 and 2 (d) 1, 3 and 4

12.16 MONPOLICY: QUANTI TOOLS: OMO → G-SAP

⇒ Full form: (Secondary Market) G-sec acquisition programme

⇒ Mechanism: RBI to buy G-Sec from Secondary market on specified timetable. एक निश्चित समय तालिका के हिसाब से रिजर्व बैंक द्वितीय बाजार से सरकारी प्रतिभूतियां खरीदेगा।

G-SAP	During these months	Total
G-SAP 1.0 (पहला चरण) →	1 st Quarter of 2021-22 = April to Jun 2021 (पहली तिमाही)	₹1.0 Lakh cr
G-SAP 2.0 (द्वितीय चरण) →	2 nd Quarter of 2021-22 = July to Sept 2021 (दूसरी तिमाही)	₹1.2 Lakh cr

12.16.1 OMO → G-SAP : Benefit?

⇒  Money supply in the economy. (अर्थतंत्र में मुद्रा आपूर्ति बढ़ेगी)

⇒ Investors, who sold G-Sec to RBI= those investors got ₹ → They may 1) do shopping and/or 2) invest in other companies shares/bonds → 1+2=economic growth. मुद्रा आपूर्ति में बढ़ोतरी के चलते निवेशकों के हाथ में पैसा आएंगा तो वे बाजार से खरीदारी करेंगे, अन्य कम्पनियों में निवेश करेंगे→ देश की आर्थिक वृद्धि में मदद मिलेगी

 FAQ/Moral Outrage: Why G-SAP? Why not achieve this via  reducing REPO ? Ans.

⇒ Every person may not be interested in taking new bank loans. Some investors may be interested in selling their previous investments in G-Sec to unlock the money. (हर व्यक्ति बैंक से कर्ज लेगा ये ज़रूरी नहीं है। कुछ निवेशक अपना पुराना G-sec निवेश बेचकर पैसा बटोरना चाहते हों तो जी-सेप में आ सकते हैं)

⇒ if RBI \downarrow decreases the repo rate too much → it can result in A) inflation and B) \downarrow decrease in the deposit interest rates offered by the bankers on savings account → middle-class and pensioners affected negatively. (रेपो दर में बहुत ज्यादा कटौती हुई तो नई समस्याएं खड़ी होंगी)

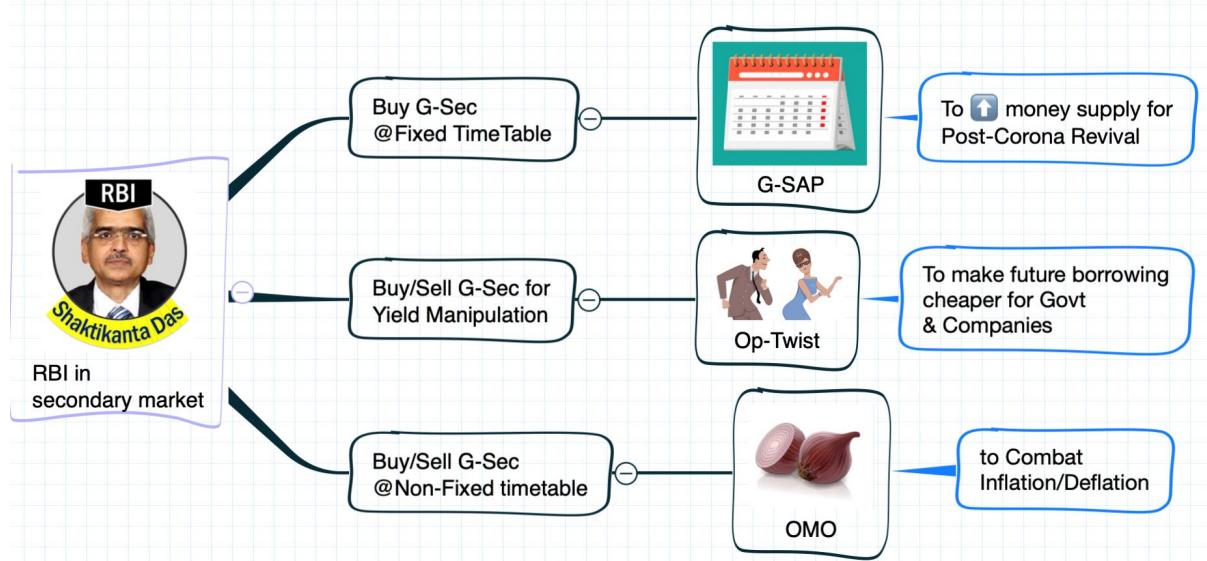


Table 4: To Sum up, OMO, GSAP, OP-TWIST (कुल मिलाकर बात ये हैं कि)

G-SAP	<ul style="list-style-type: none"> ⇒ RBI is buying G-Sec to increase money supply → Post-corona revival. ⇒ Money amount, date&time/calendar/timetable is transparently & systematically announced in advance before starting. ⇒ इसमें पैसों की मात्रा, समय-तालिका सब कुछ पारदर्शी और व्यवस्थित रूप से, खरीदारी शुरूआत करने से पहले रिज़र्व बैंक प्रकाशित कर देता है।
OMO	<ul style="list-style-type: none"> ⇒ RBI is selling G-Sec to control inflation. ⇒ RBI is buying G-Sec to fight deflation. मुद्रास्फीति(मंहगाई)/अपस्फीति(सस्ताई) से लड़ने के लिए रिज़र्व बैंक सरकारी प्रतिभूतियों को बेचेगी/खरीदेगी ⇒ Its timetable NOT announced in advance, in detailed manner, unlike G-SAP. रिज़र्व बैंक के विवेक/मनमर्जी पर अनियमित समय पर ये क्रिया होती थी। समय से पूर्व, विस्तृत रूप से इसकी समय तालिका प्रकाशित नहीं की जाती थी। ⇒ OMO window is NOT discontinued. It'll continue to function as per discretion of RBI. इस खिड़की को बंद नहीं किया गया। रिज़र्व बैंक के विवेकानुसार भविष्य में भी जारी रहेगा।
Op.Twist	<ul style="list-style-type: none"> ⇒ RBI is Buying and Selling of G-Sec of varying maturities ⇒ To reduce G-Sec yield → so future borrowing becomes cheaper for Government and Companies. (रिज़र्व बैंक द्वारा भिन्न भिन्न अवधि/मियादी की सरकारी प्रतिभूतियों को खरीदना और बेचना ताकि यील्ड कम हो सके ताकि भविष्य में सरकार तथा कंपनियों के लिए कर्जा लेना सस्ता हो सके।)

12.17 🐱 🔊 💳 MONETARY POLICY: QUALITATIVE TOOLS (गुणात्मक साधन)

Quantitative tools (SLR,CRR,Repo etc.) control 'volume' of loans. मात्रात्मक साधन कर्जे की मात्रा तय करते हैं

⇒ Whereas, qualitative tools (PSL,LTV etc.) control “distribution” of loans to a particular sector of economy. गुणात्मक साधन कर्जे के वितरण को तय करते हैं

- e.g. how much loan to a particular sector e.g. agriculture, renewable energy.
- how much loan to a particular segment of society (e.g. farmers, women, SC/ST).
- So, qualitative tools also known as **SELECTIVE** (चयनात्मक) or **DIRECT** (प्रत्यक्ष) Tools.

12.17.1 📸 Moral Suasion (नैतिक दबाव / सलाह) & Publicity (प्रचार)



Figure 6: “मैंने तो अपनी repo-दर कम कर दी लेकिन ये लालची बैंक वाले अपने loan-दर कम नहीं कर रहे, कम से कम मेरा लिहाज/सम्मान रखने के लिए भी उन्हें पकड़ा तो सस्ता करना चाहिए।” - RBI Governor

- Moral suasion meaning applying “Persuasion” without applying punitive measures. RBI governor tries this tactic via conferences, informal meetings, letters, seminars etc
- E.g. RBI-Governor asking banks to transmit repo-rate cuts, open new branches in rural areas, spread financial literacy, give loans to farmers beyond PSL quota etc.
- E.g. RBI Governor requesting CM or Finance Minister to control fiscal deficit & subsidy leakage to enhance the efficacy (प्रभावकारिता) of RBI’s monetary policy.
- **Publicity:** RBI governor could give media statement, speech during university convocation (दीक्षांत पदवीदान समारोह), memorial lectures... “*Look I reduced repo rate but banks are not passing the benefit to customers...and xyz*”. By doing so, he can create an effective public opinion which also pressurizes the banks to stop their thuggery.

12.17.2 💡 Direct Action (सीधी कार्यवाही: क्योंकि लातो के भुत बातो से नहीं मानते)

- RBI can punish banks (and even non-banks) for not complying with its directives under RBI Act, Banking Regulation Act, Payment and Settlement Systems Act, Prevention of Money Laundering Act (PMLA), Foreign Exchange Management Act (FEMA). रिजर्व बैंक के दिशा निर्देशों का पालन न करने पर विभिन्न कानूनों में सजा/दंड
- 2019: RBI ordered the banks to have a “Clawback” provision in their CEO & Top executives’ salaries. E.g. If the CEO did any scam/fraud, he’ll have to return his previously paid salary / bonus, even if he had retired/left the job afterwards. (किसी बैंक का सीईओ कांड में पकड़ा गया तो उस सीईओने पुरानी तनख्वाह भी लौटानी होगी.)

12.17.3 💳 Margin Requirements / Loan to Value (LTV) (सीमा अनिवार्यता)



Figure 7: जब घर मे पड़ा है सोना, फिर काहे को रोना?

⇒ RBI can mandate Loan to Value (LTV) for a gold-loan, home loan, auto loan or business loan etc. so a Bank/NBFC can't lend more than x% of the value of the collaterals. RBI can change this x% to boost / curb demand. (गिरवे रखी चीज के मूल्य के सामने बेंक या गैर-बेंक संस्थान व्यक्ति को कितना कर्ज दे सकते हैं? रिजर्व बेंक उसके मानदंड में बदलाव द्वारा, बाजार में चीज-वस्तुओं की मांग को बढ़ाया कम कर सकता है)

LTV reforms in 2020-Aug	Before	After
Gold Loan	75% value of gold/gold-jewellery	90%

⌚ Benefit? More quantity of loan by pledging same qty of gold → 🎉 post-corona-biz-revival.

12.17.4 Selective Credit Control (चयनात्मक ऋण नियंत्रण)

⌚ In a negative / restrictive direction (नकारात्मक)	⌚ In a positive direction (सकारात्मक दिशा में)
<ul style="list-style-type: none"> - Credit Rationing System: English (in 18th century) and USSR (till 1990s) – their central bank will not give more than “X” amount as loan to individual banks. And an individual can't get more than prescribed amount of loans for each category (housing, education, business). (एक व्यक्ति को इससे ज्यादा कर्जा नहीं मिलेगा) - 1960s: Credit Authorization Scheme (CAS) in India: all commercial banks had to obtain prior approval of the RBI before loaning ₹ 1 crore/>> to a single borrower. - 1970s: RBI imposed quantitative ceiling on non-food loans to boost green revolution, food inflation. <p>⌚ But such measures failed due to lax monitoring and loopholes. (शिथिल निगरानी के चलते, बेअसर रहे ये साधन)</p>	<ul style="list-style-type: none"> - 🚗 Consumer credit control e.g. During deflation / recession, RBI can relax the down payment / EMI installment norms for durables like Vehicles, TV, Fridge etc. to boost consumption and demand. - Priority Sector Lending <see below> प्राथमिक क्षेत्र के ऋण मानक

12.18 🌾 🔊 💳 PRIORITY SECTOR LENDING (PSL: प्राथमिकता क्षेत्र के लिए ऋण मानक)



Figure 8: थोड़ा लोन हमको भी दिलवा दो Governor-sahib, हम बहोत गरीब हैं!

- ⇒ **1968:** First time RBI used the word “priority sector”: Banks must give 40% of their loans to 3 priority sectors 1) agriculture 2) small industries 3) exporters by 1985. (कृषि छोटे उद्योग और निर्यातक)
- ⇒ Over the years, more sectors were included in it. (समय के साथ साथ और भी क्षेत्रों को इसमें शामिल किया गया)

⇒ 2015: some reforms in PSL. → 2019: RBI's UK Sinha Committee on MSME loan reforms suggested some more reforms in the PSL. → 2020-Sept: RBI reformed PSL guidelines as following: (निम्न सुधार किए गए)

Priority Sector Loans norms → minimum quota after 2020-Sept Reforms	BEFORE	AFTER
Weak Sections (कुल लोन का कम से कम 12% जाना चाहिए कमज़ोर वर्ग को): ⇒ SC, ST, Women, PH, Minorities, Manual scavengers, Artisans, ⇒ PM-Jan DhanYojana Overdrafts upto Rs.10,000 ⇒ Beneficiaries of Govt's National Rural/Urban Livelihood Mission Schemes (NRLM/NULM: More in Pill#6: HRD → Poverty Removal Schemes)	10 %	12%*
Agriculture (कृषि) (all farmers: small and big) Agriculture: सीमांत किसान और छोटे किसान ⇒ Marginal Farmer (owns upto 1 hectre land) सीमांत किसान ⇒ Small farmer (>1 upto 2ht) छोटे किसान	10%	8%
Micro Enterprises (अति लघु उद्योग), Khadi-Village industries	7.50%	7.50%
Above categories (Weaker section, agriculture, micro-enterprise) plus, other categories such as ⇒ Small & Medium Enterprises, Affordable housing loans to beneficiaries under Pradhan Mantri Awas Yojana ⇒ food processing companies, Vermi compost, biofertilizer, seed production, ⇒ Exporters, Student-Education loans (upto Rs.10 lakh), ⇒ Social Infrastructure (schools, drinking water, sanitation facilities, health care, COVID related hospitals/labs etc); ⇒ Renewable Energy Projects (wind mills, biomass generators, solar street light, micro-hydel plants etc.) etc. (नवीकरणीय ऊर्जा परियोजनाएं)	4.50%	2.50%
Total PSL for Indian Scheduled Commercial Banks and (Foreign Banks with 20 or more branches).	40%	40%

* Above quota reforms to be implemented in Phase-Wise by 2023-24. (क्रमिक रूप से नए सुधार होंगे)

Benefit? It will loan-availability for the weaker section and small farmers thus helping in the United Nations' Sustainable Development Goals related to poverty removal. (Ref: HDT-Pillar#6) कमज़ोर वर्ग और छोटे किसानों को ज्यादा मात्रा में कर्जा मिल पाएगा. गरीबी निवारण, संयुक्त राष्ट्र के सतत विकास लक्ष्यों की प्राप्ति में मदद. ⇒ PSL quotas are 'minimum (न्यूनतम/कम से कम)' & not maximum. So, if bank wishes, it can EVEN give even 60% of its loans to weaker sections, instead of just 12% "minimum quota" meant for weaker section.
⇒ Bank's Loans given to Non-Banking Financial Company (NBFC) who are lending to above PSL categories = such 'indirect loan' to PSL sectors will also be counted for bank's quota. (बैंक द्वारा

गेरबेंक वित्तीय कंपनी को दिया गया कर्जा यदि परोक्ष रूप से प्राथमिक क्षेत्र को जाता है तो वह राशि भी कवोटा-सफलता में गिन ली जाती है।)

- ⇒ Bank + NBFC's joint lending / co-lending/ co-origination loans – what does it mean? #PHD-NOT-IMP. (बैंक और गेर-बैंक का साथ मे मिलकर पीएसएल क्षेत्र को कर्ज दिया, तो उसमे बैंक ने दिया कर्ज इस क्षेत्र में गिन लिया जाता है, कुछ शर्तों के आधीन)
- ⇒ NOTE: PSL Norms donot apply to NBFCs. PSL Norms apply ONLY to Bankers.

12.18.1 🐱 🔊 💡 PSL Reforms-2020: on RRB/SFB/UCB ?

What is the difference/meaning of SCB/RRB/SFB/UCB etc? Ans: (Ref: HDT-Pillar#1B1: classification)

Table 5: need not memorize for IAS Exam, but Memorize for RBI /Bank Exams

Type of Bank & PSL Reforms-2020:	Before	After
Indian Scheduled Commercial Banks (SCB: अनुसूचित वाणिज्यिक बैंक) and Foreign Banks in India with 20 or more branches	40%	same 40%
Foreign Bank in India with <20 branches (विदेशी बैंक)	40%	same 40%
Regional Rural Banks (RRB: क्षेत्रीय ग्रामीण बैंक)	75%	same 75%
Small Finance Banks (SFB: लघु वित्त बैंक)	75%	same 75%
Urban Cooperative Banks (UCB: शहरी सहकारी बैंक)*	40%	75%
Rural Cooperative Banks (ग्रामीण सहकारी बैंक)	N/A	N/A

- ⇒ These quotas implemented in a gradual/phase-wise manner. Will become effective in 2023-24.
- ⇒ Internal quotas may be different for these Banks e.g. RRBs: Weaker section =15%. But, poor cost-benefit in chasing all that information. # 📈 💸 थोड़ा-पढ़ो-आगे-बढ़ो

12.18.2 🐱 🔊 💡 PSL Reforms-2020: Startups, Renewable Energy and Healthcare

Outdated/technical for 2023-exam cycle, so removing from latest handout.

12.18.3 🐱 🔊 💡 PSL Reforms-2020: Weightage to poor districts (गरीब/पिछड़े जिलों को भारांक)

RBI will classify the districts based on previous PSL loans given by all banks:

Type of district	if Axis bank gives ₹100 PSL loan in this district → RBI will count Axis's quota-fulfillment as _ _ .
Low Credit penetration e.g. Tawang, Dantewada etc. जहाँ भूतकाल में बैंक-कर्ज की पहुँच कम रही है	₹125 (आरबीआई ने एक ऐसी भारांक प्रणाली बनाई है जिसमे बैंक पिछड़े जिलों मे लोन देकर बहुत आसानी से अपना पीएसएल लक्ष्यक हासिल कर सकती है।)
High Credit penetration e.g. Ahmedabad, Pune etc. जहाँ पहले से ही काफी कर्ज दिया जा चूका है	₹90 (ताकि बैंक जो पहले से सम्पन्न जिले है, उसे ज्यादा सम्पन्न बनाने की जगह पिछड़े जिले पर ध्यान दे)

Thus, RBI's PSL weightage system will passively discourage banks from giving more PSL-loans to the developed districts and it will encourage banks to give PSL-loans to backward districts. This will help in more balanced regional development. (क्षेत्रीय रूप से संतुलित विकास में यह कदम फायदेमंद होगा.)

Q MCQ. Priority Sector Lending by banks in India constitutes loans to _____. (Pre-2013)

- a) Agriculture b) Micro and Small Enterprises c) Weaker Sections d) All of the above

12.18.4 PSL Shortfalls: RIDF and UIDF



- ⇒ If a bank can't fulfill its PSL-quotas then such Underachiever bank will have to deposit PSL-shortfall money to NABARD's Rural Infrastructure Development Fund (RIDF), or other funds under SIDBI, National Housing Bank (NHB), MUDRA Ltd. etc as per the norms decided by RBI from time to time. (लक्ष्यंकों को हासिल नहीं कर पाने वाली बैंक ने आरबीआई द्वारा चिह्नित अलग-अलग संस्थाओं में पैसा निवेश करना पड़ेगा)
- ⇒ Underachiever bank will earn interest from such deposited money, but it'll be (usually) linked with Bank-Rate & their money will be locked-in a long-term project. (पैसा लंबे समय तक अटक जाएगा)
- ⇒  Budget-2023: announced setting up one more such fund called UIDF, to receive money from PSL-shortfalls.

	Rural Infrastructure Development Fund (RIDF)	Urban Infrastructure Development Fund (UIDF: शहरी बुनियादी अवसंरचना विकास निधि)
When?	1995–96	2023-Budget
Where?	under NABARD- National Bank for Agriculture and Rural Development.	under National Housing Bank (NHB)
for What?	for Agriculture, Social sector and Rural connectivity projects.	for urban infra projects especially in <ul style="list-style-type: none"> ✓ Tier-2 cities (population from 50,000 to 99,999) and ✓ Tier-3 cities (population from 20,000 to 49,999).

12.18.5 : Priority Sector Lending Certificates (PSLC) from 2016 onwards



Figure 9: भाई आमिर/Rancho हमने अपना assignment नहीं किया, तू अपना "EXTRA-walla" हमें बेच दे!

- ⇒ In this arrangement, the overachieving Banks can sell their excess PSL in form of 'certificates' to underachieving banks. (लक्ष्यकों से ज्यादा उपलब्धि हांसील करने वाली बैंक, अन्य जरूरतमंद बैंक को सर्टिफिकेट बेचती)
- ⇒ If an underachiever bank can't fulfil its PSL-quota through PSL-certificates purchase then ultimately, it'll have to deposit PSL-shortfall money to RIDF, UIDF etc funds, as explained in the previous section.

[AB] ? Which of the following is not an instrument of Selective Credit Control? (Pre-1995)

- a) Regulation of consumer credit b) Rationing of credit
c) Margin requirements d) Cash reserve ratio

[AB] ? An increase in the Bank Rate generally indicates that ___ (Pre-2013)

- a) Market rate of interest is likely to fall.
b) Central Bank is no longer making loans to commercial banks.
c) Central Bank is following an easy money policy.
d) Central Bank is following a tight money policy.

[AB] ? If RBI adopts an expansionist monetary policy, which would it not do? (Pre-2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Answer Codes: [a] 1 and 2 only [b] 2 only [c] 1 and 3 only [d] 1, 2 and 3

[AB] ? MCQ. Find Correct Statements: (Prelims-2022)

1. If the inflation is too high, Reserve Bank of India (RBI) is likely to buy government securities.
2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market.
3. If interest rates in the USA or European Union were to fall, that is likely to induce RBI to buy dollars.

Codes: (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3



12.19 🔈 💡 MONETARY POLICY TOOLS: A READY RECKONER TABLE

Table 6: समज में आ गया हो तो बढ़िया है, नहीं तो रट्टा मारो जिंदगाद (If understood then well & good, else memorize by Rot-Learning)

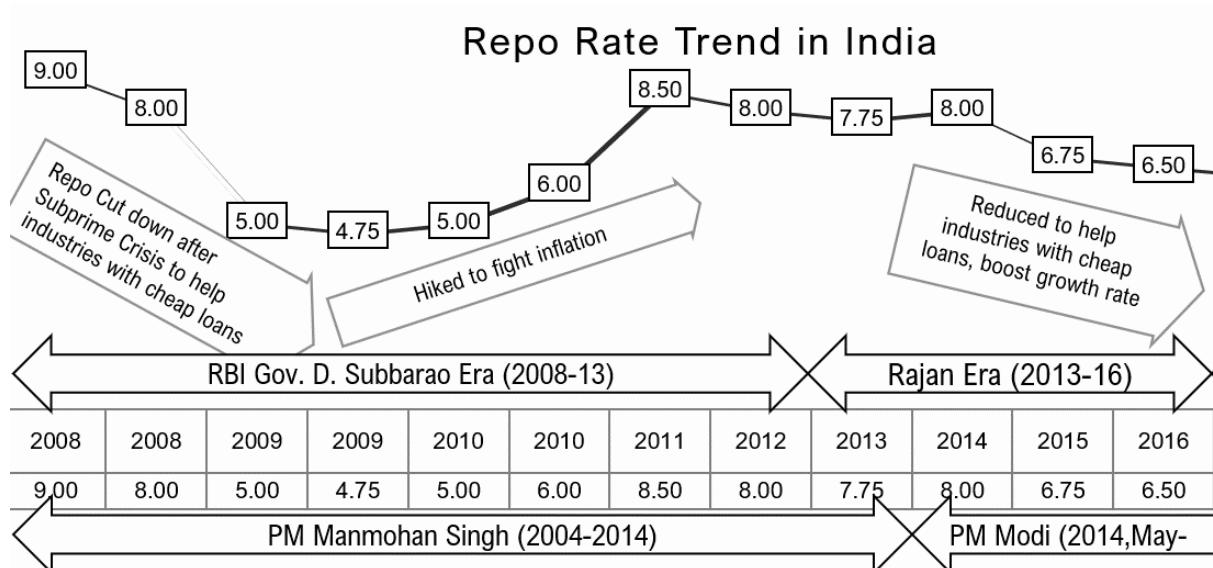
Tools & Strategy?		<2%CPI= Fight deflation (अपस्फिति)	>6%CPI= Fight Inflation (मुद्रास्फीति)
⇒ Deflation: ↑ money supply, inject liquidity=> make loans cheaper, ↑ consumption	⇒ Inflation: Do reverse	Easy, Cheap, Dovish, Expansionary policy. आसान-सस्ता व्याजदरे, विस्तारवादी	Tight, Dear, Hawkish, Contractionary तंग- मँहरी व्याजदरे, संक्षणवादी
Quantitative Tools	Reserves: CRR, SLR	↓ (Decrease)	↑ (increase)
	Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease)	↑ (increase) महंगाई से लड़ना है तो रेपो दर बढ़ा दो
	Reverse Repo, SDF	↓ (Decrease) – so banks feel less motivation to park ₹ in RBI & they become more proactive to give loans to people → ⬆️ demand → deflation fought	↑ (increase) : so banks feel more motivation to park ₹ in RBI → ⚡ loanable funds to people → ⚡ loan interest rate → ⚡ demand → inflation fought
	Market Ops (OMO)	OMO: RBI Buys G-Sec from market.	OMO: RBI Sells G-Sec
Qualitative Tools	Moral Suasion / Direct Action	Nudge / Force the banks to enforce Dovish Policy	Enforce the Hawkish policy
	Margin Requirement / Loan to Value (LTV)	Increase e.g. Gold-LTV: 60% → 90%	Do reverse of left cell.
	Selective Credit Control / Priority Sector Lending (PSL)	↑ loan-flow to sectors that can generate employment e.g. textile → workers buying more → demand /consumption increased → deflation fought. लोन का बहाव कुछ ऐसे क्षेत्रों में करो कि रोजगार निर्माण हो और वह सब मजदूर खरीदारी करें ताकि अर्थतंत्र में मांग बढ़े	- ↓ the loan-flow to sectors where speculative investment is leading to demand-side inflation e.g. real estate & housing. - ↑ loan-flow to sectors where loans can ↑ supply e.g. onion farmers.

** MCQs usually confined to how can CRR,SLR,Repo & OMO be used for inflation / deflation control. For rest of the tools you need not waste time thinking 500-jaat-ke-combinations and Birbal-Khichdi. ☺

12.20 🔊 MONETARY POLICY IN PRESENT-DAY INDIA

There are 3 strategies / ways of making a monetary policy: (तीन तरीके से मौद्रिक नीति बनाई जा सकती है)

1. 💵 **Exchange rate stability** (विनिमय दर स्थिरता): Singapore & other export-oriented economies use this. They try to keep their local currency at certain rate against US-dollar to boost exports.
(How? Ans 📈 Pillar#3)
2. 📈 **Multiple Indicators** (एकाधिक संकेतक): Central Bank tries to focus on Economic Growth, Employment, Inflation Control and Exchange rate stabilization. India's RBI followed this strategy upto 2016.
3. 🔮 **Flexible Inflation Targeting (FIT) / Price Stability** (मुद्रास्फीति लक्ष्यीकरण): Central Bank only aims to keep inflation controlled, THEN other indicators (growth, employment, exchange rate) will automatically fall in line. Model successful in Western nations → RBI's Urjit Patel Committee Report (2013-14) recommended it for India → adopted from 2016-October, by amending RBI Act Section 45. (2016 में रिजर्व बैंक के कानून में संशोधन कर भारत ने यह रणनीति/तरीका अपनाया है)



12.20.1 🔊 Monetary Policy Making under RBI Act since 2016



Figure 10: जाने क्या होगा रामा रे..... सोचना है क्या? जो होना है होगा, चल पड़े हैं फ़िक्र यारो....

Table 7: composition of the statutory Monetary Policy Committee (MPC: वैधानिक मौद्रिक नीति समिति):

RBI side (3 members)	Govt. Side (3 members)
<ol style="list-style-type: none"> 1. RBI Governor, as the Ex-officio Chairman. 2. Dy.Governor responsible for Monetary Policy. Michael Patra (from 2020-Jan). Earlier Viral Acharya. 3. One person nominated by RBI Central Board: Mridul Saggar (Executive Director, RBI). 	<ol style="list-style-type: none"> 1. Dr. Shashanka Bhade from National Council for Applied Economic Research (NCAER, Delhi) 2. Dr. Ashima Goyal from Indira Gandhi Institute of Development Research (Mumbai) 3. Dr. Jayanth R Varma from IIM-A
<p>Their tenure tied with their ex-officio job tenure (पदेन कार्यकाल) E.g. Shaktikanta's <i>shakti</i> (powers) will be gone after his 3-years tenure as RBI-Governor expires, unless he is reappointed. (Note: Shaktikanta is reappointed till Dec-2024.)</p>	<p>Tenure: 4 years, no re-appointment. (4 साल का कार्यकाल और उसके बाद पुनःनियुक्ति असंभव)</p>
<p>RBI Governor & Dy.Gov are selected by Financial Sector Regulatory Appointment Search Committee (FSRASC) is headed by Cabinet Secretary (IAS)</p>	<p>They're selected by Search-cum-Selection Committee headed by Cabinet Secretary (IAS)</p>

- ⇒ Meeting quorum 4 persons, incl. Governor. (कार्यसाधक संख्या: कम से कम चार लोगों की हाजरी जरूरी)
- ⇒ Legally required to hold minimum four meetings in a year. (सालाना कम से कम 4 बार मिलना जरूरी)
- ⇒ In practice, they meet every two months to decide bi-monthly monetary policy updates. (Although during Corona-lockdown met more frequently).
- ⇒ Repo rate=Policy rate= benchmark interest rate: decided by Majority vote. (मौद्रिक नीति दर बहुमत से तय)
- ⇒ When they vote for the first time, all members, including the Governor, will vote. If tie → Governor can vote again for second time as casting vote (यदि मतों में बराबरी हुई, तो गुत्थी सुलझाने के लिए निर्णायक मत गवर्नर देंगे).
- ⇒ To ensure **transparency / accountability** (पारदर्शिता / जवाबदेही):
- ⇒ Govt can send message only in writing. (सरकार केवल लिखित में संदेश भेज सकती है)
- ⇒ Committee must publish its minutes of the meeting on the 14th day, and “Monetary Policy report” at every 6 months.(नियत समय पर कुछ दस्तावेज प्रकाशित करने होंगे)
- ⇒ **Inflation target** decided by Union Government, after consulting with RBI Governor. (गवर्नर से विमर्श करने के बाद महंगाई नियंत्रण का लक्ष्य सरकार तय करेगी)
- ⇒ **Present target:** Keep Consumer Price Index (CPI:All India) within 2-6%. [alternate way of saying= 4% +/- spread of 2%] (More about CPI/Inflation in Pillar#4C)
- ⇒ Target was Valid for: Originally from 2016-2020 (ending at 31/03/2021). Now same target extended till 31/3/2026.

- ⇒ **⌚ Target fail:** if inflation not kept in this 2-6% zone for 3 consecutive quarters (=9 months) then Committee must send report to Govt with reasons and remedies (यदि सतत नौ महीनों तक महंगाई इन सीमाओं के बाहर रही तो समिति की असफलता मानी जाएगी → असफलता के कारण-उपचार की रिपोर्ट रिज़र्व बैंक ने सरकार को भेजनी होगी).
- ⇒ **2022-Nov:** the inflation has remained more than 6% for more than 9 months continuously so now the MPC committee drafting a report to Govt. But it is not released public domain yet. We will learn about it in Win23 FREE Series in 2023-Feb, depending on observations of Eco Survey.

MCQ ? MCQ. With reference to inflation in India, find correct statement: (Prelims-2015)

- Controlling the inflation in India is the responsibility of the Government of India only
- The Reserve Bank of India has no role in controlling the inflation
- Decreased money circulation helps in controlling the inflation
- Increased money circulation helps in controlling the inflation

MCQ ? MCQ. Find correct statements about Monetary Policy Committee: (Prelims-2017)

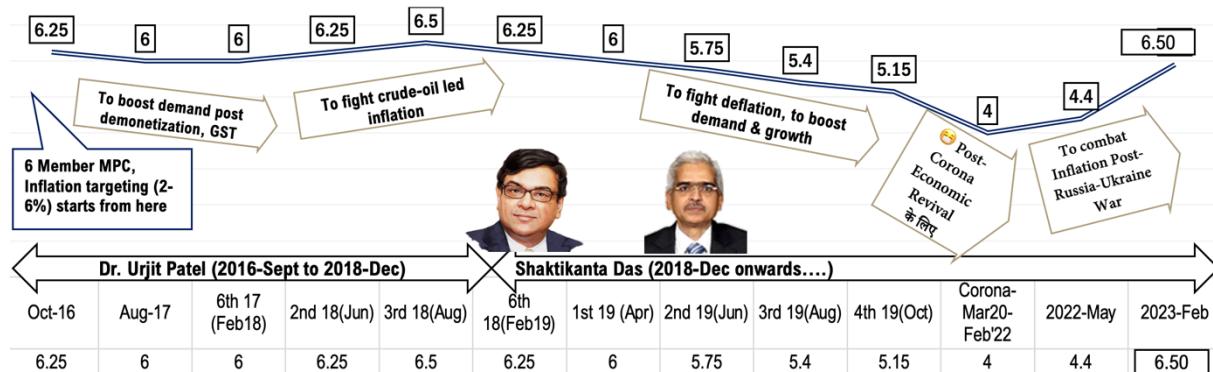
- It decides RBI's benchmark interest rates.
- It is a 12-member body including the Governor of RBI and is reconstituted every year.
- It functions under the chairmanship of the Union Finance Minister.

Codes: (a) 1 only (b) 1 and 2 only (c) 3 only (d) 2 and 3 only

MCQ ? MCQ. Who is responsible for maintaining price stability by controlling inflation ?

- Department of Consumer Affairs
- Expenditure Management Commission
- Financial Stability and Development Council
- Reserve Bank of India

12.21 🔊 REVIEW OF BI-MONTHLY MONETARY POLICIES



12.21.1 🚗 Stance: Calibrated Tightening / Neutral / Accommodative

After every meeting, RBI MPC will announce its stance i.e. What they'll do with Repo Rate in the next Meeting. (भविष्य की मीटिंग में रेपो दर के साथ क्या किया जाएगा, इसका इशारा/ संकेत दिया जाता है)

Stance= what RBI will do in next meeting	Will they hike/increase  repo?	Will they cut/decrease  Repo?	Will they hold/keep repo unchanged?
Calibrated Tightening	<input checked="" type="checkbox"/> Possible	 No they'll not cut	<input checked="" type="checkbox"/> Possible
Neutral	<input checked="" type="checkbox"/> Possible	<input checked="" type="checkbox"/> Possible	<input checked="" type="checkbox"/> Possible
Accommodative	 No they'll not hike	<input checked="" type="checkbox"/> Possible	<input checked="" type="checkbox"/> Possible

- ⇒ This provides guidance to the investors/borrowers/bankers about future action of RBI.
- ⇒ However, RBI MPC is not legally bound to follow the stance. E.g. Dec-2018 Governor Urjit-Patel led MPC announced Calibrated Tightening, yet in next meeting Feb-2019 Governor Shaktikanta led MPC decreased  repo rate, because they felt it was necessary to combat deflation. (कानून रूप से बाध्य नहीं. कभी कभी समिति इसका उल्लंघन भी कर देती है)
- ⇒ 2022-May-June: Even though MPC said Accommodative Stance, still they kept increasing the Repo Rate to fight inflation.

12.22 RBI's MONETARY POLICIES: BEFORE 2020-CORONA

 Policy Decisions & Regulatory Announcements [We will study in appropriate pillars/sections, so DONOT LOSE SLEEP YET]	
2018 -era pattern	<p>⇒ Inflation was high/rising  so, Governor Urjit Patel led MPC kept  Repo in the range of 6-6.50% (मुद्रास्फीति/महंगाई बढ़ रही थी इसलिए रिपो दरों को ऊचा रखा गया था)</p> <ul style="list-style-type: none"> - Stance: Calibrated Tightening.
2019-era pattern	<p>⇒ Inflation was falling below 2%  so, Governor Shaktikanta Das led MPC kept decreasing Repo from 6.##% to 5.##% to boost economy (अपस्फीति/सस्ताई बढ़ रही थी इसलिए रिपो दरों में कटौती)</p> <ul style="list-style-type: none"> - Stance: Accommodative.
2020-2021 Corona Era	<p>⇒ Corona lockdown = supply chain disruption = inflation was rising. in such situation, making a loan is expensive, will not fix the problem. (आपूर्ति श्रृंखला प्रबंधन में समस्या के चलते खाद्य महंगाई बढ़ी थी- तो रिपो दरों में बदलाव द्वारा उस महंगाई का समाधान असंभव)</p> <p>⇒ So, instead, RBI decreased Repo to 4% and CRR to 3% boost demand/shopping in the corona slowdown. (कोरोना के बाद अर्थतन्त्र को वापस खड़ा करने के लिए सस्ते लोन अनिवार्य)</p> <p>⇒ Stance: Accommodative.</p>

12.23 RBI's MONETARY POLICIES: CORONA 2020

- ⇒ By default, RBI's MPC Committee supposed to meet every 2-2 months. So, After February's meeting, they should hold next meetings in April.
- ⇒ But in Corona crisis economic slowdown they met more frequently in March to May. (कोरोना महामारी के चलते आए आर्थिक संकट से निपटने के लिए समिति ने तय समय से पहले एकाधिक मीटिंग का आयोजन किया)

⇒ The gist of above March-April-May announcements are as following (and they're considered to be part of ATMANIRBHAR BHARAT initiative to revive Indian Economy after Corona. We'll learn more about it in Pillar#2D and #4C):

ATMANIRBHAR → Reforms by RBI 2020-2021	We'll learn in Pillar#
Reduced CRR to 3% and Repo to 4%	Present handout
Opened new loan windows such as TLTRO, On-Tap Window etc.	Present handout
Gold Loan LTV: Before 75% → AFTER 90%. benefit? More quantity of loan can be taken by pledging same quantity of gold → post-corona economic-revival.	Present handout
Loan/EMI/NPA relief / Moratorium (ऋण अदायगी पर अस्थाई रूप से रोक)	1B2: NPA
Special Refinance Facility for AIFI (All India Financial Institutions). खास किस की पुनर्वित योजना, अखिल भारतीय वित्तीय संस्थानों के लिए	1B1: classification of Banks → AIFI (NABARD, SIDBI, EXIM, NHB)
RBI Committee under KV Kamath submitted report on how to restructure loans impacted by the Covid 19 pandemic. RBI assured we'll implement that report.	1B2: BASEL norms
RBI defers BASEL Norms, IndAS accounting Norms, orders bank to pause/halt the Dividend Distribution (नियमों को स्थगित किया गया)	1B2: BASEL norms
: RBI reforms Ways and Means advances (WMA) and Consolidated Sinking Fund (CSF)	1C: SEBI/Sharemarket: Short term Debt instruments
RBI reforms attracting foreign investment: ⇒ Voluntary Retention Route (VRR: स्वैच्छिक अवधारण मार्ग) ⇒ Fully Accessible Route (FAR: सम्पूर्णतः सुगम्य मार्ग)	3A: Balance of Payment (BoP): FDI, FPI

12.24 RBI MONETARY POLICIES: APRIL-2022 ONWARDS

12.24.1 Monetary Policy: April-2022 (SDF)

- ⇒ No changes in key rates or Stance. Repo unchanged @4% so Automatically MSF@4.25 and RR@3.35%. Stance: Accommodative
- ⇒ Introduced Standing Deposit Facility (SDF: स्थायी डिपॉज़िट सुविधा).
- ⇒ BEFORE 2022-April: Policy Corridor = MSF <→ REPO <→ Reverse Repo
- ⇒ After 2022-April: Policy Corridor = MSF (Repo+0.25%) <→ REPO <→ SDF (Repo-0.25%)

12.24.2 🐱🔊 Monetary Policy: May-2022 Repo ↑

- ⇒ RBI required to control inflation in 2-6% CPI and RBI MPC usually meets every 2-2- months.
- ⇒ but inflation crossed 7% (Because Russia Ukraine crisis → imported fertiliser & crude oil prices increased etc.)
- ⇒ so emergency MPC meeting held → outcome → (वैसे तो हर दो महीने मिलना था लेकिन महँगाई हद से ज्यादा बढ़ गयी तो आपातकालीन मीटिंग बुलायी)
- ⇒ Repo increased from 4% to 4.40% to combat inflation.
- ⇒ Automatically, as per the formula: MSF = $4.40\% + 0.25\% = 4.65\%$
- ⇒ Automatically, as per the formula: SDF = $4.40\% - 0.25\% = 4.15\%$
- ⇒ Reverse Repo Unchanged at 3.35%
- ⇒ Separately, RBI Governor announced to increase CRR from 4% to 4.50%. This will reduce the loanable funds to by more than ₹85,000 crore. ↘ loanable funds → ↑ loan interest rate → ↘ demand/shopping → ↘ inflation. (NOTE: MPC can't decide CRR. Only RBI Governor alone can decide CRR.)
- ⇒ Stance: Accommodative but in future we will 'withdraw' this stance.

► 🌟 FAQ: Isn't this repo-increase a violation of the Accommodative stance announced earlier?
 Ans. MPC has no legal obligation for accommodative stance. MPC has only 1 legal obligation-control inflation in 2-6% range. (अकोमोडेटिव-रवैये के हिसाब से ही काम करना होगा ऐसा कानूनन रूप से अनिवार्य नहीं है।)

12.24.3 🐱🔊 Monetary Policy: 2022 so far upto 2023-Feb ↑

Month	Repo	Addl. Comments if any
2022-April	4%	Learned in previous section
2022-May	4.40%	
2022-June	4.90%	Repo increased to fight inflation
2022-Aug	5.40%	
2022-Sept	5.90%	Traditionally, committee meets every 2-2 months, but this Emergency meeting because inflation not under control.
2022-Dec	6.25%	Repo increased to combat inflation.
2023-Feb	6.50%	Repo increased to combat inflation. ⇒ SDF = Repo minus 0.25% = 6.25% ⇒ MSF = Repo PLUS 0.25% = 6.75% ⇒ Reverse Repo Unchanged at 3.35%

12.25 🐱🔊 MONETARY POLICY: GOVERNORS OTHER REGULATORY ANNOUNCEMENTS

- ⇒ Monetary Policy Committee decides only Repo rate. Other decisions, such as CRR-SLR cut, PSL norms, banning magnetic-chip cards etc are decided separately alone by RBI Governor.
- However, after the meeting, he'll make above type of announcements, in the Press conference.

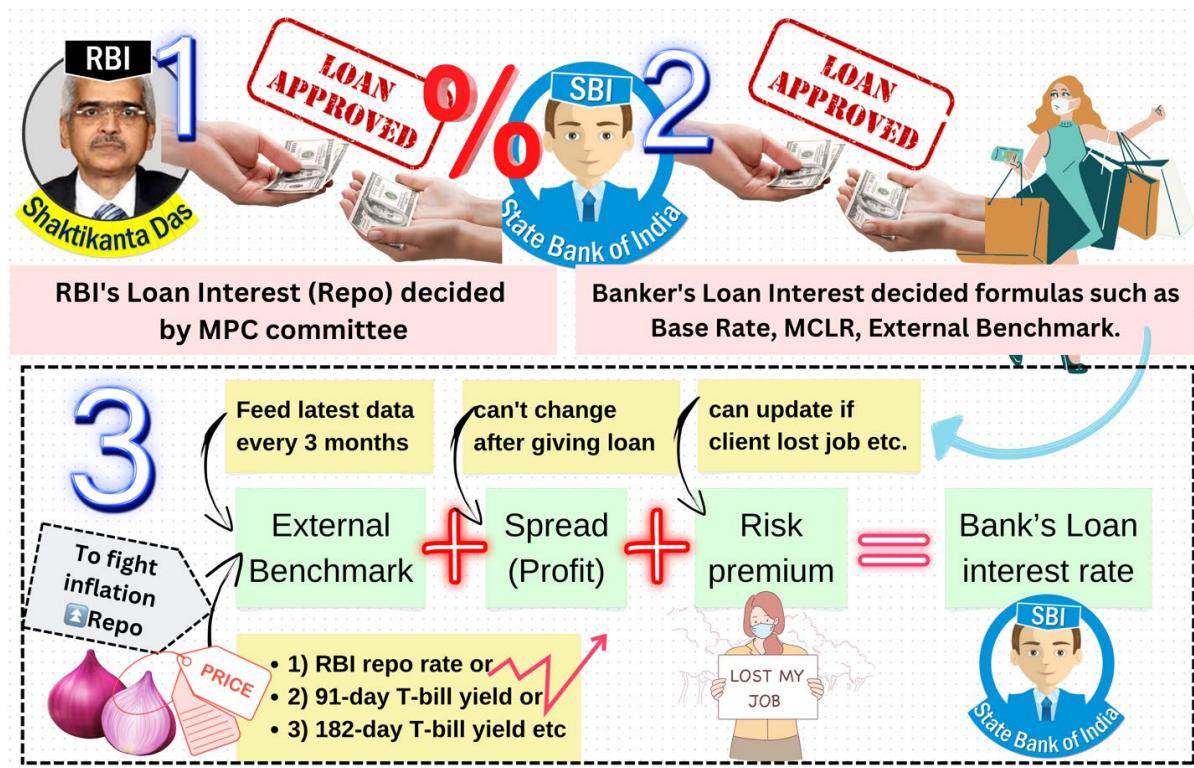
Q MCQ. RBI recent directives relating to 'Storage of Payment System Data', popularly known as data diktat command the payment system providers that : (Prelims-2019)

- 1) They shall ensure entire data relating to their payment systems are stored in a system only in India.
- 2) They shall ensure that the systems are owned and operated by public sector enterprises.
- 3) They shall submit the consolidated system audit report to the comptroller and Auditor General of India by the end of the calendar year.

Find Correct Statement(s): codes: (a) 1 only (b) 1 and 2 only (c) 3 only (d) 1,2 and 3 only

Ans. After April-2018's monetary policy RBI governor announced certain regulatory reforms. One of them was :- Payment System data must be stored in India within next 6 months, to ensure its safety against misuse / Russian-Chinese-hackers. So, for Prelims-2019, this was D-1 year current affairs. Now we are targeting 2023, so need not put so much efforts behind 2018's current affairs.

12.26 ₹ 🌐 🏠 🚚 BANKS' LENDING RATES % (बैंक ऋण की व्याज दरें)



RBI's 6-member statutory MPC decides policy rate (=repo rate) to keep inflation within 2-6% CPI (All India) but who decides lending rates of individual banks, & how? Ans:

1969	Govt began nationalization of private banks, and 'administered interest rates' (प्रशसित व्याज दरें) on them i.e. Govt would decide how much loan interest rate the banks should charge on borrowers?
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1991	M.Narsimham suggested deregulation: Govt should not dictate / administer individual banks' interest rates. RBI should only give methodology to banks. (सरकार ने अपने मनमाने ब्याज दर थोपने नहीं चाहिए)
2003	RBI introduced Benchmark Prime Lending Rate (BPLR) system
2010	<ul style="list-style-type: none"> - RBI introduced formula “BASE Rate + formula = bank's loan interest rate”; - update frequency on individual banks' discretion (अपनी मर्जी/ विवेकाधीन). So, it did not help transmission of monetary policy much. - So, Even If RBI reduced repo rate, the banks would not update their formula figures regularly. रिजर्व बैंक ने अपनी रिपो दर कम करी किंतु बैंकोने लोन सस्ते नहीं किए 😔
2016	<p>⇒ RBI introduced formula “Marginal Cost of Funds based Lending Rate (MCLR) + Spread” system. (how exactly it worked? Outdated info. NOT IMP)</p> <p>⇒ 😔 Limitation? From January to Oct 2019, RBI <input checked="" type="checkbox"/> repo rate by 1.35% but banks reduced their loan interest rates by merely 0.40%.</p> <p>⇒ Thus, even though RBI reduced its repo rate, banks are not quickly reducing their loan interest rates. So MCLR system was ineffective. (रिजर्व बैंक ने अपनी रिपो दर कम करी किंतु बैंकोने लोन सस्ते नहीं किए, इसलिए ये प्रणाली प्रभावी नहीं)</p>

12.27 BANK'S LOAN INTEREST RATE: EXTERNAL BENCHMARK (बाहरी बेंचमार्क)

MCLR's #EPIC-FAIL ultimately forced RBI to order external benchmark formula from 1st Oct 2019.

External Benchmark + Spread(Profit) + Risk premium = Bank's Loan interest rate.

12.27.1 External Benchmark: Formula Components:

Individual bank free to pick any one External Benchmark such as

- 1) RBI repo rate or
 - 2) 91-day T-bill yield or
 - 3) 182-day T-bill yield or
 - 4) any other benchmarks by an organization named Financial Benchmarks India Ltd.
- ⇒ Banks must feed the latest data of external benchmark in above formula, atleast once every three months. (हर 3 महीनों पर फार्मूला में नए आंकड़े डालने होंगे)
- ⇒ So both fresh and old/existing borrowers will benefit (e.g.if repo rate decreased).. तो मान लीजिए रेपो दर सस्ती हुई होगी → नए और पुराने लोन ग्राहकों को उस सस्ते ब्याजदर का फायदा मिल जाएगा)

12.27.2 External Benchmark system: Which borrowers eligible?

1. Personal loans (taken for any sudden emergency expenditure)
2. Retail loans (home, vehicle, electronics etc)
3. Loans to micro & small enterprises
4. Loans medium enterprises (this 4th category is to be added from 1/April/2020).

5. It is applicable to old/previous loans in above categories, if borrower fills the application form.

⌚⌚ **External Benchmark Benefits?** = Better/faster transmission of Monetary Policy; transparency & accountability to borrowers. (मौद्रिक नीति का प्रभावी प्रसार में, लोन ग्राहकों के प्रति पारदर्शिता और जवाब देही)

12.27.3 💵🏠🚗:▶️⌚ External Benchmark system: FAQ

- ⇒▶️⌚ FAQ: Can existing existing/old borrowers benefit? Answer is within the handout if you read it carefully.
- ⇒▶️⌚ FAQ: Can bank change external benchmark indicator after giving loan? Ans. Watch Video
- ⇒▶️⌚ FAQ: Can bank change the spread(Profit) in the formula after giving loan to a client? Ans. Not allowed to change. (and this is not imp for exam)
- ⇒▶️⌚ FAQ: Can bank change the “Risk Premium” in the formula after giving loan to a client? Ans. Yes e.g. Govt employee thrown out of job after getting loan, then banker may 🔺 the risk premium on him because now he's jobless so the risk probability of his loan default 🔺. (and this is not imp for exam)

12.27.4 Banks' Lending Rates % → Fixed vs Floating interest loans, teaser loans, NPA etc.

Refer to 📈 Pillar1B-2: burning issues → NPA

12.28 🏛️🚫 LIMITATIONS OF MONETARY POLICY IN INDIA (मौद्रिक नीति की मर्यादाएँ)



Figure 11: मैं काम तो कर रहा हूँ, लेकिन उसकी सकारात्मक असर, अर्थव्यवस्था पर दिख नहीं रही। 😞

Even though monetary policy updated is every 2 months, its efficacy in controlling inflation & boosting growth is restricted by following factors: (मौद्रिक-नीति मंहगाई-नियंत्रण और आर्थिक वृज्जीमे असरकारकता नहीं दिखा पायी क्योंकि:)

- 1) 😞 Western countries' households → consumerist lifestyle → don't save large amount of money in Banks. So their banks borrow more quantum of money from US Federal reserve and European Central Bank respectively. Whereas in India, Repo is not major source of funds for Indian banks, due to higher level of savings & deposits. (पाश्चात्य देशो मे उपभोक्तावादी जीवनशैली. जबकि भारतीयो मे बेंक-बचत की भावना के चलते हमारे बेंकों के लिए आरबीआई के रेपों लोन, पैसो का मुख्य स्रोत नहीं है। अंतः रिपो दर सस्ते होने पर भारतीय बेंकों को खास फर्क नहीं पड़ता।)

- 2) 😞 Before the External Benchmark System: Indian Banks did not immediately pass on the RBI rate cuts to customers, citing NPA/Bad loans / profitability problem. According to RBI's own research, it took minimum 6-12 months for repo rate cut to benefit end-customers and it took about 24 months for repo rate changes to impact inflation. (बाहरी-बेंचमार्क से पहले के समय में, भारतीय बैंक तुरंत अपने व्याजदर कम नहीं करते थे।)
- 3) 😞 Poor management in Public Sector Banks (PSB), scams in the private sector banks, large level of Non-Performing Assets (NPA) also stymie the impact of monetary policy. (सार्वजनिक क्षेत्र के बैंकों में बेअसर प्रबंधन, निजी क्षेत्र के बैंकों में घोटाले, अनर्जक परिसंपत्तिया) *More in Pill1B2*
- 4) 😞 Supply Side Issues: El-Nino/Poor monsoon hurting crop production → food inflation; Wars & Geopolitical issues global crude oil & raw material prices, protectionism by China-US denting our exports. RBI can't control them. (कम बारिश + मध्यपूर्व की भूराजनीतिक तनाव = भारत में कच्चे माल की आपूर्ति को असर करते हैं, चीन-अमरीका का संरक्षणवाद, भारतीय निर्यातमें बाधा डालता है। इन्हे नियंत्रण में रखना आरबीआई के लिए मुश्किल।) *Refer Pill3&4A*
- 5) 😞 While cheap loans can boost consumption, investment and growth but because of poor-monsoon-fear and oil-price fear, RBI (during Raghuram Rajan and Urjit Patel's governorships) was usually apprehensive of inflation and more inclined to keep repo rate high. Then RBI was get criticized for not facilitating cheap loans & economic growth because of its 'Hawkish policy'. (महंगाई-नियंत्रण के चक्र में कभी कभी खुद रिजर्व के मंहोरिपो-व्याजदारों ने अर्थतन्त्र को आगे बढ़ने से रोका है।)
- 6) 😞 Government Side Issues: Fiscal deficit, Subsidy leakage, Populist Loan-waivers etc. (राजकोषीय खाध, सबसिडी का रिसाव, लोकलुभावन के लिए किसानों की ऋण-माफी) *Pill#2D → FRBM Act*
- 7) 😞 Structural Issues in Economy: lack of Ease of Doing Biz, electricity-road infrastructure = production /supply affecting inflation trends. (व्यापारमें सुगमता की कमी, बिजली-सड़क की अवसंरचना आदि बुनियादी मसलों के चलते उत्पादन/आपूर्ति की कमी। रिजर्व बैंक जादू की छड़ी चलाकर इसे दुरुस्त नहीं कर सकता) *More in Pill4B&5*
- 8) 😞 Presence of Informal moneylenders in rural areas who circulate black money at exorbitant interest rates. Poor penetration of banking sector, lack of financial inclusion, cash-intensive rural economy etc. (व्याजखोर/साहूकार जो कालाधन ऊचे व्याज पर घुमाते हैं, सभी गरीबों के वित्तीय समोवेशन की कमी, नगदी मुद्रा पर ज्यादा आधीन है हमारी ग्रामीण अर्थव्यवस्था। रिजर्व बैंक अपनी रेपो दर कम भी करें, इधर कुछ फर्क नहीं पड़ता) *More in Pill1D*

12.28.1 Monetary policy: liquidity deficit in banking system

As of now, I don't find it imp for exam. Because, textbook, budget, economic survey, RBI etc not loudly talk about it. ONLY Indianexpress wrote about it to fill pages. But u can satisfy your intellectual curiosity from this video: <https://youtu.be/4q8Xk1cJUCg?t=1099> Timestamp: 18:19

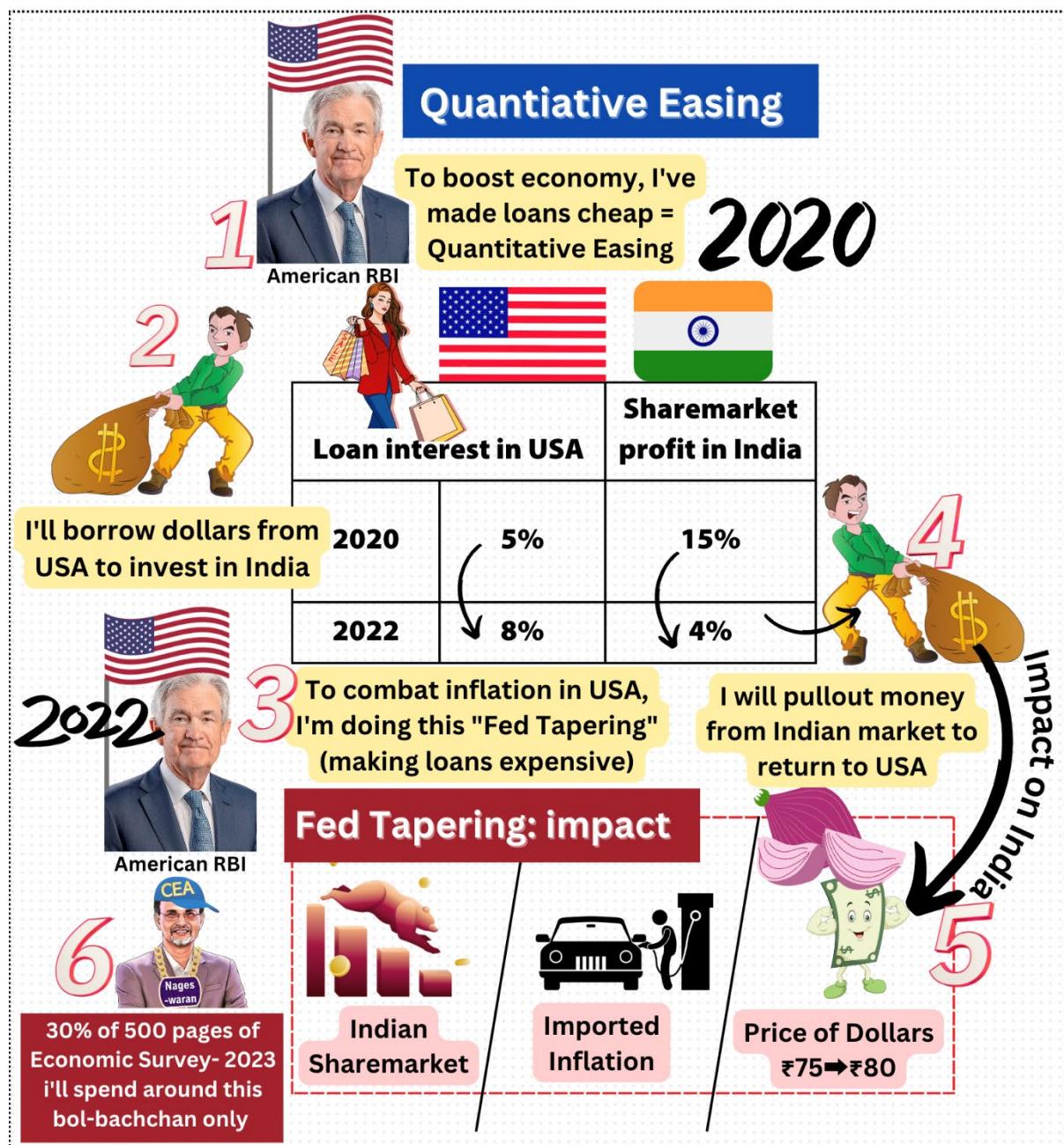
12.28.2 Monetary policy limitations: Cheap loans causing inflation?

⇒ MPC member Prof. Jayanth Varma believes that Covid-19 is becoming like tuberculosis which kills a very large number of people every year without inflicting major damage to the economy.

And there is a possibility that Covid-19 will haunt us for the next 3-5 years. (क्षय रोग /टीबी मैं भी सालाना कई लोग मरते हैं लेकिन उससे अर्थतंत्र को कोई नुकसान नहीं होता। भविष्य में कोरोना भी ऐसा हो जाएगा। इसलिए कोरोना के डर से पूरी जिंदगी हम लोन सस्ते नहीं रख सकते.)

- ⇒ But we can't continue to keep cheap loans (4% repo) for so long, else it'll cause asset price inflation. (e.g. suppose rich men buying 3-3 bungalows using cheap loans for 'investment' → demand for bungalows increased → home prices increased = inflation in asset prices.
- Similar problem in Sharemarket Ref#1C). (वरना यही सस्ते लोन भविष्य में मकान, शेयर इत्यादि संपत्तियों में महंगाई का कारण बन सकते हैं)
- ⇒ This could also result in Stagflation= Persistent high inflation, high unemployment and low growth. (अंततः उच्च महंगाई दर, उच्च बेरोजगारी दर हो सकती है और आर्थिक वृद्धि दर में गिरावट हो सकती है)

12.28.3 📈 🔊 📈 US Fed Tapering & Impact on India

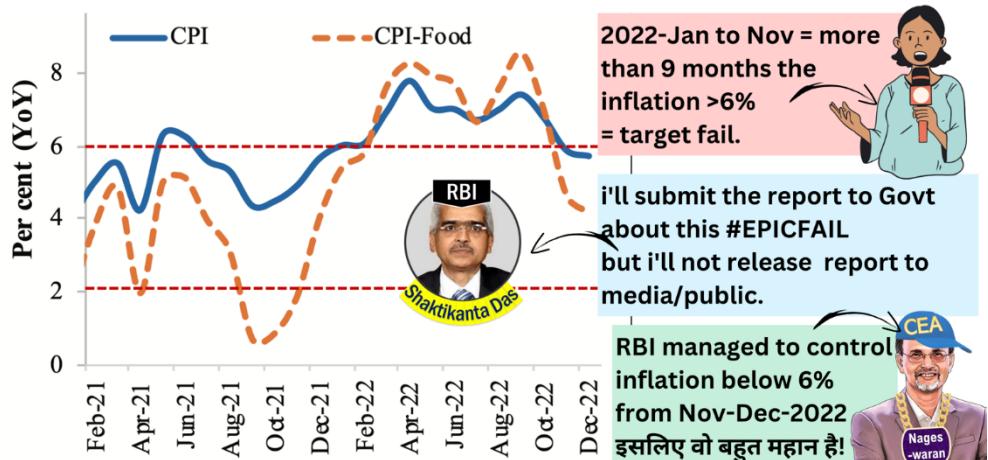


FAQ: What does above chart mean? Ans. Explained in the Video lecture.

12.28.4 🐚 🎧 Monetary policy limitations: Black Swan Events

- ⇒ A Black Swan Event means an unprecedented unexpected extreme risk event e.g. 2007's USA sub-prime crisis, 2020's Corona. (ऐसी अप्रत्याशित घटना जिससे अर्थतंत्र को बहुत नुकसान हो जाता है)
 - ⇒ RBI report says next black swan event → FPI may pullout \$100 billion from Indian market → it'll create problems similar to previous section.
 - ⇒ Black Swan Theory given by author Nassim Nicholas Taleb in book– The Black Swan.
- 🐚 FAQ: Can we say “Fed Tapering” is a black swan event? Ans. No. Because it was not ‘unexpected’ event. It was expected by economists. (वो अप्रत्याशित नहि था, पहले से सब विशेषज्ञों को अनुमान था।)

12.29 📈 📈 MONETARY POLICY OBSERVATIONS BY 📈 ES23



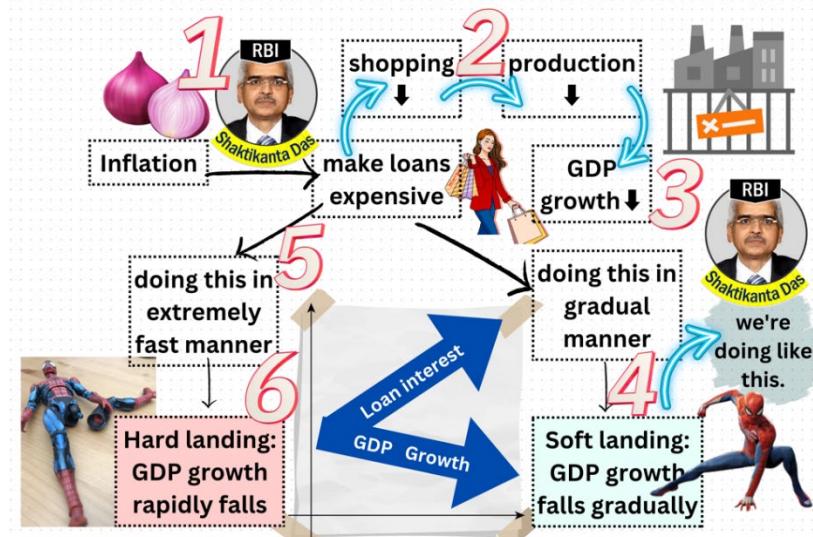
More about inflation in Pillar4E: macroeconomic indicators - inflation.

12.29.1 📈 📈 Rate hikes: RBI vs Other Central banks

Nation / Central Bank	Repo Hike since 2022-April to Dec
.US Federal Reserve	4.25%
European Central Bank (ECB)	3%
Bank of England	2.50%
India's RBI	2.25%

- ✓ Tight monetary policy is being pursued in all major countries, and not just in India.
 - ✓ RBI has not increased the loan rates as much as some other big countries e.g. USA, because RBI wants to do ‘soft landing’ and not ‘hard landing’.
- सिर्फ भारत में नहीं बल्कि सभी बड़े देशों में, केंद्रीय बैंक महंगाई से लड़ने वास्ते, संकुचन वादी मौद्रिक नीति अपना रहे हैं। हालांकि अन्य देशों के मुकाबले भारतीय रिजर्व बैंक ने दे दनादन लोन को बहुत महंगा नहीं, ताकि भारत की आर्थिक वृद्धि में हार्ड लैंडिंग/भारी गिरावट न आ जाए.

12.29.2 🎯 Monetary Policy: Soft landing vs Hard Landing

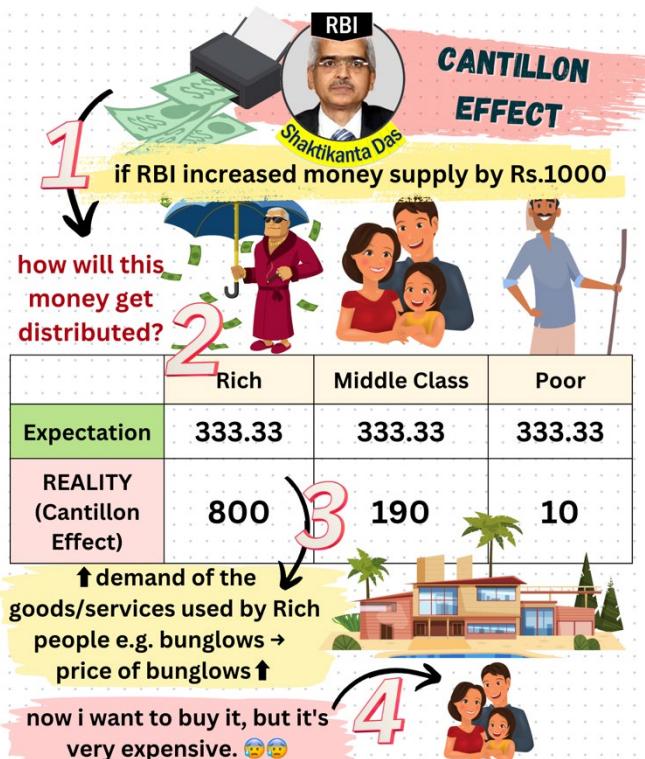


महंगाई से लड़ने वास्ते अगर लोन महंगे किए तो जनता खरीदारी कम करेगी और उत्पादन गिर जाएगा इसलिए लोन होले-होले महंगी करने चाहिए. वरना आर्थिक वृद्धि दर की टांगे टूट जाती है।

💡 What does above chart mean? Ans. Explained in the video lecture 🎬.

12.29.3 🎯 Monetary policy limitations: Cantillon Effect

- ⇒ Given by the 18th century French economist Richard Cantillon.
- ⇒ When the money supply is increased, the purchasing power of people who first receive the freshly-created money is increased at the cost of the rest of people. What does it mean? Ans. Watch video lecture.



NEXT HDT: Pillar1B1- Classification of Banks and NBFCs