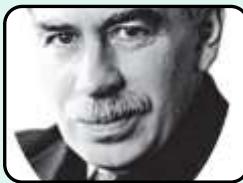


Pill1-A-2: money supply & Monetary Policy → continued



Liquidity preference theory



Deposit Types



Measures of Money Supply M1-M4



M0 & Money Multiplier



CRR, Repo,

Economic survey 2020 (ES20): Bank deposits suddenly ↑ in the aftermath of Demonetisation-2016 (because the public was required to deposit the banned notes in their bank account). However, after demonetisation, growth of bank deposits has fallen.

Q Which of the following is not included in the assets of a commercial bank in India? (Prepared by CBSE)

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

11.12.1 Measures of Money Supply (मुद्रा आपूर्ति के परिमाण)

- Money supply means the total amount of money in an economy at any given time.
- Money supply plays a crucial role in the determination of 1) price level (=inflation) and 2) interest rates. It depends on deposits & loans. मुद्रा की आपूर्ति महाराई दर और ब्याज दरों पर असर करती है
- RBI measures the money supply through indicators: M0, M1, M2, M3, M4



Edu Doubt?
Ask through

Google
Forms

Measure संकेत, व्यापक		*CU	Commercial Banks		Post Office Savings Bank		L
Demand Deposits (CASA)	Time Deposits (FDRD)		Demand Deposits (SA)	Time Deposits			
Narrow Money	M1	✓	✓	X	X	X	---
Money	M2	✓	✓	X	✓	X	---
Broad Money	M3	✓	✓	✓	X	X	☆☆
	M4	✓	✓	✓	✓	✓	☆☆☆☆

- Self-Extrapolate e.g. $M_3 = M_1 + \text{Time deposits with commercial banks}$.
- M3 is the most commonly used for measuring money supply, aka "Aggregate Monetary Resources / Aggregate Money Supply" (समस्त मौद्रिक संसाधन).
- In above formulas for money supply, we are only counting the "NET Demand / NET Time deposits" i.e. only public deposits in bank. We are not counting interbank deposits i.e. one commercial bank's deposit in other commercial banks. एक बैंक से दूसरे बैंक में पैसा डिपोजिट किया हो तो उसे नहीं गिनते इधर
- Liquidity= ease of converting an asset into cash. Cash is the most liquid asset.

- o Highly liquid assets (अत्यधिक तरल संपत्ति): Gold, Demand deposits, G-Sec/T-Bill, shares/bonds of

Handout already uploaded

RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



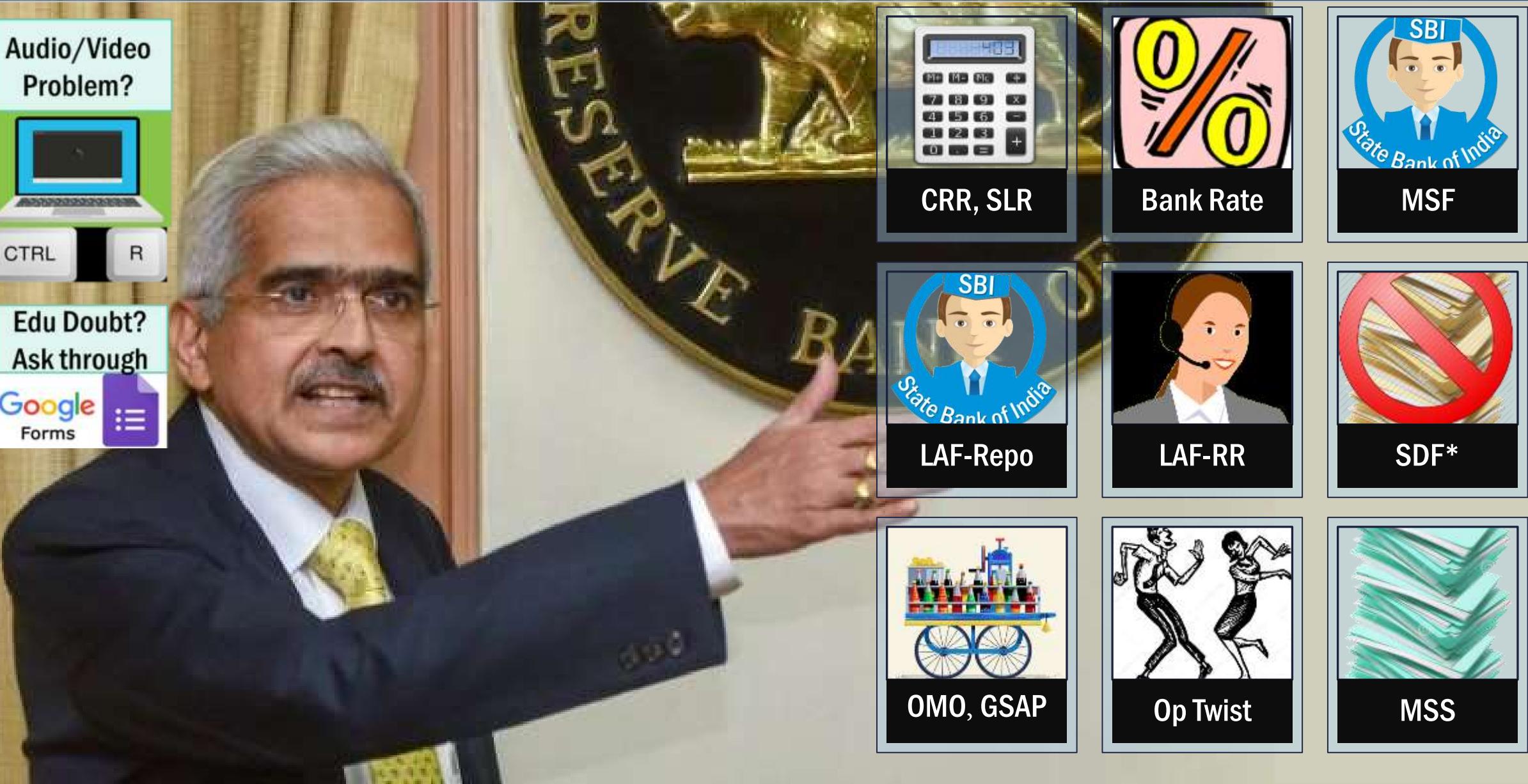
CTRL R

Edu Doubt?
Ask through



Google Forms

OneDrive



Introduction: Monetary policy VS Fiscal Policy (मौद्रिक नीति और राजकोषीय नीति)

- CRR SLR
- Repo Rate
- Open market operations
- Priority sector lending norms
- & other Qualitative and quantitative tools

RBI's monetary policy



- Taxation
- Subsidy
- Public Expenditure
- Public Private Partnership
- Disinvestment
- And other tools

Finance Ministry's Fiscal policy



Budget is the main tool of fiscal policy presented annually
On the first working day of February**

Together they help shaping the Economy...

⬆️ Savings (बचत)

⬆️ Investment:
domestic, foreign

⬆️ GDP (सकल घरेलू
उत्पाद)

⬇️ Unemployment
(बेरोजगारी)

⬇️ Inflation
(महंगाई/मुद्रास्फीति)

Currency Exchange
Rate (मुद्रा विनिमय दर)

Handout has monetary policy definition

12 🏛️ 🔈 MONETARY POLICY (मौद्रिक नीति)

- [Definition] Monetary Policy is a macroeconomic policy (समष्टि आर्थिक नीति), designed by the central bank of a country, to manage money supply & interest rates. It helps shaping variables such as inflation, consumption, savings, investment, and capital formation (मुद्रा-आपूर्ति व ब्याजदरो को नियंत्रित करके मुद्रास्फीति/महंगाई, मांग/खपत, बचत, निवेश, पूँजी निर्माण को आकार देना).
- [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)
- Milton Friedman: American economist whose research on monetary policy made this subject more popular, he also won a Nobel in Economics in this regard (1976).
- Philip Curve: Inflation ↑ = unemployment ↓ (and vice versa). मंहगाई बढ़ेगी तो बेरोजगारी घटेगी. मंहगाई कम होगी तो बेरोजगारी बढ़ेगी. (More in Pillar#4C)
- Therefore, stable & moderate inflation is good for the economy. (स्थिर व मध्यमस्तर)
- So, RBI tries to keep inflation with 2-6% CPI (All India) using its bi-monthly monetary policy made by its 6- member statutory Monetary Policy Committee. (द्वि-मासिक मौद्रिक नीति का छः-सदस्यवाली वैधानिक समिति द्वारा निर्माण)

- This definition will make sense to you, once we've finish entire handout.
- यह व्याख्या का मतलब क्या है? वह भी पता चल जाएगा पूरा topic खत्म होने दो
- ⚪ So don't loose sleep.

Deposits = technically 'Net demand and time liability (NDTL) on FRIDAY..



Bank's liabilities	Demand (CASA)	Time (FDRD)
+ Deposits	+70	+65
- Withdrawals	-30	-05
NET Amt left	=+40	=+60



Take photo @Friday.
Where is Tax, profit, loss, loans?

हर रोज बैंक में
कुछ लोग पैसा जमा होंगे
कुछ लोग अपने बचत खाते से पैसा
निकालते भी होंगे
तो ऐसा करते-करते
शुक्रवार के अंत में
बैंक में कितना पैसा बचा
उसको हम गिनेंगे
उसके ऊपर CRR-SLR रखेंगे

Deposits = technically 'Net demand and time liability (NDTL) on FRIDAY..



Bank's liabilities	Demand (CASA)	Time (FDRD)
+ Deposits	+70	+65
- Withdrawals	-30	-05
NET Amt left	=+40	=+60

Take photo @Friday.
Where is Tax, profit, loss, loans?

How exactly is it counted at 4PM or 5PM of Friday?
Is it weekly or is its fortnightly?
 Ans. NOTIMP4UPSC



$40+60=\text{₹ } 100$ NDTL of SBI

What's difference between DTL, Total DTL, NDTL?

ANS NOTIMP4UPSC. If you are interested google search yourself. #not best use of time.





Incoming

Deposits

₹100

NDTL



Outgoing

1. CRR

2. SLR

3. Loans

4. SDF

5. Reverse Repo

₹4.50

RBI pays 0% Interest to Axis on CRR



Shaktikanta Das



**MONETARY POLICY TOOLS:
CASH RESERVE RATIO (CRR) I**

Incoming	Outgoing
Deposits ₹100 	1. CRR → ₹4.50 2. SLR → ₹18 → 3 3. Loans 4. SDF 5. Reverse Repo



RBI pays 0% Interest to Axis on CRR

2




CRR, SLR = buffer/safety during bank-run



some profit
possible for Axis



MONETARY POLICY TOOLS: STATUTORY LIQUIDITY RATIO

Rumours fuel run on ICICI Bank in Gujarat for 2nd day

TNN | Apr 12, 2003, 12:25 IST



Outgoing (100)

CRR,SLR:22

Loans: 78

incoming (100)

Deposits
100

1) 2003: ICICI “bank run”, due to A'bad rumor mill

2) 2008: ICICI bank run, due to rumor mill that ICICI had invested in Lehman Brothers USA → crisis it'll collapse

911 views | Sep 30, 2008 05:08pm

Rumors Spark Run On Indian Bank

By Megha Bahree

Wall Street's worries made their way to India Tuesday as ICICI Bank , the country's largest private-sector bank, saw hundreds of clients withdrawing cash at branches and ATMs in some parts of the country on rumors that the bank could fail.

Bank run =कुछ बार बाजार में अफवाह फैल जाती है कि यह बैंक में कांड हुआ है तो डिपाजिट धारक तनाव में आकर अचानक से सारा पैसा निकालने आ जाएंगे



Rumours fuel run on ICICI Bank in Gujarat for 2nd day

TNN | Apr 12, 2003, 12:25 IST

**Outgoing (100)**

CRR,SLR:22

Loans: 78

incoming (100)Deposits
100

- 4) But your deposited money loaned for 20 years tenure!!!

अभी के अभी वापस कैसे दूँ!!? 😭 😭

Here is some money from CRR/SLR.

In between, RBI /FinMin calms down the fake news.

1) 2003: ICICI “bank run”, due to A'bad rumor mill

2) 2008: ICICI bank run, due to rumor mill that ICICI had invested in Lehman Brothers USA → crisis it'll collapse



3) Give us our deposits BACK AT ONCE!!! अभी के अभी वापस करो



911 views | Sep 30, 2008 05:08pm

Rumors Spark Run On Indian Bank

By Megha Bahree

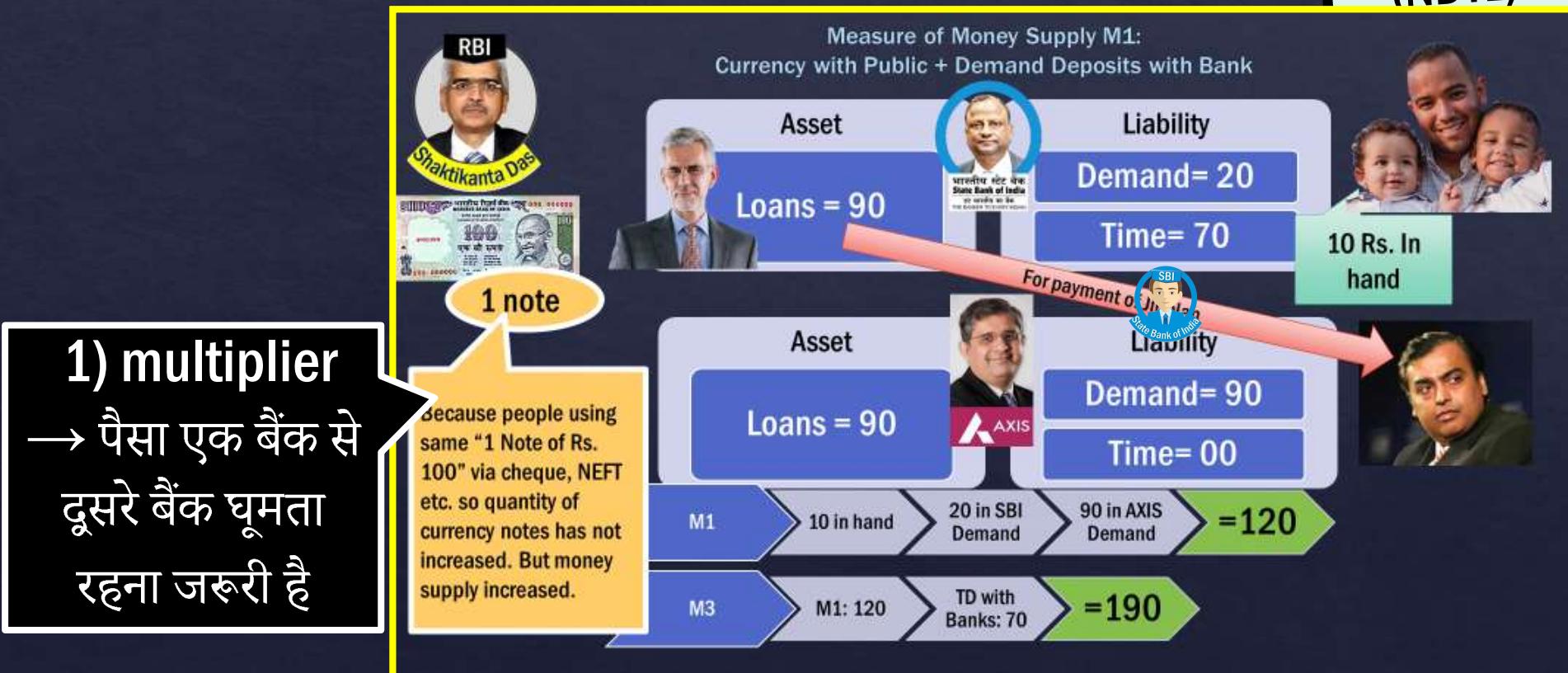
Wall Street's worries made their way to India Tuesday as ICICI Bank , the country's largest private-sector bank, saw hundreds of clients withdrawing cash at branches and ATMs in some parts of the country on rumors that the bank could fail.

If SLR or → how much impact on money multiplier?

Ans. Difficult to put in formula because



₹100
Deposited
(NDTL)



If SLR or → how much impact on money multiplier?

Ans. Difficult to put in formula because



Cash

Banks may invest SLR in

Gold



G-Sec

2) SLR: 18

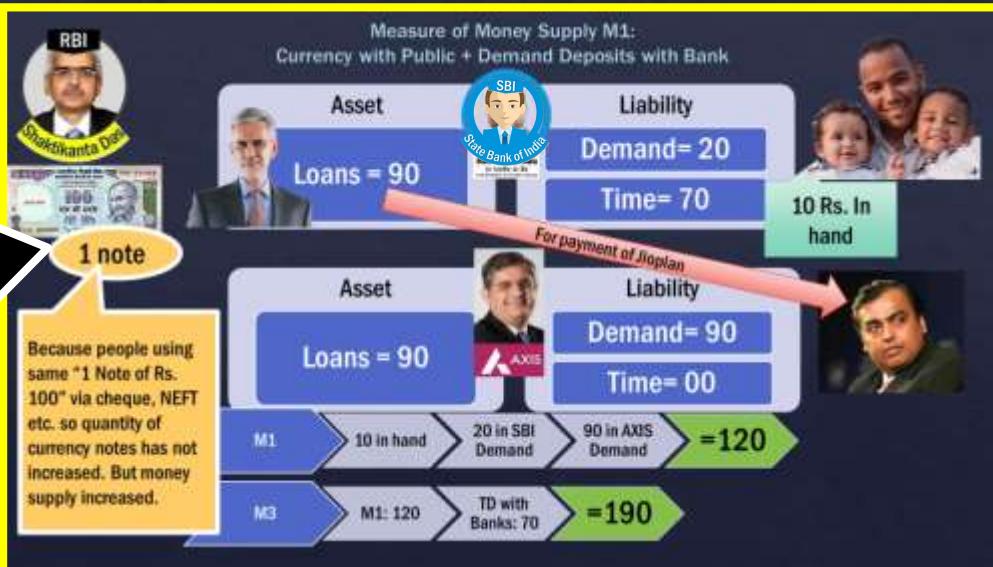


3) if Bank purchases gold from the Jeweller for SLR, but the Jeweller does not deposit the money into a bank then multiplier will not



1) multiplier
→ पैसा एक बैंक से दूसरे बैंक घूमता रहना जरूरी है

Because people using same "1 Note of Rs. 100" via cheque, NEFT etc. so quantity of currency notes has not increased. But money supply increased.



Statutory /legal/ variable reserve requirements → CRR, SLR

Reserve

CRR

SLR

Under Which LAW?

RBI Act 1934

Banking Regulation Act
1949

Legal Minimum value
(Floor: न्यूनतम मात्रा)

not PRESCRIBED.

Not PRESCRIBED.

Legal Maximum Value
(Ceiling: महत्तम)

not PRESCRIBED.

Maximum Legal Value 40%



Moral outrage:
Q. ऐसा क्यों है? Why not merge
CRR+SLR them together?



Ans. Send suggestion to Modi to
merge these act. Until done,
prepare as given in handout.



UPSC के
बाबूशोने

Can RBI keep CRR @100%

Statutory/legal/ variable reserve requirements → CRR, SLR

Reserve	CRR	SLR
Under Which LAW?	RBI Act 1934	Banking Regulation Act 1949
Legal Minimum value (Floor: न्यूनतम माला)	not PRESCRIBED.	Not PRESCRIBED.
Legal Maximum Value (Ceiling: महत्तम)	not PRESCRIBED.	Maximum Legal Value 40%



Moral outrage:
Q. ऐसा क्यों है? Why not merge



Ans. Send suggestion to Modi to merge these act. Until done, prepare as given in handout.

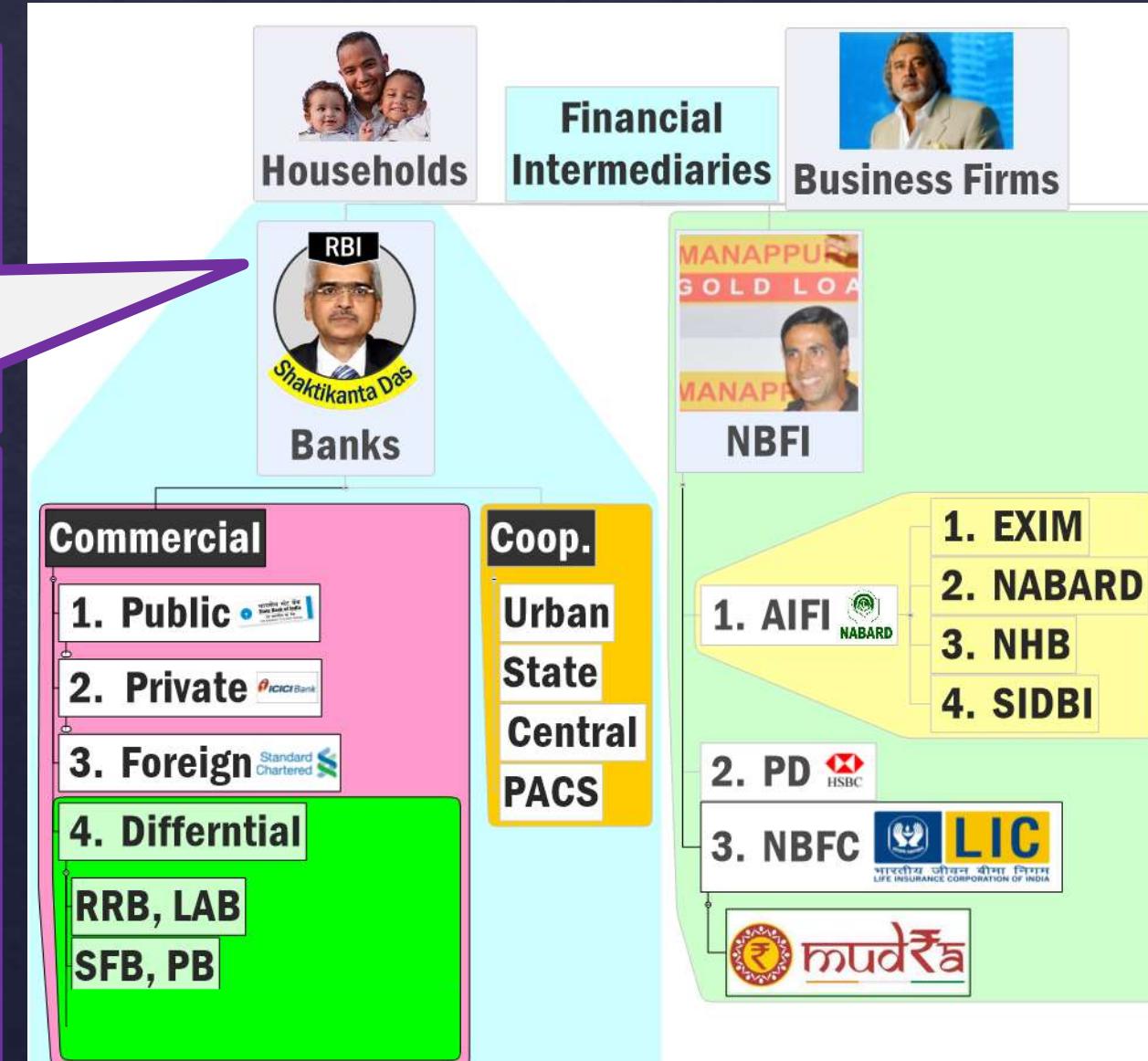
- Legally there is no prohibition
- So RBI can keep CRR @100 but then Banks will stop functioning because they can't give loans!
- कानूनन रिज़र्व बैंक को कोई रोक नहीं है वह चाहे तो ऐसा कर सकता है लेकिन रिज़र्व बैंक ऐसा करेगी तो बैंक धंधा कैसे करेंगे पूरा अर्थतंत्र ही बंद हो जाएगा
- और आपको क्यों लगता है कि गवर्नर ऐसी बदमाशी करेगा? आपको जो काल्पनिक बदमाशियां दिखती हैं यूपीएससी पूछ नहीं रही है



Applicability of CRR, SLR -सभी प्रकार के बैंकों ने इसे मानना होता है हालांकि कुछ प्रकार के बैंकों के लिए इसके % प्रतिशत के पैमाने अलग हो सकते हैं

What is Scheduled Commercial Banks (SCB)-
will study later on
More in 1B-1 (Classification)

- All Scheduled Commercial Banks (SCB) must keep CRR/SLR
- however, RBI may prescribe separate norms/ slabs for
 - RRBs
 - Cooperative Banks
- How much Exactly? ⚡ NOTIMP



Pill1-A-2: money supply & Monetary Policy → continued



Liquidity preference theory



can RBI print as much money as they want?

- Ans. No! Asset = Liabilities
- क्या रिजर्व बैंक मन चाहे उतनी मात्रा में हवा में नोट छाप सकता है क्या?



Deposit Types



Measures of Money Supply M1-M4



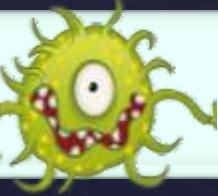
M0 & Money Multiplier



Money Multiplier



CRR & SLR Basics

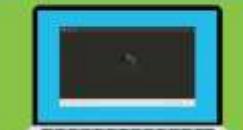


Impact of Corona on M0, M1, M3, Multiplier



Velocity of Money (मुद्रा का वेग)

Audio/Video Problem?



CTRL

R

Edu Doubt?
Ask through

Google Forms

Don't proceed without finishing lectures of 23-24 feb.
Else You will struggle to understand

The money multiplier in an economy ↑ increases with which one of the following?

- A. ↑ Increase in the Cash Reserve Ratio. जब CRR में बढ़ोतरी की जाए
- B. ↑ Increase in the banking habit of the population आबादी की बैंकिंग की आदतों में बढ़ोतरी हो
- C. ↑ Increase in the Statutory Liquidity Ratio (जब SLR में बढ़ोतरी की जाए)
- D. ↑ Increase in population of the country देश की आबादी में बढ़ोतरी हो
- E. SKIP.



इनमें से कौन सी
घटना होगी तो
मुद्रा गुणक बढ़ेगा

100% Surety

50:50

Skip

Atte

Coin¤cy with public + Deposits with Bank=M3



M0= ₹100 ka 1 note



Process:

1st Bank

2nd Bank:

3rd Bank:

...

...Nth Bank



M3
= cash&coin with public + deposits
in bank
=0 + sum of the PINK FRAME

Every “R” reserve generates “1/R” new money

Reserve Ratio “R”

$$100\% = 1$$

$$20\% = 1/5$$

$$10\% = 1/10$$

$$5\% = 5/100 = 1/20$$

$$4\% = 4/100 = 1/25$$

$$3\% = 3/100 = (1/33.3)..\,$$

Multiplier ($1/R$)

$$1x$$

$$5x$$

$$10x$$

$$20x$$

$$25x$$

$$33x$$

Means, if RBI ↓ the CRR, then money supply (M1, M3) will ↑

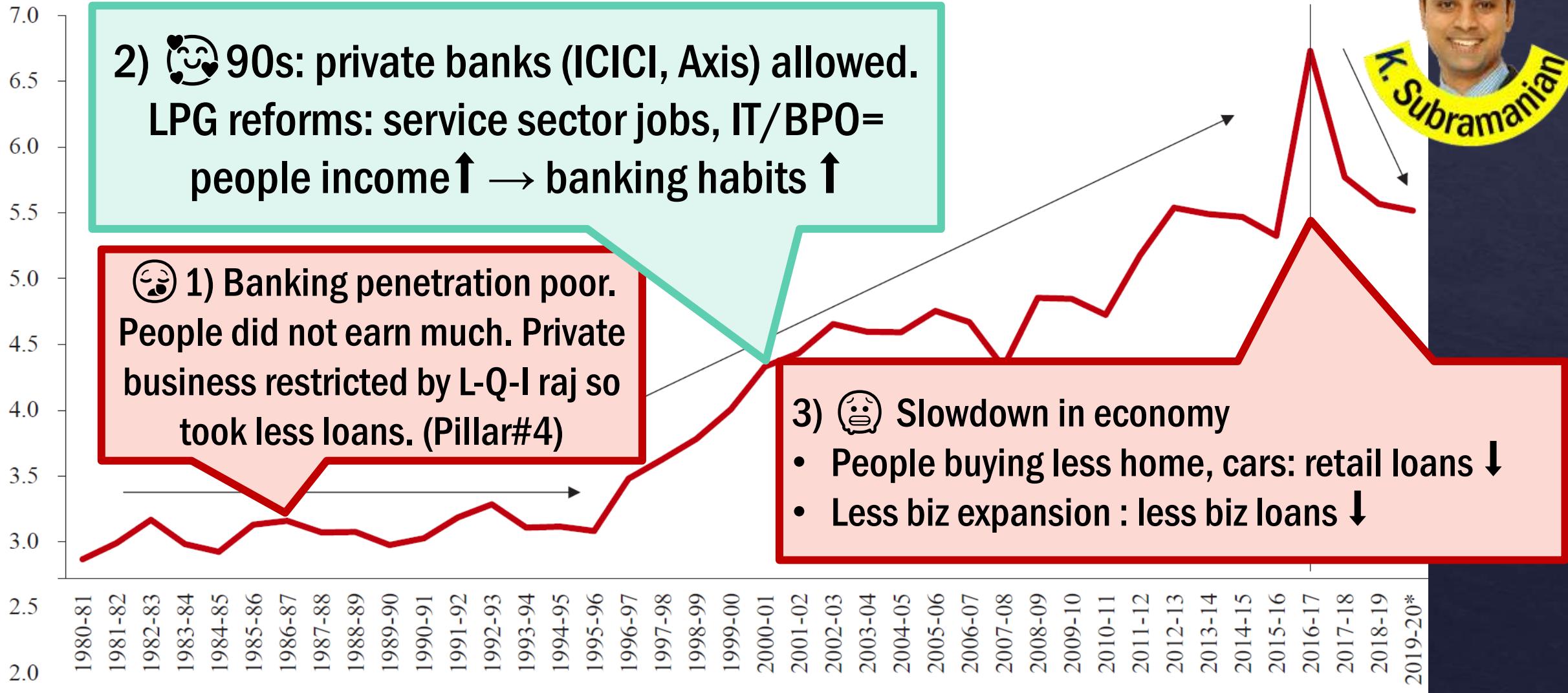
$$10\% = \frac{10}{100} = \frac{1}{10}$$

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

So, is it 25x in real life?

Economic Survey 2020 vol2 Ch4: money multiplier

CEA



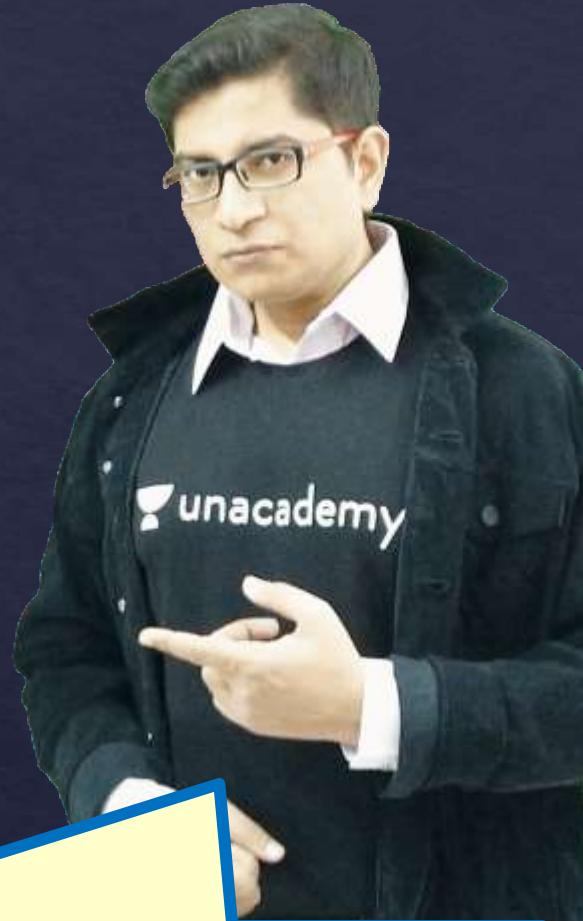
Factors: how much ₹ people deposit, how much ₹loans taken

The money multiplier in an economy ↑ increases with which one of the following?

- A. ↑ Increase in the cash reserve ratio: then money multiplier will decrease because $1/R$ (inverse relation)
- B. ↑ Increase in the banking habit of the population
- C. ↑ Increase in the statutory liquidity ratio. (irrelevant)
- D. ↑ Increase in the population of the country (Birbal ki Khichdi: when they'll grow up, start earning, open bank account)

100% Surety

Been teaching it for ~ 10 years because this much given in NCERT, but asked for first time (2019). These are ‘low-frequency’ topics, one should prepare but without excessive PhD/overthinking.



The money multiplier in an economy increases with which one of the following? (इनमें से किस स्थिति में मुद्रा गुणक में बढ़ोतरी हो सकती है)

a) Increase in the Cash Reserve Ratio in the banks [जब सीआरआर में बढ़ोतरी की जाए]

b) Increase in the Statutory Liquidity Ratio in the banks [जब एसएलआर में बढ़ोतरी की जाए]

c) Increase in the banking habit of the people [लोगों की बैंकिंग आदतों में बढ़ोतरी हो]

d) Increase in the population of the country [देश की अपेक्षा हो]



UPSC IAS PRELIMS 2019-SetA Q90.

The money multiplier in an economy increases with which one of the following?

- A. Increase in the cash reserve ratio: then money multiplier will decrease because $1/R$ (inverse relation)
- B. Increase in the banking habit of the population
- C. Increase in the statutory liquidity ratio. (irrelevant)
- D. Increase in the population of the country (Birbal ki Khichdi: when they'll grow up, start earning, open bank account)



100% Surety

50:50

100% Surety

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Economy Practice MCQ from UPSC's non-IAS exams (2020)

Q01. The **Cash Reserve Ratio** refers to (UPSC-CDS-i-2020)

- A. the share of Net Demand and time liabilities that banks have to hold as **liquid assets**. तरल संपत्तीओं में रखनी है
- B. the share of Net Demand and time liabilities that banks have to hold as **balances with the RBI**. रिजर्व बैंक में जमाराशि के रूप में रखनी है
- C. the share of Net demand and time liabilities that banks have to hold as **part of their cash reserves**. नकदी में रखनी है
- D. the ratio of **cash holding to reserves** of banks. नगदी: भंडार का अनुपात है
- E. SKIP



100% Surety

50:50

Skip

Please don't write ans in chatbox. Simply click on appropriate vote button.



Shaktikanta Das

Cash Reserve Ratio (CRR): 4% on deposits

डिपॉजिट का कुछ हिस्सा बैंकों ने रिजर्व बैंक में रखना है

CRR: Banks' deposit to RBI.

On which RBI (usually) pays no interest. सामान्य रूप से रिजर्व बैंक इस पर कोई ब्याज नहीं देता

Outgoing

CRR: 4

Loans: 96

Incoming

Deposits:
100

- CRR: we can't loan that much portion of deposit to anyone.
- We can't invest it in gold/Gsec etc.
- Simply keep it aside as a DEPOSIT to RBI.



Economy Practice MCQ from UPSC's non-IAS exams (2020)

Q01. The cash reserve ratio refers to (UPSC-CDS-i-2020)

- A. the share of Net Demand and time liabilities that banks have to hold as liquid assets. ✋ No, that's SLR
- B. the share of Net Demand and time liabilities (NDTL) that banks have to hold as balances with the RBI | . रिजर्व बैंक में जमाराशि के रूप में रखनी है
- C. the share of Net demand and time liabilities that banks have to hold as part of their cash reserves. Tempting but “B” is more apt.
- D. the ratio of cash holding to reserves of banks. Not right because the word NDTL / Deposit is missing.
- E. SKIP



Explanation-B: CRR is banks' deposit (=balance) to RBI on which RBI pays no interest.

मेरी बैंक बलेन्स = मेरी डिपॉजिट/ जमाराशी ।

बैंक का आरबीआई मे बलेन्स = डिपॉजिट (**CRR**)

100% Surety

Q. Find correct statements about Statutory Liquidity Ratio (SLR)

1. To meet SLR, Commercial banks must keep cash only. बैंको
ने इसे सिर्फ नगदी में रखना है
2. SLR is maintained by the banks with themselves. बैंको ने इसे
अपने पास रखना है
3. SLR restricts the banks leverage in pumping more money
into the economy. (एसएलआर अर्थतंत्र में ज्यादा पैसा घुमाने की बैंक
की शक्ति को शक्ति सीमित करता है)

Which of the statements given above is/are correct?

- (a) 1, 2 and 3 (b) 1 and 3
(c) 2 and 3 (d) only 2 (e) SKIP



SLR के बारे में
सही विधान ढूँढिए

100% Surety

50:50

Skip

Atte

Try this

Q. Find correct statements about Statutory Liquidity Ratio (SLR)
[UPSC-CDS-2011-II]

No, Even gold/G-Sec/other securities approved by RBI

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.

Which of the statements given above is/are correct?

- (a) **1, 2 and 3** (b) **1 and 3**
(c) 2 and 3 (d) only 2

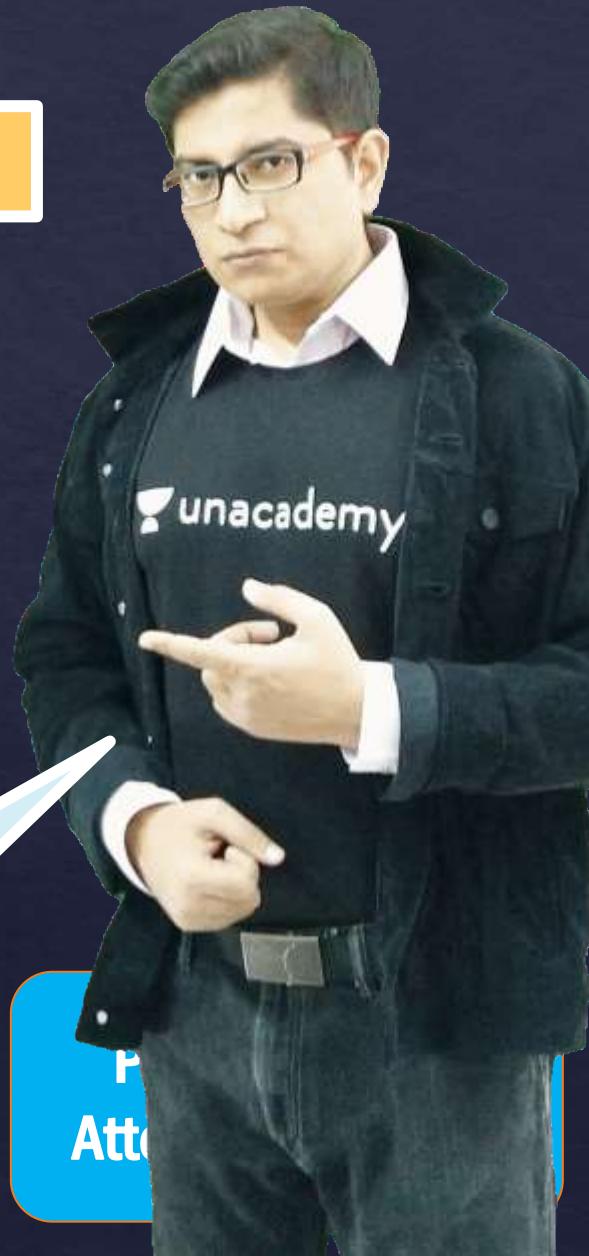
So #2 is definitely correct. All depends on validity of #3

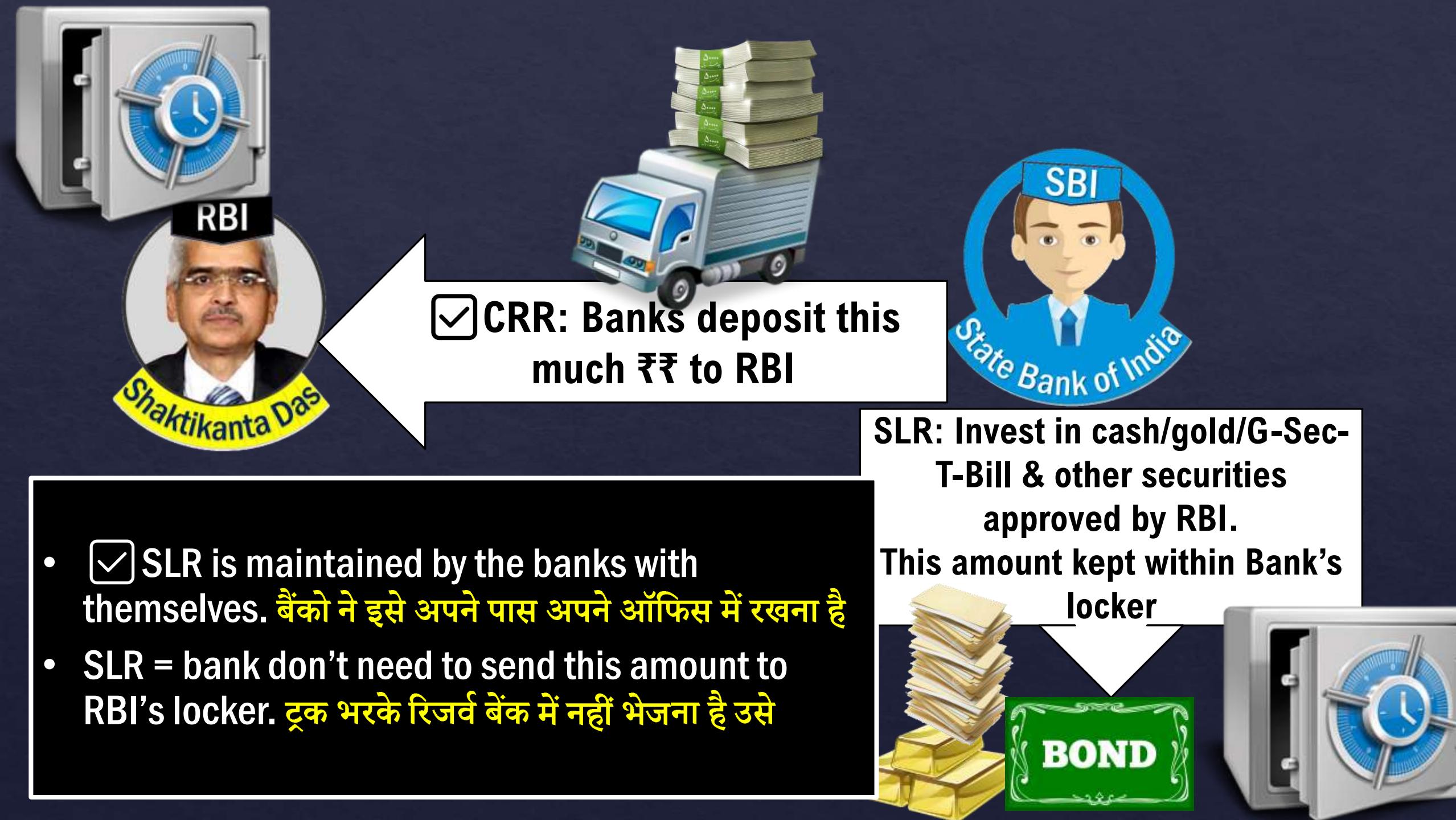
100% Surety

50:50

Skip

P
Atte





Q. Find correct statements about Statutory Liquidity Ratio (SLR)

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

Which of the statements given above is/are correct?

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

100% Surety

50:50

Even gold/G-Sec/other securities approved by RBI

↑ SLR = ↓ loans banks can give.
↓ SLR= ↑ loans. So, it decides the 'boundary/seema'.

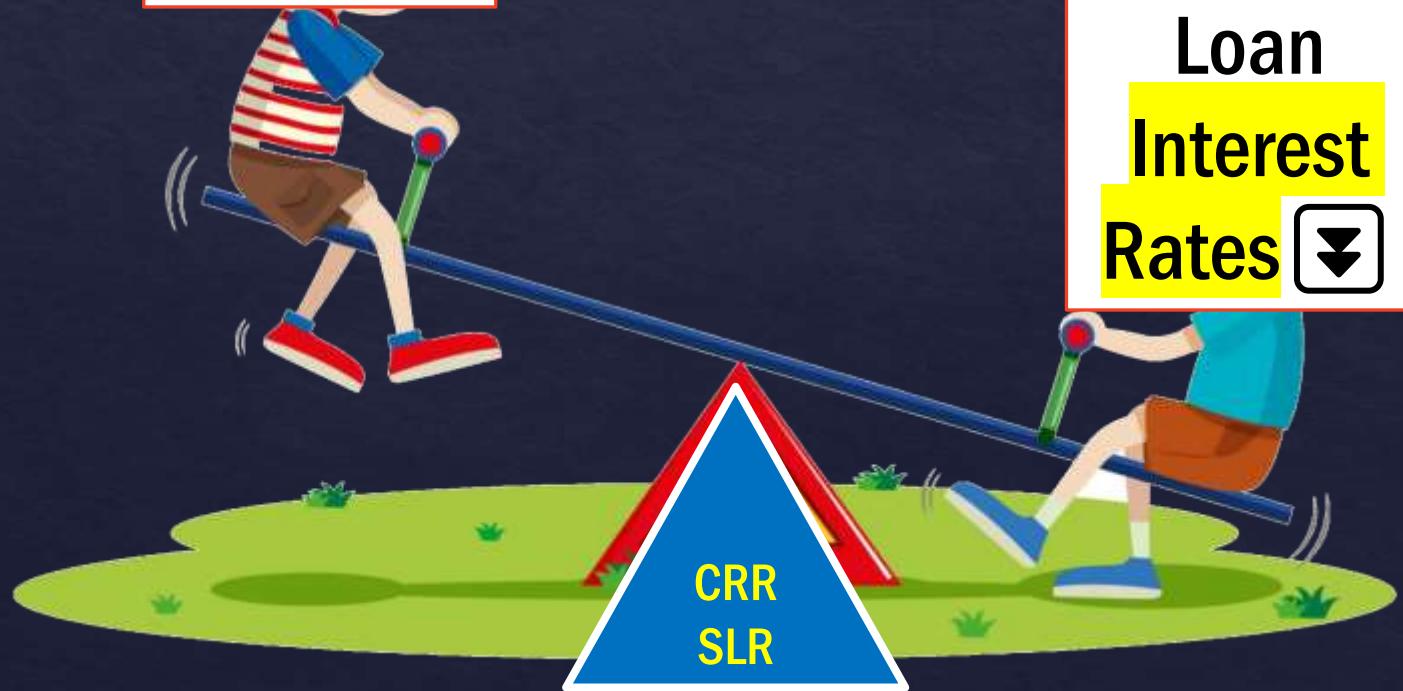
यदि बैंकर के पास लोन में घूमाने के लिए ज्यादा धन होगा
तो लोन के ब्याज दर कम होंगे



Loanable
Funds



Loan
Interest
Rates





Loanable fund	₹100	
Loan Interest %	15%	
But immediately customers will not come so	₹80	
Actual loan takers		
++interest income	₹12	
--staff salary	-₹11	
Profit	12-11=1	

बैंक अगर लोन सस्ता करें तो
ज्यादा ग्राहक शायद लोन लेने आ जाए
लेकिन बैंक को स्टाफ की तनख्वाह भी
करनी है और खुद के लिए भी कुछ
मुनाफा कमाना है इसलिए लोन सस्ता
कर नहीं सकता

Impact of loanable funds on bank's loan interest rates



Loanable fund (लोन में घूमाने के लिए कितना पैसा है)	₹100	₹200
Loan Interest %	15%	10%
How many customers may be interested to take loan? सस्ता लोन मिलेगा तो ज्यादा ग्राहक	80	190
++interest income	₹12	₹19
--staff salary	-₹11	-₹11
profit	₹1	₹8

लेकिन अगर बैंक के पास लोन में घुमाने के लिए ज्यादा माला में पैसा हो तो वह लोन के व्याज दर सस्ते कर सकता है और ज्यादा ग्राहक आकर्षित भी कर सकता है और ज्यादा मुनाफा भी कमा सकता है

यदि बैंकर के पास लोन में घूमाने के लिए ज्यादा धन होगा
तो लोन के ब्याज दर कम होंगे

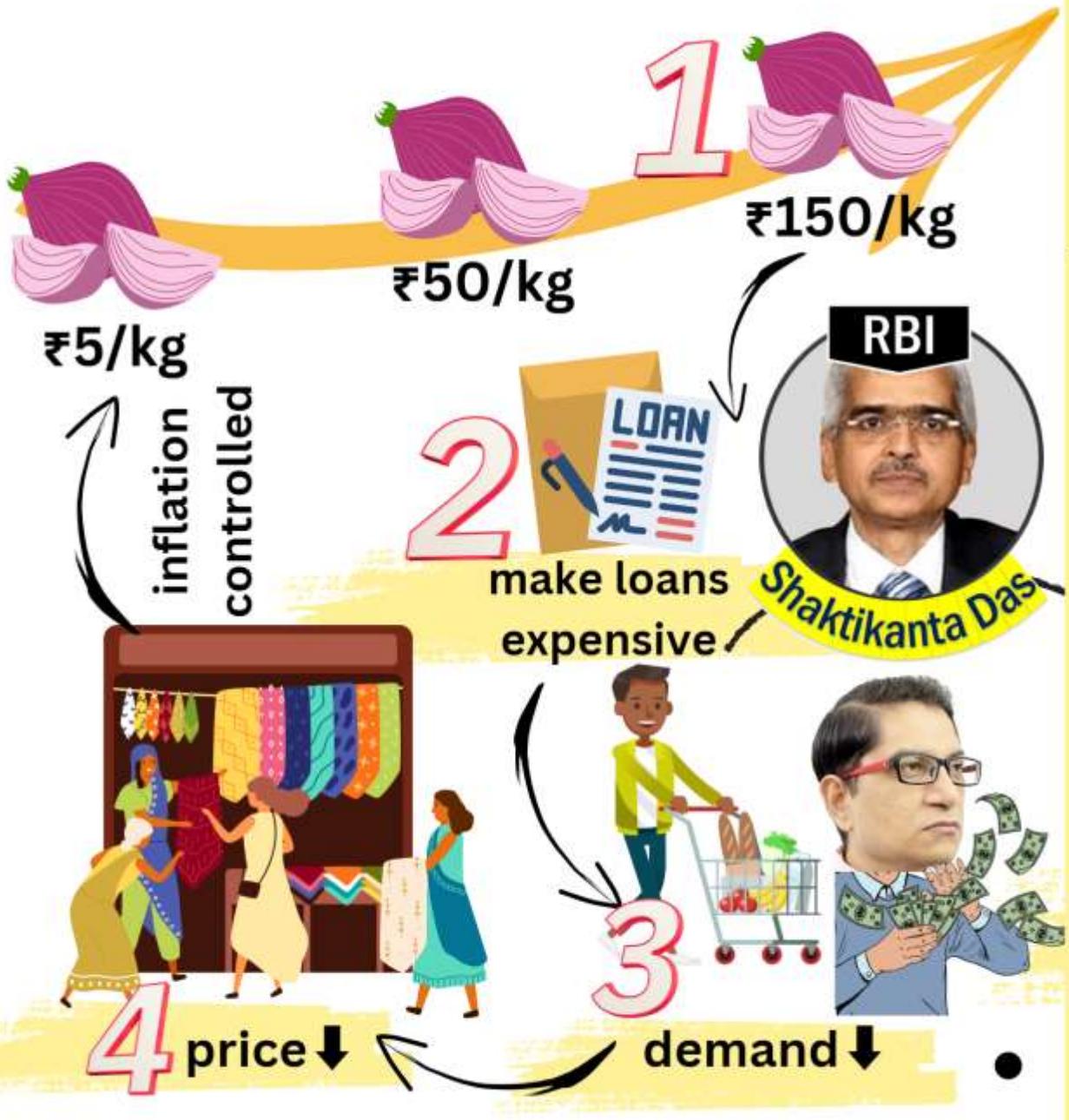


Loanable
Funds



Loan
Interest
Rates

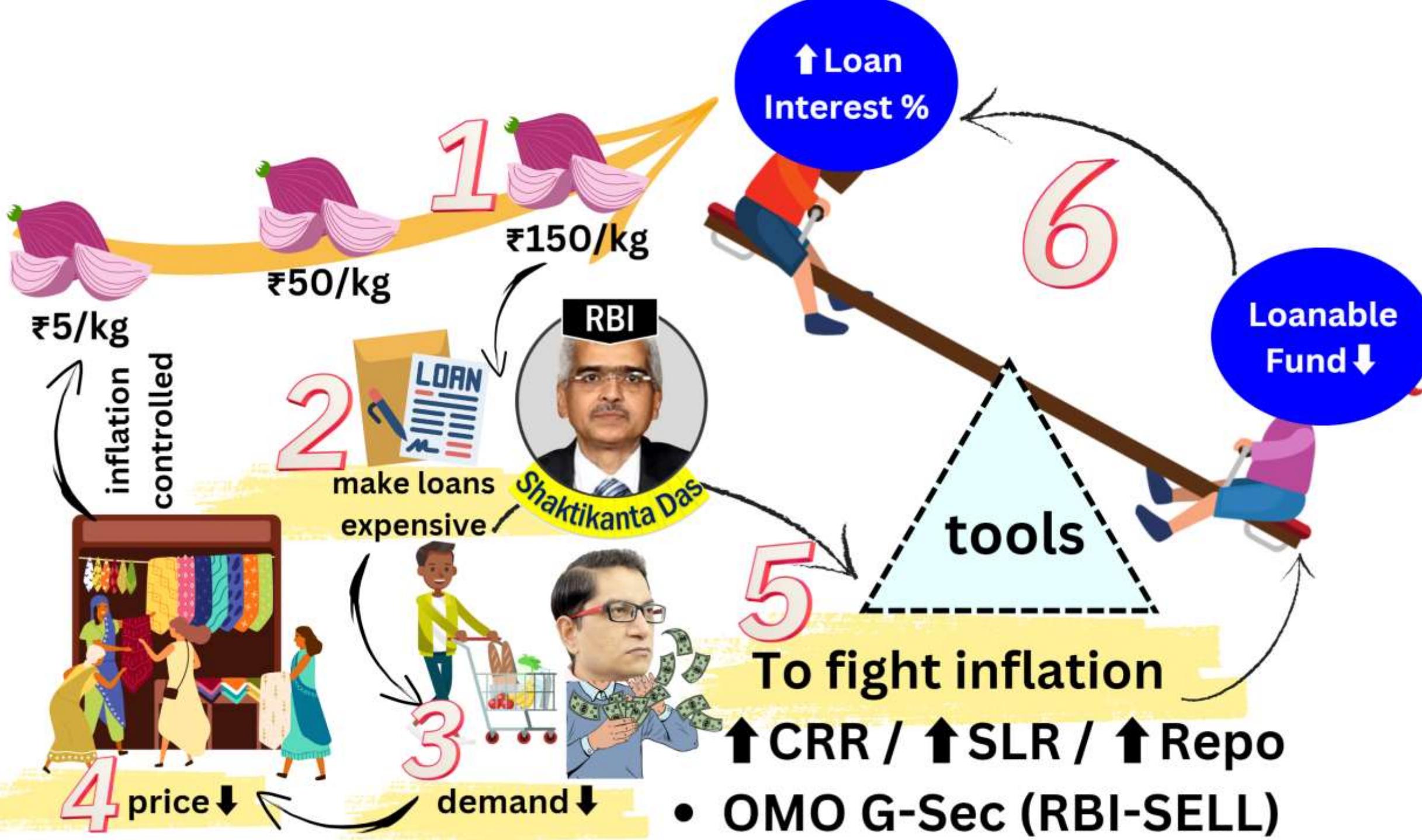




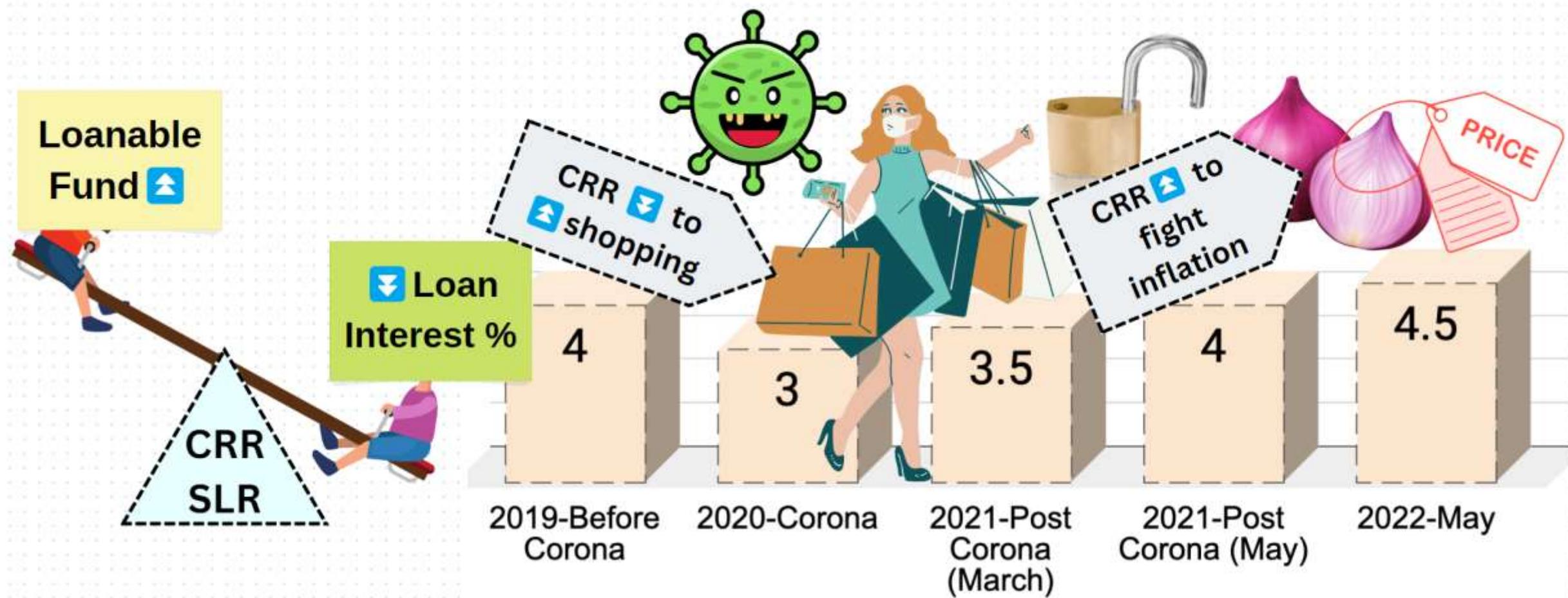
महंगाई से लड़ना है
तो
रिजर्व बैंक ने लोन महंगी करने
चाहिए
ताकि जनता खरीदारी कम
करें
और दुकानदार
दाम कम करने के लिए
मजबूर हो जाए



अगर बैंक के पास घुमाने के लिए कम पैसा है तो वह लोन की ब्याज दर बढ़ा देगा, ताकि उसका मुनाफा यथास्थिति रहे



CRR was increased to combat inflation



What did u understand?

A. If RBI increases CRR -> then M3 decreases.

(CRR को बढ़ाने से M3 कम होता है.)

B. If RBI increases CRR -> money multiplier

decreases. (CRR को बढ़ाने से मुद्रा गुणक कम होता है.)

C. Both A and B correct

D. Neither A nor B correct.



M0	CRR	Multiplier	M3
100	10%	10X	1000
100	20%	5x	500

100% Surety

50:50

M0

100

100

CRR

10%

20%

Multiplier

10X

5x

M3

1000

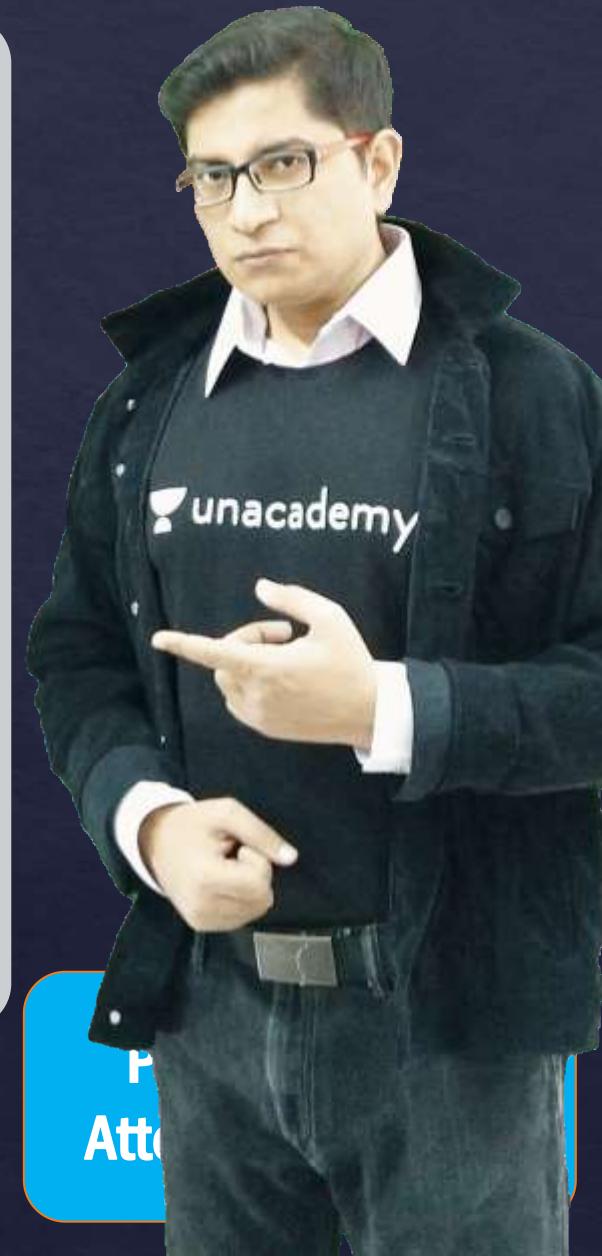
500

100% Surety

50:50

Skip

P
Atte



What did u understand?

- A. If RBI increases CRR -> then M3 decreases. (CRR को बढ़ाने से M3 कम होता है.)
- B. If RBI increases CRR -> money multiplier decreases. (CRR को बढ़ाने से मुद्रा गुणक कम होता है.)
- C. Both A and B correct
- D. Neither A nor B correct.

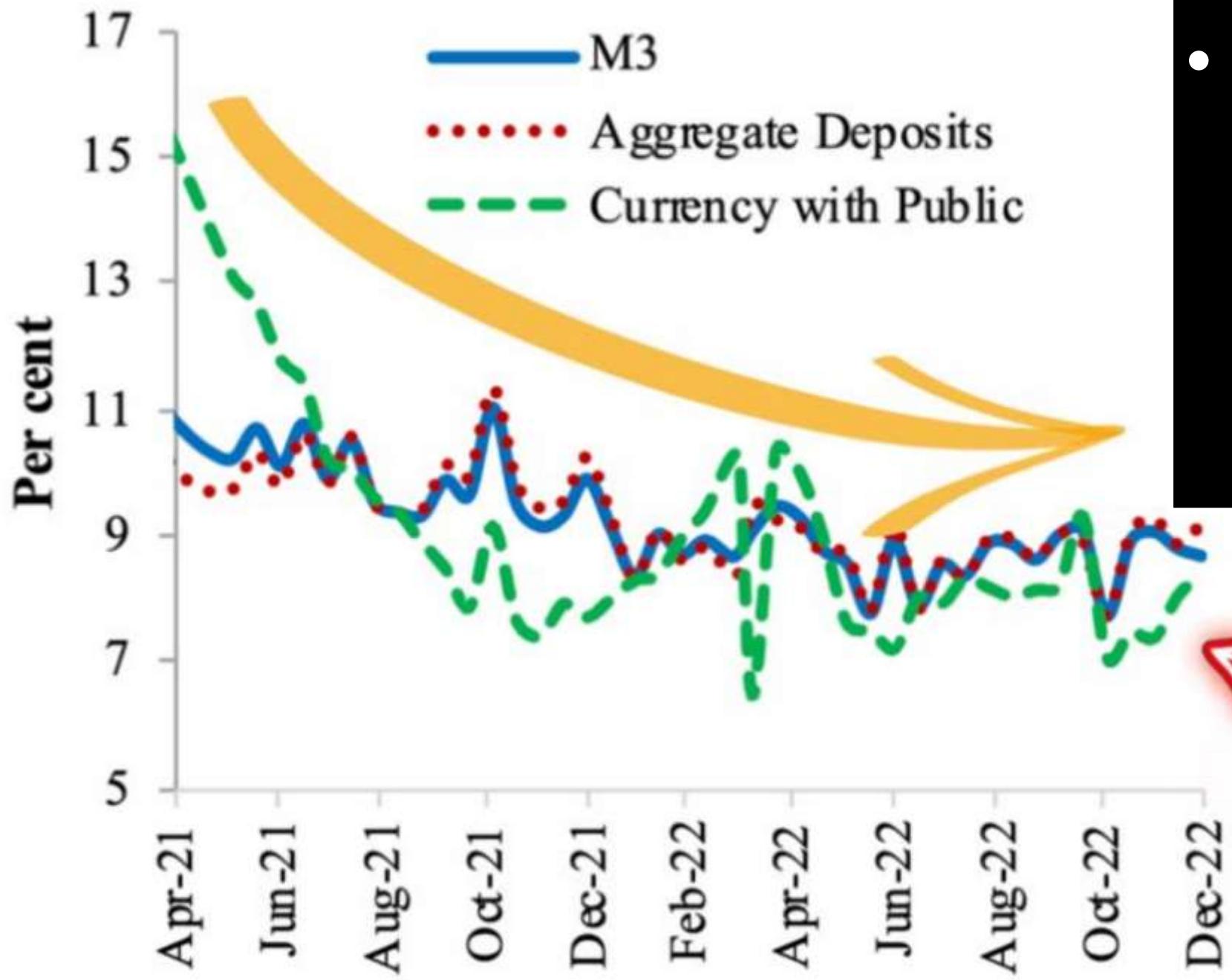


100% Surety

50:50

Skip

P
Atte

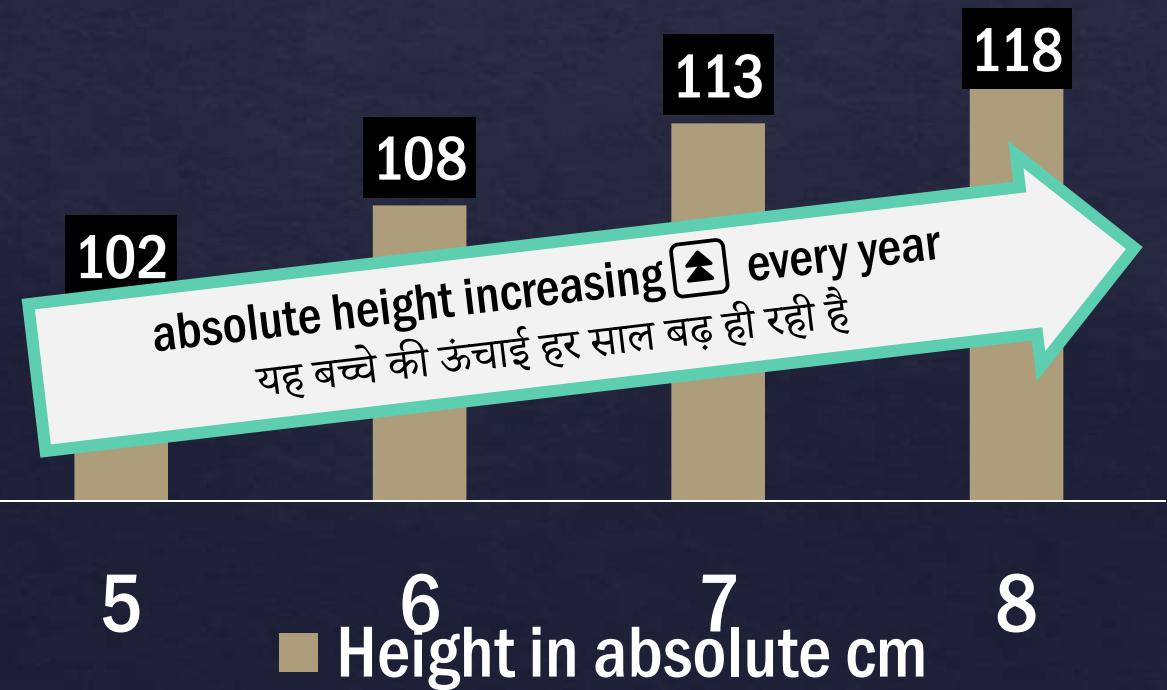


- **M3 growth decreased because RBI increased CRR to fight inflation**

Government's Economic Survey ज्यादातर जगहों पर वह वृद्धि दर की बात करते हैं

- ◆ Most of the Economic Survey graphs don't measure "absolute values"
- ◆ but growth compared to previous year.

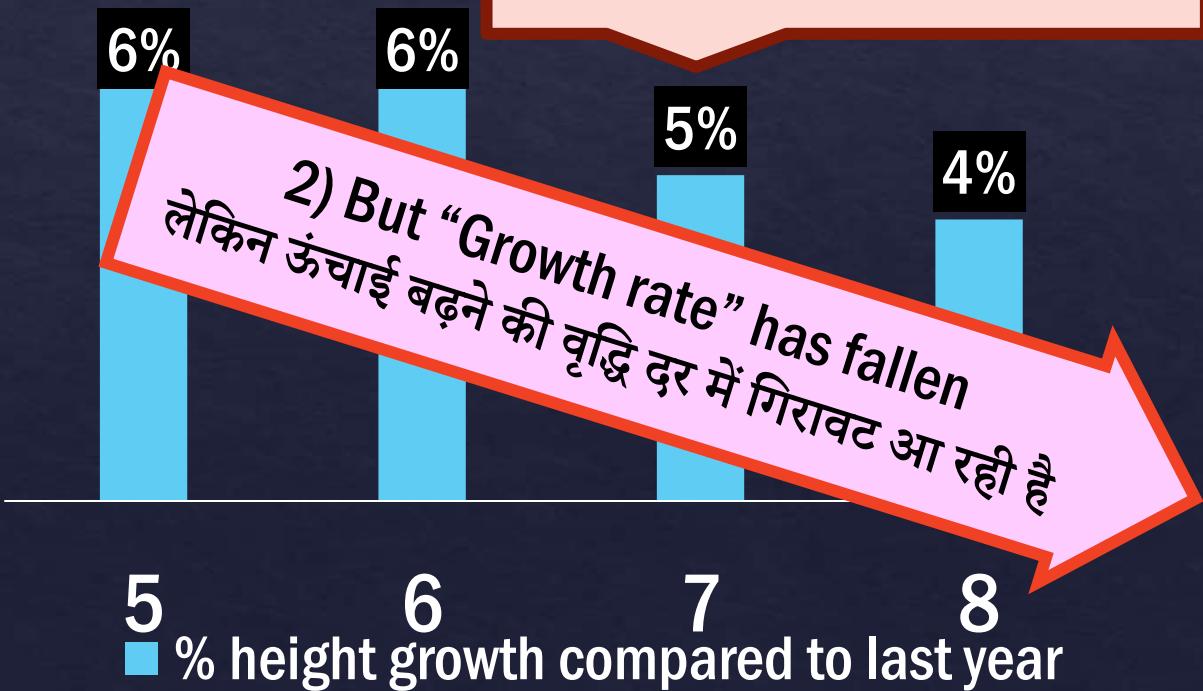
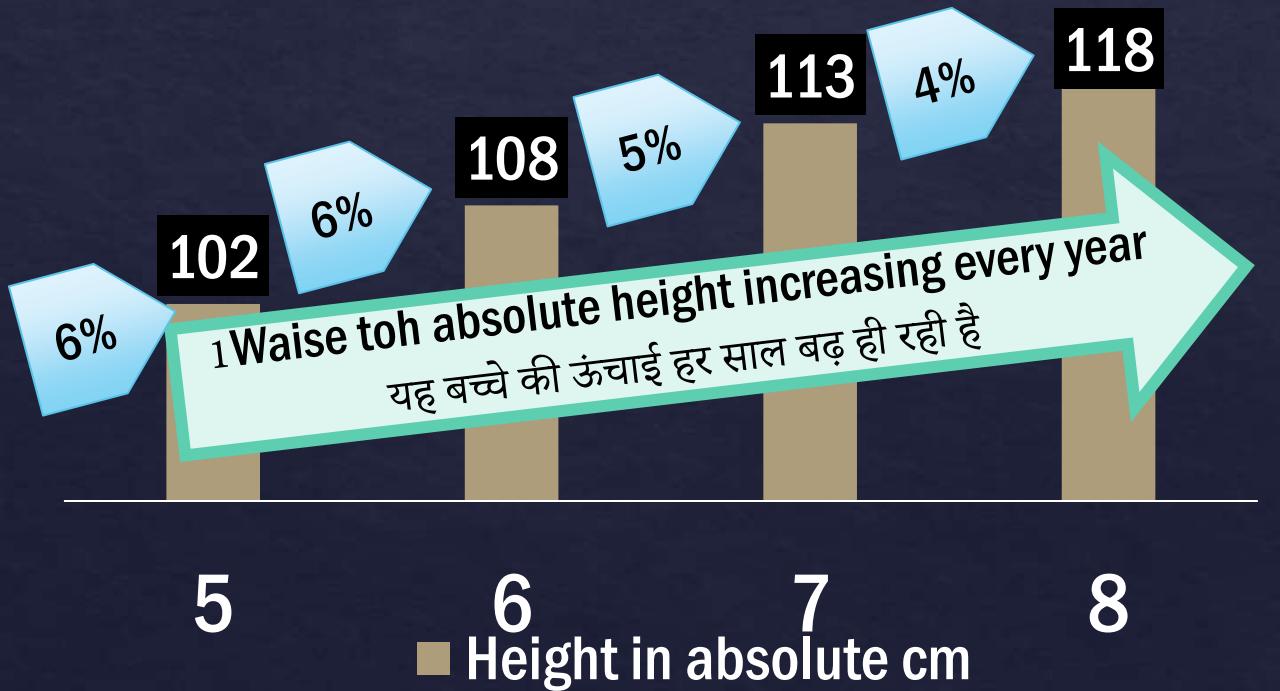
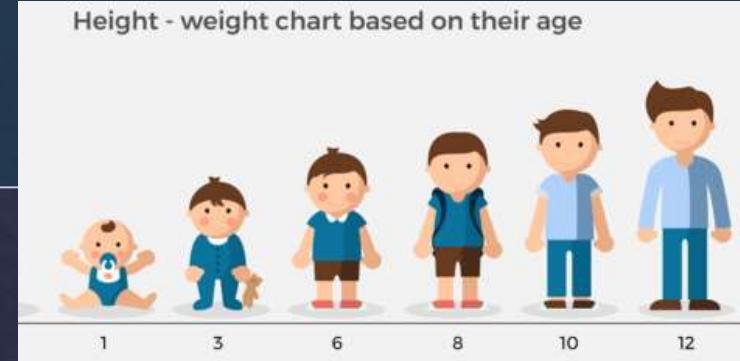
Before looking at his graphs, understand one basic thing



Monetary Management and Financial Intermediation

वृद्धि दर में कमी आना

◆ प्रतिशत दर में गिरावट आ रही है इसका मतलब
यह नहीं कि बच्चा पहले से नाटा हो रहा है



3) ⌛ Doesn't mean that boy's height is 🔻

% Growth Trends in M3



हम लोग इसमें चढ़ाव और उतार क्यों आए उसकी पंचात करने नहीं बैठेंगे.

क्योंकि अब तक ऐसा कभी यूपीएससी ने पूछा नहीं/ वो यहाँ से एकदम सामान्य किस्म की **theory** ही पूछते हैं

We'll not waste time learning "WHY" / in real life, since UPSC not asking it.



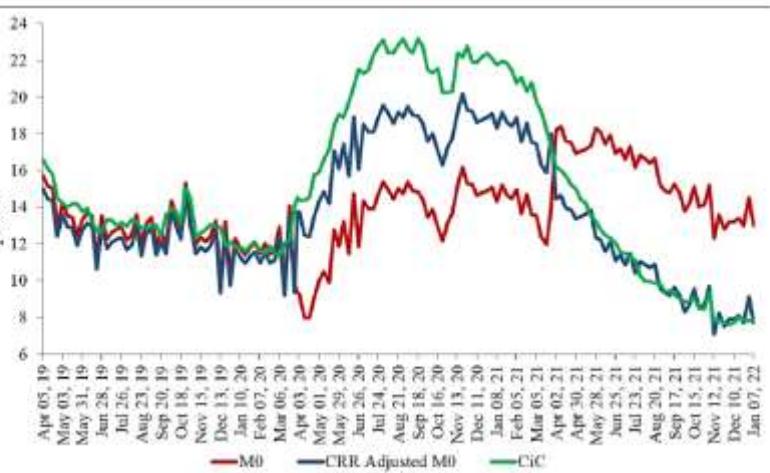
Timepass Columnists, Youtubers, CA-PDF walle

	0.0	4.2	-2.1	21.4	15.4	4.5	10.7
Cash with Banks							
Currency with the Public	15.2	-20.8	39.2	16.6	14.5	17.1	7.7
Bankers' Deposits with the RBI	7.8	8.4	3.9	6.4	-9.6	28.5	42.0*
Demand Deposits	11.0	18.4	6.2	9.6	6.8	14.8	26.2
Time Deposits	9.2	10.2	5.8	9.6	8.1	10.9	8.2
Reserve Money (M0)	13.1	-12.9	27.3	14.5	9.4	18.8	13.0*
Broad Money (M3)	10.1	6.9	9.2	10.5	8.9	12.2	9.9

Source: RBI

Note: ^: March 31, 2017 over April 1, 2016 barring Reserve Money (M0), Currency in Circulation (CIC) and Bankers' Deposits with the RBI (BD). *: As on December 31, 2021, #: As on January 7, 2022.

Figure 2: M0, CRR Adjusted M0 and CiC Growth (YoY)



Source: RBI

Note: CiC: Currency in Circulation, CRR: Cash Reserve Ratio

4.5 In 2021-22 so far, the YoY growth of broad money (M3) stood at 9.9 per cent as on 31st December, as compared to 12.5 per cent a year ago (Figure 3). From the component side, aggregate deposits which is the largest component - has contributed most to the expansion of M3 during the year so far (Figure 4). Amongst sources, bank credit to the government was a major contributor to the increase in broad money. Banks' higher investments in liquid and risk-free assets such as SLR securities and G-secs, resulted in higher net bank credit to the government. Bank credit to the commercial sector also supplemented M3 expansion from the sources side. The YoY credit growth for Scheduled Commercial Banks was 9.2 per cent as on 31st December 2021 as compared to 6.6 per cent a year ago, reflecting pick-up in credit.

Measures of money supply: M0

भारत में कितनी मुद्रा है उसकी माला को नापने के लिए

रिजर्व बैंक के अलावा वाली संस्थाओं के पास जो पैसा है

₹ Held by Non-RBI org (Public, Banks, NBFC, Govt etc)



e.g. 2016: PM Garib Kalyan Yojana- Blackmoney surrendering → some of it went in RBI as Deposit

₹ Other Deposits in RBI [by public, govt, banks]

RBI



e.g. CRR

Bankers keep some ₹₹ with themselves for day to day operations.
रोजाना कामों के लिए बैंक अपने पास जो थोड़ी रकम रखता है

Vault Cash of Banks



Reserve money/
High powered money



M0



What is M0?



₹ Held by Non-RBI org (Public, Banks, NBFC, Govt)



₹ Other Deposits in RBI [by public, govt, banks]



Vault Cash of Banks

M0

- CRR is a deposit by bankers into RBI.
- If CRR increased then M0 will increase = yes correct.



If CRR increased -> M0 increased-> then shouldn't money supply increase?



UPSC के
बाबूशोने

- Increase CRR -> expensive loans
- Public will take less loans
- So M3 will not increase.

- You've to tick things as per what is asked in MCQ.
- Don't think outside photoframe
- A->B->C.....Z

Depends on what is asked...

A. RBI increased CRR to fight inflation

= correct

B. CRR increase hua => M3 growth

decreased = correct.

C. CRR increase hua => M0 growth

increased = correct.

100% Surety

50:50

Skip



- 3-4 baar revise karo.
- Haath se likh ke.
- If not going in your head.

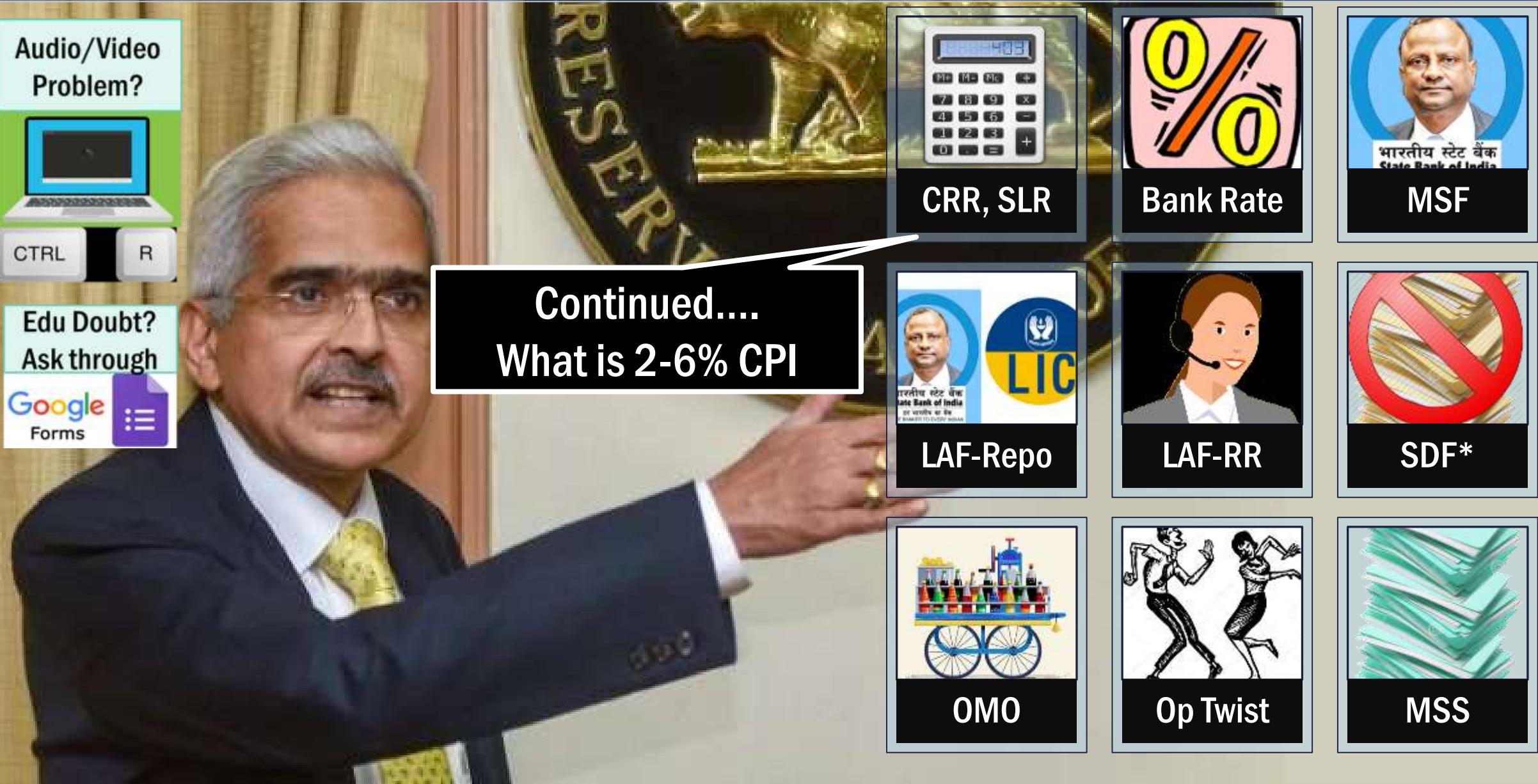
RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



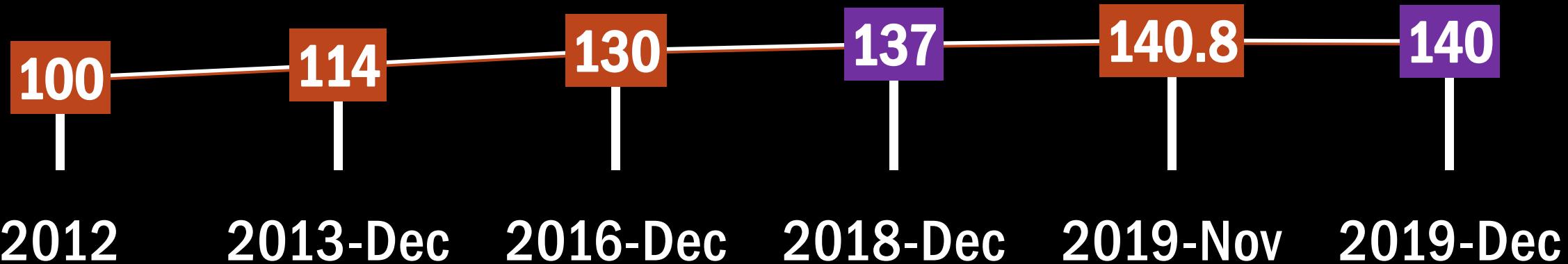
CTRL R

Edu Doubt?
Ask through



Consumer price index (CPI: All India) is released monthly by a govt org-NSO

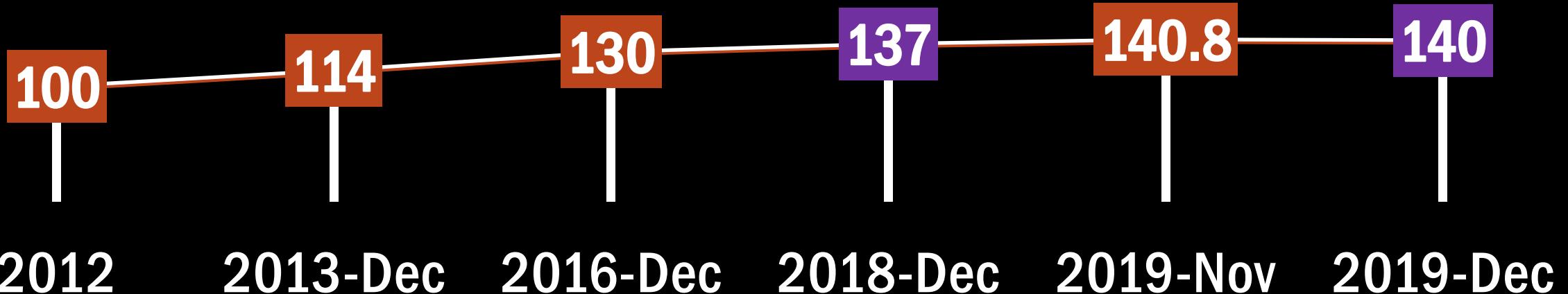
अगर महंगाई को कम करना है तो सबसे पहले हमने नापना होगा कि महंगाई है कितनी



- let's take **2012 as 'base year'** for “Consumer Price Index (CPI)” to measure inflation
- Suppose A basket of goods costs ₹100 in 2012
More in Pillar#4C

Consumer price index released monthly: % inflation is measured annual basis

उपभोक्ता मूल्य सूचकांक: पिछले साल के इसी महीने के मुकाबले महंगाई कितनी बढ़ी है



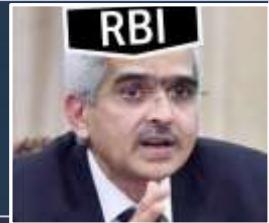
$$CPI \text{ inflation (Dec19)} = \left(\frac{140 - 137}{137} \right) * 100 = 2.18\%$$

= 2.18%

यानि की 2019-Dec में मँहगाई-दर (rate of inflation)
पिछले साल की तुलना में 2.18% बढ़ी है

RBI's Monetary policy targets to control inflation

अपनी मौद्रिक नीति से महंगाई दर को काबू में रखता है



2% से कम भी
नहीं

4% CPI
(All India)

6% से ज्यादा भी
नहीं

Rs. 150 a kilo



Who will do this?

Ans. RBI's monetary policy Committee (MPC)

Fight inflation

▼ consumption, Make the loans expensive



▼ Money supply

How frequently?

Ans. Bi-monthly (Every 2-2 month) update the policy

Contractionary, Tight, Dear,
Hawkish monetary Policy

Deflation / fall in prices is also not good for economy

बहुत अपस्फीति / सस्ताई भी हानिकारक 😞

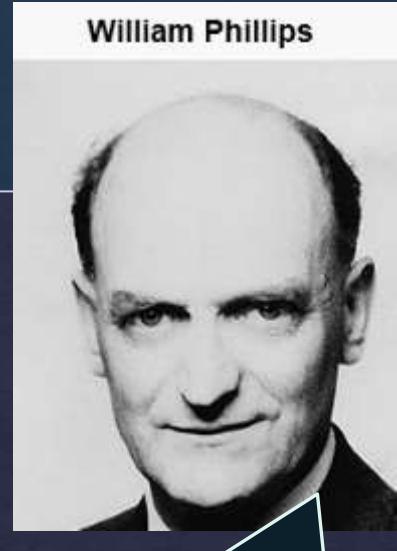
Rs. 5 a kilo



Onion selling for @₹5/kg =not good for economy because 😞

1. 😞 In future farmer may stop cultivating onion = shortage of food प्याज बहुत ज्यादा सस्ते हो जाए वह भी अच्छी बात नहीं क्योंकि भविष्य में किसानों से उगाना ही बंद कर देगा तो और किल्लत हो जाएगी
2. 😞 He'll stop hiring laborers = unemployment. और वह खेत में काम करने वाले मजदूरों को नौकरी से निकाल देगा = बेरोजगारी की समस्या

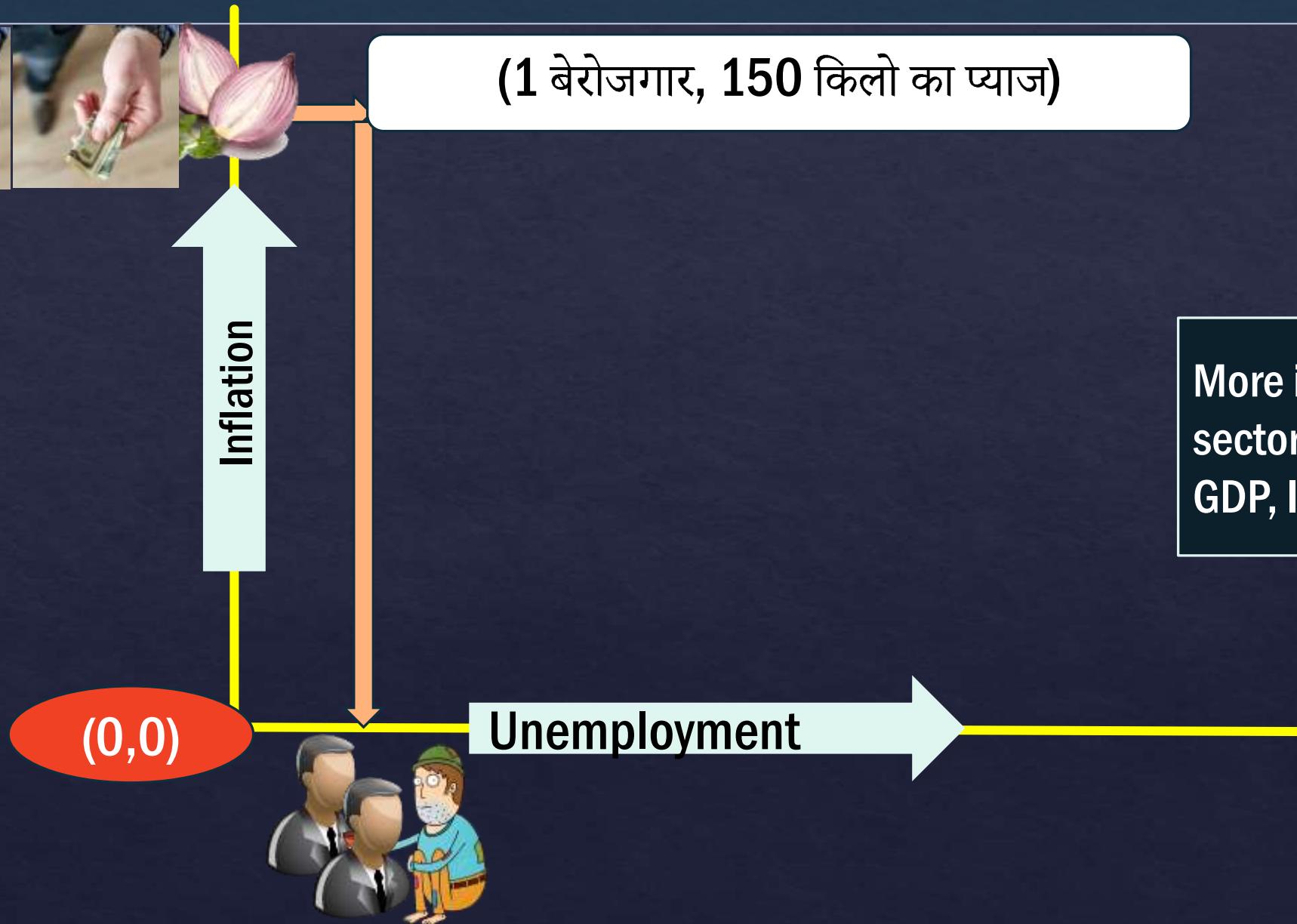
William Phillips



Philip curve (New Zealand's economist 1914-1975)



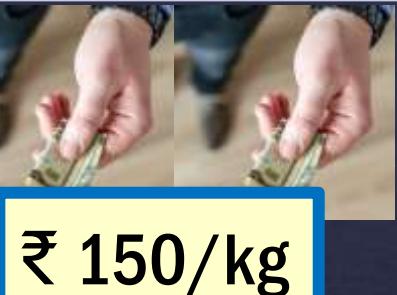
₹ 150/kg



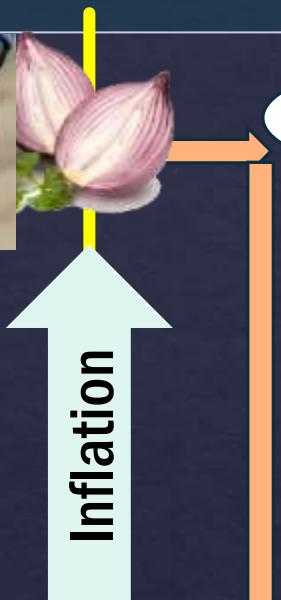
More in Pillar#4:
sectors of economy-
GDP, Inflation, IIP etc.

Philip curve: महंगाई → बेरोजगारी

William Phillips



₹ 150/kg



(1, ₹150)

- If I'm going to get only 5/kg for onion, why should I employ more agriculture laborer's? There will no profit left for me!

मुझे बाजार में प्याज के अच्छे दाम नहीं मिले तो अपने खेत-मजदूरो को नोकरी से निकाल दूँगा

(2, ₹5)

₹ 5/kg



(0, 0)



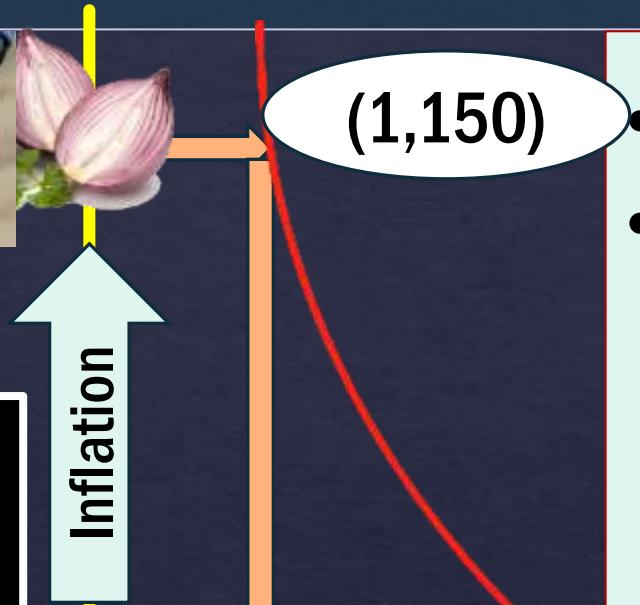
Philip curve: महंगाई → बेरोजगारी



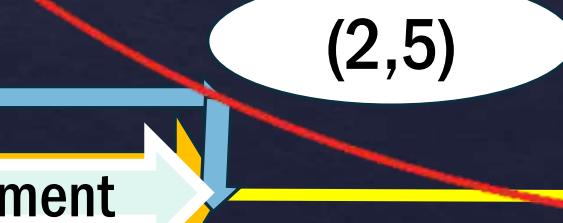
₹ 150/kg

Valid Upto a limit only.
यह एक मर्यादा तक ही सही है! If
onions for ₹5000 per kilo then
no one will buy → no jobs!

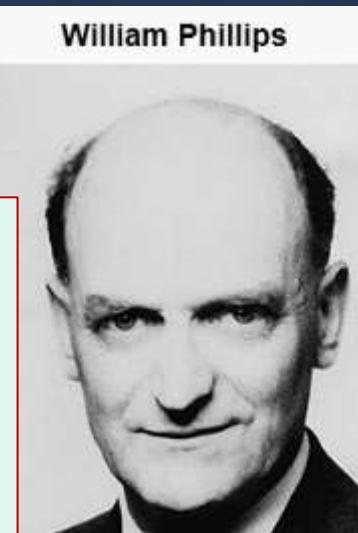
₹ 5/kg



- More inflation = more jobs
- More deflation = less jobs
(because firms shedding workforce to keep profitability the same...)



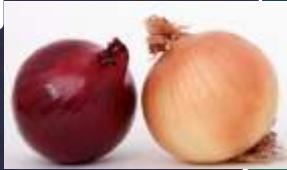
कंपनी अपना मुनाफा
यथास्थिति रखने के लिए लोगों
को नौकरी से निकाल देगी



Stable & moderate inflation is good for the economy

स्थिर और मध्यवर्ती महंगाई दर अर्थतंत्र के लिए अच्छी चीज है

Rs. 5 a kilo



2% से
कम भी नहीं

4% CPI (All
India)

6% से
ज्यादा भी नहीं

Rs. 150 a kilo



बहुत
अपस्फीति /
सस्ताई भी
हानिकारक

Fight deflation

Encourage consumption,
Make loans cheaper

⬆️ Money supply

Expansionary, Easy, Cheap,
Dovish monetary policy

Fight inflation

⬇️ consumption, Make the
loans expensive

⬇️ Money supply

Contractionary, Tight, Dear,
Hawkish monetary Policy

Deflation: Just think the inverse. ⌘ No need to think of Birbal ki khichdi & 500 types of combination. You'll be forever stuck in this only, instead of finishing syllabus.



Handout page 71: table

धूम फिर के, सारे सिद्धांत, उसमें से याद रख लेने हैं

12.19 🔊 💡 MONETARY POLICY TOOLS: A READY RECKONER TABLE

Table 5: समज में आ गया हो तो बढ़िया है, नहीं तो रट्टा मारो जिंदाबाद (If understood then well & good, else memorize by Rot-Learning)

Tools & Strategy?	<2%CPI= Fight deflation (अपस्फीति)	>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, <u>Dear</u> , Hawkish, Contractionary तंग- मँहगी व्याजदरे, संकुचनवादी
Quantitative	Reserves: CRR, SLR	↓ (Decrease) ↑ (increase)
	Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease) ↑ (increase) महंगाई से लड़ना है तो रेपो दर बढ़ा दो
	Market Ops (OMO)	OMO: RBI Buys G-Sec from market. OMO: RBI Sells G-Sec

यदि बैंकर के पास लोन में घूमाने के लिए ज्यादा धन होगा
तो लोन के ब्याज दर कम होंगे



Loanable
Funds 



Loan
Interest
Rates 



To combat inflation (महंगाई मुद्रास्फीति से लड़ना हो तो)

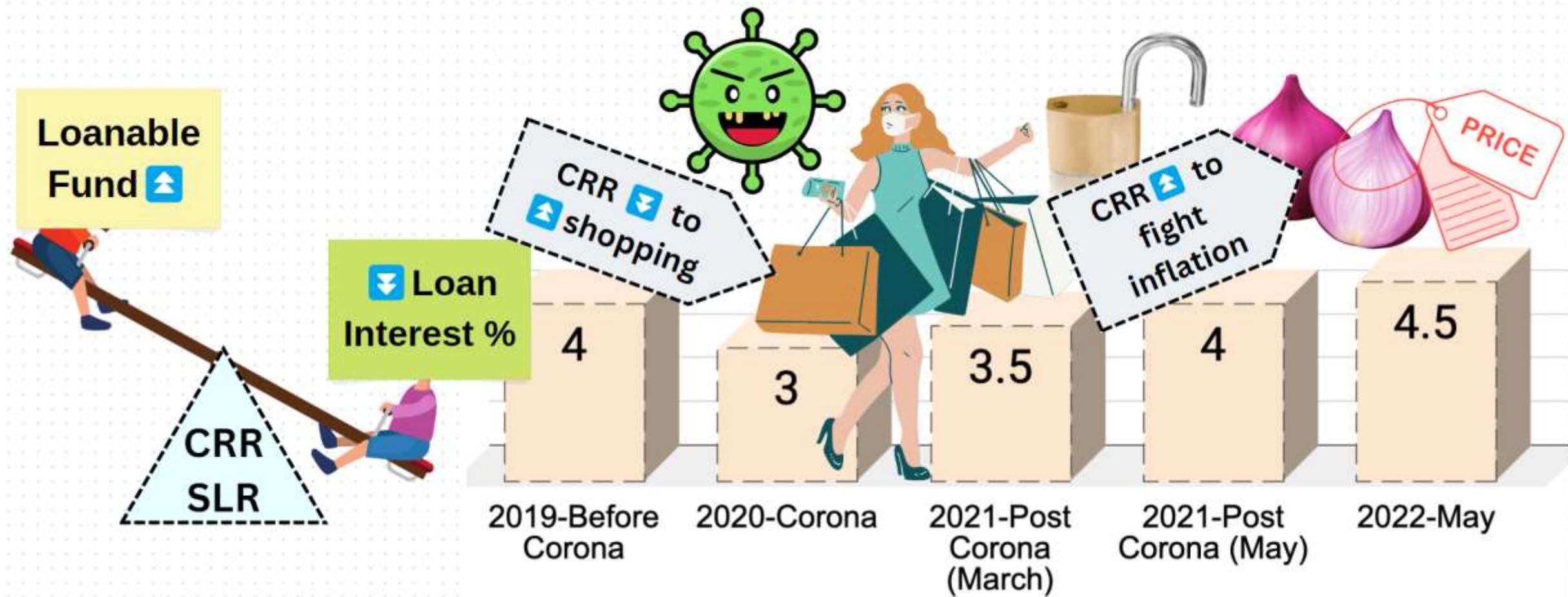
-  loanable funds
-  loan interest rates (लोन महंगा कर दो)

To combat deflation

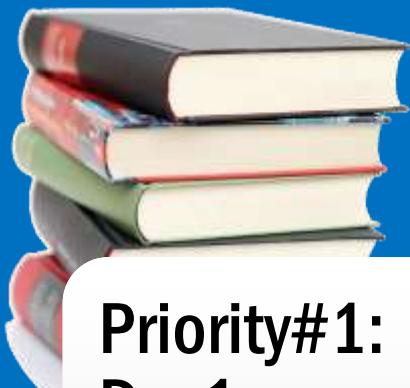
(सस्ताई/अपस्फीति से लड़ना हो तो)

-  loanable funds
-  loan interest rates (लोन सस्ता कर दो)

Why CRR decreased in Corona? From 4% to 3% (2020)



Priorities



Priority#1:
Day1 se....

- Finish core Syllabus of a Subject



Priority#2,
when #1 is done

- Main Answer Writing



RBI
Priority#1:

- Control inflation in 2-6% range



Priority#2,
when #1 is done

- Boost GDP growth rate

More about GDP in Pillar4

- Gross Domestic Product (सकल घरेलू उत्पाद) is the market value of all the goods and services produced within a country in a given year.



GDP growth Rate

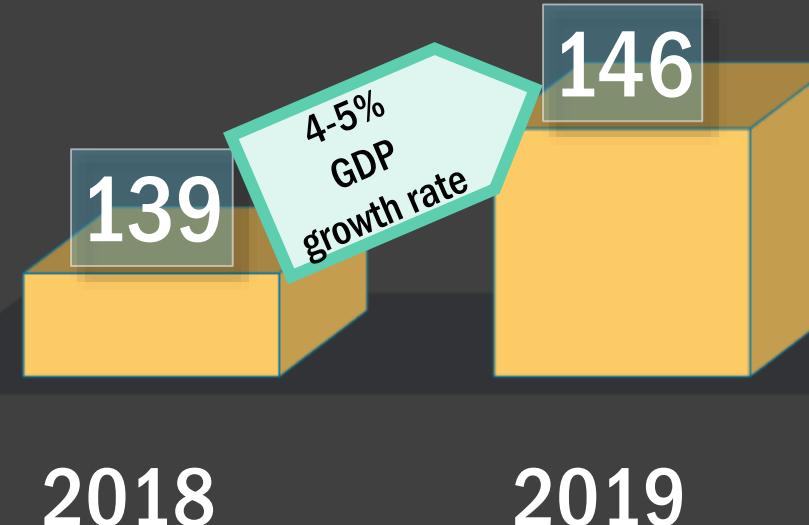
$$= \left(\frac{GDP \text{ in current year} - previous \text{ year}}{GDP \text{ in previous year}} \right) * 100$$

$$= \frac{146 - 139}{139} * 100 = 4-5\% \text{ GDP growth over previous year}$$

More about GDP in Pillar4

- Gross Domestic Product (सकल घरेलू उत्पाद) is the market value of all the goods and services produced within a country in a given year.

■ GDP amt in lakh cr



Cheap loans: ↑ car sales

↑ production of CARs

↑ jobs/overtime to workers

↑ demand for Vimal Gutka

↑ production of Vimal

More GDP

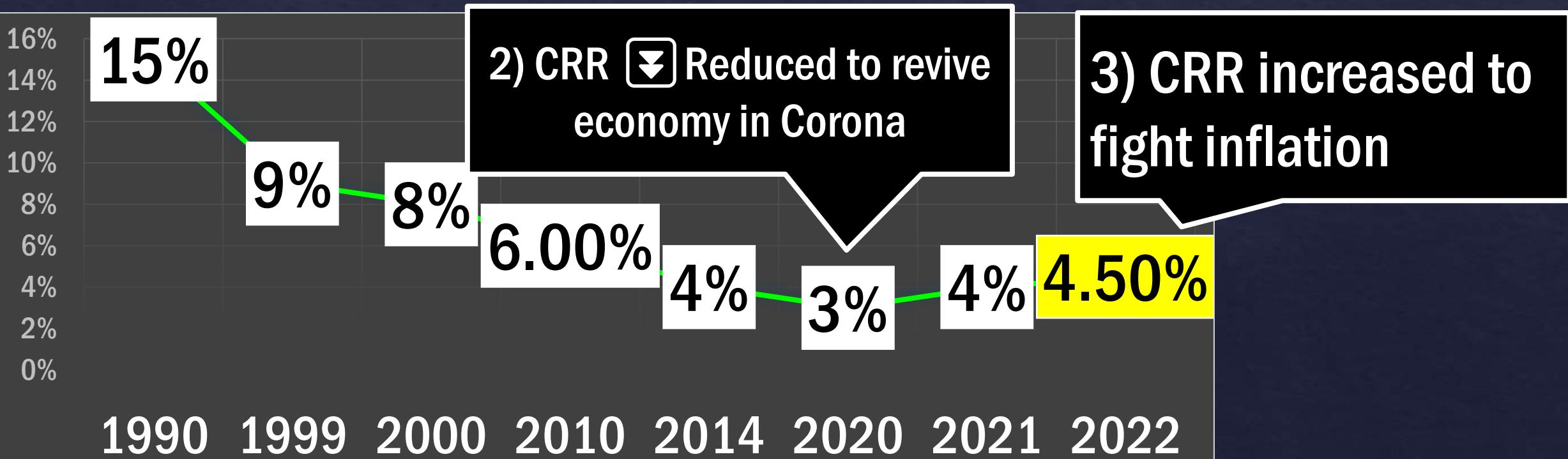
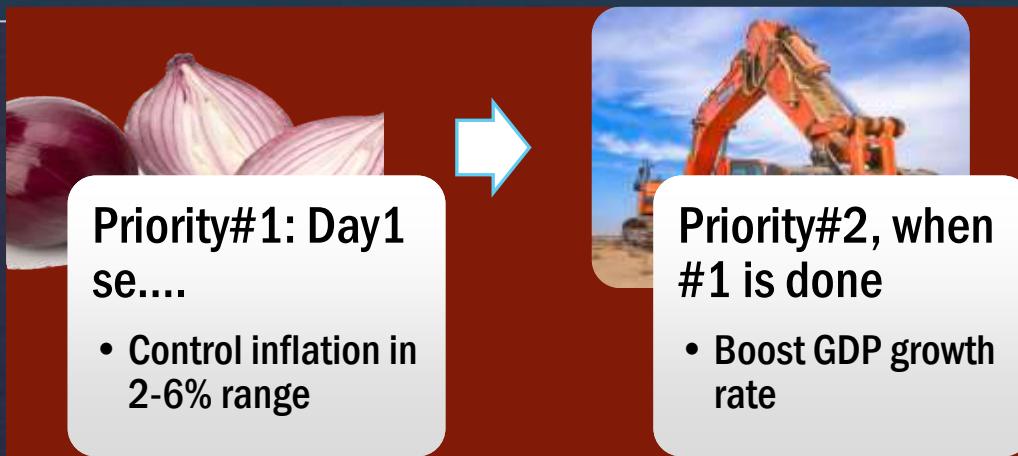
GDP growth Rate

$$= \left(\frac{GDP \text{ in current year} - \text{previous year}}{GDP \text{ in previous year}} \right) * 100$$

$$= \frac{146 - 139}{139} * 100 = 4-5\% \text{ GDP growth over previous year}$$

CRR under RBI Act

- 1) In old days, banks used to collapse a lot because of financial scams. पहले कांड बहुत होते थे
- So, RBI used to keep CRR very high as 'more safety buffer'. इसलिए CRR को बहुत ऊंचा रखा जाता था



RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



Edu Doubt?
Ask through



Incremental
CRR (2016)



CRR Exemption
(2020)



CRR in Corona?



CRR, SLR



Bank Rate



MSF

Outdated
So ignoring

Outdated
So ignoring



LAF-Repo



LAF-RR



SDF*



OMO, GSAP



Op Twist



MSS

RBI Monetary Policy Tools → Quantitative Tools

कल सुबह पहली फुर्सत में पढ़ लेना यह सब

Audio/Video
Problem?



CTRL R

Edu Doubt?
Ask through



Incremental
CRR (2016)



CRR Exemption
(2020)



CRR: Corona



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



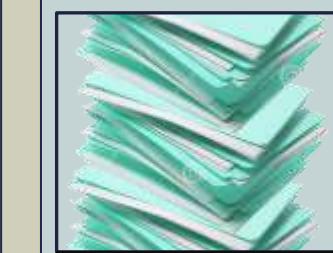
SDF*



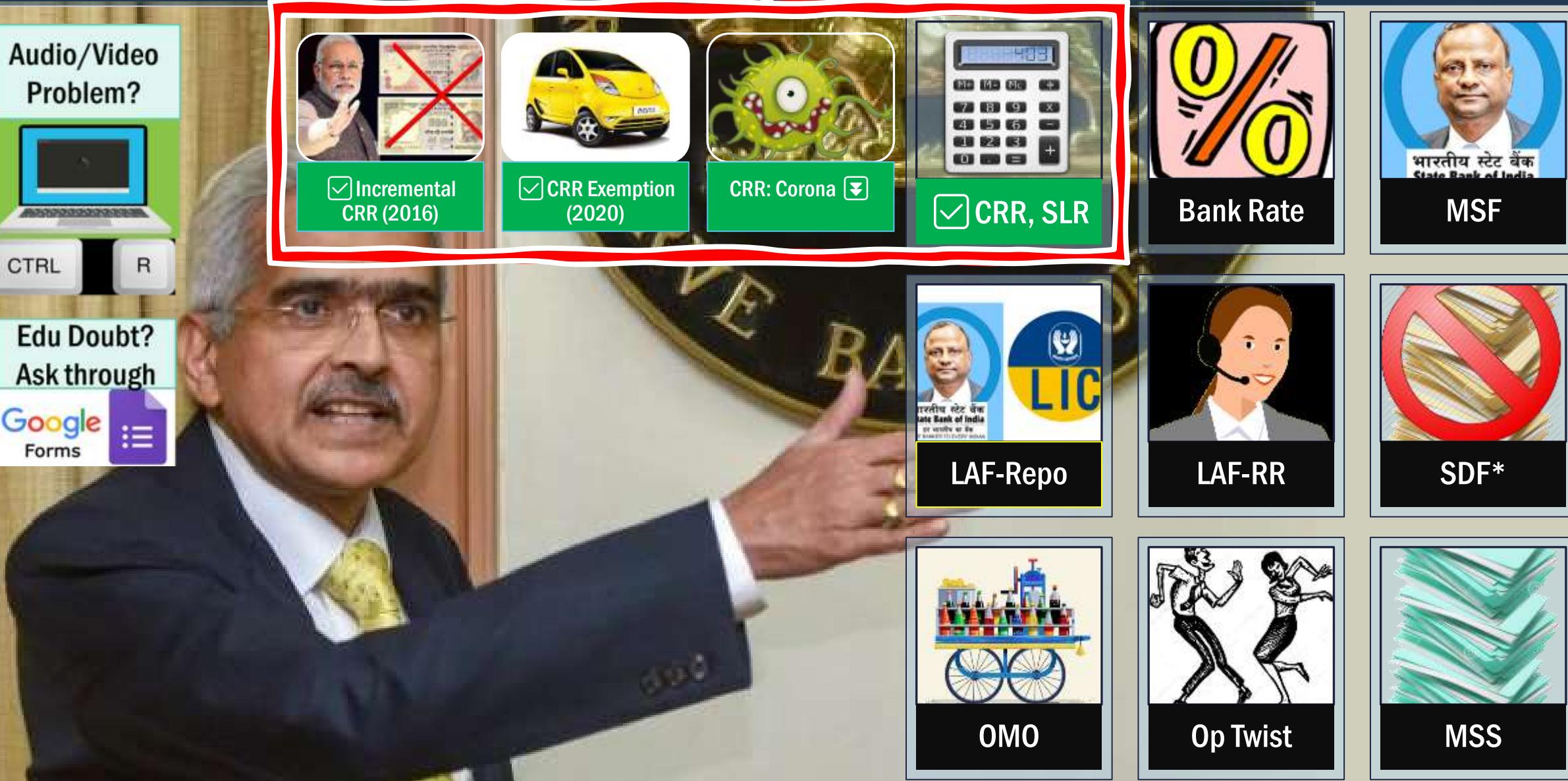
OMO



Op Twist



MSS

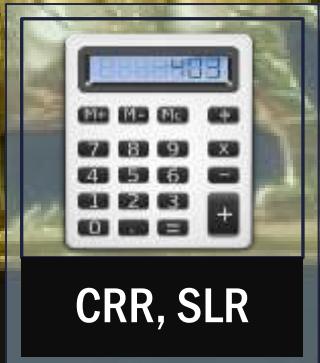
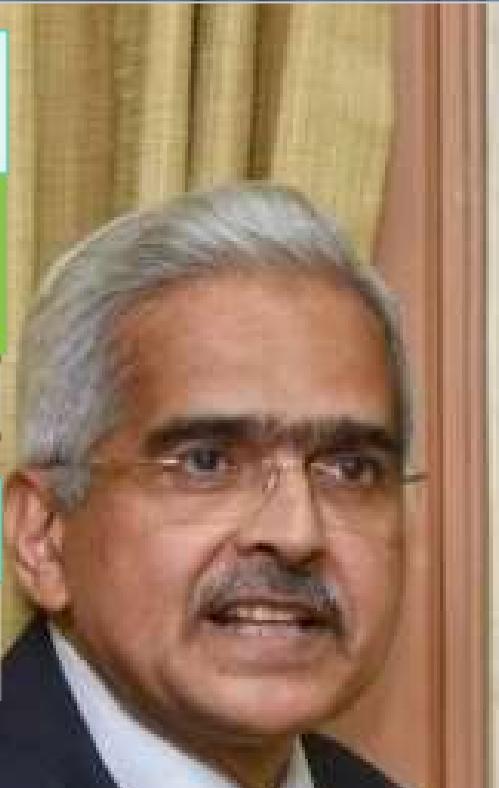


RBI Monetary Policy Tools → Quantitative Tools

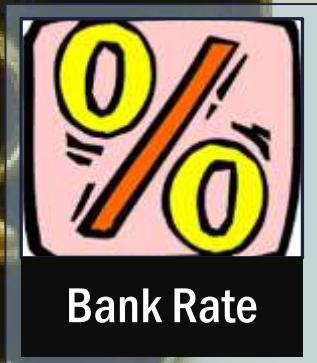
Audio/Video
Problem?



Edu Doubt?
Ask through



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF*

- Given the complex nature / interconnectedness of these topics.
- Sequence of PPT will not match sequence in Handout. It's expected IAS aspirant is intelligent enough.
- Std5 ki spoonfeeding coaching nahi hai ye.



OMO, GSAP



Op Twist



MSS

RBI: public debt manager, auctions on behalf of Government



Suppose in a bank

Deposits	+100 Cr.
CRR	-3 Cr.
SLR (G.Sec)	-18 cr.
LEFT	79 cr.
Addl G-Sec	5
LEFT	74 cr....



- Because if no borrowers found, then better to invest money somewhere else.
- Afterall, Govt will pay interest + principal back. अगर कोई कर्जदार नहीं मिले तो कम से कम यहां निवेश कर लेंगे
- Let's call non-SLR quota securities.
- It's not a separate 'type' of securities issued by Government, rather a bifurcation to show the securities owned by a bank beyond SLR requirement.



BORROWER

I want loans
मेरे को कर्जा मांगता है



give aeroplane as
collateral
तो अपना हवाई जहाज गिरवी रख

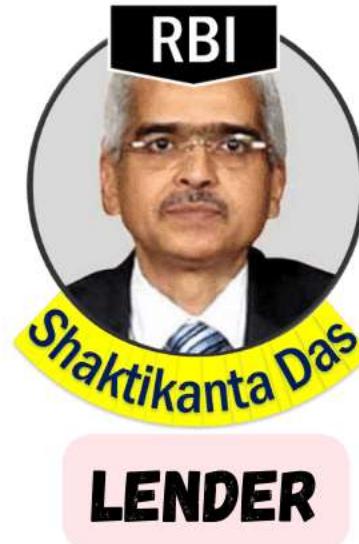


BORROWER

if Axis not repay
then RBI will
confiscate G-Sec

I want loans

give G-Sec as
collateral





if Axis not
repay
then RBI
will
confiscate

G-Sec

Rs. 100 (P) on 1st Jan
@6.50% Interest (Repo Rate)



Axis returns
106.50 on 14th Jan

**REPO
RATE
6.50%**



LENDER

- रिजर्व बैंक अपने ग्राहकों को लघु अवधि के लिए लोन देता है.
- ग्राहक गवर्नमेंट सिक्योरिटी गिरवी रखता है। इस पर जो ब्याज दर रिजर्व बैंक कमाता है
- उसे रेपो रेट कहते हैं



BORROWER

Axis sells G-Sec @
Rs.100 on 1st Jan

RBI



LENDER

DATE	RBI 's point of view	Amount (Rs.)
1st Jan	G-Sec cost price	Rs.100

- 1 जनवरी को एक्सिस बैंक ने रिजर्व बैंक को ₹100 में माल बेचा.
- यानी कि रिजर्व बैंक ने ₹100 में माल खरीदा

- 14 जनवरी को एक्सिस बैंक ने वही माल वापस रूपए में खरीद लिया
- यानी कि रिजर्व बैंक ने वह माल मैं बेचा।



**Axis sells G-Sec @
Rs.100 on 1st Jan**

**Axis re-purchases G-Sec
@106.50 on 14th Jan**



BORROWER

DATE	RBI's point of view	Amount (Rs.)
1st Jan	G-Sec cost price (CP)	Rs.100
14th Jan	G-Sec selling price (SP)	Rs.106.50
profit	SP - CP =	6.50

So, what exactly is REPO? : definition from academic books

Repo Types

RBI Repo

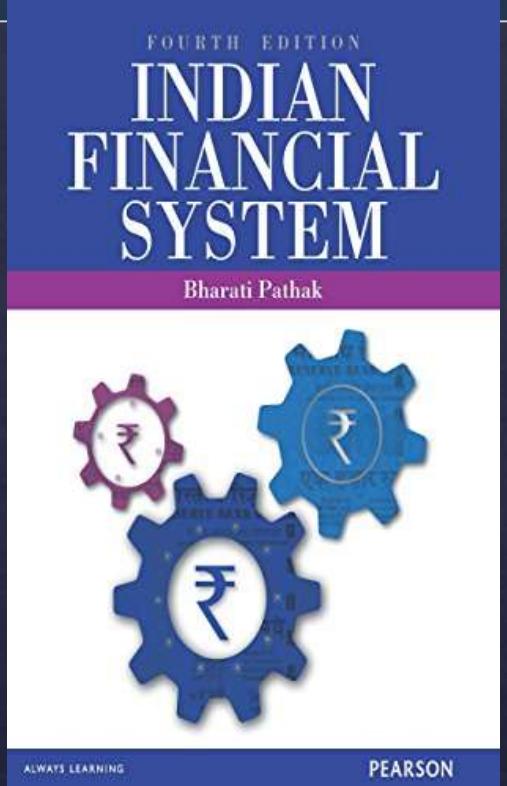
- RBI vs its clients
- Collaterals: G-Sec, T-Bill
- रिजर्व बैंक अपने ग्राहकों को जो लघु अवधि के कर्ज देता है



रिजर्व बैंक के सिवाय के खिलाड़ी
भी आपस में ऐसा खेल खेल
सकते हैं

Market Repo

- Other than RBI e.g. Bank, NBFC, LIC, EPFO, NABARD etc. giving loans to each other
- Collaterals: G-sec, T-bill, private companies bonds etc. may also be used.



Types of Repo

Market
Repo

RBI
Repo

So, what exactly is REPO? : definition from academic books

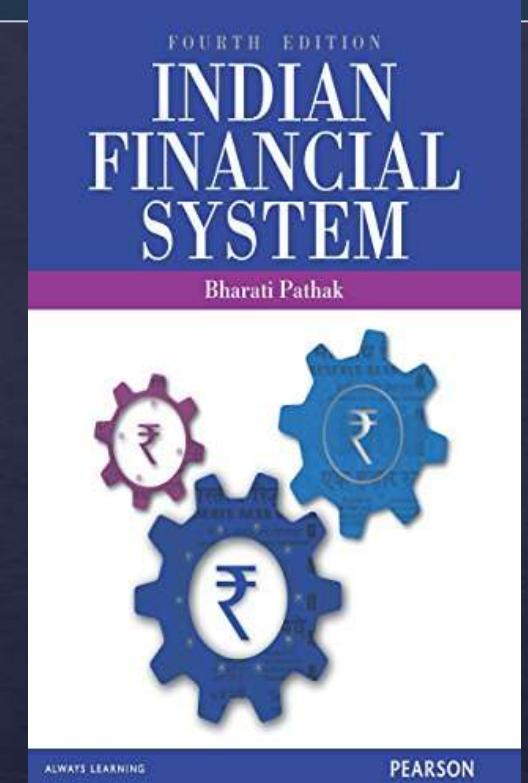
अलग-अलग किताबों में इसकी व्याख्या के शब्दों में फर्क हो सकता है

- ❖ **Repo (Repurchase agreement) = करारनामा**

- ❖ in which a **borrower** acquires immediate funds by **selling securities** and
- ❖ simultaneously **agrees to the repurchase** of the same or similar securities **after a specified time** at a **specified price.**

- ❖ **Repo rate (%)** उस करारनामे से कमाया गया ब्याज दर

- ❖ is the **interest rate** for the funds transferred by the lender to the borrower, while taking securities as collateral.

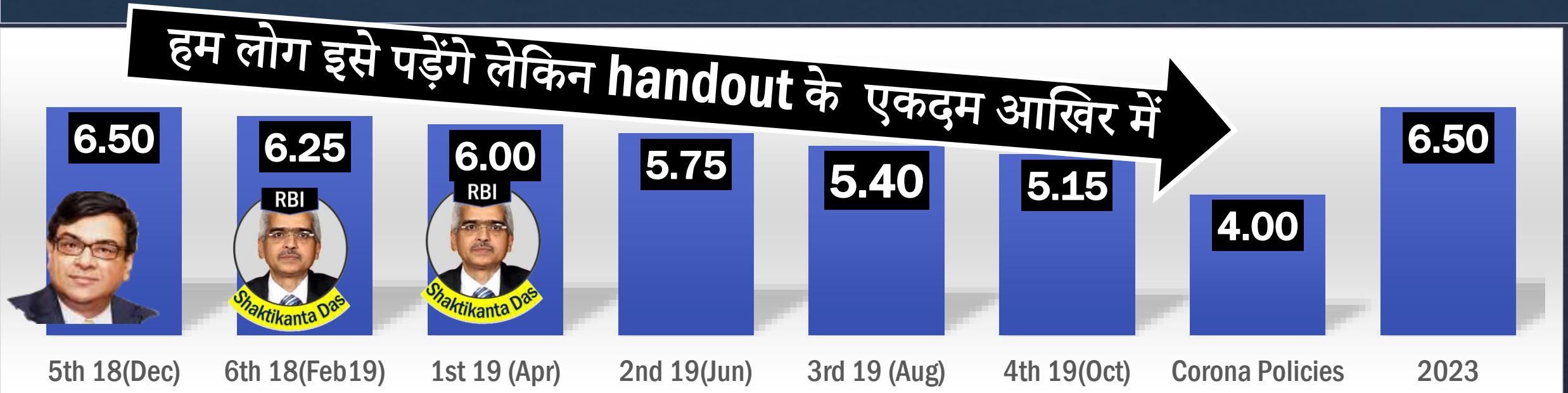


Types of Repo

Market
Repo

RBI
Repo

Trend of repo rate. What Accommodative /neutral/calibrated tightening stance?



- Why repo to 4% (Ans. to boost Economic Growth in Corona)
- at last part of this topic under MPC → bi-monthly meetings, we'll study
 - We'll study this “trend” @ end-part of handout
 - What Accommodative /neutral/calibrated tightening stance?
 - Presently only focus on theory portion.





i want loans
for short term

I want loan interest
"-----" depending
on collateral



IF G-Sec outside SLR	Repo % 6.50%



MONETARY POLICY CORRIDOR

Suppose in a bank

Deposits	+100 Cr.
CRR	-3 Cr.
SLR (G.Sec)	-18 cr.
LEFT	79 cr.
Addl G-Sec	5
LEFT	74 cr....



- Because if no borrowers found, then better to invest money somewhere else.
- Afterall, Govt will pay interest + principal back. अगर कोई कर्जदार नहीं मिले तो कम से कम यहां निवेश कर लेंगे
- Let's call non-SLR quota securities.
- It's not a separate 'type' of securities issued by Government, rather a bifurcation to show the securities owned by a bank beyond SLR requirement.

- मेरे को इसे RBI में गिरवी रखके
- उधारी में पैसा लेना है
- लघु-अवधि के लिए



beyond SLR
Quota
5 Cr



G-Sec
owned by
Axis



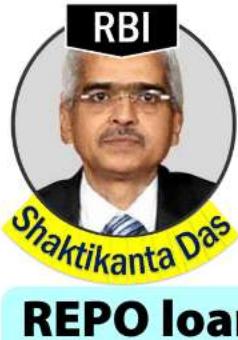
SLR
Quota
18 Cr

Axis wants short term loan	Pledge as collateral with RBI	
Interest Charged by RBI	Repo Rate	
Present Rate अभी रिजर्व बैंक कितना ब्याज मांगता है	6.50%	

- मेरे को इसे RBI में गिरवी रखके
- उधारी में पैसा लेना है
- लघु-अवधि के लिए



What is MSF?



**beyond SLR
Quota
5 Cr**



G-Sec
owned by
Axis



**SLR
Quota
18 Cr**



Axis wants short term loan	Pledge as collateral with RBI	Pledge as collateral with RBI
Interest Charged by RBI	Repo Rate	Marginal Standing Facility Rate (MSF)
Present Rate अभी रिजर्व बैंक कितना ब्याज मांगता है	6.50%	Repo Rate + 0.25% = 6.75



i want loans
for short term

I want loan interest
"-----" depending
on collateral



IF G-Sec from SLR	MSF % 6.75%
IF G-Sec outside SLR	Repo % 6.50%

Ceiling (छत)



MONETARY POLICY CORRIDOR

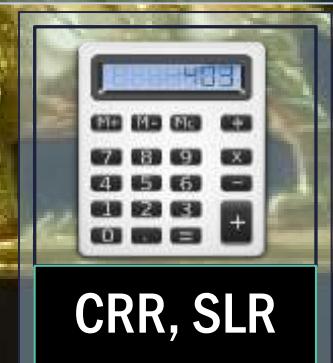
Audio/Video
Problem?



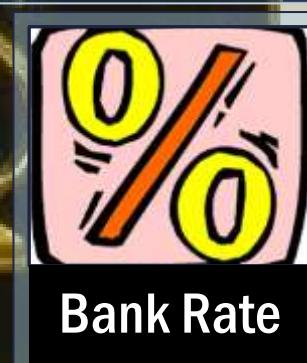
Edu Doubt?
Ask through



RBI Monetary Policy Tools → Quantitative Tools



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



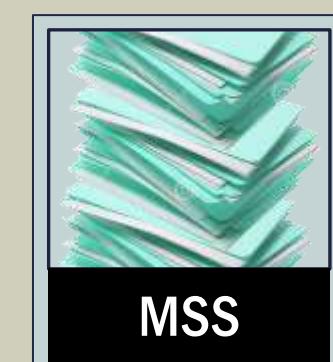
SDF*



OMO



Op Twist



MSS

Let's understand
MSF a little bit more

Interest rates on Short term borrowing from RBI

	Repo (2000)	MSF (2011)
Rate?	X% (decided by MPC committee)	X% + 0.25%
Who can borrow?	All clients of RBI - Bank and Non Bank (LIC, Primary dealer etc)	Only Scheduled Commercial Banks, and RRB <small>More in Pillar#1B1</small>
What can be pledged?	- Any G-Sec / T-Bill - (But bank can't use SLR-quota walli)	bank CAN pledge G-Sec from SLR-quota

MSF mechanism is same like Repo. Sell G-sec & buyback



What is scheduled commercial banks?

will study later on

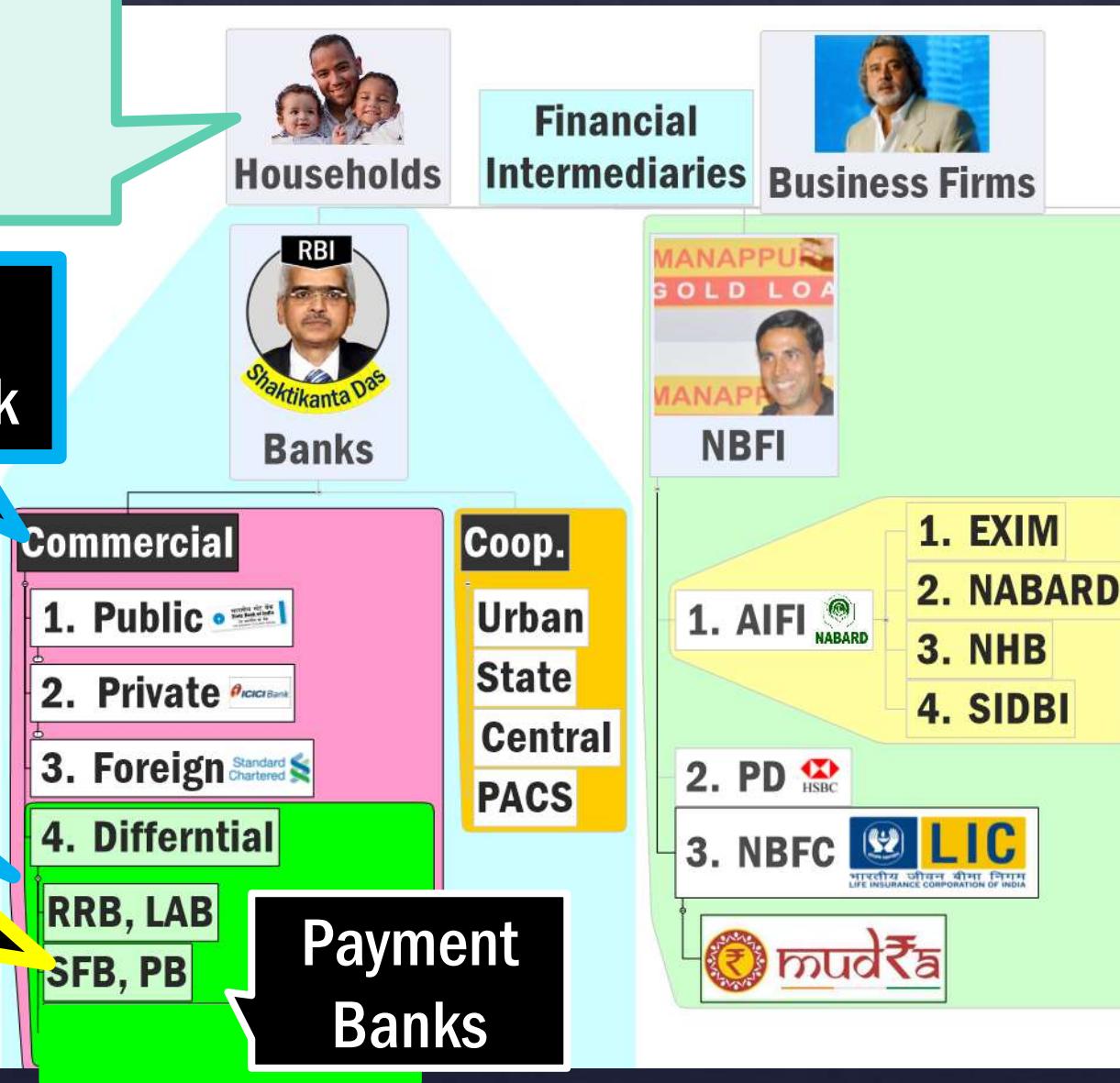
Pillar: **1B-1**

(Classification)

Scheduled
commercial bank

Regional Rural
Banks

Small Finance
Banks



MSF (2011)

X% + 0.25%

Only Scheduled
Commercial Banks,
and RRB

More in Pillar#1B1

bank CAN pledge
G-Sec from SLR-
quota



What is scheduled commercial banks?

will study later on
Pillar: 1B-1
(Classification)

Scheduled
commercial bank

Regional Rural
Banks

Commercial Banks

- 1. Public
 - 2. Private
 - 3. Foreign
 - 4. Differential
- RRB, LAB



- Commercial
 - 1. AIFI (NABARD)
 - 2. PD (RBI)
 - 3. NBFC (LIC)
- Coop.
Urban
State
Central
PACS



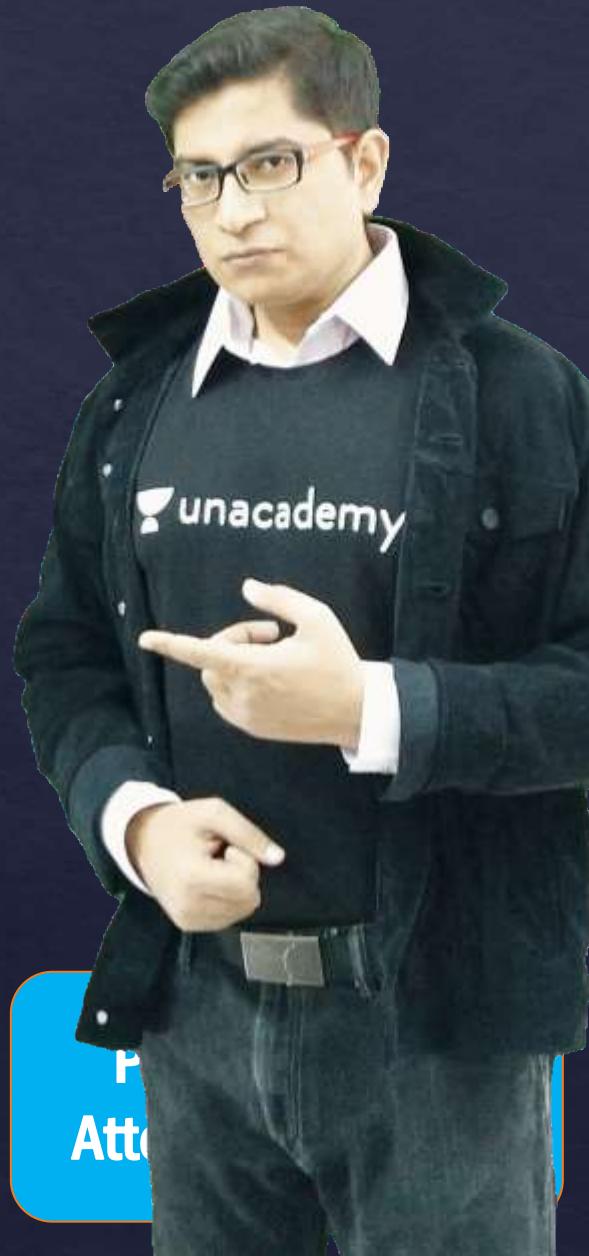
- Whether RRBs can use MSF or not?= is this imp?
- Ans. ✋ I don't think UPSC will ask, after analyzing previous papers..मेरेको तो इतनी बारीक चीज़े काम की नहीं लगती
- It's given in handout because inexperienced Faaltu-private Mocktest wallas asking → then Babushonas sucking my blood in FAQ लेकिन अनुभवहीन प्राइवेट मॉक टेस्ट वालों के प्रश्न देखकर बाबूसोने मेरा खून पीते रहते हैं → तो मैंने आपको बता दिया जवाब क्या है

UPSC के
बाबूशोने



98. The terms '**Marginal Standing Facility Rate**' and '**Net Demand & Time Liabilities**', sometimes appearing in news, are used in relation to

- (a) banking operations
- (b) communication networking
- (c) military strategies
- (d) supply and demand of agricultural products



100% Surety

50:50

Skip

P
Atte

98. The terms '**Marginal Standing Facility Rate**' and '**Net Demand & Time Liabilities**', sometimes appearing in news, are used in relation to

(a) banking operations

they did not ask tech.stuff about MSF

(b) communication networking

(c) military strategies

(d) supply and demand of agricultural products



Recall other easy question in past UPSC

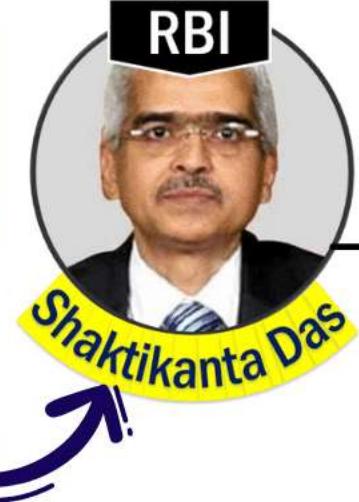
1. Deposit = not asset of bank
2. Money multiplier
3. Repay card and Function of NPCI
4. What is CBS?





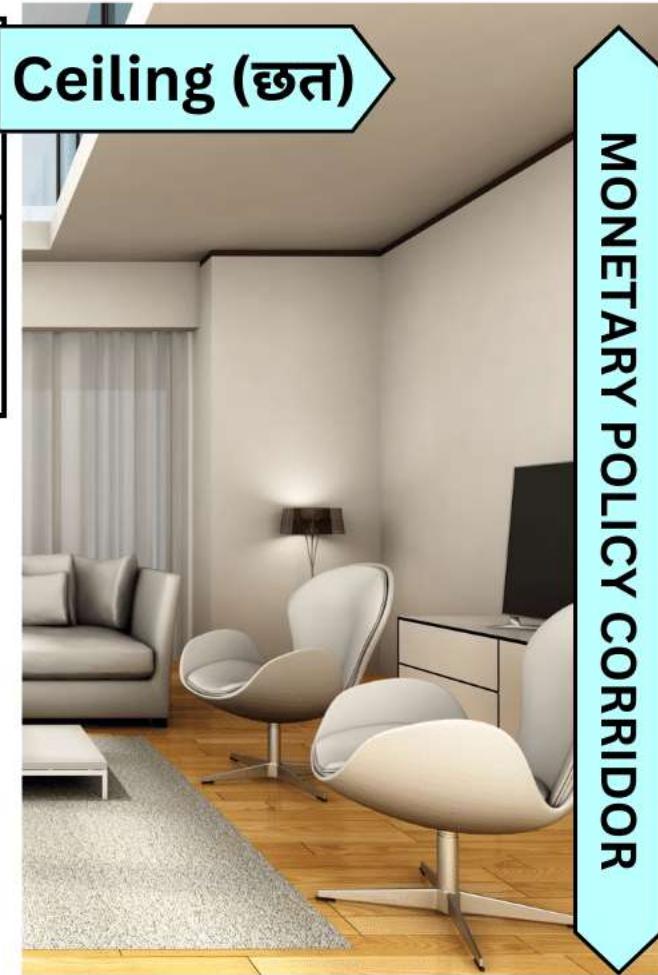
i want loans
for short term

I want loan interest
"-----" depending
on collateral



IF G-Sec from SLR	MSF % 6.75%
IF G-Sec outside SLR	Repo % 6.50%

Ceiling (छत)



MONETARY POLICY CORRIDOR

How to use repo to fight inflation

In theory: How will RBI control inflation?

महंगाई से लड़ना है तो लोन की ब्याज दरें महंगी करवा दो



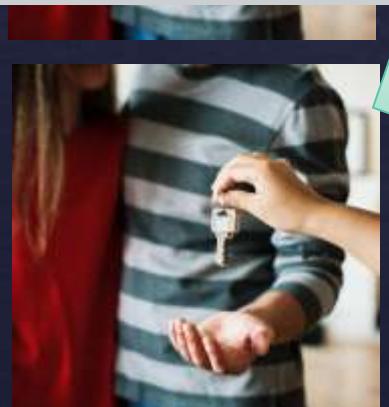
Outgoing

Loans

Incoming

Deposits=0

14%



2) Suppose Reporate: 7%

3) I must make 7% profit
/ margin / spread



1) SBI में एक पैसा भी डिपॉज़िट नहीं करूँगा।

रिजर्व बैंक से कर्ज लेकर SBI लोन घुमा रहा है

In theory: How will RBI control inflation?

महंगाई से लड़ना है तो लोन की ब्याज दरें महंगी करवा दो



2) I must make 7% profit / margin / spread. मेरा मुनाफा तो यथास्थिति रहना चाहिए

1) Hike (increase ↑)
Bank/Repo: 7% 13%

Outgoing

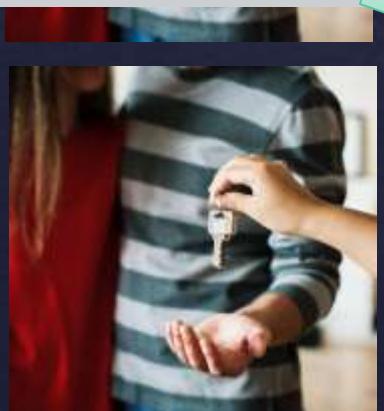
Loans

Incoming

Deposits=0

14%

20%



- Home loan interest rate 14% → ↑ to 20% → ↓ in demand of houses
- → builders ↓ prices = inflation is controlled.
- In deflation, do reverse.

Handout page 71: table

धूम फिर के, सारे सिद्धांत, उसमें से याद रख लेने हैं

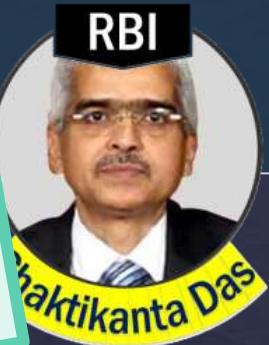


MONETARY POLICY TOOLS: A READY RECKONER TABLE

Tools & Strategy?		<2%CPI= Fight deflation (अपस्फीति)	>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, <u>Dear</u> , Hawkish, Contractionary तंग- मँहगी व्याजदरे, संकुचनवादी
Quantitative	Reserves: CRR, SLR	↓ (Decrease)	↑ (increase)
	Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease)	↑ (increase)
	Market Ops (OMO, MSS)	OMO: RBI Buys G-Sec from market. MSS: not its objective.	OMO: RBI Sells G-Sec MSS: same as OMO

How do banks decide interest rates?

बैंक कोई लोन कितने ब्याज पर देगा, वह कैसे तय होता है?



Assets

CRR,SLR

Loans2Customers

BPLR, MCLR,
External Benchmark

Liabilities

Loans from RBI

Deposits

RBI decides Repo

- RBI prescribes these formulas.
- Banks fillup values → decide customer's loan interest rate.
- More , when we reach the **last part of this handout#2**



Moral outrage is unnecessary: रिजर्व बैंक खुद जाकर सब लोगों को लोन में पैसा क्यों नहीं दे देता

Why doesn't RBI Directly give loans to people then it can change interest rate directly as much as it wants!?

- ◆ Counter Question: why doesn't Chief Justice of India simultaneously become Attorney General to save Govt's salary burden!? न्यायधीश खुद ही सरकारी वकील क्यों नहीं बन जाते?
- ◆ Bhai, RBI's task is regulation of banking industry. Its manpower is limited, and trained in that aspect only.
- ◆ If RBI loans directly to bizmen, it turns into bad loan, and if RBI gives him leniency, then other bankers will demand similar treatment for their bad loans.



RBI Monetary Policy Tools → Quantitative Tools

LAF = liquidity adjustment facility
Fancy term. Nothing more.

Edu Doubt?
Ask through



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF*



OMO



Op Twist



MSS

RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



Edu Doubt?
Ask through



Repo related special widows
For long term loans



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF*



OMO



Op Twist



MSS



1 Long Term Repo Operations (LTROs: दीर्घ अवधि के repo-ऋण)

(traditional/ regular/short term) REPO
परंपरागत रिपो- लघु अवधि

Long Term Repo
Operations (LTROs)

Tenure
Overnight (=1 day) to
upto 14 days

1 year and
3 year

Interest
rate
Repo%

Same as repo. But
compound interest rate
annually (चक्रवृद्धि व्याज)

From where to
borrow
RBI's E-kuber online
platform

RBI's E-kuber

RBI Launched
in?
Doing it since Many
years..Not imp

2020-Feb



- Total plan to loan ₹1 lakh crore through LTRO
- More loanable funds with banks (For longer duration) → cheaper loans → boost growth.

Moral outrage not required



- ❖ Repo rate is meant for ‘short term’, then how can they give it for ‘long term’? रेपो लोन तो छोटी अवधि के लिए दिए जाते हैं तो ये लंबी अवधि के लिए क्यों दिया जा रहा है ?
- ❖ -.-.-.-
- ❖ If you feel outraged by this choice of word “LTRO” send your msg to rbi.org.in/Scripts/helpdesk.aspx
- ❖ But until it’s reformed, study as it is.



प्रश्न: ऐसा क्यों है?

जवाब: ऐसा ही है. आपको एतराज है तो मेरी कुर्सी में बैठकर बदल दो



Moral outrage not required 😡 😡 😡 😡 😡 😡 😡 😡 😡 😡

❖ If long term repo loans are available then why would banks take short term repo loans? अगर लंबी अवधि के लिए लोन मिल रहा है तो छोटी अवधि के लिए कोई क्यों लेगा??

❖ ==.==

❖ Ans. They will borrow money as per the requirement

❖ if banker borrow for long term they will have to pay compound interest rate. दीर्घावधि के लोन पर चक्रवृद्धि ब्याज लगता है जिसका बोज ज्यादा होता है। तो बैंक को जरूरत नहीं होगी तो वह नहीं लेगा.



RBI



SBI



1) G-sec as collateral

2) Repo Loan upto "X" years

With "Y" conditions



3) Loans

Full form NOT IMP

TLTR0

- RBI -> Bank -> NBFC ko loans

SLRTR0

- RBI -> Small Finance Banks-> Micro, small industries

On Tap
Windows

- RBI -> Banks -> Hotel, Hospitals etc.

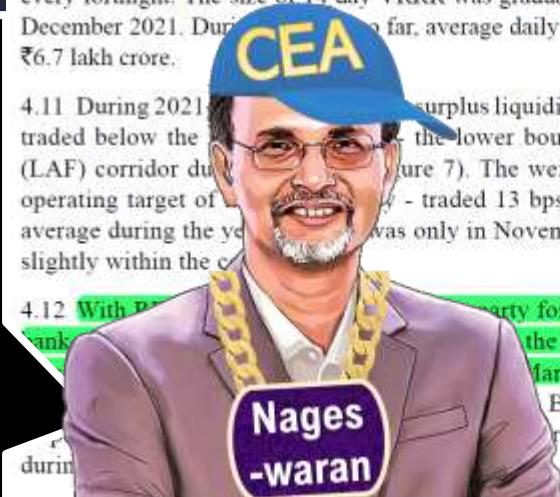
AIFI sp. window

- RBI -> NABARD, SIDBI etc. -> More in Pillar1B1



Appriciated RBI's work
आरबीआई ने बहुत महान कार्य किया है और धी
दूध की नदियां बह रही हैं और कोरोना के बाद
भारतीय अर्थतंत्र वापस पटरी पर आ रहा है

- b. Term liquidity facility of ₹50,000 crore to ramp up COVID-related healthcare infrastructure and services in the country.
 - c. Special Long-Term Repo Operations (SLTRO) for small finance banks of ₹10,000 crore to support small business units, micro and small industries, and other unorganised sector entities adversely affected during the second wave of the pandemic. SLTRO scheme was subsequently made on-tap and was extended till December 31, 2021.
 - d. On-tap liquidity window of ₹15,000 crore for contact-intensive sectors.
 - e. Extension of On-tap Targeted Long-Term Repo Operations (On-tap-TLTRO) till 31st December 2021.
- 4.9 A secondary market G-sec acquisition programme (G-SAP) - which was announced during the year added to the surplus liquidity during the period. G-SAP involves upfront commitment to purchase a specific quantum of government securities with a view to enabling a stable and orderly evolution of the yield curve. RBI purchased G-secs (including state development loans) amounting to ₹1 lakh crore under G-SAP 1.0 and ₹1.2 lakh crore under G-SAP 2.0.
- 4.10 The gradual normalisation of liquidity management operations in sync with the revised liquidity management framework was the key feature of liquidity management in 2021-22. The 14-day Variable Rate Reverse Repo (VRRR) auctions were deployed as the main operation under the Liquidity Adjustment Facility (LAF). Further, the cash reserve ratio (CRR) which was reduced by 100 basis points (bps) in March 2020, was gradually raised to its pre-pandemic level of 4 per cent by May 2021. To manage the liquidity conditions, variable rate reverse repo auctions of varying maturities were conducted apart from the VRRR operations conducted every fortnight. The size of 14 day VRRR was gradually enhanced to ₹7.5 lakh crore by end-December 2021. During the year so far, average daily net absorptions under LAF amounted to ₹6.7 lakh crore.
- 4.11 During 2021, given the surplus liquidity conditions, call money rate generally traded below the lower bound of the liquidity adjustment facility (LAF) corridor during the year (figure 7). The weighted average call rate (WACR) - the operating target of the LAF - traded 13 bps below the floor of the corridor on an average during the year. It was only in November 2021, that the WACR drifted back slightly within the corridor.
- 4.12 With Reserve Bank's policy of liquidity tapering for banks, there was a shrinkage in interbank liquidity supply. Consequently, the call money market declined to ₹9,077 crore in March 2021. Interest rates on longer-term instruments like Treasury Bills (T-Bills), 3-month Certificates of Deposit (CDs) generally traded above the reverse repo rate during the year.





 RBI not holding them at gunpoint. If bankers find profitable, they'll take it. Otherwise they'll not take. गवर्नर बंदूक दिखाकर जबरदस्ती नहीं दे रहा है. बैंकर को ठीक लगेगा तो लेगा .



But why would bankers take loan from such windows, when so many conditions are imposed?
इतनी सारी शर्तों के बाद क्यों कोई बैंकर लोन लेगा?



इतनी पंचात क्यों करनी है, भाई?



Send your valuable suggestion to RBI governor.

Until implemented, remember 1-2 lines for Mains Ans Writing
“enumerate RBI steps after Corona...to revive economy”



Why doesn't RBI merge so many windows? इतनी अलग अलग खिड़कियां क्यों
खोली हैं इसका merger क्यों नहीं कर देता
रिज़र्व बैंक ?



इतनी पंचात क्यों करनी है, भाई?



मेरा सिलेबस खत्म नहीं हो रहा है
Unable to finish syllabus
History
Geography
Polity, economy, optional..

UPSC के
😊 बाबूशोने



इतनी पंचात क्यों करनी है, भाई?

जब तक आप अपना पढ़ाई का तरीका नहीं बदलेंगे
आपका सिलेबस खत्म हो ही नहीं सकता
U need to change ur approach

12.14.1 REPO → SPECIAL WINDOWS UNDER ATMA NIRBHAR

12.14.1.
⇒ Us
⇒ Bu
⇒ RE
⇒ In

⇒ This will ↑ loanable funds with ↑ economic growth can be revived. (आर्थिक वृद्धि में मदद होगी)
⇒ MSF and (short term) repo lending will be continued separately as per their own existing norms. LTRO doesn't aim to eliminate / replace them. (बाकी जो लघु अवधि के उपकरण हैं, वह भी जारी ही हैं)

Further operational guidelines, how it impacts the bond yields etc. = poor cost:benefit

12.14.2 REPO → TLTRO, SLTRO, On-Tap Windows

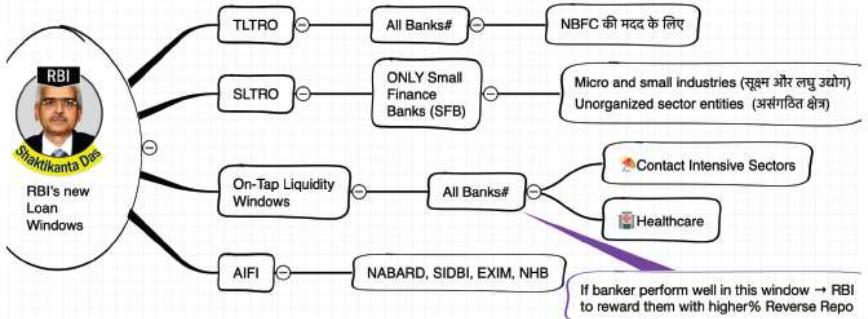


Figure 4: कोरोना पश्चात लोन में ज्यादा पैसा धूमके अर्थात ले जापा सहा करने के लिए रिजर्व बैंक ने ये नई सिलेबसों को ली है

#In above chart, All Banks doesn't include Payment Banks. since 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	Learned in previous section
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)

RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



Edu Doubt?
Ask through



What is reverse repo
rate?



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF*

- Given the complex nature / interconnectedness of these topics.
- Sequence of PPT will not match sequence in Handout. It's expected IAS aspirant is intelligent enough.
- Std5 ki spoonfeeding coaching nahi hai ye.



OMO



Op Twist



MSS



DEPOSITOR

i've surplus funds.
मेरे पास अतिरिक्त पैसा है

deposit with us. we'll pay interest
हमारे पास डिपॉज़िट करो
हम तुमको ब्याज देंगे



AXIS
BANKER

**REVERSE
REPO
RATE**



DEPOSITOR

i've surplus funds.
मेरे पास अतिरिक्त पैसा है

deposit with us. we'll pay interest
हमारे पास डिपॉज़िट करो
हम तुमको ब्याज देंगे



AXIS BANKER

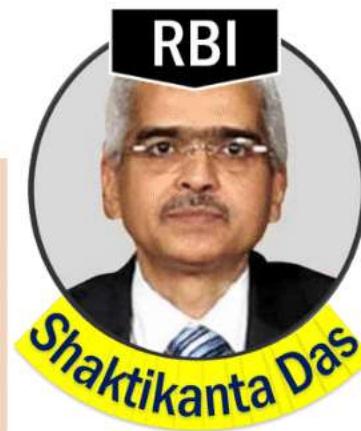
REVERSE REPO RATE



DEPOSITOR

i've surplus funds.
मेरे पास अतिरिक्त पैसा है

deposit with us. we'll pay interest
हमारे पास डिपॉज़िट करो
हम तुमको ब्याज देंगे
= REVERSE REPO RATE



BANKER



1. RBI will give G-Sec Collateral.
2. IF RBI fails to pay, then Axis will confiscate G-Sec.



I've some extra money.
I want to deposit.

I'll pay you "___"
interest



IF RBI gives G-
Sec as
collateral

Reverse
Repo %
3.35%

But why would Banker borrow from Repo and deposit in Reverse Repo?

Ans. Depends on particular day's situation for given bank



**If Axis not finding new
borrowers for a few
days.
then he may park
surplus funds in
Reverse Repo**



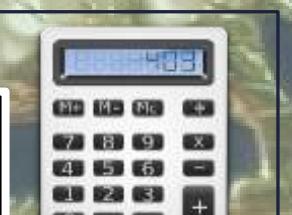
**If SBI needs extra money
then he may borrow under
Repo Rate & other
windows**

RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



How does it work NOT IMPORTANT
Two subtypes = NOT IMP.



CRR, SLR



Bank Rate



MSF

Reverse Repo Rate: Two Types

Fixed

3.35%

Variable

Depends on Auction



LAF-Repo



LAF-RR



SDF*

RBI can reject
accepting This. YES
 उसकी मर्जी है

RBI can reject
accepting This. YES
 उसकी मर्जी है



OMO



Op Twist



MSS

RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?

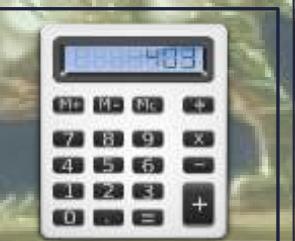


CTRL R

Edu Doubt?
Ask through



Reverse repo
decreased in
Corona
WHY?



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF*



OMO

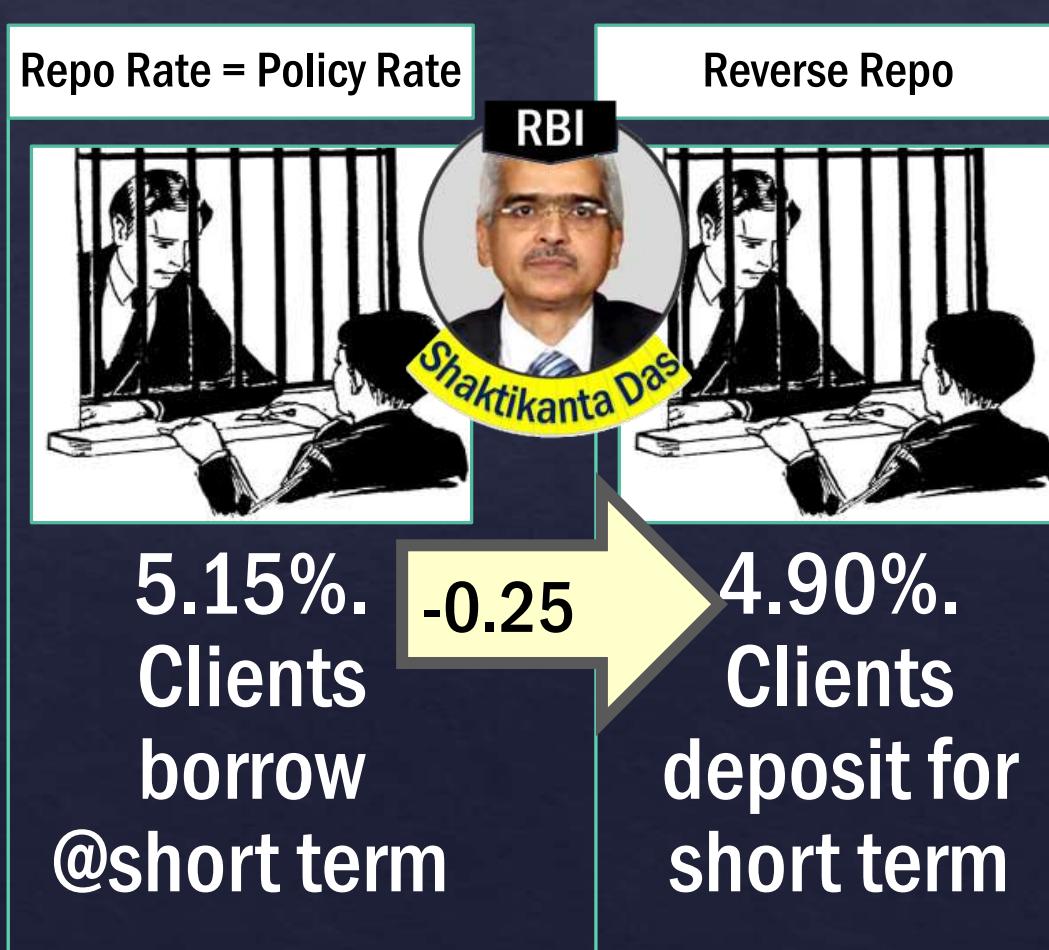


Op Twist



MSS

BEFORE Corona-2020: RBI's E-Kuber platform



लघु अवधि के लिए बैंक
वाले कर्जा ले भी सकते हैं
और
अपना अतिरिक्त पैसा
रिज़र्व बैंक में रख भी
सकते हैं

Policy corridor is the ‘width’ among 3 rates. Total width: 50basis points (bps)= 0.50%

इन तीन खिड़कियों के बीच अंतर कितना है

banker borrow @short term

MSF (2011)

Repo Rate = Policy Rate

Reverse Repo



5.40%

+0.25

Bank rate is
independent...

but bank

rate% = MSF%(usually)

5.15%.
Clients
borrow
@short term

-0.25

4.90%.
Clients park
for short
term



BEFORE CORONA

छोटी अवधि के लिए
अपना अतिरिक्त पैसा
जब ग्राहक रिज़र्व बैंक में
बचत के लिए डालें और
ब्याज कमाए

Corona lockdown & attitude of banks

MSF (2011)



5.40%

Repo Rate = Policy Rate



5.15%.
Clients
borrow
@short term

RBI's Reverse Repo



4.90%.
RBI's Clients
park for
short term



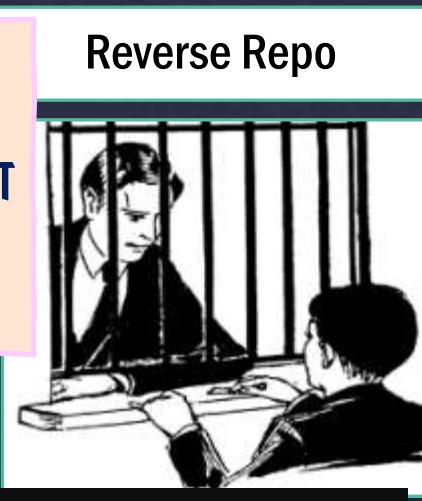
Corona= Few people taking loans from our bank. So better we park our deposits in the
RBI's Reverse repo = मज्जा नी लाइफ

कोई लोन लेने आ नहीं रहा तो → हमारे पास डिपाजिट का जितना
अतिरिक्त पैसा है सारा रिजर्व बैंक में डालते हैं।
बैठे-बैठे आराम से RR-ब्याज खाएंगे 😊 😊



Repo ↓ and Policy corridor changed “asymmetrically”

RBI “window operations” through E-kuber platform



मेरा तो badluck
ही खराब है 😞

4.25%

+0.25

4.00%

Clients
borrow
@short term

-0.65

3.35%
Clients park
for short
term

After: Corridor width: $25+65=90\text{bps}$

RBI



Shaktikanta Das

- 3) + staff salary, light bill, security guards, server cost... so if I park money in Reverse Repo, I'll be in loss 😞 घाटा होगा
- 4) @STAFF: Give loans proactively. telemarketing, SMS/email spam की धूम मचाओ रे..

Assets

CRR, SLR

Reverse Repo

Loans

liabilities

Deposits=100



2) RR:
3.35%

1) SA: 3.***%
FD: 5.***%



5) Yes sir, Loan-
telemarketing, SMS/email
spam की धूम मचा देंगे



RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



Edu Doubt?
Ask through



What is SDF?



- Given the complex nature / interconnectedness of these topics.
- Sequence of PPT will not match sequence in Handout. It's expected IAS aspirant is intelligent enough.
- Std5 ki spoonfeeding coaching nahi hai ye.



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF*



OMO



Op Twist



MSS



I've some extra money.
I want to deposit.

I'll pay you "___"
interest



IF RBI gives G-Sec as collateral

IF RBI gives no G-Sec as collateral

Reverse Repo %
3.35%

SDF %*
6.25%

****SDF= Standing deposit Facility**

SDF = Repo minus 0.25%

$$= 6.50 - 0.25\%$$

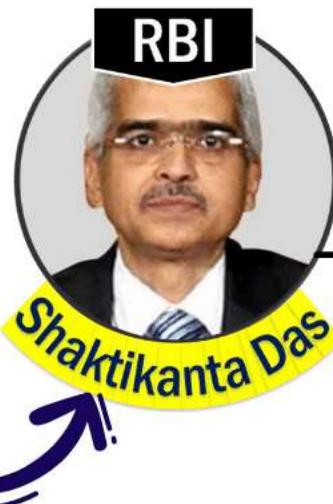
$$= 6.25\%$$

MONETARY POLICY CORRIDOR



i want loans
for short term

I want loan interest
"----" depending
on collateral



IF G-Sec from SLR	MSF % 6.75%
IF G-Sec outside SLR	Repo % 6.50%

Ceiling (छत)



I've some extra money.
I want to deposit.

I'll pay you "----"
interest



IF RBI gives G- Sec as collateral	Reverse Repo % 3.35%
IF RBI gives no G-Sec as collateral	SDF %* 6.25%

Floor (फर्श)



**SDF= Standing deposit Facility
SDF = Repo minus 0.25%



Don't loose too much sleep over these Tables UNLESS preparing for RBI officer exam

> Sufficient to know these are for short-term. Now what exactly is short-term? Is it 1 day, 1 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 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 hand. (बैंकर को जरूरत होगी तो इस्तेमाल करेगा। रिजर्व बैंक उसकी कनपटी पर पिस्तौल नहीं रखा है।)

12.14.11 ₹₹ MSF Repo vs Reverse Repo vs SDF

Tool	MSF	Repo	Reverse Repo	SDF	Corona	In Corona	MSF= R+25 bps	R%	RR = Repo - 65bps	Total width
Present rate (2022-Jul)	5.15%	4.90%	3.35% Fixed Reverse Repo Rate (FRRR)	4.65%						
Lender	RBI	RBI	Banks+some NBFCs	Banks+some NBFCs						
Borrower	ONLY Scheduled Commercial Banks (SCB)	Banks+some NBFCs	RBI	RBI						
Borrower need to give Collateral?	Yes	Yes	Yes	Not required						
##Facility available at	Client (SCB)	RBI	RBI	Client (Banks+ NBFC)						

Reverse Repo= It
आया नहीं देगा.)
will help him.

UPSC के
बाबूशोने

मेरे को 500 जात के doubt है

मुझे
Ph.d कराओ



Tri-Party Repo (त्रि-पक्षीय पुनःक्रय-अनुबंध):

This topic I find it not important for exam anymore. So DELETED from handout.

Want to know this is not a tool of Monetary Policy. It is a method to meant to help

central bank to borrow money from the market.(ये मौद्रिक नीति का हिस्सा नहीं है।)

👉 BPLR, MCLR, External Benchmarks, etc:

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

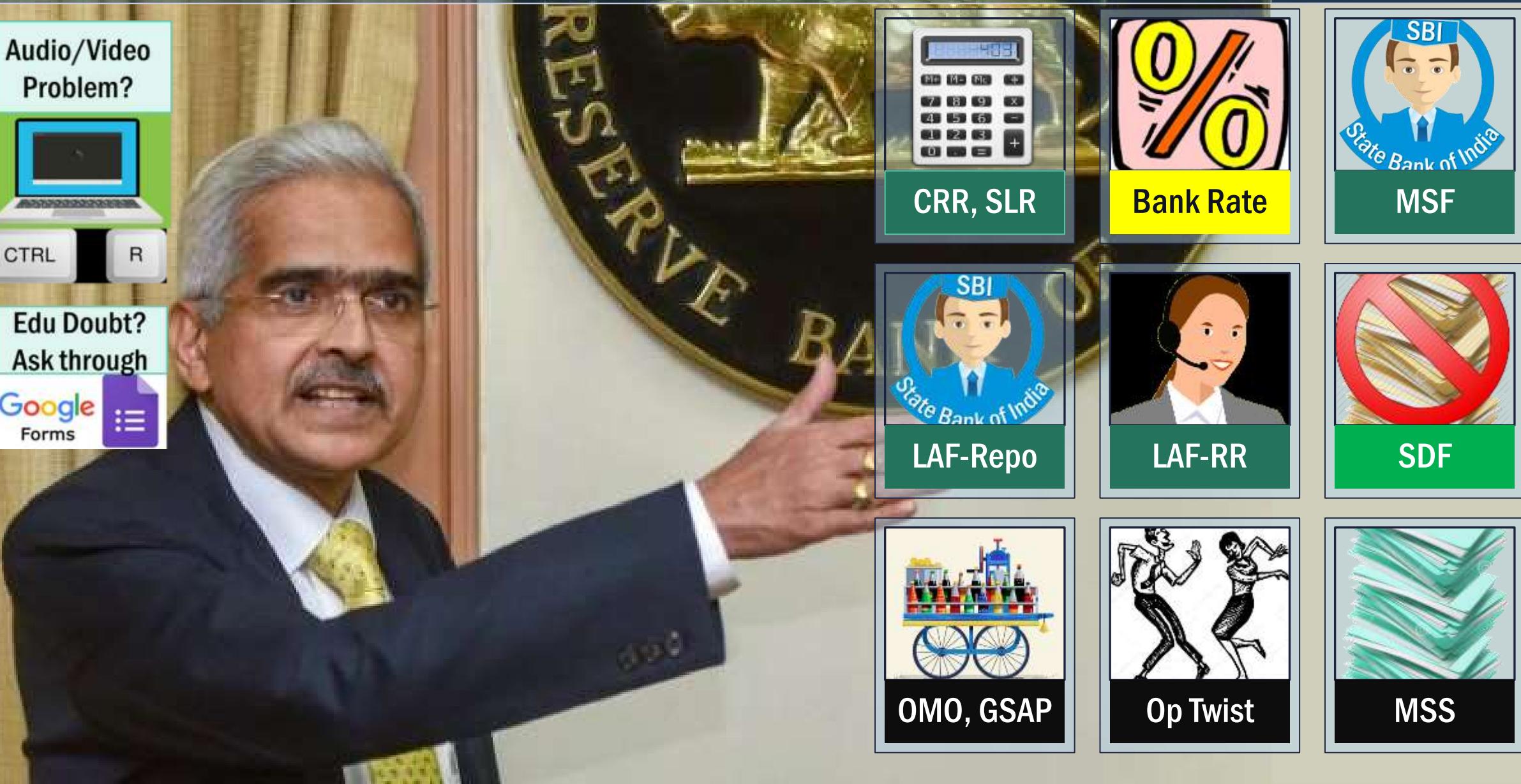
Given on page 57-58

RBI Monetary Policy Tools → Quantitative Tools → Bank Rate

Audio/Video
Problem?



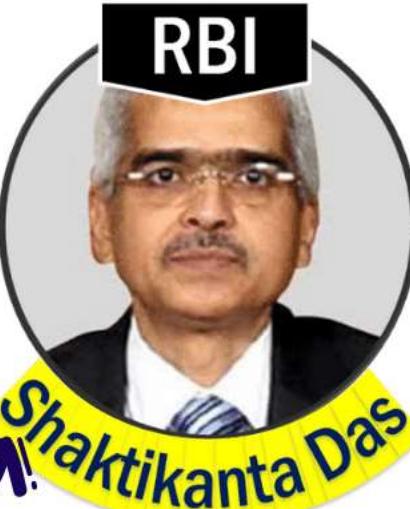
Edu Doubt?
Ask through





I've some extra money.
I want to deposit.

I'll pay you "___"
interest



IF RBI gives G-Sec as collateral

IF RBI gives no G-Sec as collateral

Reverse Repo %
3.35%

SDF %*
6.25%

Then what is Bank rate?

Interest rates on borrowing from RBI: bank rate

बैंक रेट के बारे में अलग अलग किताबों में मतभेद हैं

	Repo (2000)	MSF (2011)	 Bank Rate (1934's RBI Act)
Rate?	X%	X% + 0.25%	=MSF% (since 2012)
Tenure	Short term		Longer term (How much: books differ)
borrower?	Bank,nbfc	Only Banks	Only banks* (Some books differ)
Collateral? गिरवी	Learned in previous slide आगे पढ़ लिया हमने		<ul style="list-style-type: none"> Required (as per some source) Not required (as per some source)

- 2000: repo rate system introduced. → THEN **Bank rate has become a dormant tool** (=not frequently used by RBI for lending or by banks for borrowing). यह प्रमुख चीज नहीं रहे
- Hence **book and web-sources differ** on its present day operational status of Bank rate.
- Bank rate mainly for deciding penalty rate. E.g. **if CRR not kept then penalty = bank rate + "X%"**

Bank rate: purely the textbook definition (NCERT)

सस्ते में बेचेगा और महंगे में खरीदेगा उस प्रकार से कर्जा ले रहा है बैंक



3) Bank pledged it
to borrow money.
Sell then “buyback”

2) Bank
invested in
debt Securities

1) Debt securities

Borrower	Government	Companies
Short term (less than 1 year)	Treasury bills (T-Bill) Cash Management bills (CMB)	Bill of Exchange, Commercial Papers, Promissory Notes.
Long term (1 year/>) →	G-Sec, Sovereign Bonds	Bonds / Debentures

Bank rate: purely the textbook definition (NCERT)

“Rediscounts” सस्ते में बेचेगा और महंगे में खरीदेगा उस प्रकार से कर्जा ले रहा है बैंक



3) Bank pledged it
to borrow money.
Sell then “buyback”



2) Bank
invested in
debt Securities

1) Debt securities

- 4) **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)”

Borrower	Government	Companies
Short term (less than 1 year)	Treasury bills (T-Bill) Cash Management bills (CMB)	Bill of Exchange, Commercial Papers, Promissory Notes.
	G-Sec, Sovereign Bonds	Bonds / Debentures

Bank rate: No need to lose sleepfaded historic topic.

So far in all UPSC Prelims questions

- ❖ They asked **very basic stuff**
- ❖ How to **combat inflation / deflation** using ‘rate’?
- ❖ That **principle is one and same for all three (Bank Rate, MSF, Repo).**
- ❖ Some **private mock test walla** lift statements from here and there about meaning of Bank rate. So as said- **depending on context of the question, tick the answer.**



महंगाई से कैसे
लड़ोगे तो उसके
सिद्धांतों एक समान
ही रहेंगे

How to use bank rate to fight inflation?

Ans. Same as Repo. Ref page 71 table.

12.19 🔊 🔍 MONETARY POLICY TOOLS: A READY RECKONER TABLE

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

Tools & Strategy?	<2%CPI= Fight deflation (अपस्फिति)	>6%CPI= Fight Inflation (मुद्रास्फिति)
⇒ 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- मँहगी व्याजदरे, संकुचनवादी
Reserves: CRR, SLR	↓ (Decrease)	↑ (increase)
Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease)	↑ (increase) महंगाई से लड़ना है तो रेपो दर बढ़ा दो

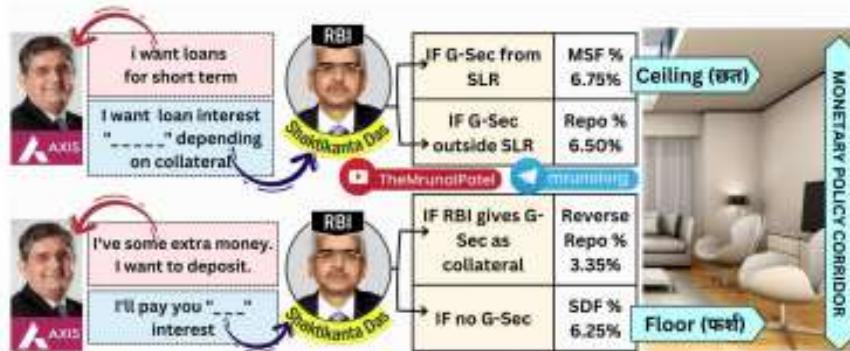
Finished till
page 57

यह पांच लाइन में क्यों पढ़ा दिया
500 लाइन में क्यों नहीं पढ़ाया है

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. (रिहाई बैंक की सरकारी की बात है कि उसको सेवा देना या नहीं देना.)
- ⇒ But, If client (Banker) comes for MSF = RBI will not say "NO" to him. RBI will help him.
- ⇒ What is SCB? Ans. Refer Pillar I B1: 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 $0.25+0.25=0.50\%$

- Small-small self explanatory factual things
- I'll not teach It
- Read it in handout



UPSC के
बाबूशोने

RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



Edu Doubt?
Ask through



Pending from here

- CRR, SLR
- Bank Rate
- MSF
- LAF-Repo
- LAF-RR
- SDF
- OMO
- Op Twist
- MSS