

RBI Monetary Policy Tools → Quantitative Tools

Continued..

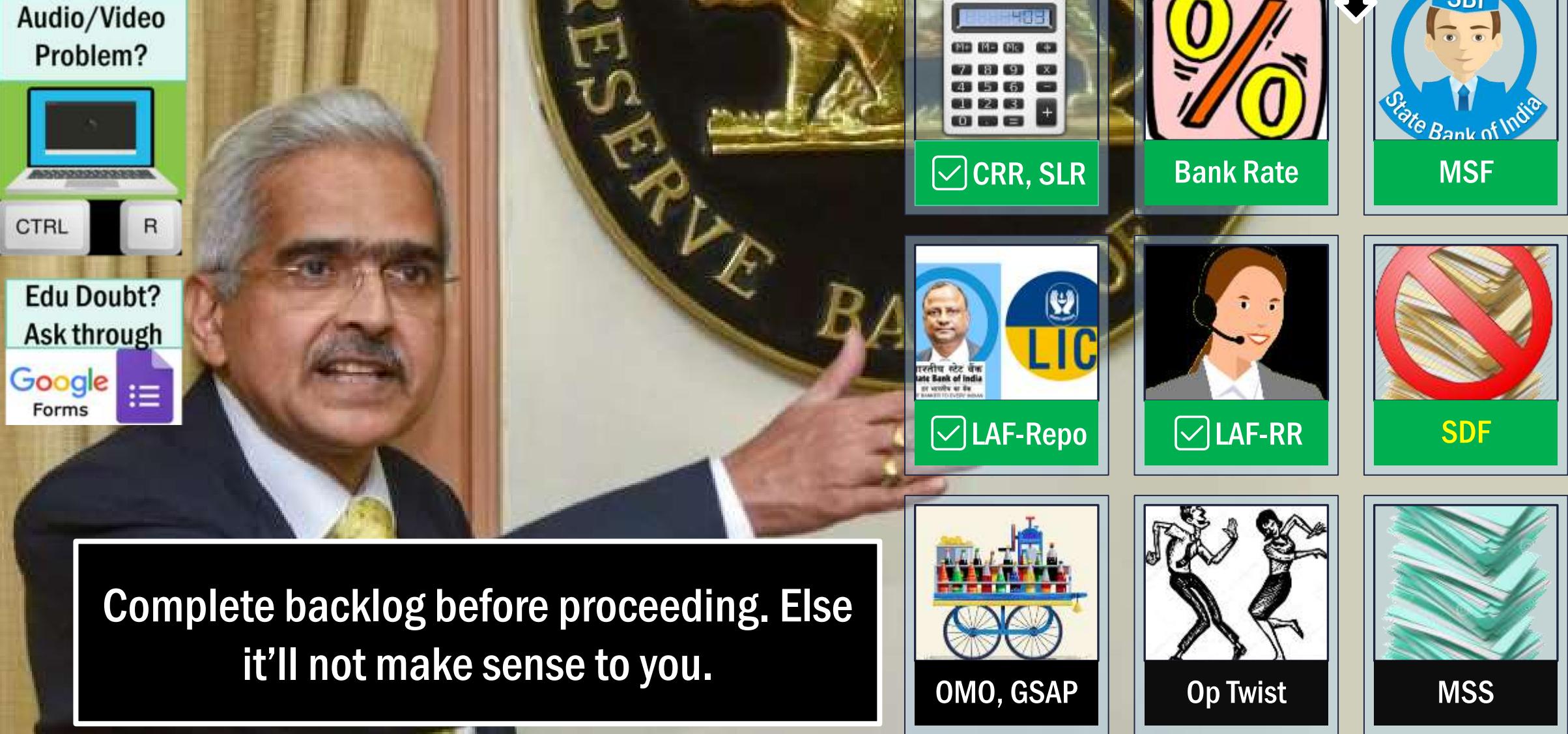
Audio/Video
Problem?



CTRL

R

Edu Doubt?
Ask through



CRR, SLR

Bank Rate

LAF-Repo

LAF-RR

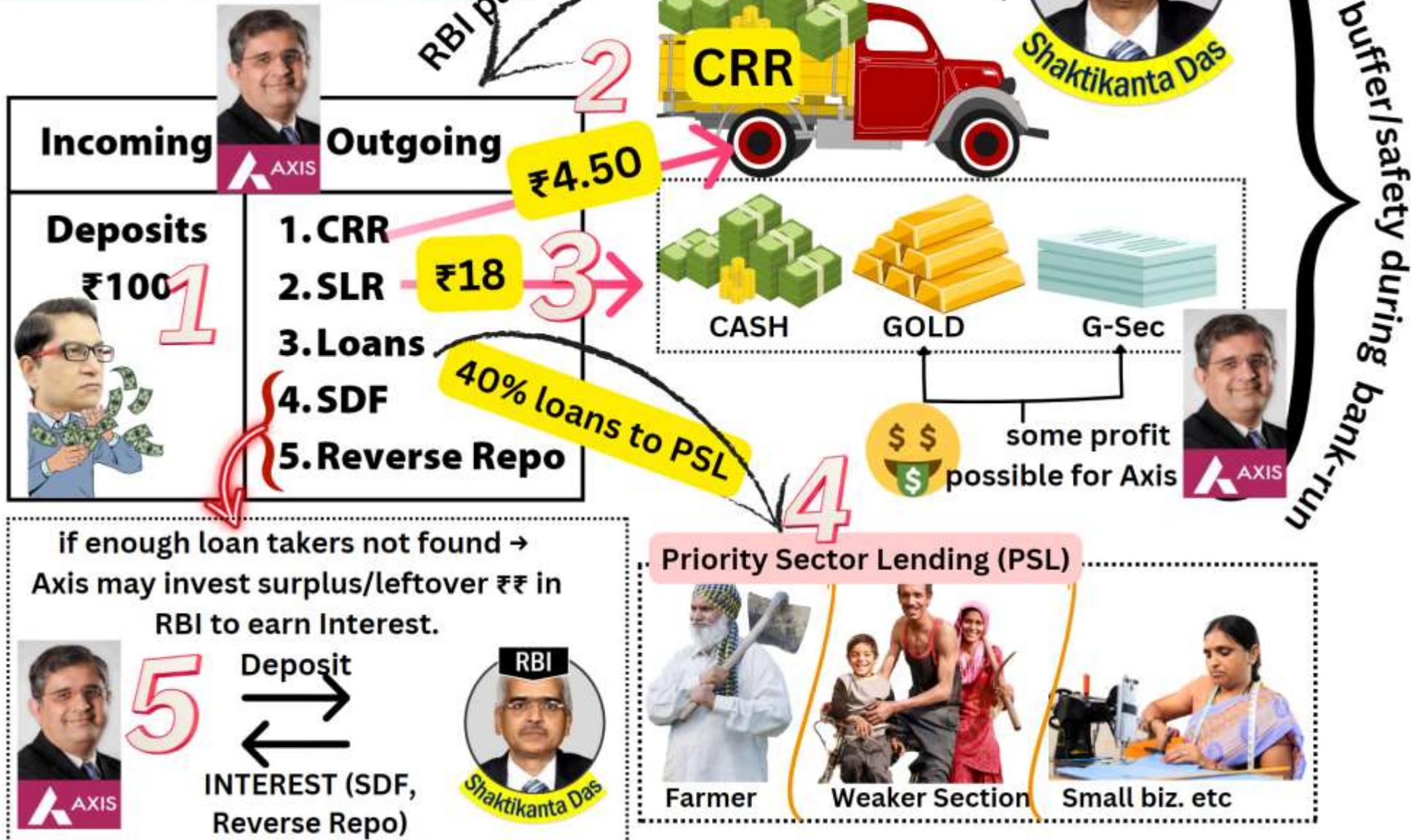
OMO, GSAP

Op Twist

MSS

MONETARY POLICY TOOLS:

CRR, SLR, PSL,



Already done
and dusted.
You should be
intelligent
enough to
understand
this.
Else go through
video again

MONETARY POLICY CORRIDOR



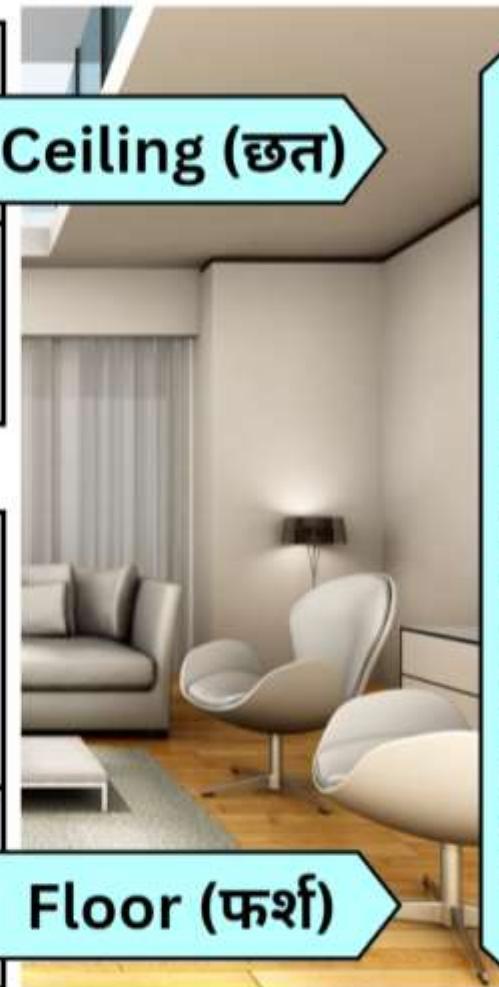
IF G-Sec from SLR	MSF % 6.75%
IF G-Sec → outside SLR	Repo % 6.50%

Ceiling (छत)



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

Floor (फर्श)



Already done and dusted.
You should be intelligent enough to understand this.
Else go through video again

Q. Which of the following with regard to the term 'bank run' is correct? [UPSC-CDS-2016-II]

- (a) The net balance of money a bank has in its chest at the end of the day's business दिन खत्म होने पर बैंक की तिजोरी में जो पैसा हो
- (b) The ratio of bank's total deposits and total liabilities बैंक में रखी कुल जमा डिपॉजिट और उसकी देयता का अनुपात
- (c) A panic situation when the deposit holders start withdrawing cash from the banks ऐसी तनावपूर्ण परिस्थिति जहां डिपॉजिट करता बैंक से अपनी राशि निकालना शुरू कर दे
- (d) The period in which a bank creates highest credit in the market ऐसा समयकाल जब बैंक बाजार में सबसे ज्यादा कर्जे में पैसा दे



Very easy
question.

100% Surety

50:50

E) Skip

Atte

Prelim 2015 Question- modified for 2022

When RBI reduces the Statutory Liquidity Ratio by 50 basis points (0.50%), what will happen?

- 1) India's GDP growth rate increases drastically | जीडीपी वृद्धि दर में भारी बढ़ोतरी होगी
 - 2) Foreign Investors may bring more capital into our country | विदेशी निवेशक भारत में और ज्यादा विदेशी पूँजी लेकर आयेंगे
 - 3) It may drastically reduce the liquidity to the banking system | तरलता में भारी गिरावट होगी
 - 4) Scheduled Commercial Banks (SCB) may cut their lending rates | बैंक के लोन दरों में कटोती हो सकती है



Answer Codes

- A) only 1 and 3
 - B) only 2 and 4
 - C) only 1 and 2 and 3
 - D) only 4
 - e) skip

100% Surety

50:50

E) Skip

SLR में 0.50% कटौती का परिणाम क्या होगा

Handout page 71



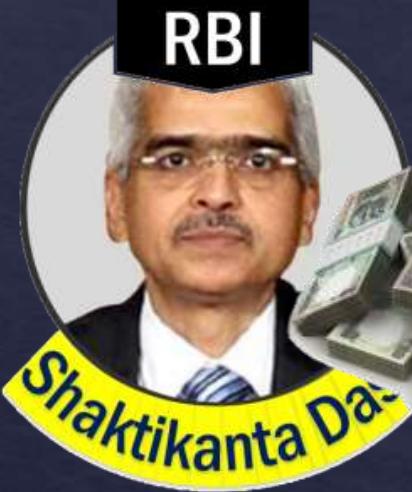
MONETARY POLICY TOOLS: A READY RECKONER TABLE

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, Dear, 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

SLR → liquidity

RBI's Liquidity injection in the market

RBI



Shaktikanta Das

1) Bank Sell / pledge (गिरवे रखना)
G-sec, Bonds...



2) RBI loans them ₹₹

5) My home sold more easily!

Because buyer's home loan passed quickly! मेरा
मकान जल्दी से बिक गया क्योंकि
ग्राहक का लोन जल्दी पास हो गया



3) Now, we've more cash.
We'll easily give loans.

दे धनाधन लाँन पास
करेंगे... 🎉



4) 5) I got home
loan easily! मेरा
लोन जल्दी पास हो गया



Prelim 2015 Question- modified for 2021

When RBI reduces the Statutory Liquidity Ratio by 50 basis points (0.50%), what will happen?

- 1) India's GDP growth rate increases drastically | जीडीपी वृद्धि दर में भारी बढ़ोतरी होगी
 - 2) Foreign Investors may bring more capital into our country | विदेशी निवेशक भारत में और ज्यादा विदेशी पूँजी लेकर आयेंगे
 - 3) It may drastically reduce the liquidity to the banking system | तस्लिता में भारी मिसावट होगी
 - 4) Scheduled Commercial Banks (SCB) may cut their lending rates | बैंक के लोन दरों में कटोती हो सकती है

Answer Codes

- A) only 1 and 3 B) only 2 and 4
C) only 1 and 2 and 3 D) only 4 e) skip

100% Surety

50:50

E) Skip



SLR में 0.50% कटौती का परिणाम क्या होगा

Birbal ki khichdi

More factories & showrooms → production good & services↑ → GDP↑ (more in Pill4)

Amazon, Ford, Ferrari setup factories, godowns, outlets,showrooms in India (FDI: more Pill3)

But taxation, GST, ease of doing biz..many factors

People do more shopping of TV,fridge,cars

Banks ↓ loan rates

RBI ↓SLR by 0.50%



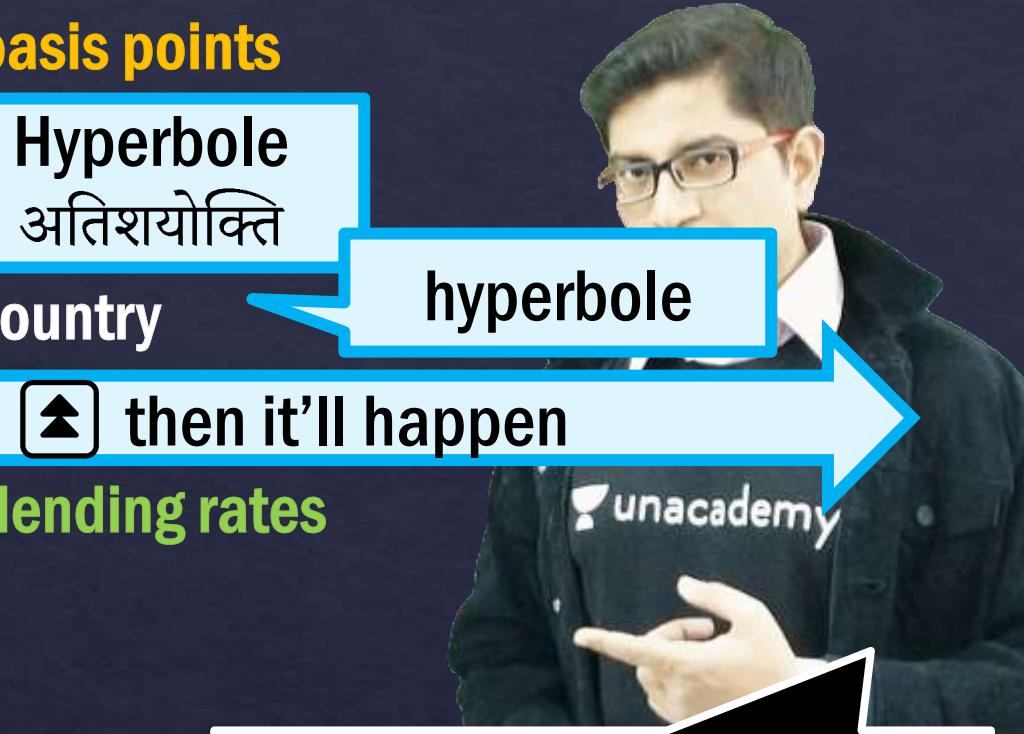
Prelim 2015 Question

When RBI reduces  the Statutory Liquidity Ratio by 50 basis points (0.50%), what will happen?

1. India's GDP growth rate increases drastically
2. Foreign Investors may bring more capital into our country
3. It may drastically reduce the liquidity to the If SLR  then it'll happen
4. Scheduled Commercial Banks (SCB) may cut their lending rates

Answer Codes

- A) only 1 and 3 B) only 2 and 4
C) only 1 and 2 and 3 D) only 4 e) skip



In 2015-direct 4 option
Official answer was D.

100% Surety

50:50

E) Skip

Atte

**AB
CD** ? If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do ?

1. Cut and optimize the Statutory Liquidity Ratio एसएलआर में कटौती
2. Increase the Marginal Standing Facility Rate एमएसएफ में बढ़ोतारी
3. Cut the Bank Rate and Repo Rate बैंक दर और रेपो दर में कटौती

Answer Codes:

- [a) 1 and 2 only [b) 2 only
[c) 1 and 3 only [d) 1, 2 and 3 [E) SKIP

100% Surety

50:50

E) S



विस्तारवादी मौद्रिक नीति
के दौरान रिजर्व बैंक क्या
नहीं करेगी?

Handout page 71



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, Dear, 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

Expansionary / expansionist policy → CRR-SLR-Repo-MSF → money supply

**AB
cD** ? If the RBI decides to adopt an **expansionist monetary policy**, which of the following would it not do ?

1. **Cut and optimize the Statutory Liquidity Ratio** 
2.  **Increase the Marginal Standing Facility Rate**  (it'll not do this)
3. **Cut the Bank Rate and Repo Rate** 

Answer Codes:

- [a) 1 and 2 only [b) 2 only [this is asked]
[c) 1 and 3 only [d) 1, 2 and 3 [E) SKIP

100% Surety

50:50

E) S



विस्तारवादी मौद्रिक नीति
के दौरान रिजर्व बैंक
 क्या नहीं करेगी?

An increase in the Bank Rate generally indicates that the

(a) Market rate of interest is likely to fall बाजार में ब्याज दर गिर सकता है

(b) Central Bank is no longer making loans to commercial banks. केंद्रीय बैंक वाणिज्यिक बैंकों को कर्ज नहीं दे रहा

(c) Central Bank is following an easy money policy केंद्रीय बैंक आसान मौद्रिक नीति अपना रहा है

(d) Central Bank is following a tight money policy केंद्रीय बैंक तंग या संकुचन वादी मौद्रिक नीति अपना रहा है



बैंक दर में रिजर्व
बैंक वृद्धि करेगा तो
उसका अंजाम
क्या होगा

100% Surety

50:50

E) Skip

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

An increase in the Bank Rate generally indicates that
the(Asked in UPSC-Pre-2013)

(a) Market rate of interest is likely to fall. It'll increase
actually!

(b) Central Bank is no longer making loans to commercial
banks. Then why would RBI announce bank rate hike!

(c) Central Bank is following an easy money policy. Easy
money = ↓ the rates, makes loan cheap.

(d) Central Bank is following a tight money policy



100% Surety

50:50

E) Skip



Primary vs Secondary Market

- 1) G-Sec issued
Tenure: 1 year or more



पहली बार जब
पेटीपैक सामान बेचा जाए

Primary Market

- Security issued for 1st time



Primary vs Secondary Market

1) G-Sec issued

Tenure: 1 year or more



👉👉 I may re-sale,
if I want to EXIT early.



Primary Market

- Security issued for 1st time



Secondary Market

- Resold by investors to others

पहली बार जब
पेटीपैक सामान बेचा जाए

जब वही चीज़ निवेशक किसी
और को दोबारा बेच दें



1) G-Sec issued
Tenure: 1 year or more

Primary vs Secondary Market



Primary Market

- Security issued for 1st time



Secondary Market

- Resold by investors to others

पहली बार जब
पेटीपैक सामान बेचा जाए

Repo (Repurchase)

- Selling with promise to buy-back
(वापस खरीदने की कसम खाई)

Open Market Operation

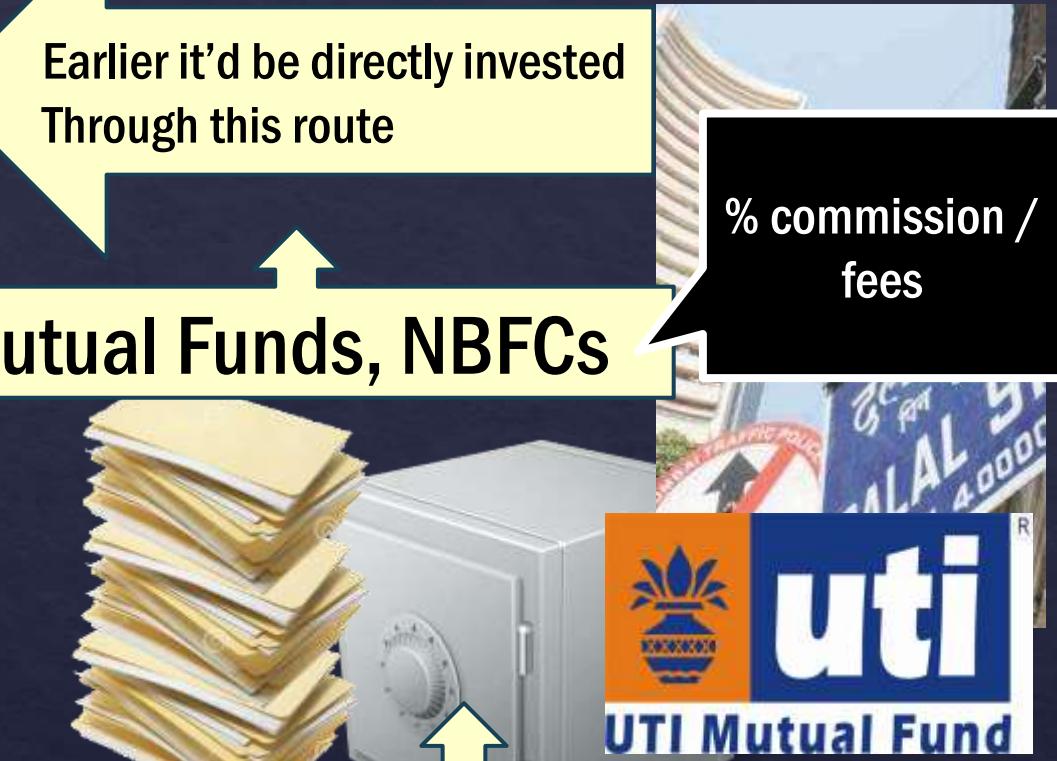
- Selling with no promise to buy-back
(वापस खरीदने की कोई कसम नहीं खाई)
- Buying with no promise to re-sell

BEFORE 2021: not possible to directly buy G-Sec for retail investor



Earlier it'd be directly invested
Through this route

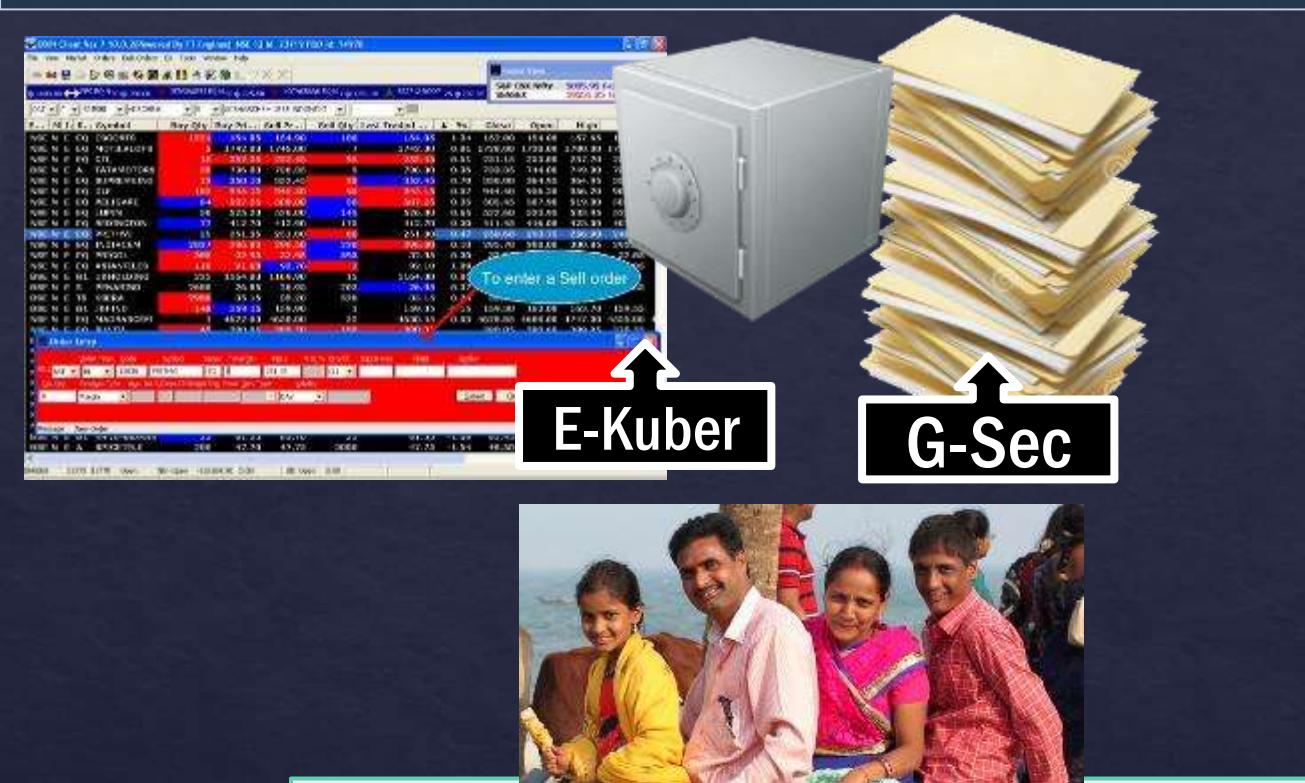
Mutual Funds, NBFCs



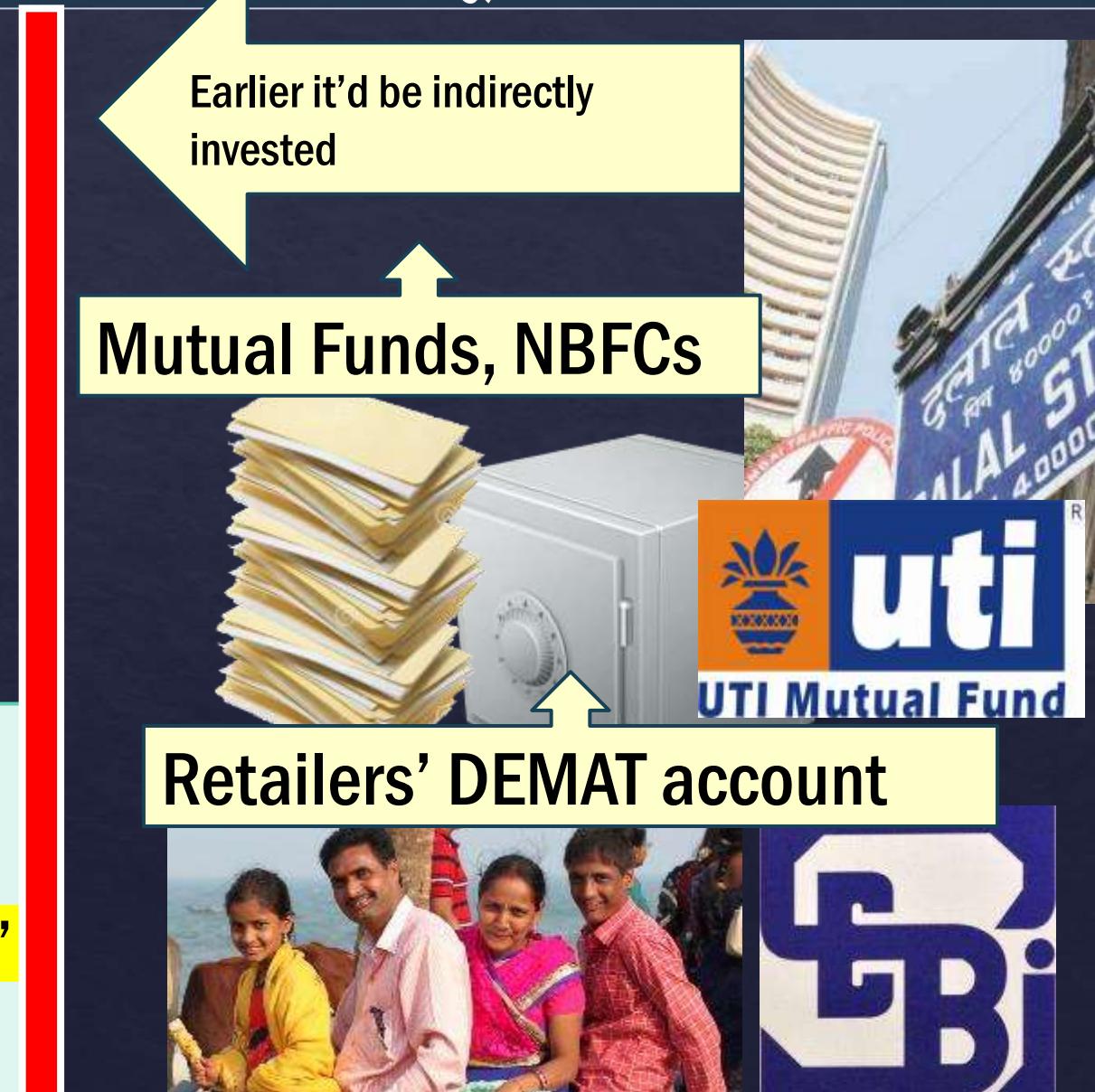
Retailers' DEMAT account

2021: RBI's proposal to increase retail participation in G-sec

आम निवेशक सीधा ही रिजर्व बैंक में खाता खोल सके सरकारी प्रतिभूति खरीदने के लिए



- 2021: RBI has announced it'll allow Retail Investors to Open “Retail Direct Gilt (RDG) account” with RBI's E-Kuber



2021: RBI's proposal to increase retail participation in G-sec

आम निवेशक सीधा ही रिजर्व बैंक में खाता खोल सके सरकारी प्रतिभूति खरीदने के लिए



- 2021: RBI has announced it'll allow Retail Investors to Open
- "Retail Direct Gilt (RDG) account" with RBI's E-Kuber

Earlier it'd be indirectly invested

Mutual Funds, NBFCs



Retailers' DEMAT account

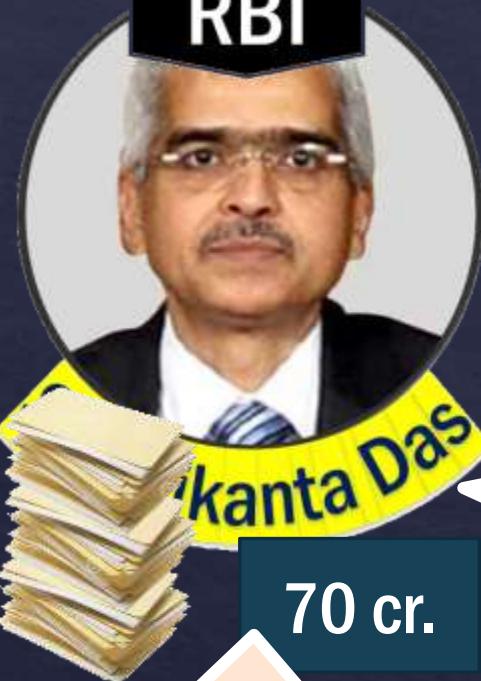


This is available

This is not
banned. This is
also available

RBI: public debt manager रिजर्व बैंक सरकारी ऋण का प्रबंधक है

RBI



70 cr.

Sold through
RBI's e-kuber
platform



G-Sec: 100 Cr. @8% for 1 year



Investors, banks, NBFCs will bid & buy

- Unsold G-sec are bought by RBI.
- If RBI doesn't have cash, it'll print new cash

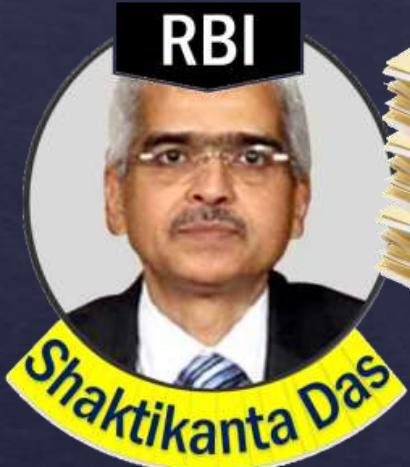
10 cr.



20 cr.

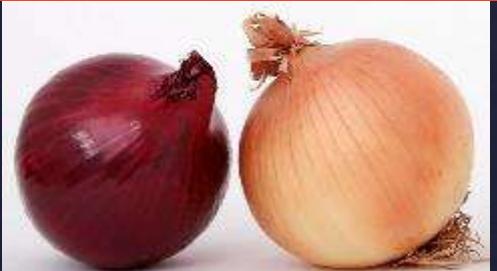
Inflation: how to fight using Open Market Operation (OMO)

महंगाई से लड़ना है तो → मुद्रा की आपूर्ति कम करना



1) 70 cr. G-sec

1 kg = Rs.150



2) Money in the market 30 cr.

3) To combat inflation,
RBI must ↓ money supply

Inflation: how to fight using Open Market Operation

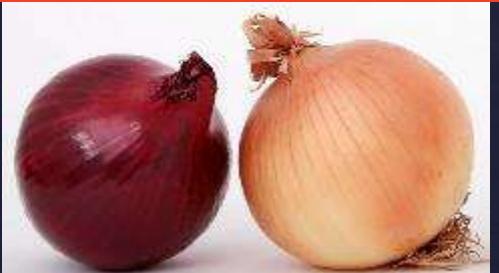
आरबीआई अपने खाते में G-sec बेचेगा → बाजार से पैसा चूस लेगा



2) 70 60 cr. G-sec

1) RBI Sells
10 cr G-Sec to
absorb ₹₹

1 kg = Rs. 150 - 100



ICICI Bank

AXIS BANK

HDFC BANK



3) Money in the market 30 cr.



4) Money in the market 20 cr.

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



Loanable
Funds



CRR
SLR



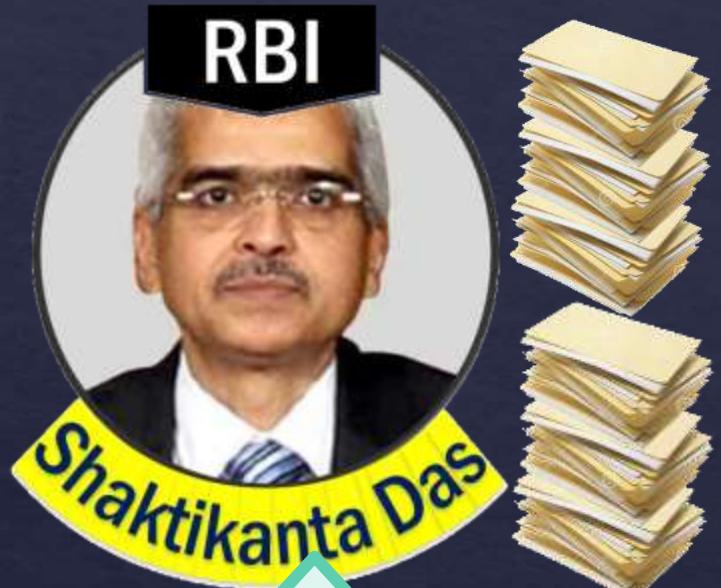
Loan
Interest
Rates



RBI sells G-Sec
Banker invests in it
Bankers' Loanable Funds
Loan Interest Rate
Shopping Demand
Inflation

Just remember: how to fight inflation using OMO

महंगाई से लड़ना है तो मुद्रा की आपूर्ति कम करना



1) If RBI sells G-Sec,
it absorbs ₹₹ →
inflation fought;

- इन लोगो को G-Sec बेचूंगा
- बाजार से पैसा खिच लूंगा



2) Less money → expensive loans →
demand decrease → inflation fought



Handout page 71: table

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

मुझे

Ph.d कराओ

🔊👁️ MONETARY POLICY TOOLS: A READY RECKONER TABLE

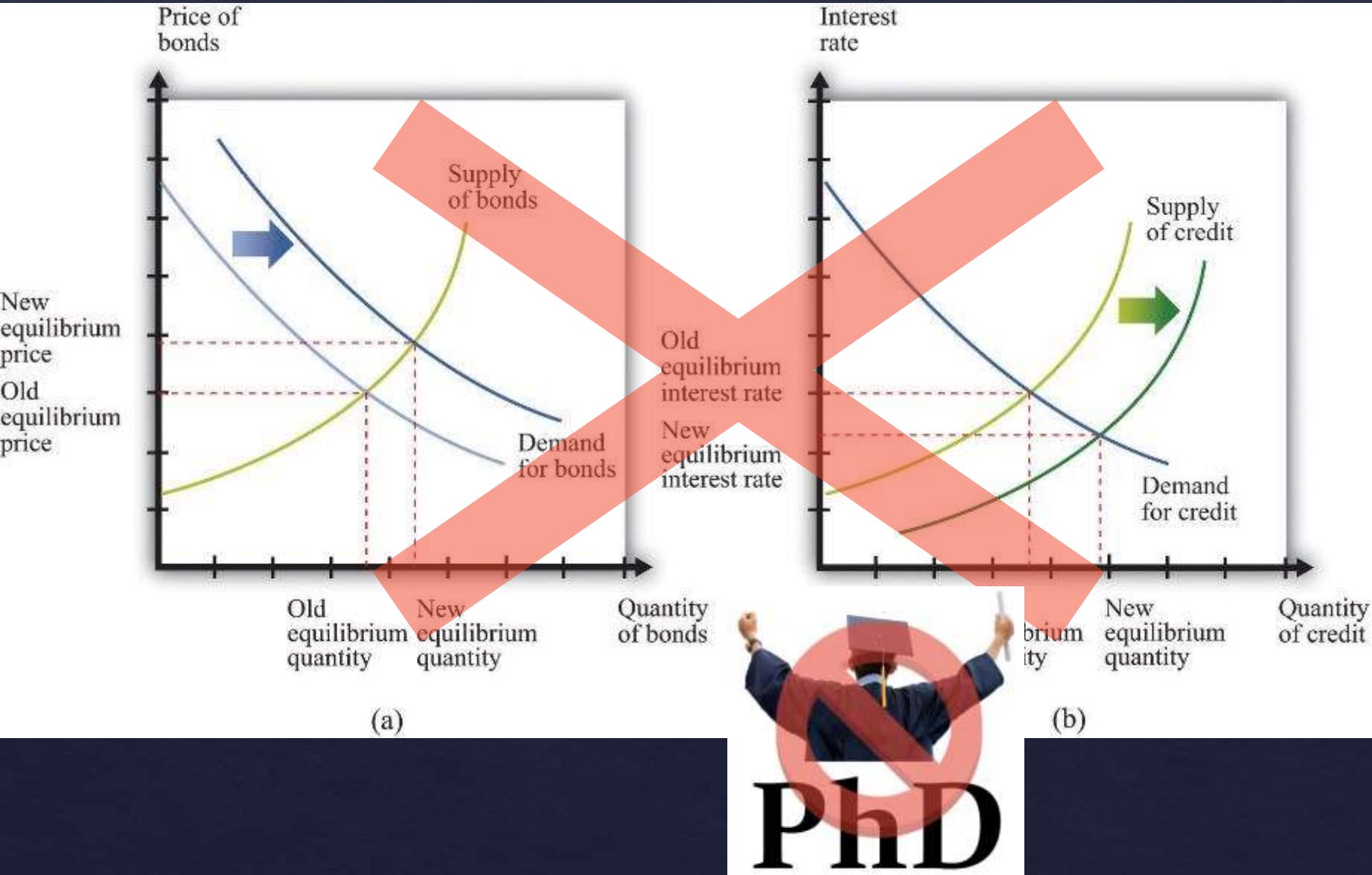
Tools & Strategy?		<2% CPI = Fight deflation (अपस्फीति)	>6% CPI = Fight Inflation (मुद्रास्फीति)
-	Deflation: ↑ money supply, inject liquidity=> make loans cheaper, ↑ consumption	Easy, Cheap, Dovish, Expansionary policy. आसान-सस्ता व्याजदरे, विस्तारवादी	Tight, <u>Dear</u> , Hawkish, Contractionary तंग- 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 कुल मिलाके बात तो एक लाइन की ही है

नहीं मेरे को तो खुद हर चीज को जटिल करना है.

No I want to overcomplicate it for myself.



How OMO changes the interest rates....



नहीं मेरे को तो खुद हर
चीज को जटिल करना है.

No I want to
overcomplicate it
for myself.



Just remember: how to fight deflation using OMO

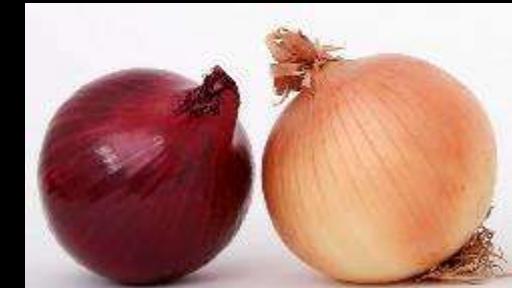
अपस्फीति / बहुत सस्ता भी ठीक नहीं है...(Philip curve: unemployment)

1) Not even 5 rupees.

I want onions for 1 rupee!!



1 kg = ₹5.00



Kya karu main mar jau



Just remember: how to fight deflation using OMO

अपस्फीति / बहुत सस्ता भी ठीक नहीं है...(Philip curve: unemployment)

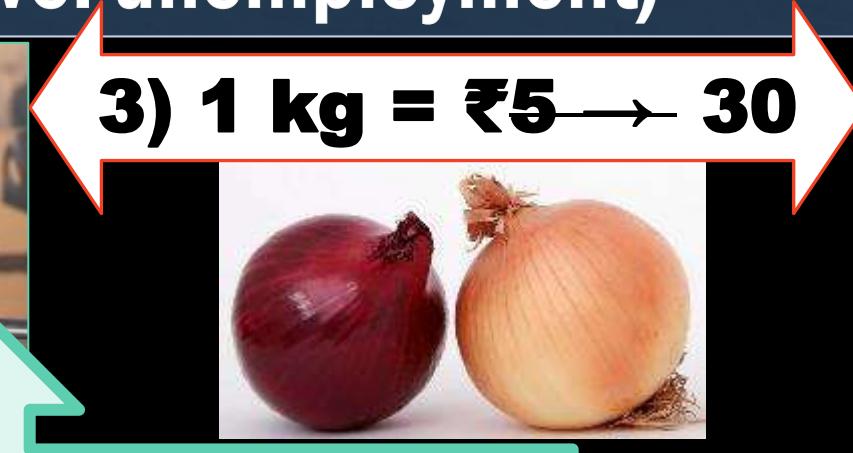
- इन लोगो से G-Sec खरीदूँगा
- बदले में इनको ₹₹ पैसा दूँगा



1) If RBI buys G-Sec, it injects cash/liquidity: deflation fought



2) More money → cheaper loans → higher consumption...



Handout page 71: table

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

मुझे

Ph.d कराओ



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	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 कुल मिलाके बात तो एक लाइन की ही है

नहीं मेरे को तो खुद हर चीज को जटिल करना है.

No I want to overcomplicate it for myself.



RBI Monetary Policy Tools → Quantitative Tools

Audio/Video
Problem?



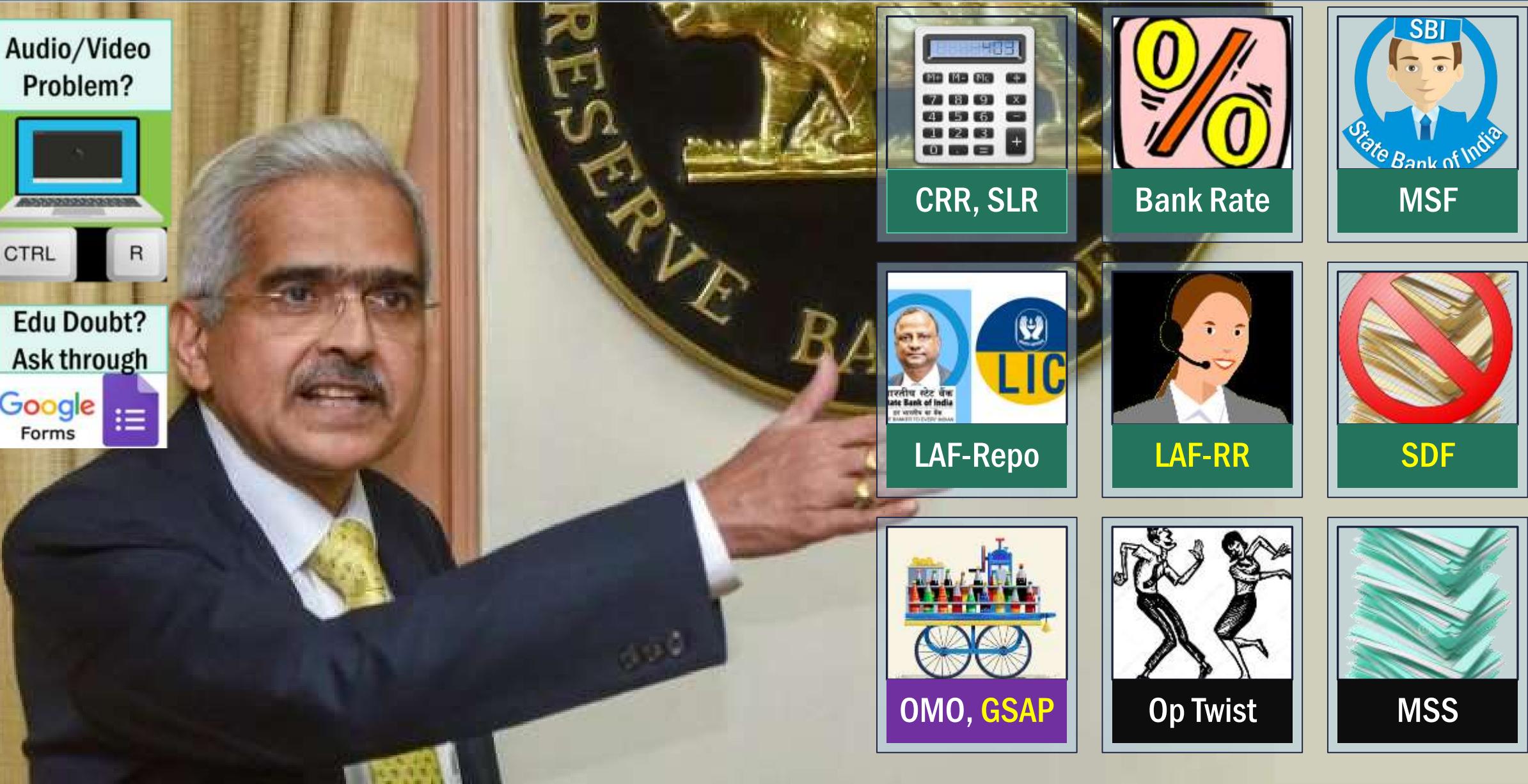
CTRL R

Edu Doubt?
Ask through



Google Forms

OneDrive





Primary vs Secondary Market



पहली बार जब
पेटीपैक सामान बेचा जाए



जब वही चीज़ निवेशक किसी
और को दोबारा बेच दें

Investor sells G-Sec



RBI

Shaktikanta Das



- Suppose this G-Sec maturing @10 years
- then girl will get Principal + Interest back.
- But on 5th Year, Girl wants to exit early do invest elsewhere in property, gold-silver, Zomato-shares
- वक्त से पहले निवेशकों निकल जाना हो
- क्योंकि उसे अपना पैसा कहीं और लगाना है

When will you do OMO?

When is the next date?

दूसरी बार खरीद, या बिक्री कब होगी?



Traditional OMO

पारंपरिक रूप से



⌚ Depends on my Mood/Discretion.

I can't tell you dates long before the event मेरे विवेक पर निर्भर है

RBI

Shaktikanta Das



When will you do OMO? दूसरी बार खरीद या बिक्री कब होगी?

When is the next date?

Traditional OMO
पारंपरिक रूप से



Depends on my Mood/Discretion.
I can't tell you dates long before the event
मेरे विवेक पर निर्भर है

G-SAP = telling the buying timetable in advance.

(Secondary Market) G-sec acquisition programme

GSAP

- RBI to buy G-Sec from Secondary market on specified timetable.
- एक निश्चित समय तालिका के हिसाब से रिज़र्व बैंक द्वितीय बाज़ार से सरकारी प्रतिभूतियां खरीदेगा



G-SAP	During	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

When will you do OMO? दूसरी बार खरीद या बिक्री कब होगी?

When is the next date?

Traditional OMO
पारंपरिक रूप से



Depends on my Mood/Discretion.
I can't tell you dates long before the event
मेरे विवेक पर निर्भर है



RBI
खरीदेगी

OMO

RBI
बेचेगी

**RBI Buys to ↑
Money supply**

**OMO-Buy-
(Discretionary)**

**GSAP=Timetable
pe**

**RBI sells to ↓
money supply**

**OMO-SELL-
(Discretionary)**

**(Secondary Market) G-sec
acquisition programme**

GSAP

- RBI to buy G-Sec from Secondary market on specified timetable.**
- एक निश्चित समय तालिका के हिसाब से रिज़र्व बैंक द्वितीय बाज़ार से सरकारी प्रतिभूतियां खरीदेगा**



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

G-SAP	During	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



How G-SAP can help reviving Economy Post-Corona?
अर्थतंत्र को पुनर्जीवित करने में कैसे मदद मिलेगी ?



- 6) Zomato Biz expansion
- Jobs for delivery boys
- Boom in restaurant Biz

4)
Jewelry
biz



3) Invest in
Silver



How G-SAP can help reviving Economy Post-Corona?

अर्थतंत्र को पुनर्जीवित करने में कैसे मदद मिलेगी ?

1) Investor sells G-Sec
In G-SAP timetable



5) Zomato
IPO-Shares

2) Investor's money unlocked



स्वाभाविक है कुछ लोग _____ अखबार जरूरत से ज्यादा पढ़कर भावुक हो जाते हैं
और उन्हें RBI के हर कदम में सिर्फ गलतियाँ / नुक्स ही दिखाई देते हैं



Why did not RBI ↴ ↴ repo to revive economy after Corona?

Why OMO → GSAP drama?

रिपो दर ही सस्ती कर दो ! ये नया GSAP तमाशा क्यों करना है ?

1. investor may not be interested to take loans, but 'unlock' her own money. (अगर उस लड़की को लोन ही न लेना हो तो!)

2. Already Repo reduced from 5.##% to 4.##% in Corona (रिपो में पहले ही काफी कटौती हो चुकी है)



RBI Monetary Policy Tools → Quantitative Tools done upto p41

Audio/Video
Problem?



Edu Doubt?
Ask through



CRR, SLR



Bank Rate



MSF



LAF-Repo



LAF-RR



SDF



OMO, GSAP



Op Twist



MSS

RBI → Monetary Policy → OMO → Operation TWIST (2019)

🎵 आओ (Operation) TWIST करें 🎵



- अरे महमूद भाई वो एक खास किस्म का **OMO** ही है.
- It's just a special type of Open market Operation!
- Understand these basic concepts 1st:

Securities → debt (More in Pillar1C: SEBI Sharemarket)

सरकार जब कर्ज लेती है तो बहुत ऊंचा ब्याज नहीं देगी क्योंकि वहां पर जोखिम कम है

Lower risk of default so may be 6-8% interest

Higher risk :
so may be 12%

Borrower	Government	Companies
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

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

बांड में निवेश करने पर आपको जो मुनाफा होगा



Bought @100



₹ 100
8% (coupon rate)
1 year



Govt repays ₹ 108
After 1 year

$$\text{Bond yield} = \left(\frac{\text{profit}}{\text{investment}} \right) = \left(\frac{108 - 100}{100} \right) * 100 = 8\%$$

1) अरे देवा! सोनू के कॉलेज की फीस भरनी है.

Wants urgent cash before maturity



Had Bought
@100



₹ 100

8% (coupon rate)
1 year



3) Sold @₹ 90 in
secondary market

2) Secondary market is a place where securities are resold to third parties. E.g. share market, bond market (more in Pillar#1C)



4) Govt repays ₹ 108, but after 1 year.

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

बांड में निवेश करने पर आपको जो मुनाफा होगा



Bought @100



2) Sold @₹ 90



3) Govt repays ₹ 108

$$\text{Bond yield} = \left(\frac{\text{profit}}{\text{investment}} \right) = \left(\frac{108 - 90}{90} \right) * 100 = 20\%$$

Concept1: Bond Yield \propto 1/Price (inverse relation)

सस्ते में खरीदा तो मुनाफा ज्यादा होगा

Selling price of a ₹ 100 Face value ka bond	Yield
bought @100	8%
bought @95	14%
bought @90	20%
Bought @80	35%



₹ 100
8% (coupon rate)
1 year



Price \uparrow = Yield \downarrow
Price \downarrow = Yield \uparrow
जितना सस्ते में खरीदा,
 उतना ज्यादा मुनाफा



Relationship between price and demand

कीमत और मांग में रिश्ता क्या है? मांग बढ़ेगी तो कीमत बढ़ेगी



₹100 = 1kg



If only 1 buyer



₹150 = 1kg



If 5 buyers interested

Demand ↑ = Price ↑

If Demand ↑ = Price ↑



₹90 = 1 bond

सिफ एक ही खरीदार है।
वो जो दाम देगा, उसमे बेचना पड़ेगा। 😠



1) I'm the only buyer.
Bhide has no option!
I'll earn 20% yield 😊😊

If Demand ↑ = Price ↑

मांग बढ़ेगी तो कीमत बढ़ेगी



₹90 = 1 bond

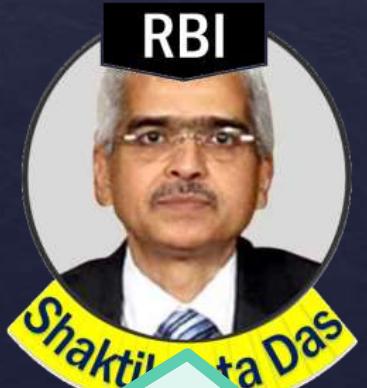


- 1) I'm the only buyer.
- 2) He has no option!
- I'll earn 20% yield 😊😊

3) Now there are two interested buyers.
I can negotiate selling price of this bond!
Demand ↑ = bond's selling Price ↑



₹95 = 1 bond



अभी खरीदार ज्यादा है और
बेचने वाला सिर्फ एक
तो बेचने वाला ऊंची रकम की
अपेक्षा रख सकता है

2) Bhide master, I'm also
interested to buy it!

Demand ↑ = Price ↑ = Yield ↓

मांग बढ़ेगी तो कीमत बढ़ेगी



₹90 = 1 bond



1) He has no option!

I'll earn 20% yield



3) Now there are two interested buyers. I can negotiate selling price of this bond!
Demand ↑ = Price ↑



₹95 = 1 bond

Selling price of a ₹ 100 Face value ka bond	Yield
bought @100	8%
bought @95	14%
bought @90	20%
Bought @80	35%



4) हट..RBI ने.मेरी G-sec yield खराब कर दी. 😢 😢

Demand ↑ = Price ↑ = Yield ↓

Better I invest in Ambani bonds, Zomato IPO-Shares

2) Bhide master, I'm also interested to buy it!

HOW MUCH INTEREST SHOULD I PAY TO INVESTOR ON BOND?



INVESTOR

1. Modi-ji pays 8.50% on G-Sec.
2. G-Sec is safer.
3. your company is riskier



RELIANCE
ok then i'll pay
12%,
if u buy my bonds

HOW MUCH INTEREST SHOULD I PAY TO INVESTOR ON BOND?

S&P Global
Ratings



INVESTOR



- 1. your company's credit rating is very poor.**
- 2. i'm not confident to invest**



ok then i'll pay
12%,
if u buy my bonds

Factors affecting (Corporate) bond interest?

कंपनी के बॉन्ड ब्याज दरों का निर्धारण कैसे होता है?



Inflation

- Why/how :Ans. 1C (SEBI Sharemarket)

Risk / Rating

- Lower credit rating (e.g. CCC or D) →
- Means risk of default is high.
- higher interest rate needs to be offered
- धंधा कमजोर और जोखिम ज्यादा

Bank deposit
interest rates

- Higher the (Bank) deposit interest rate,
- Then higher bond interest rate needs to be offered to attract households
- To shift money from bank savings account/Fixed Deposits to corporate bonds.

Yield on G-Sec

- NEXT SLIDE

- Wants to issue Corporate Bond.
- Should offer
- 8% or 12% to investors?





Why Operation TWIST (2019)?

- 1) Please buy my bond
- 2) I'm willing to offer 15%
- 3) I'll use your ₹₹ to build new factory, create new jobs, help in economic growth!

आपके निवेश किए गए पैसों से मैं फैक्ट्रियां बनाऊंगा, रोजगार सृजन करूँगा, आर्थिक वृद्धि दर बढ़ाकर भारत को विश्व गुरु बना दूँगा !!

- 5) 🙇 Sorry Mukesh Uncle.
- yield on G-Sec is 20%, so, I'll invest in G-Sec. Risk very low! (जोखिम कम मुनाफा ज्यादा)
- If Mukesh uncle gives me 21% only then I'll come



- 6) G-Sec yield 
- करना मांगता है।



- 4) Interest 8% but Yield:20%

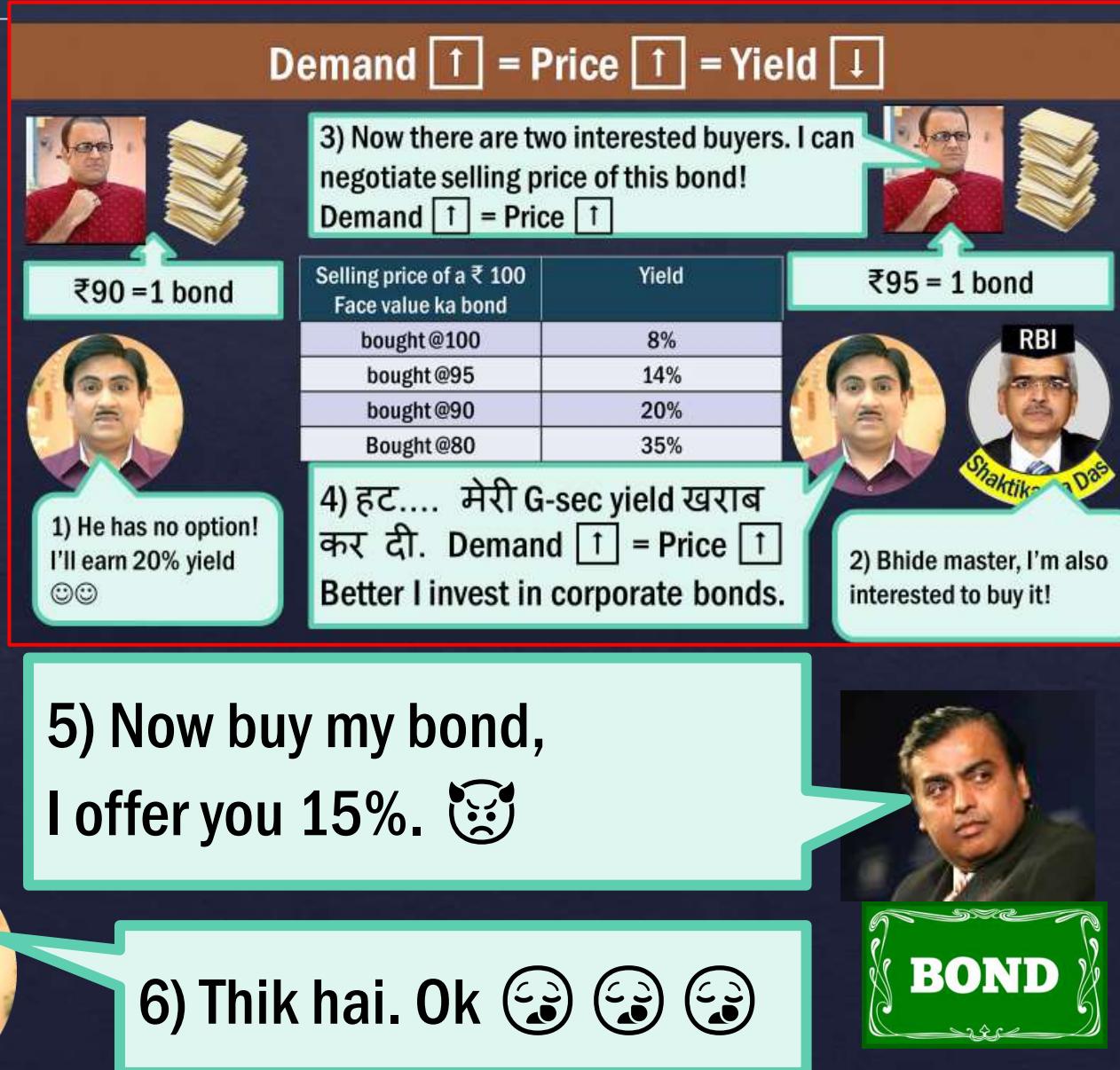
Why Operation TWIST? = special type of OMO

- ◆ RBI Starts buying (long term: 10-14 years maturity) G-Sec worth ₹10,000 crore from secondary market

- ◆ G-sec Demand \uparrow = Price \uparrow = G-sec Yield \downarrow

- ◆ = Investors' arrogance \downarrow

- ◆ Corporates can borrow money through bonds more easily.



Op Twist can cost of borrowing for Govt & Companies

इससे सरकार और निजी कंपनिओं के लिए कर्ज लेना सस्ता हो सकता है



1) Suppose issued in 2010



2) Interest 8%
but Yield:20%



Op Twist can  cost of borrowing for Govt & Companies

इससे सरकार और निजी कंपनिओं के लिए कर्ज लेना सस्ता हो सकता है



1) Suppose issued in 2010



2) Interest 8%
but Yield:20%



4) BEFORE Operation Twist

Cost of borrowing high
For govt & Companies



Suppose in 2020



New G-sec
@8% 😠

New reliance bond
@25% 😠

3) If only you give me ManMohan era
interest/yield then I buy (मुझे मनमोहन के
जमाने वाला मजा दो. तो ही में निवेश करूँगा।)



Op Twist can cost of borrowing for Govt & Companies

इससे सरकार और निजी कंपनिओं के लिए कर्ज लेना सस्ता हो सकता है



Suppose issued in 2010



1) Interest 8%
but Yield 20%



ओर वेसे भी ज्यादातर old-Gsec मैंने खरीद

के बाजार से 'हटवा दिए हैं'

तो आपको ये माल मिलेगा ही नहीं.

RBI itself bought older stuff



Suppose issued in 2020



New G-sec
@6%

New reliance bond
@15%

RBI

Shaktikanta Das

Yield: 14%

Now I don't have much choice in 'investment' 😢

If I don't want to take 'risk' → Modi@6%

If want to take 'risk' → Mukesh@15%



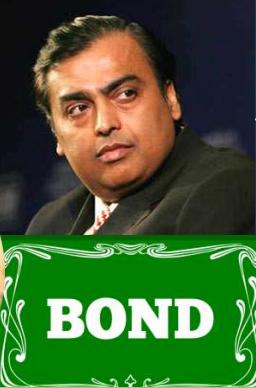
Op-Twist



1) Bought ₹10k cr



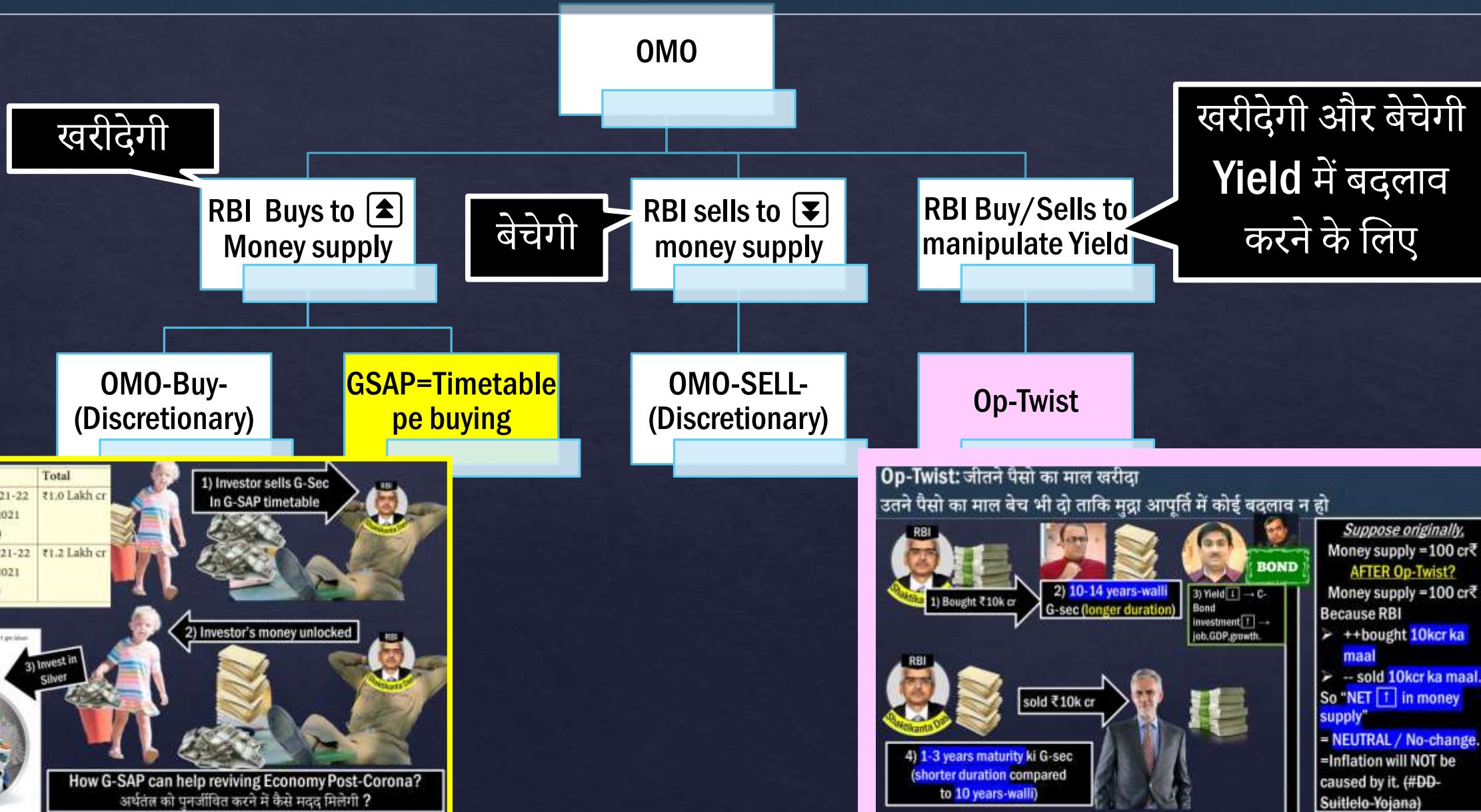
2) 10-14 years-walli
G-sec (longer duration)



3) Yield ↓ → C-Bond
investment ↑ → job, GDP, growth.

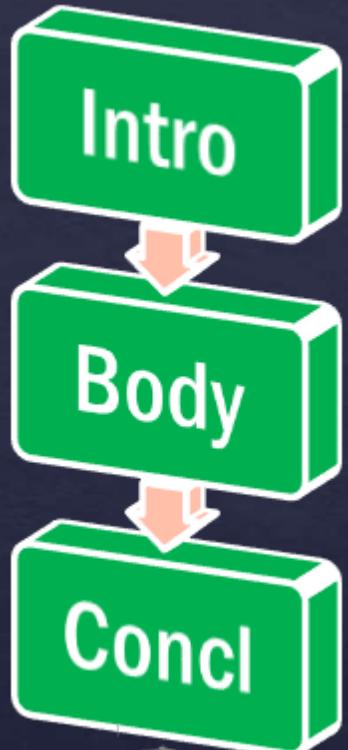


RBI's Monetary Policy → Open Market Operations (खुले बाजार की क्रियाएं)



Op Twist: If you've understood then well and good, otherwise...

- ◆ 1961: "Operation Twist" was first used by US Fed Reserve.
- ◆ 2019: RBI “Special Open Market Operation (OMO)
- ◆ Central bank simultaneously buys and sells G-sec of varying maturities to adjust their yields. अलग-अलग अवधि की सरकारी प्रतिभूतियों को खरीदा और बेचता है ताकि उनकी यील्ड में बदलाव कर सके
- ◆ Which helps ↓ interest rates on corporate bonds/debentures → easier to mobilize investment → factory expansion → ↑ jobs, GDP growth.
- ◆ objective of Op-Twist was to borrowing cheaper for companies and Government सरकार और कंपनियों के लिए कर्ज लेना थोड़ा सस्ता हो जाएगा



रद्दा मारो जिदाबाद...

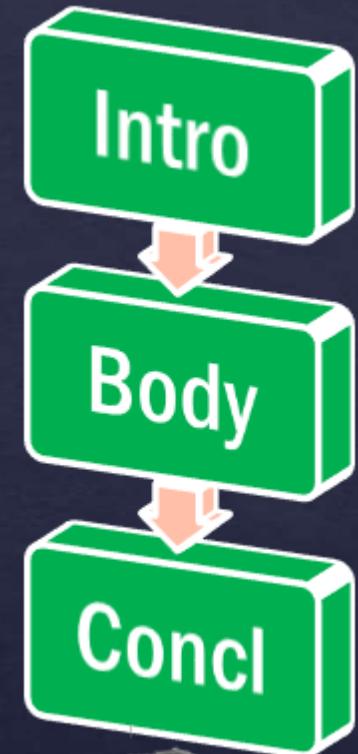
Long live the Rote Learning

Op Twist: If you've understood then well and good, otherwise...

- ◆ It ensures better Monetary Policy transmission for economic growth. मौद्रिक नीति की असर को यह बढ़ातरी देगा
- ◆ Because simply reducing the repo rate has not helped much in making loans cheaper, for corporates. क्योंकि इससे पहले रिजर्व बैंक ने रेपो दर तो बहुत सस्ती करके देख ली लेकिन उससे बड़ी कंपनियों के लिए कर्ज लेना सस्ता नहीं हो रहा था

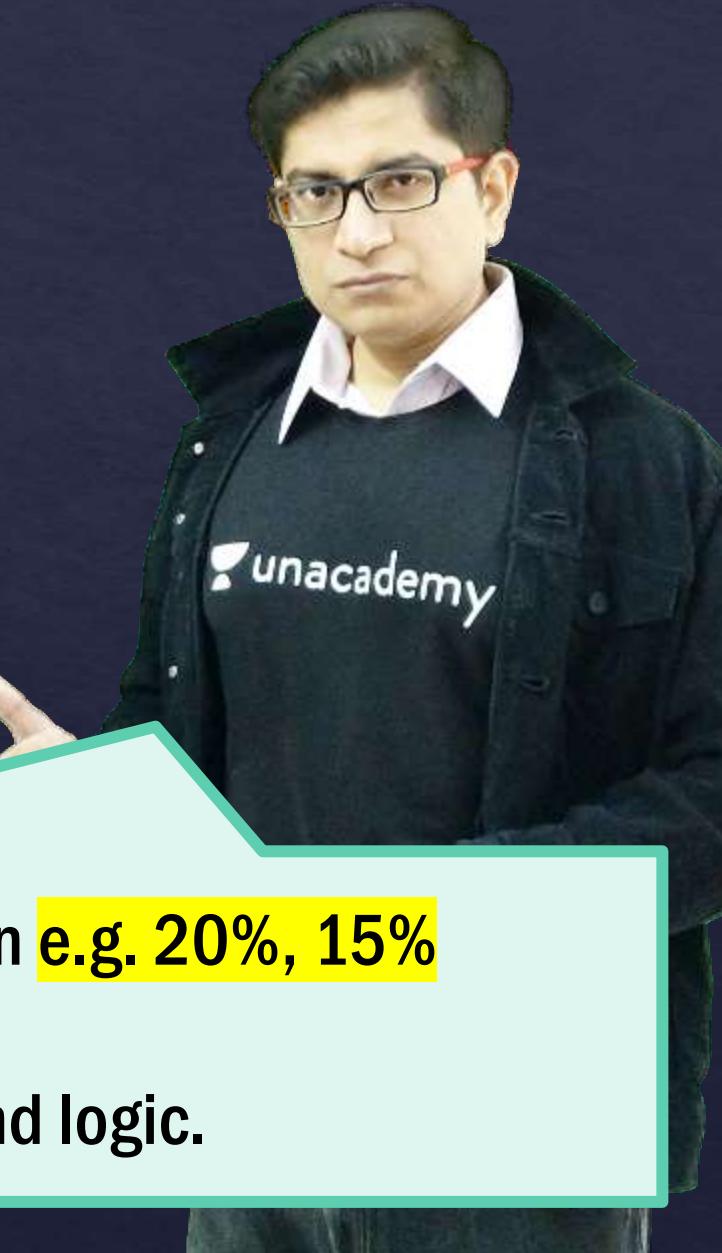
रट्टा मारो जिदाबाद...

Long live the Rote Learning



Operation Twist: what is the maximum utility?

- ❖ Maximum 1 MCQ in Prelims.
 - ❖ Atleast you know enough to do 50:50 elimination.
- ❖ 75-150 words short note in Mains.
 - ❖ You've enough content for that.
 - ❖ Beyond this, 500 jaat ke 'what if, but why & Birbal-Khichdi logical questions' = NOT REQUIRED.



In PPT, I've used **fictional numbers** easy to understand & Explain e.g. 20%, 15%
In handout more **realistic actual numbers** given like 6.75%
but as such don't worry about the numbers here. Just understand logic.

Op-Twist, Inverted Bond Yield, Negative Bond Yield

Pvt Tests: Contrived MCQs. (अतरंगी/कलिष्ट किस्म के सवाल)

Reason#1: Quizmaster inexperienced.

Not analyzed past papers

Low score in private mock test = demotivated. 😞



Reason#2: Deliberately setting tough MCQ in free mock test, to scare u into buying their 'coaching/material'.

1. Whether I'm asking such things? Is private mock test a 'benchmark' to predict UPSC papers?
2. Is cut-off 200/200?



UPSC examiner

Bond yield related topics in the news

Extremely poor cost benefit in preparing. I'll skip them.



👉 Yield Inversion
in USA

👉 Negative Yield
in Italy, China



कुछ खास फायदा नहीं है
इसको छोड़ो और आगे
बढ़ो



1

Srilankan Govt Bonds : Rs.100 @7% interest



2

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



3

Srilankan economy collapse, riots, Prez runs away

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



i'll pay only ₹63
for this junk
bond!

5

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

Bond Yield

7%

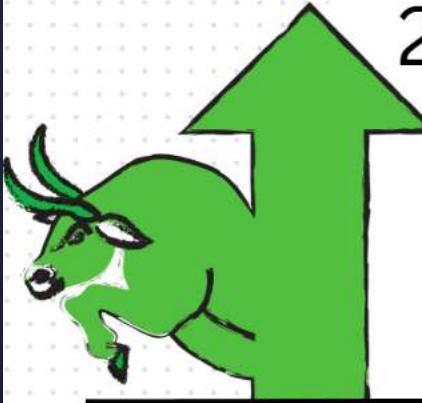
11%

increase

when investor exits at lower price



1. Political instability / Risk of govt defaulting on loans e.g. SriLanka, Pakistan.



2. better profits in shares, gold, real-estate, other nations' financial markets etc.



3. ↑ Inflation ➔ investor shifting from bonds to gold/real-estate for better profit.



4. Central Bank's buying-selling of Govt Bonds & depending on how it affects supply/demand of those Govt Bonds.

Bond Yield
7%

11%
increase

Pillar#1A2: RBI Monetary Policy Tools → Quantitative Tools

The collage includes the following elements:

- Top Left:** A photo of Shri Shaktikanta Das, Governor of the Reserve Bank of India.
- Top Center:** A large image of the Reserve Bank of India logo.
- Top Left Box:** "Audio/Video Problem?" with a laptop icon, "CTRL" and "R" keys, and "Edu Doubt? Ask through Google Forms" with a Google Forms icon.
- Top Right Box:** "SBI" logo with "Bank of India" text.
- Middle Left Column:**
 - "CRR, SLR" with a calculator icon.
 - "LAF-Repo" with an LIC logo and a portrait of Shri Shaktikanta Das.
- Middle Right Column:**
 - "RBI ke loans" with a percentage sign icon.
 - "Bank Rate" with a person in a headset icon.
 - "RBI mein deposit" with a red "no" symbol icon.
 - "LAF-RR" with a person in a headset icon.
 - "SDF" with a red "no" symbol icon.
- Bottom Row:**
 - "OMO" with a rickshaw icon.
 - "Op Twist" with a dancing couple icon.
 - "MSS" with a stack of money icon.
- Bottom Left Text Box:** "Market stabilization scheme (MSS) extremely poor cost benefit in preparing. We'll not waste time." and "तकनीकी चीज. पढ़ने का बहुत फायदा नहीं".

Handout page 71: table

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

मुझे

Ph.d कराओ



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	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

नहीं मेरे को तो खुद हर चीज को जटिल करना है.

कुल मिलाके बात तो एक लाइन की ही है

No I want to overcomplicate it for myself.



RBI Monetary Policy Tools

Affect entire economy, but indirectly

You can quantify them as X%, ₹Y

मालात्मक रूप से पूरे अर्थतंत्र को परोक्ष रूप से
असर करता है



Quantitative, Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]

OMO, Op TWIST, G-SAP

MSS, SDF

Volume of loans

Affect a sector of economy directly

गुणात्मक साधन अर्थतंत्र के किसी एक क्षेत्र
विशेष को सीधे तौर पर असर करता है



Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of loans

Application of moral suasion [नैतिक दबाव]

RBI Governor Raghuram Rajan nudges banks to cut lending rates

By PTI | Updated: Aug 20, 2015, 11.13 PM IST

[Post a Comment](#)

मैंने तो रेपो दर सस्ता
किया लेकिन बैंक वाले
लोन सस्ते नहीं कर रहे



[Home](#) » [Industry](#)

RBI governor Urjit Patel nudges banks to reduce lending rates

RBI governor Urjit Patel also signals that further rate cuts will depend on bringing down retail inflation on a durable basis, especially the non-food and non-fuel inflation

Last Modified: Sat, Feb 11 2017, 04:51 PM IST

Application of Moral Suasion [नैतिक दबाव]

RBI nudges states to beef up revenue

S. Varadh



↑ govt
borrowing
from RBI

↑ Money
supply

↑ Inflation

- Sir, please try to collect more taxes from people.
- So, you've to borrow less from RBI = inflation control.

Application of Moral Suasion [नैतिक दबाव]

Home SECTORS Banks Story

Axis Bank CEO Shikha Sharma cuts short her tenure after RBI raises doubts, to step down on December 31

Earlier, the RBI had asked the Axis Bank board to reconsider the fourth three-year term it gave to CEO Shikha Sharma last year. The [regulator addressed the letter to Axis Bank chairman Sanjiv Misra and gave its reasons for a review](#). These included the bank's performance and its deteriorating asset quality.

Mail Today Bureau Last Updated: April 10, 2018 | 12:59 IST



Governor 2 AxisBank

इन madam का काम करने का तरीका ठीक नहीं है.

Bad loans

इनको पुनः नियुक्ति मत दीजिए

Moral suasion: नैतिक दबाव

- ❖ “Persuasion” without applying “Force”, command/control or monetary incentives.
- ❖ Via conferences, informal meetings, letters, seminars, convocation, panel discussion, memorial lectures
- ❖ Asking Banks to transmit rate cuts, Financial literacy, Asking Government to control fiscal deficit / leakage.
- ❖ “Publicity” is also related with this tool. By giving speech, media statement etc RBI GOV form a public opinion, which can pressurize the banks to act.

Home » Industry

Last Modified: Sat, Feb 11 2017, 04:51 PM IST

RBI governor Urjit Patel nudges banks to reduce lending rates

RBI governor Urjit Patel also signals that further rate cuts will depend on bringing down retail inflation on a durable basis, especially the non-food and non-fuel inflation



मैंने तो रेपो रेट कम किया लेकिन कम्बरक्त बैंक वाले लोन ही सस्ता नहीं कर रहे.

Moral outrage is unnecessary



In moral suasion,
RBI governor asking
banks to cut loan
rates, isn't that
'quantitative'?
Ans. We follow
textbooks

TN Class12, page 104

Please don't waste time and energy in such things

II. Qualitative or Selective Method of Credit Control:

The qualitative or the selective methods are directed towards the diversion of credit into particular uses or channels in the economy. Their objective is mainly to control and regulate the flow of credit into particular industries or businesses. The following are the frequent methods of credit control under selective method:

1. Rationing of Credit
2. Direct Action
3. Moral Persuasion
4. Method of Publicity
5. Regulation of Consumer's Credit
6. Regulating the Marginal Requirements on Security Loans

- (A) Quantitative methods of credit control and
(B) Qualitative or selective methods of credit control.

The Quantitative methods include those instruments which affect the total volume of credit and affect all sections of the economy. It includes the following instruments:

- (i) **Bank Rate Policy:** Bank rate is the rate at which central bank provides loan to the commercial banks. The increase in bank rate by the central bank increases the cost of funds to the commercial banks which in turn is passed on to their customers. High rate of interest reduces demand for loan and thus the quantity of credit/money in the economy which squeezes aggregate demand in the economy. Bank rate is increased to control inflation in an economy and it is reduced to fight deflationary situation in the economy.
- (ii) **Open Market Operations:** Open market sale and purchase of government securities by the central bank. The central bank sells and purchases these securities in the market to control the money supply in the economy.

NIOS: Page 283

Q. @Delhi's *** sir's notes OMO is given in qualitative tools then how can you say its quantitative? What is your reference!!?

Ans. (1) Then ask him to explain, how can I explain why he did that? (2) I'm not writing research paper ke I've to give you 'reference' for everything. It'll increase pages & printing cost.

Adding reference links/bibliography only printing cost

Climate, Climate Change, and Agriculture

06
CHAPTER

Mere desh ki dharti sona ugle ugle beegey moti
(My country's soil where crops grow like gold, diamonds, and pearls)

Manoj Kumar, Upkaar

Kaa barakbaa, jab krishi sukhaanee
(What's the use of that untimely rain after the crop has dried up)

Tulsidas, Ram Charit Maanas

Using district-level data on temperature, rainfall and crop production, this chapter documents a long-term trend of rising temperatures, declining average precipitation, and increase in extreme precipitation events. A key finding—and one with significant implications as climate change looms—is that the impact of temperature and rainfall is felt only in the extreme; that is, when temperatures are much higher, rainfall significantly lower, and the number of “dry days” greater, than normal. A second key finding is that these impacts are significantly more adverse in unirrigated areas (and hence rainfed crops) compared to irrigated areas (and hence cereals). Applying these estimates to projected long-term weather patterns implies that climate change could reduce annual agricultural incomes in the range of 15 percent to 18 percent on average, and up to 20 percent to 25 percent for unirrigated areas. Minimizing susceptibility to climate change requires drastically extending irrigation via efficient drip and sprinkler technologies (realizing “more crop for every drop”), and replacing untargeted subsidies in power and fertilizer by direct income support. More broadly, the cereal-centricity of policy needs to be reviewed.

2018, CEA Arvind S. gave 3 pages for a simple thing that climate change harms farmer.

REFERENCES

Aeschbach-Hertig, Werner, and Tom Gleeson, “Regional strategies for the accelerating global problem of groundwater depletion.” *Nature Geoscience* 5.12 (2012): 853-861.

Ben-Gai, T., et al., “Spatial and temporal changes in rainfall frequency distribution patterns in Israel.” *Theoretical and Applied Climatology* 61.3 (1998): 177-190.

Burke, Marshall, Solomon M. Hsiang, and Edward Miguel, “Global non-linear effect of temperature on economic production.” *Nature* 527.7577 (2015): 235-239.

Economic Literature 52.3 (2014): 740-798.

Dell, Melissa, Benjamin F. Jones, and Benjamin A. Olken, “Temperature shocks and economic growth: Evidence from the last half century.” *American Economic Journal: Macroeconomics* 4.3 (2012): 66-95.

Dell, Melissa, Benjamin F. Jones, and Benjamin A. Olken, “Temperature and income: reconciling new cross-sectional and panel estimates.” No. w14680. *National Bureau of Economic Research*, (2009).

Dell, Melissa, Benjamin F. Jones, and Benjamin A. Olken. Climate,” Climate change and economic growth: evidence from the last half century.”

दूसरे कोचिंग वाले की नोट्स क्यों गलत है उसकी साबित ही में में देने बैठा

तो प्रिटिंग का खर्च आपका ही बढ़ जाएगा .

अगर डॉक्टर पर विश्वास ही नहीं तो दवाई कभी असर नहीं करेगी

कभी कभी
लातों के भूत
बातों से नहीं
मानते



यूपीएससी के बाबू शोने

अगर रिज़र्व बैंक का आदेश कोई न मानें तो गवर्नर ने गुलाब का फूल देकर उसका हृदय परिवर्तन करना चाहिए

RBI Monetary Policy Tools

रिज़र्व बैंक की मौद्रिक नीति के साधन

Quantitative, Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]

OMO, Op TWIST, G-SAP

MSS, SDF



Volume of loans

Qualitative: Selective, Direct

• Moral Suasion, Direct Action



• Margin req / LTV

• Selective Credit Control:

• Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of loans

Direct Action: क्योंकि लातो के भुत बातो से नहीं मानते



- Using these laws
- I can penalize bank, non-bank, PSO, Forex dealers for my violating norms.

- e.g. ordered banks to have “clawback” mechanism in Bank-CEO payment.
- If Bank-CEO committed fraud/scam- he'll can be ordered to ‘return’ his previous salaries.
- कांड में पकड़ा गया तो पुरानी तनख्वाह का पैसा भी ले लेंगे

1934

- RBI Act

Pillar 1B1

1949

- Banking Regulation Act

1999

- Foreign Exchange Management Act

Pillar 3

2002

- Prevention of money laundering Act 2002

Pillar 2B

2007

- Payment & Settlement System Act

Pillar 1A1

RBI Monetary Policy Tools



सोना गिरवी रखकर
आप कितना पैसा
उधारी में ले सकते हैं



Quantitative, Gen., Indirect

~~Reserve Ratios (CRR, SLR)~~

~~Rates: Bank, MSF, LAF [Repo, RR]~~

~~OMO, Op.TWIST~~

~~MSS, SDF~~

Volume of loans



Qualitative: Selective, Direct

~~Moral Suasion, Direct Action~~

Margin req / LTV

Selective Credit Control:

Distribution of loans

Credit Rationing, Consumer Credit control / EMI, PSL

Loan to Value ratio (LTV) or margin requirement



I want to pledge my wife's ₹ 1 lakh worth gold jewelry to borrow money for shooting a movie.

फिल्म बनाने वास्ते बीवी के गहने गिरवी रखूँगा

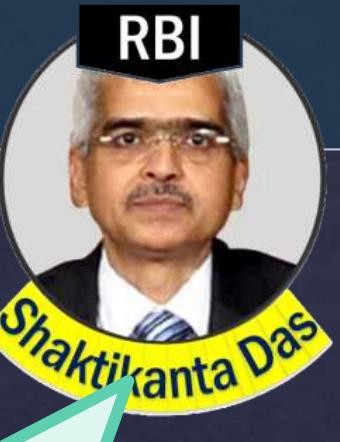
Loan to Value ratio (LTV)



2) Sorry Mr. Khiladi, I can't give ₹1 lakh loan



1) Borrower pledging Gold worth Rs. 1 Lakh



3) To fight deflation, I must encourage demand

RBI

Before

LTV

75%

How much loans

75,000

₹1 लाख का सोना गिरवी रखने पर सिर्फ ₹75000 ही कर्ज मिलेगा

1 kg = Rs.5



Loan to Value ratio (LTV)



2) Sorry Mr. Khiladi, I can't give ₹1 lakh loan

1) Borrower pledging Gold worth Rs. 1 Lakh



LOAN AGAINST GOLD



3) Movie shooting starts.
500 extra dancers & stuntmen's daily food Expenditure bourn by Akshay → Onion Demand ↗



1 kg = Rs. 5, 30

RBI

Before

After

LTV

75%

90%

How much loans

₹75,000

₹90,000

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

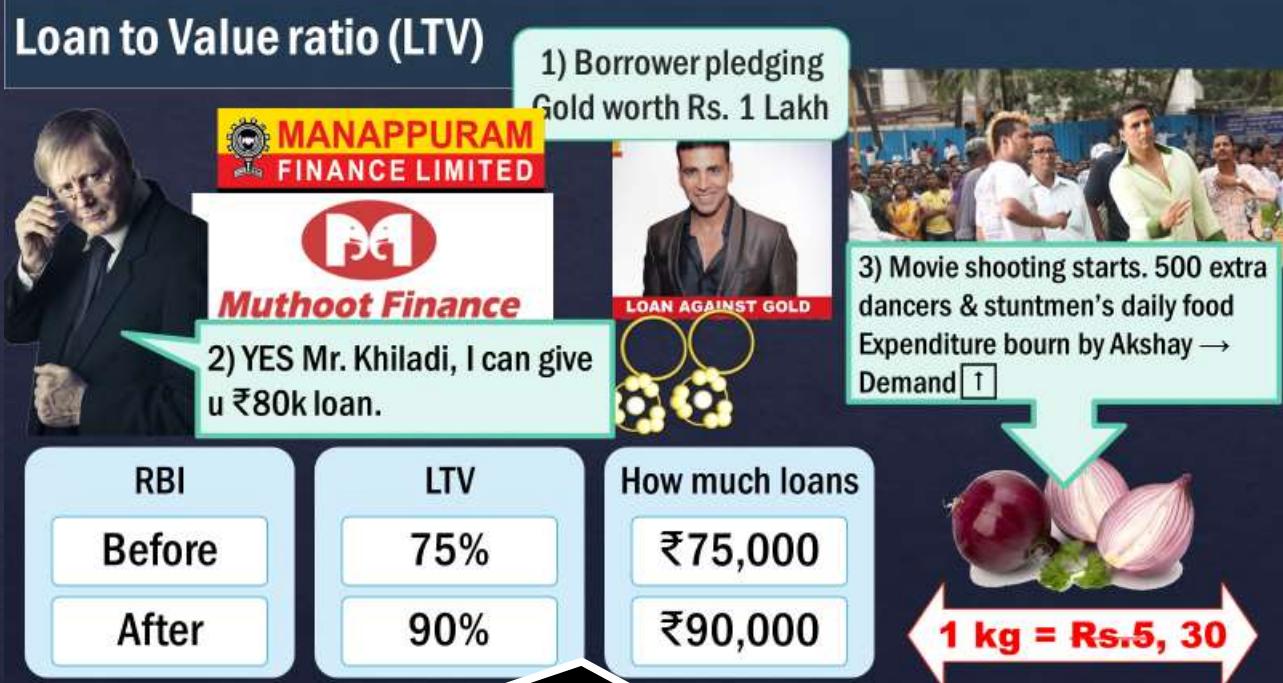


Priority#2,
when #1 is done

- Boost GDP growth rate

महंगाई काबू में रखो
जीडीपी में बढ़ोतरी करो

Loan to Value ratio (LTV)



- 2020- this was done
- Not primarily for fighting 'deflation' (हालांकि सस्तापे से से लड़ना इसका प्राथमिक उद्देश्य नहीं है)
- But for boosting demand → GDP growth rate for post-corona economic revival. (इसलिए बढ़ाया जाता है ताकि बाजार में खरीदारी ज्यादा हो और उत्पादन में बढ़ोतरी)



मुझे

Ph.d कराओ



UPSC के
बाबूशोने



- What is the difference between Margin requirement and Loan to Value ?
- Explain their difference to me.

- Basic understood with Akshay Kumar example.
- Beyond that, “A vs B difference” of these minor topics = NOT IMP for Exam.

RBI	LTV	How much loans
Before	75%	₹75,000
After	90%	₹90,000



फालतू की PHD
करवाने के लिए के लिए
मैं रुकेगा नहीं



RBI Monetary Policy Tools → Qualitative Tool



Quantitative, Gen., Indirect

~~Reserve Ratios (CRR, SLR)~~

~~Rates: Bank, MSF, LAF [Repo, RR]~~

~~OMO & MSS, SDF~~

Volume of loans



Qualitative: Selective, Direct

~~Moral Suasion, Direct Action~~

~~Margin req / LTV~~

• Selective Credit Control:

• Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of loans

Qualitative Tool → Selective Credit Control → Credit rationing in USSR

One Russian person is eligible for

1. Homeloan **NOT MORE than 10 lakh Ruble @x%**
(एक व्यक्ति को इससे ज्यादा मकान लोन नहीं मिलेगा)
2. Education loan **NOT MORE than 2 lakh Ruble @y%**
(एक व्यक्ति को इससे ज्यादा शिक्षा लोन नहीं मिलेगा)



Russian Central Bank

- would change **these limits**
- **to shape economy** in a particular direction
- e.g. ↑ homeloan → growth in steel, cement...



India after independence

66



34



1951

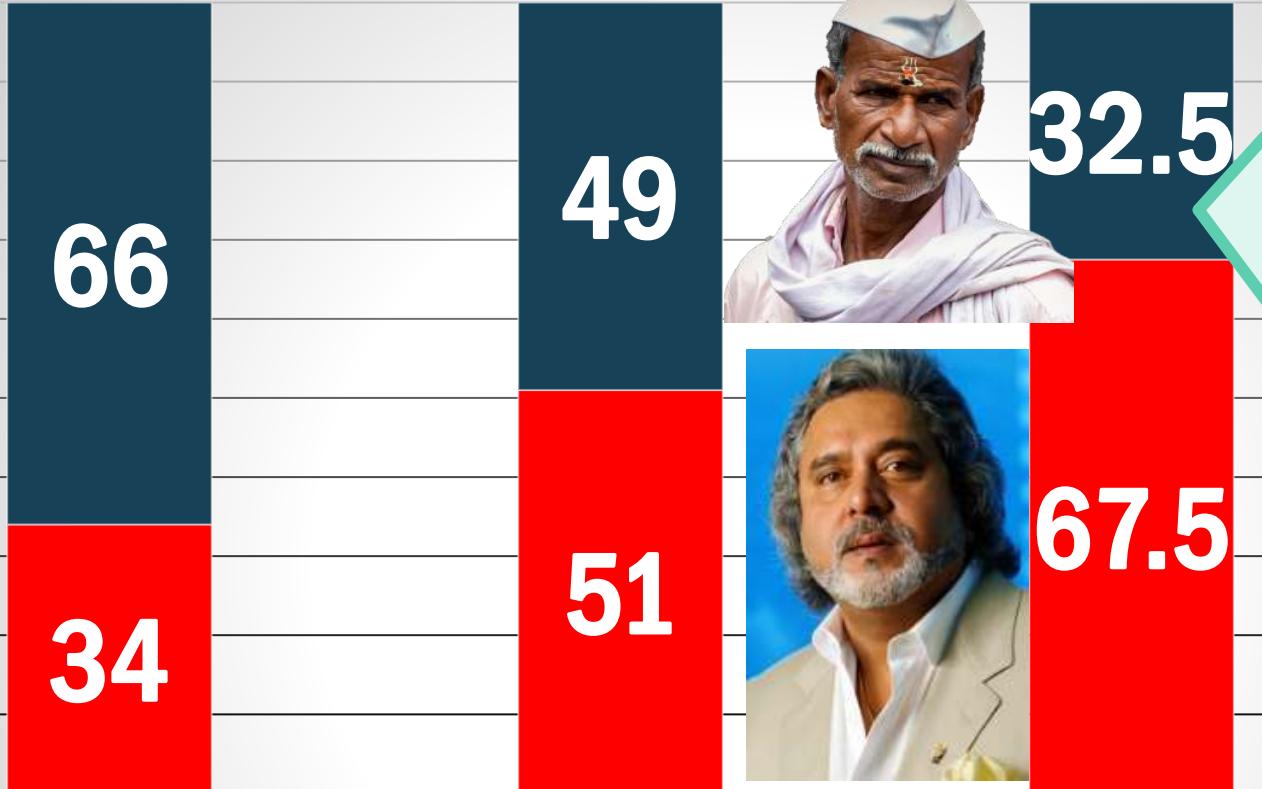
■ Loans to Industrialists

■ Others

आजादी के बाद
शुरू शुरू में तो
बैंकों का ज्यादातर कर्जा
गरीबों को और किसानों को जा रहा था
उद्योगपतियों को कम जा रहा था
लेकिन फिर बाद में.....

India after independence: farmers were not getting enough loans

बैंकों से ज्यादातर कर्जे में उद्योगपति ले जा रहे थे → किसानों को कर्ज नहीं → खाद्य सुरक्षा जोखिम में



1951

1961

1968

■ Loans to Industrialists

■ Others

Without giving loans to poor/farmers, we can't achieve:

1. Green Revolution: हरित क्रांति
2. Food Security: खाद्य सुरक्षा
3. Inclusive Growth: समोवेशी विकास
4. Poverty Removal: गरीबी उन्मूलन/निवारण

Nationalization of Banks...
We'll study in Pillar 1B1

Why industrialists were getting so much loans till late-60s?

बैंकों से ज्यादातर कर्जे में उद्योगपति ले जा रहे थे



Corruption: मंत्री को रिश्वत देकर उद्योगपति, सरकारी बैंकों से फर्जी प्रोजेक्ट की लोन पास करवाते

- Crooks would bribe ministers suitcase full of money to pressurize Public Sector Bank (PSBs)
- to give loans to non-viable projects → scam → start new company.



Banks Directorship by elites: similar to Bollywood-Nepotism Gang

- By 1960s: 188 people were in board of top 20 banks & 1452 companies
- ‘Elites /Bollywood NEPO-gang’ types controlled the loan distribution behind curtains.
- समाज के कुछ बड़े रसूखदार लोग ज्यादातर बैंकों के बोर्ड में बैठे थे और वही निर्णय ले लेते थे अपने फायदे के लिए



Had to break this cycle: खाद्य उत्पादन बढ़ाने के लिए किसानों को लोन देना जरूरी हुआ

- Late 60s: Green revolution: hybrid seeds, fertilizer to food production
- But farmers needed loans to buy these inputs

RBI Monetary policy → Qualitative tools → selective credit control (SCC) → types

शुरूआत में
नकारात्मक यानी कि
"यह मत करो वह मत करो"
प्रकार का रखिया था



SCC



NEGATIVE
attitude



Ceiling to
non-agro



Ceiling to
big loans

Failed due to nexus of bizmen.
& incorrect reporting by bankers



अगर बड़ा लोन बिना रिज़र्व बैंक की
अनुमति से नहीं मिलता तो मैं छोटे छोटे
लोन की अर्जी डाल दूँगा → अपने
द्राइवर और चपरासी के नाम पर

- Non-food sector (=mfg, service)
- not eligible for more than “x%” of loans given by a bank
- गैर कृषि क्षेत्र को इतने से ज्यादा लोन नहीं दे सकते

- 1 borrower eligible for <₹1 cr Loan only.
- If bigger loan req, then get permission from RBI. बिना आरबीआई के अनुमति के, बैंकर,
एक व्यक्ति को एक करोड़ से ज्यादा लोन नहीं दे सकते

Qualitative tools → selective credit control (SCC) → types

असफल रहे 😞 Failed



SCC

फिर रिजर्व बैंक ने
अपना रवैया बदला



NEGATIVE
way



Ceiling to
non-agro



Ceiling to big
loans



Positive
attitude



Consumer
Credit
Control



Priority
Sector
Lending

RBI Monetary Policy Tools → Qualitative Tool



Quantitative, Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]

OMO & MSS, SDF

Volume of loans



Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of loans

MonPol → Qualitative Tools → Consumer Credit Control

RBI		
Initial norms		AXIS
Car price	₹1,20,000	
Min. Downpayment	₹ 20,000 (ग्राहक की जेब से)	
Min. Each Installment	₹ 10,000 x 10 months	

- For this example, we are considering
- 'loan interest rate=0%' for the sake of simplicity
- आसानी से समझ जाएं इसलिए यह उदाहरण मान लो की ब्याज दर 0% है

अगर आपने एक कार खरीदनी है

तो खुद की जेब से कितना पैसा निकालना होगा

बैंक वाले आपको कितना कर्ज दे सकते हैं और किश्तों की न्यूनतम रकम क्या होगी

MonPol → Qualitative Tools → Consumer Credit Control

RBI		
		Initial norms
Car Price	₹1,20,000	
Min. Downpayment	₹ 20,000 (ग्राहक की जेब से)	
Min. Each Installment	₹ 10,000 x 10 months	

My monthly salary
is ₹50,000= so I
can afford this. 😊



My monthly income
is ₹5,000= so I can
not afford this. 😞.



Consumer Credit Control: to boost to consumption

कार की बिक्री बढ़ानी है तो किस्तों में सुधार ताकि गरीब आदमी भी किस्तों पर लोन पे खरीद सके

RBI



Shaktikanta Das



Scene where demand production, jobs falling.
More Pill4C

	Initial norms	During Recession (मंदी)
Car price	₹1,20,000	₹1,20,000
Min. Downpayment	₹20,000(ग्राहक की जेब से)	₹ 2,000
Min. Each Installment	10,000 x 10 months	₹ 1000 x 118 months

GDP

Production

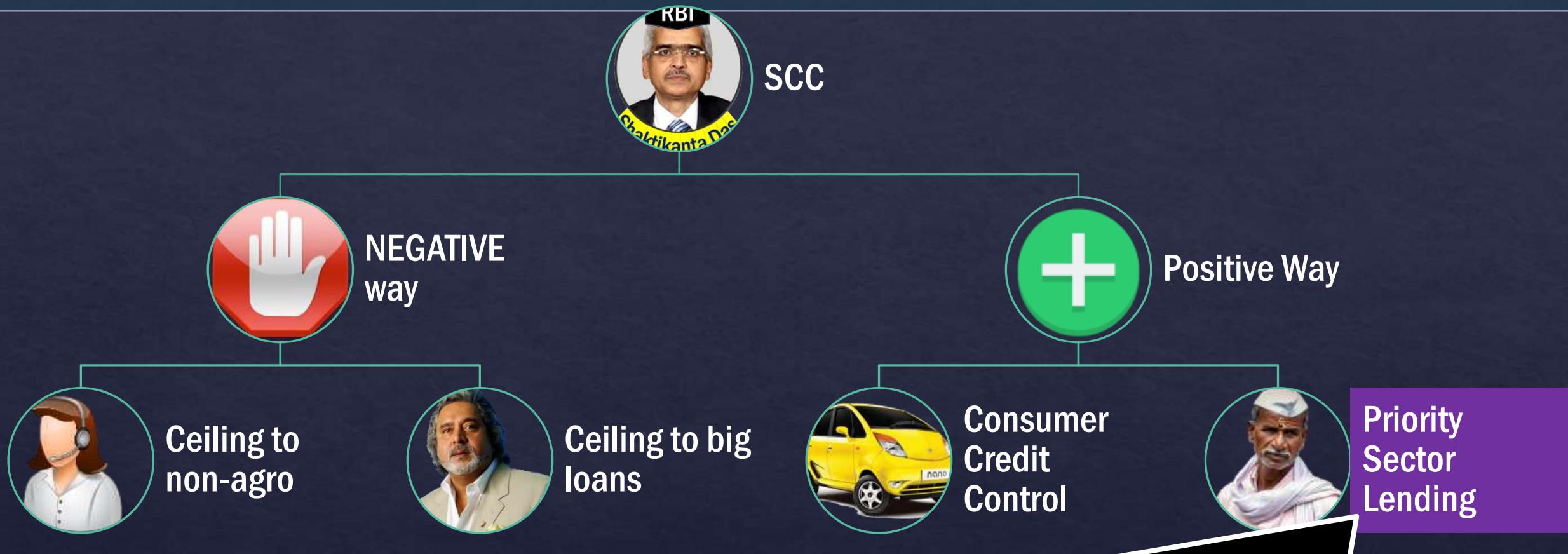
Demand



महीने की किश्त कम हो गयी तो गरीब भी कार खरीद सकता है।

Now even poor people can buy, because installment are affordable

MonPolicy → Qualitative tools → selective credit control (SCC) → types



यानी कि बैंक सालाना जितना कर्ज दे रहे हैं
उसका कुछ हिस्सा - बैंकर ने अनिवार्य रूप से
किसानों को, कमज़ोर वर्ग को, लघु उद्योगों को देना होगा

- ⇒ 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 करने लगा पै जाकरी नहीं है। कुछ निवेशक अपना पूरा निवेश बेचकर ऐसा ब्लॉटर खाते हों तो जी-सेप में आ सकते हैं)
- ⇒ If RBI [] decreases the repo rate too much → it can result in A) inflation and B) [] decrease in the deposit interest rates offered by the bankers on savings account → middle-class and pensioners affected negatively. (ऐसे दो में बहुत ज्यादा कटौती होई तो वही समस्या खड़ी होगी)

Table 5: To Sum up, OMO, GSAP, OP-TWIST (कुछ निवारण का है यह)

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 पेसो की मात्रा, समय-तालिका सब कुछ पारदर्शी और व्यवस्थित रूप से, लाईदारी शुरूआत करने से पहले रिजर्व 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. मुद्रासंशोधनी(महाराष्ट्र)/अपासनिति(संस्थाएं) से लकड़े के लिए रिजर्व बैंक के सालाही प्रतिभृतियों को बेचेगी/खरीदेगी ⇒ Its timetable NOT announced in advance, in detailed manner, unlike G-SAP. रिजर्व बैंक के विवेक/मनमंडी पर अनियन्त्रित समय पर ये किया होती थी। समय से पूर्व, विनियुक्त 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 विडो को बदू नहीं किया गया। रिजर्व बैंक के विवेकमुसर 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. रिजर्व बैंक द्वारा चिन्ह भिन्न अवधि/मिशनों की सरकारी प्रतिभृतियों को खरीदवाएं और बेचना ताकि गैल्प कम हो सके ताकि भविष्य में सरकार रुपा कर्पोरेशनों के लिए कमज़ोर सक्ता हो सके।

12.16 📊 🔍 MONETARY POLICY: QUALITATIVE TOOLS (गुणात्मक साधन)

- ⇒ Quantitative tools (SLR, CRR, Repo etc.) control the 'volume' of loans. नालालक साधन कर्त्ता की मात्रा को तय करते हैं
- ⇒ Whereas, qualitative tools (PSL,LTV etc.) control the "distribution" of loans to a particular sector of economy. गुणात्मक साधन कर्त्ता के वितरण को तय करते हैं
 - e.g. how much loan to agriculture or particular segment of society (e.g. farmers, women, SC/ST).
- ⇒ Hence, qualitative tools also known as SELECTIVE (चयनात्मक) or DIRECT (प्रत्यक्ष) Tools.

12.16.1 🗣 Moral Suasion (नैतिक वकाल / मलाह) & Publicity (प्रचार)



Figure 9: यहाँ दो अल्पी repo-दर कर द्वारा लोकेशन वै ताजीकरण करने वाले loan-दर कम हो कर रहे, कम से कम में लिफ्ट/अप्लान रखने के लिए भी उन्हें बीमा ली सकता जाता है।

- Moral suasion meaning applying "Persuasion" without applying punitive this tactic via conferences, informal meetings, letters, seminars etc.
- Example, RBI-Governor asking banks to transmit repo-rate cuts, open spread financial literacy, give loans to farmers beyond PSL quota etc. Si

CM or Finance Minister to control fiscal deficit & subsidy less RBI's monetary policy.

- Publicity: RBI governor could give media statement, speech समाचार, memorial lectures... "Look I reduced repo rate but ba customers...and xyz". By doing so, he can create an effective banks to stop their thuggery.

12.16.2 🛑 Direct Action (सोधी कार्यवाही: क्योंकि लातों के खुल बातों से

- RBI can punish banks (and even non-banks) for not complying Regulation Act, Payment and Settlement Systems Act, Prevention of Foreign Exchange Management Act (FEMA). रिजर्व बैंक के विवा
- 2019: RBI ordered the banks to have a "Clawback (लौटाना)" on salaries. E.g. If the CEO did any scam/fraud, he'll have to return what he had earned/left the job afterwards. (मिस्टी बैंक का गोईओ काढ़ में पकड़ा गया तो पूरानी लौटानी होगी।)

12.16.3 📈 Margin Requirements / Loan to Value (LTV) (सीमा अनिवार्यता)



- ⇒ 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. (मिस्ट्री रिजर्व बैंक के मूल्य के सामने बैंक या गैर-बैंक सहज व्यक्तियों को वित्तना कर्ज़ दे सकते हैं? रिजर्व बैंक उसके मानदंड में बदलाव द्वारा, बाजार में चीज़-वस्तुओं की मात्रा को कम करा पाने का काम 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 quantity of gold → 📈 post-corona-economic-revival.

12.16.4 Selective Credit Control (चयनात्मक क्रान्ति नियंत्रण)

In a negative / restrictive direction (नकारात्मक)

- 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 हासपे ज्यादा कर्ज़ नहीं मिलेगा।)
- 1960s: Credit Authorization Scheme (CAS) in India: all commercial banks had to obtain prior approval of the RBI before loaning ₹ 1 crore/>

In a positive direction (सकारात्मक दिशा में)

- 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> प्राचीनिक के क्रान्ति मानक

मेरे को ये हैंडआउट खत्म करना ही नहीं है बस एक चीज़ पे चिपके पूरी जिदगी पीएचडी करने के लिए बैठे रहना है



Reached upto page 82

RBI Monetary Policy Tools: continued



PSL Quotas?

Weightage to
Backward
Districts

Penalty for
Non-
compliance

PSLC
Certificates



Quantitative, Gen., Indirect
Reserve Ratios (CRR, SLR)
Rates: Bank, MSF, LAF [Repo, RR]
OMO & MSS, SDF

Volume of loans

Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, **PSL**

Distribution of
loans

Priority Sector Lending (PSL)

प्राथमिक क्षेत्र के ऋण मानकों



- 1968: first time RBI used the word “priority sector”
- ordered banks to give atleast 40% of their total loans to
 - 1) agri 2) small industries 3) exports.... by 1985.

priority sector lending norms (as per latest reforms in 2020)

Category	Min PSL-Quota	Asset	Liability
Weaker sections कमजोर वर्ग	12%	CRR+SLR: __	Time, Demand Deposits
		Loanable funds _	



भारतीय स्टेट बैंक
State Bank of India
THE BANKER TO EVERY INDIAN



यानी कि बैंक सालाना जितना कर्ज दे रहे हैं
उसका कम से कम इतना हिस्सा - बैंकर ने अनिवार्य रूप से इन क्षेत्रों को देना होगा.
बैंकर इससे ज्यादा भी दे सकते हैं। लेकिन कम से कम इतना तो देना ही है।

PSL Definition: atleast 12% loans should goto Weaker section

रिजर्व बैंक के मुताबिक कमजोर वर्ग की व्याख्या क्या है

❖ Small, Marginal, Distressed Farmers

❖ Women upto ₹1 lakh per borrower

❖ SC, ST, PH and minorities (loans to Muslims in J&K not counted, Sikhs in Punjab Not counted- because they're majority there.) OBC not mentioned.

❖ Artisan, Cottage/Village industry- upto Rs.1L

❖ NRLM/NULM Beneficiaries;

❖ Rehabilitee Manual Scavengers

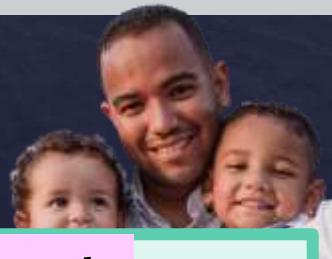
❖ PMJDY overdraft upto ₹ 10k (more in Pillar#1D)

Don't be stressed over exact figures



priority sector lending norms (as per latest reforms in 2020)

Category	Min PSL-Quota	Asset	Liability
Weaker sections (SC,ST,Women, PH....)	12%	CRR+SLR: __	Time, Demand Deposits
Agriculture: all type of farmers (small, marginal, big)..	8%	Loanable funds _	
Agriculture: *Marginal Farmer (upto 1ht); *Small farmer (>1 upto 2ht)	10%	Agro 18%	



Bank is free to give more loans than this quota,
but this is the minimum requirement.

सालाना जितनी लोन दिए जा रहे हैं उसका कम से कम इतना % कृषि क्षेत्र को देना है। बेंकर इससे ज्यादा भी दे सकते हैं। लेकिन कम से कम इतना तो देना ही है।

What is MSME? It is a firm producing goods and services AND...

Micro



Small



Medium



Investment

AND

Turnover

- ≥ 1 cr
- and

- ≥ 5 cr

- ≥ 10 cr
- and

- ≥ 50 cr

- ≥ 50 cr
- and

- ≥ 250 cr



Not in handout at present. Since we'll
see it at Pillar1D and then Pillar4B

What is MSME industry? Micro, Small & Medium Enterprises

सूक्ष्म, लघु और मध्यम उद्यम

Pillar1D: Financial Inclusion

- Mudra loans
- What is MSME?
- What is their definitions, turnover limit etc
- Ans. Pillar1D: MUDRA loans.

Pillar4B

- issues in Pillar4B: mfg industries



Aachar, Papad, Agarbatti, Almaari = MSME



NOT MSME. These are large companies

priority sector lending norms (as per latest reforms in 2020)

Category	Min.PSL-Quota
Weaker sections (SC,ST,Women, PH....)	12%
Agriculture: all types of farmers	8%
Agriculture: *Marginal Farmer (upto 1ht); *Small farmer (>1 upto 2ht)	10%
Micro Enterprises, Khadi-Village industries	7.50%



Asset (100)

CRR+SLR: __

Loanable funds _

Liability (100)

Time, Demand Deposits



यानी कि बैंक सालाना जितना कर्ज दे रहे हैं

उसका कम से कम इतना हिस्सा- बैंकर ने अनिवार्य रूप से इन क्षेत्रों को देना होगा.

priority sector lending norms (as per latest reforms in 2020)

Cat	Min.PSL-Quota
Weaker sections (SC,ST,Women, PH....)	12%
Agriculture: all farmers	8%
Agriculture: *Marginal Farmer (upto 1ht); *Small farmer (>1 upto 2ht)	10 %
Micro Enterprises, Khadi-Village industries	7.50%
Above parties and additionally, + Small & Medium Enterprises, affordable housing, education loans, social infra, renewable energy,...	2.50%



Many other categories, given in your handout. Read peacefully just for 'word association'. How/WHY: not req.

priority sector lending norms (as per latest reforms in 2020)

Cat	Min.PSL-Quota
Weaker sections (SC,ST,Women, PH....)	12%
Agriculture: all farmers	8%
Agriculture: *Marginal Farmer (upto 1ht); *Small farmer (>1 upto 2ht)	10 %
Micro Enterprises, Khadi-Village industries	7.50%
Above cat. + other categories like Small & Medium ent, Startup, Affordable Housing, Education Loans, Social Infra, Renewable Energy,...	2.50%

40% of the loans should go here.



Remaining 60% of the loans can goto anyone (including these PSL-walla)



Do I've to remember old quotas?



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
<p>Weak Sections (कुल लोन का कम से कम 12% जाना चाहिए कमज़ोर वर्ग को):</p> <p>⇒ SC, ST, Women, PH, Minorities, Manual sc</p> <p>⇒ PM-Jan DhanYojana Overdrafts upto Rs.1</p> <p>⇒ Beneficiaries of Govt's National Rural/Urbn (NRLM/NULM: More in Pill#6: HRD →poverty Removal Schemes)</p>	10 %	▲ 12%*
<p>Agriculture (कृषि) (all farmers: small and big)</p> <p>Agriculture: सीमांत किसान और छोटे किसान</p> <p>⇒ Marginal Farmer (owns upto 1 hectre land) सीमांत किसान</p> <p>⇒ Small farmer (>1 upto 2ht) छोटे किसान</p>	10%	8 %

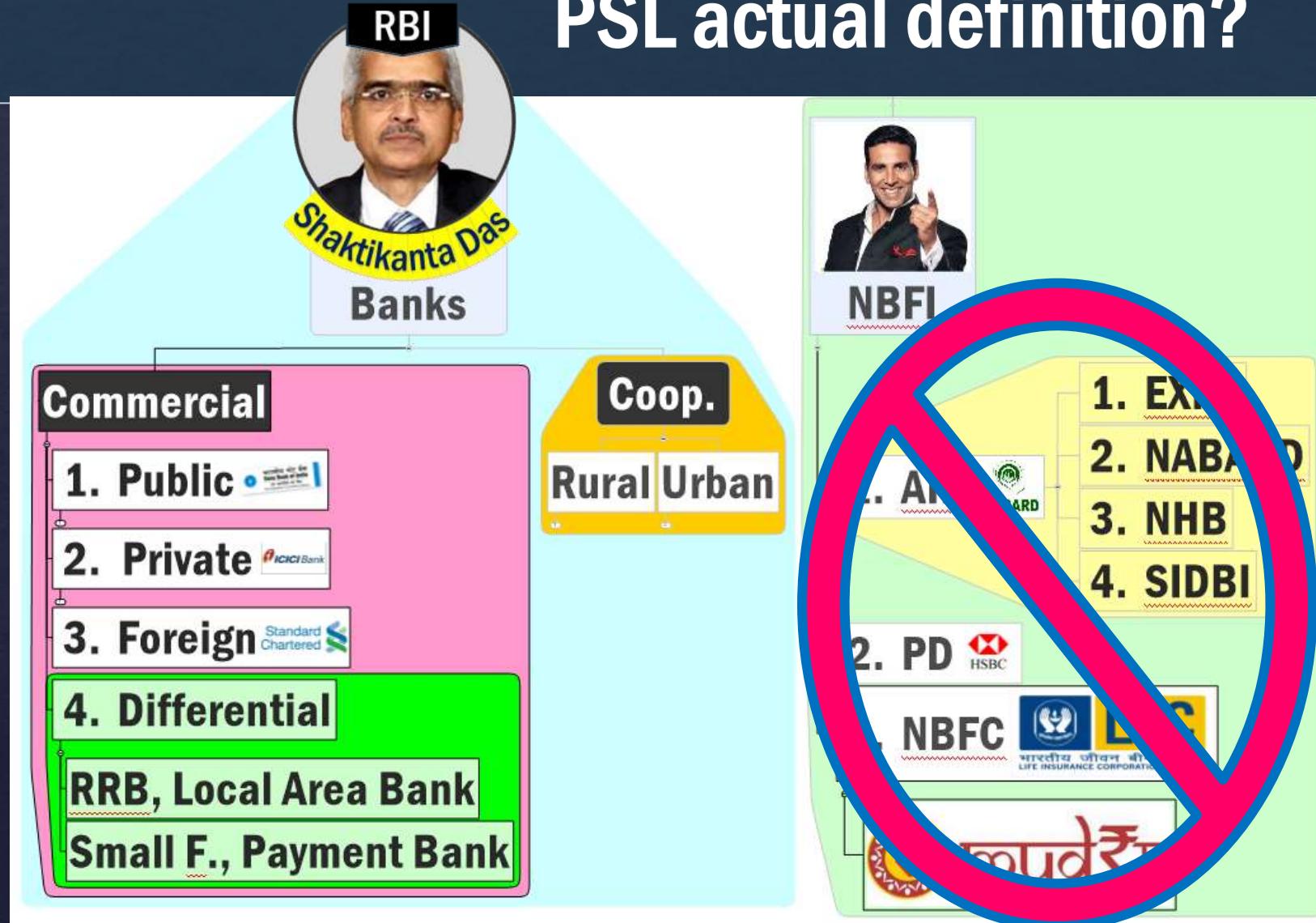
Before 2020
quotas were different

From 2020 :quotas changed.
We learned latest
quotas

- Ans. No. But comparision is given because quota reforms to be implemented in Phase-Wise manner by 2023-24.
- So everytime there will be newspaper explained series. Need not raise blood pressure. Because already latest norms taught to you.



PSL actual definition?



Need not prepare
actual definition

Actual definition of PSL
40 per cent of Adjusted
Net Bank Credit (ANBC)
or credit equivalent
amount of off-balance
sheet exposure (OBE),
whichever is higher
But we need not do
b.Com/PHD on this

इसकी तकनीकी व्याख्या हमको याद करने की जरूरत नहीं है

Do I've to remember old quotas?



PSL Quota on different types of banks

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

- Not for IAS exam.
- But yes for bank exams.



RBI Monetary Policy Tools –



PSL
Quotas?

Penalty for
Non-
compliance

Weightage to
Backward
Districts

PSLC
Certificates



Quantitative, Gen., Indirect
Reserve Ratios (CRR, SLR)
Rates: Bank, MSF, LAF [Repo, RR]
OMO & MSS, SDF

Volume of loans

Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of
loans

PSL: suppose banker required to loan ₹x cr to fill the quota



सारे PSL-लोन Gujarat- Maharashtra के बड़े बड़े विकसित जिलों में ही दे देते हैं।
हमारे Jharkhand के पिछड़े जिले में तो ब्रांच भी नहीं खोला। 😊

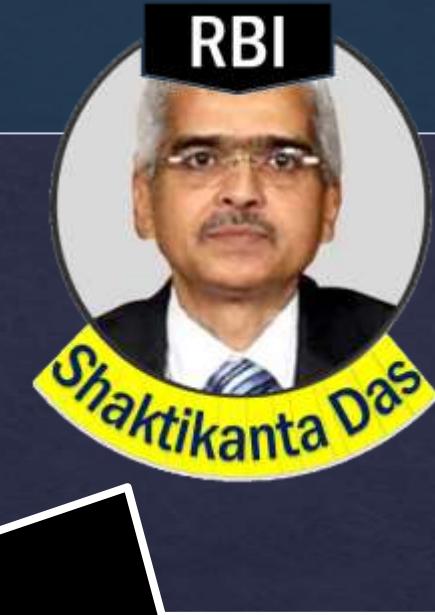
- I'll **not do hardwork** of finding really needy Farmers in backward districts
- I'll **easily finish quota** by focusing on big developed districts like Pune,A'bad



PSL reform:- weightage system to districts

पिछड़े जिले में लोन दिया तो ज्यादा भारांक

RBI



Step#1: In the past, How many PSL loans
given in a district vs its population?

भूतकाल में, जिले की आबादी के सामने कितने PSL-लोन
दिया, उस हिसाब से जिलों का वर्गीकरण होगा

Asset

CRR+SLR:



Loans: 250

Liability (x)

Deposits

1) PSL: 40% of 250 → ₹100 must
be loaned to PSL categories



2) Weightage sys for districts

Forward/
developed
(e.g. A'bad)

- -10% weight

₹100 loan में देगा तब

₹90 का कोटा पूरा होगा

:(so he may have
to loan more qty to
achieve target

Backward
district
(Dantewada)

- +25% weight

Asset

CRR+SLR:



Loans: 250

1) PSL: 40% of 250 → ₹100 must
be loaned to PSL categories

Liability (x)

Deposits



2) Weightage sys for districts

Forward/
developed
(e.g. A'bad)

- -10% weight

₹100 loan में देगा तब
₹90 का कोटा पूरा होगा

:(so he may have
to loan more qty to
achieve target

Backward
district
(Dantewada)

- +25% weight

₹80 loan में देगा तो
भी ₹100 का कोटा
पूरा होगा 🎉

Asset

CRR+SLR:



Loans: 250

1) PSL: 40% of 250 → ₹100 must
be loaned to PSL categories

Liability (x)

Deposits

इसका मतलब ये नहीं की किसान ने 125 वापस
करने होंगे।

PSL calculation: weightage/scoring
sys है

ताकि बेंकर जल्दी जल्दी कवोटा पूरा होने करनी
के लालच में पिछड़े जिलों में ज्यादा ध्यान दे



PSL: “On-Lending” to MicroFinance Companies

- Lends to



- Lends to



What is Microfinance company?

Ans. Pillar#1b1: Bank-NBFC classification lecture.

PSL
borrowers

Counted in
Bank's PSL quota-
fulfillment.



PSL: “Co-origination/co-lending of loans” (साझा/हिस्सेदार होकर क्रण देना)



NBFC
(2 lakh)



7 lakh
‘co-lending’
for farmer’s
tractor loan



More in Bank-NBFC
classification lecture.

5 lakh Counted in Bank’s PSL quota-fulfillment.



Bank
(5 lakh)



NBFC
(2 lakh)



7 lakh
'co-lending'
for farmer's
tractor loan



More in Bank-NBFC
classification lecture.

5lakh Counted in Bank's PSL quota-fulfillment.

But why is bank not giving farmer
7 lakh?

Ans. Looking at his credit history,
banker may not be feeling
confident to give him 7 lakhs!



RBI revises co-lending norms: Credit penetration and retail volume will grow, says MMFSL

Updated : November 06, 2020 03:26 PM IST

- › The Reserve Bank of India (RBI) has revised co-lending norms allowing banks to co-lend with all registered non-banking financial companies (NBFCs) on prior agreement.
- › NBFCs are, however, required to retain a minimum 20 percent share of individual loans on their books.

Let's frame some crazy MCQs from this.



Timepass Columnists, Youtubers, CA-PDF walle



Why did not u teach this?
यह सब क्यों नहीं पढ़ाया आपने?



Because it's not imp4EXAM



RBI Monetary Policy Tools

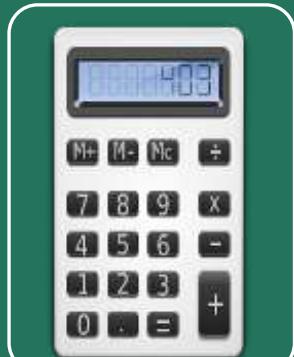
PSL Quotas?

Penalty for Non-compliance

Weightage to Backward Districts

PSLC Certificates

@RBI: अगर हमने प्राथमिक क्षेत्र के ऋण मानकों के लक्ष्य को हासिल नहीं किया → तो क्या बिगड़ लोगे हमारा?



Quantitative, Gen., Indirect
Reserve Ratios (CRR, SLR)
Rates: Bank, MSF, LAF [Repo, RR]
OMO & MSS, SDF

Volume of loans

Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of loans

What if a bank doesn't fulfill PSL quota? क्या सजा देगी रिजर्व बैंक उसे



मान लीजिए
बैंक ऐसा नहीं
कर पाता

Small marginal Farmer: ₹10

Suppose
Interest: 7%
Tenure: 3 years



PSL target खत्म नहीं कर पाए!
क्या सोचा था RBI Governor
खुश होगा?
शाबाशी देगा?



तो अब Penalty भी भर दे !!

सरदार मैंने आपसे
REPO RATE
में लोन लिया है!!

What if a bank doesn't fulfill PSL quota? क्या सजा देगी रिजर्व बैंक उसे



PSL shortfall

NABARD

EXIM

SIDBI

NHB

MUDRA

1) PSL quota shortfall: ₹10 → RBI will order bank to give it to

2) They'll return it after maybe 10 years. Interest 4.25%



3) If "Directly" given
Suppose
Interest 7%
Tenure 3 years

Years, interest % are hypothetical. आँकड़े काल्पनिक हैं।

- banks' money will get LOCKED in for long time @ low interest in some other institute. पैसा लंबे टाइम पर कहीं पर लॉक हो जाएगा और अच्छा ब्याज भी नहीं कमा पाएगा
- So, in a way, this is the 'hidden-penalty' for not full-filling PSL loans. सीधा-सीधा किसान को लोन दे देता बैंकर तो ये मगजमारी नहीं होती उसे

40% of the loans must go to farmer, weaker section etc. for priority sector lending (PSL)



ELSE Banker required to deposit shortfall money in various funds as per RBI orders....



RIDF
NABARD



UIDF
NHB

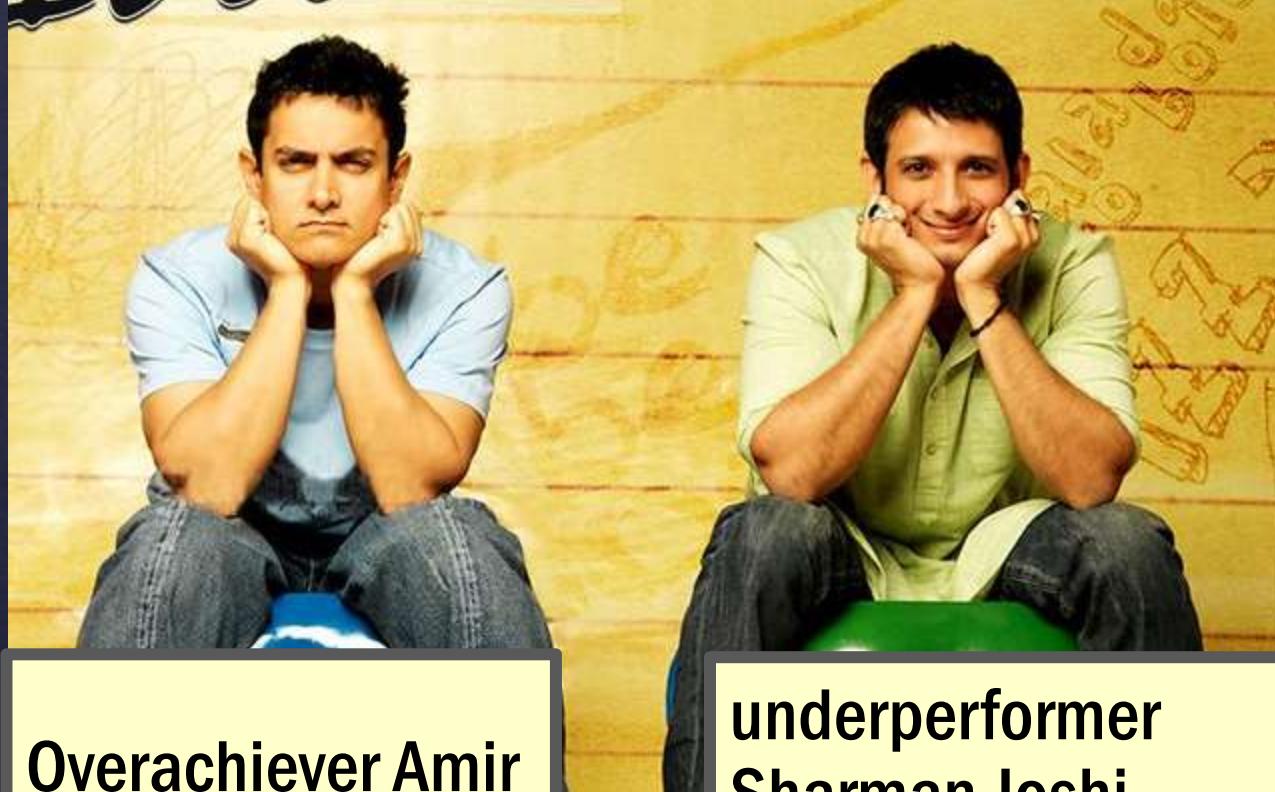


BUDGET

URBAN INFRASTRUCTURE DEVELOPMENT FUND UNDER THE NATIONAL HOUSING BANK



Suppose college last sem require each student to publish min.3 research papers, else he has to repeat last semester =additional 6 months + ₹ 50,000 additional semester fees



Overachiever Amir Khan (4 research paper published)

underperformer Sharman Joshi (सिर्फ 2 research paper published)



Suppose college last sem req. each student to publish min.3 research papers,
else he has to repeat last sem =addl. 6 months + ₹ 50,000 additional sem.fees



Overachiever
Amir Khan
 $(4-1) \rightarrow 3$

underperformer
Sharman Joshi
 $(2+1) \rightarrow 3$

Bhai Amir! plz sell me
your one research paper
for ₹ 5,000!

वरना खामखा मुझे कॉलेज में एक
सेमेस्टर और करना होगा 😠



Why PSL Certificates? (started in 2016)

लेकिन कुछ बार ईमानदारी से कोशिश पर भी बैंकर को हर किसम के ग्राहक शायद ना मिले



1) I already crossed this target

=Overachieving bank. 🎉

Cat	PSL-Quota
Weaker sections	a
Agriculture: all farmers	b
Agriculture: *Marginal Farmer (upto 1ht); *Small farmer (>1 upto 2ht)	c
Micro Enterprises, Khadi-Village industries	d
Above parties + Small & Medium Enterprises, affordable housing, education loans, social infra, renewable energy,...	e

2) But, We don't have such network in rural areas! 😞



3) give us your excess quota, in form of certificates, we'll pay you some money.

Suppose both had to 10-10cr PSL loans to small /marginal farmers

मान लीजिये SBI के मेहनतकश बैंकरों ने अपना लक्ष हासिल कर लिया



12 cr.
loan

Buy
with
RBI E-Kuber



8 cr.
loan



Suppose college last sem req. each student to publish min.3 research papers,
else he has to repeat last sem = addl. 6 months + ₹ 50,000 additional sem.fees



- Then give us your excess quota, in form of certificates,
- we'll pay you some money. E.g 50,000 देंगे, हमेसर्टिफिकेट दे दो

What is priority sector lending certificate (PSLC)?

मेहनतकश बैंक अपने अतिरिक्त कोटे/लक्ष्य-उपलब्धि को सर्टिफिकेट के रूप में बेच देगा

किसान ने कर्ज तो SBI को ही वापस देना है

- ✓ Credit Risk
- ✓ Assets
- ✓ Cash flow



12 cr. loan

Left with 10

SBI gets Seller fee
e.g. ₹5 lakh



RBI E-Kuber



2 cr. PSLC



AXIS
8 cr. loan

Achieved 10

- Overachiever gets Seller fee (determined by supply demand of players. एक्सिस बैंक को कितनी ज्यादा बेताबी है उस हिसाब से वो भाव देगा)
- PSLC =a type of Short term accounting instrument.

MonPolicy → Qualitative tools → selective credit control (SCC) → types



- Farm loans → Govt pays interest subsidy/interest subvention
सरकार किसानों को ब्याज के लिए सब्सिडी देती है ,
- Government sometimes gives loan waivers. कभी कभी कर्जे माफ़ करती है,
- It is not RBI's monetary policy. लेकिन वो मौद्रिक नीति के साधन नहीं है
- It is fiscal policy. More in Pillar1D & 2

We are done upto handout: page 71

12.19 MONETARY POLICY TOOLS: A READY RECKONER TABLE

Table 5: समज में अच्छा हो तो बढ़िया है, नहीं तो रुद्ध सारे विकास (If understood then well & good, else memorize by Rot-Learning)

Tools & Strategy?	<2% CPI= Fight deflation (अपर्फिलि)	>6% CPI= Fight Inflation (मुद्राप्रभावि)
⇒ Deflation: ↑ money supply, inject liquidity → make loans cheaper, ↑ consumption	Easy, Cheap, Dovish, Expansionary policy. आसन-सत्ता व्याजदर, वित्तावधी	Tight, Dear, Hawkish, Contractionary वर्ग- मुक्ती व्याजदर, संकृचनवादी
⇒ Inflation: Do reverse		
Quantitative	Reserves: CRR, SLR ↓ (Decrease)	↑ (increase)
	Key Rates (Repo, MSF, Bank Rate) ↓ (Decrease)	↑ (increase) महंगाई से लड़ना है तो रेये दर बढ़ा दें
	Market Ops (OMO)	OMO: RBI Buys G-Sec from market.
Qualitative Tools	Moral Suasion / Direct Action	Nudge / Force the banks to enforce Dovish Policy
	Margin Requirement / Loan to Value (LTV)	Increase e.g. Gold-LTV: 60% → 90%
	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 बहल करने एसे क्षेत्रों में करो कि रोजार नियम हो और वह सब मजदूर खरीदारी करे ताकि व्यक्ति में यांग ढहे

** 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-ki combinations and Birbal-Khichdi. ☺

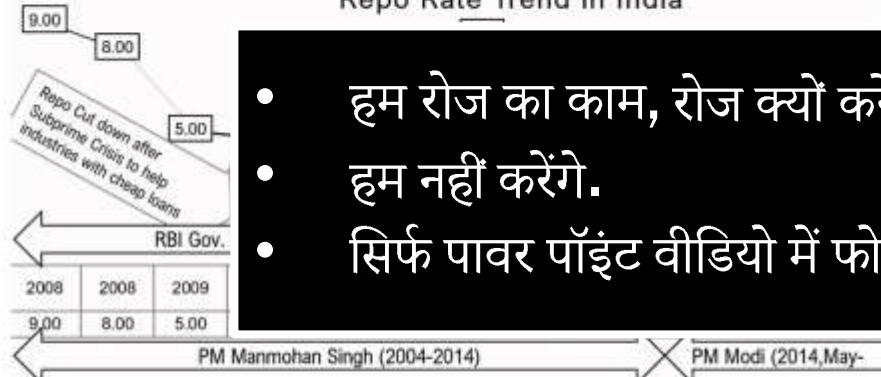
12.20 MONETARY POLICY IN PRESENT-DAY INDIA

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

- Exchange rate stability (विनियम दर स्थिर): Singapore & other export-oriented economies. They try to keep their local currency at certain rate against US-dollar to boost exports.

- Multiple Indicators (एकाधिक संकेतक): Central Bank tries to focus on Economic Growth, Employment, Inflation Control and Exchange rate stabilization. India's RBI follows this strategy upto 2016.
- Inflation targeting / Price Stability (मुद्राप्रभावि लक्ष्यीकरण): Central Bank only aims to keep inflation controlled, THEN other indicators (growth, employment, exchange rate) automatically fall in line. Model successful in Western nations → RBI's Urjit Patel Report (2013-14) recommended it for India → adopted from 2016-October Act Section 45. (2016 में रिजर्व बैंक के कानून में संशोधन कर भारत ने यह रणनीति/लक्ष्यका अपनाया है)

Repo Rate Trend in India



12.20.1 Monetary Policy Making under RBI Act since 2016



Handout is the primary thing for revision .
Powerpoint is only for 'explanation'
PPT doesn't contain all factual details



RBI Monetary Policy Tools- Tomorrow Monday



- How it is made in real life? असल जिदगी में ये मौद्रिक नीति बनती कैसे है ?
- MPC Committee
- Bi-monthly policies



Quantitative, Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]

OMO & MSS, SDF



Qualitative: Selective, Direct

• Moral Suasion, Direct Action

• Margin req / LTV

• Selective Credit Control:

• Credit Rationing, Consumer Credit control / EMI, PSL



Audio/Video
Problem?



Edu Doubt?
Ask through

Google
Forms



RBI Monetary Policy Tools

Affect entire economy, but indirectly

You can quantify them as X%, ₹Y

मालात्मक रूप से पूरे अर्थतंत्र को परोक्ष रूप से

असर करता है

Affect a sector of economy directly

गुणात्मक साधन अर्थतंत्र के किसी एक क्षेत्र

विशेष को सीधे तौर पर असर करता है

Finish earlier lectures before
proceeding.



Quantitative, Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]

OMO, Op TWIST, G-SAP

MSS, SDF

Volume of loans



Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of
loans

Q. With reference to Indian economy, consider the following:

1. Bank rate. बैंक दर
 2. Open market operations | खुले बाजार की क्रिया
 3. Public debt | सार्वजनिक ऋण
 4. Public Revenue. सार्वजनिक राजस्व/ कराधान

Which of the above is/are component(s) of Monetary Policy?

- (a) 1 only** **(b) 2, 3 and 4**
(c) 1 and 2 **(d) 1, 3 and 4** **e) SKIP.**



इसमें से कौन से
मौद्रिक नीति के
साधन हैं

100% Surety

50:50

E) Skip

Att

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
- Borrowing /**Public Debt**
- Public Private Partnership
- Disinvestment
- And other tools

Finance Ministry's Fiscal policy



Budget is the main tool of fiscal policy presented annually

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)

: (Asked in UPSC-Pre-2015)

Q. With reference to Indian economy, consider the following

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

यह दो तो पक्षा रिजर्व बैंक की मौद्रिक साधन है बाकी ऑप्शन भले पता ना हो

- RBI → Monetary Policy
- FinMin → Fiscal policy (tax, borrowing, subsidies).

Which of the above is/are component/components of Monetary Policy?

Suppose you don't know what is the meaning of #3 and #4.
but we do know #1 and #2 are correct.
There is only one such combination

100% Surety

50:50

Q. With reference to Indian economy, consider the following

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

यह दो तो पक्का रिजर्व बैंक की मौद्रिक साधन है बाकी ऑप्शन भले पता ना हो

- RBI → Monetary Policy

- FinMin → Fiscal policy (tax, borrowing, subsidies).

Which of the above is/are component/components of Monetary Policy?

- (a) 1 only (b) 2, 3 and 4
(c) 1 and 2 (d) 1, 3 and 4

100% Surety

50:50

Suppose you don't know what is the meaning of #3 and #4.
but we do know #1 and #2 are correct.
There is only one such combination

RBI acts as public debt manager- selling G-Sec.
So, #3 is also right.



- 1) Public debt = fiscal policy
- 2) there is no option saying "1, 2 and 3."



Q. Which of the following measures would result in an increase in the money supply in the economy?

1. Purchase of G-Sec from the public by the Central Bank. केंद्रीय बैंक द्वारा जनता से सरकारी प्रतिभूतियों की खरीद
2. Deposit of currency in commercial banks by public. बैंकों में जनता का मुद्रा जमा करना
3. Borrowing by the government from the Central Bank. सरकार द्वारा केंद्रीय बैंक से कर्ज लेना
4. Sale of government securities to the public by the Central Bank. केंद्रीय बैंक द्वारा सरकारी प्रतिभूतियों को जनता को बेचना

Select the correct answer using the codes given below:

- | | | |
|-------------|------------------|----------|
| (a) 1 only | (b) 2 and 4 only | |
| (c) 1 and 3 | (d) 2, 3 and 4 | (e) SKIP |



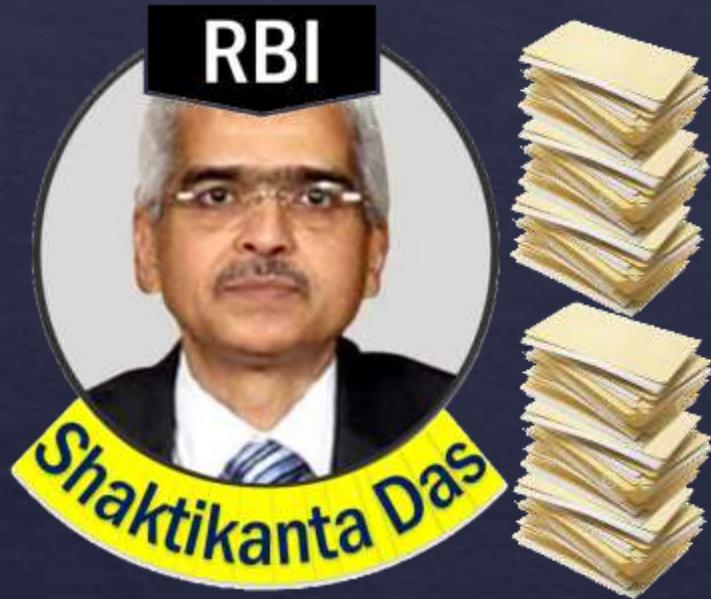
इनमें से कौन से कदमों से मुद्रा आपूर्ति में बढ़ोतरी होगी

100% Surety

50:50

E) Skip

Sale of government securities to the public by the Central Bank



1) RBI sells G-Sec



2) Result:
money supply not .
In fact इससे तो बाजार में
पैसा कम हो जाएगा



Try this

Q. Which of the following measures would result in an increase in the money supply in the economy? (Asked in UPSC-Pre-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

Select the correct answer using the codes given below:

(a) 1 only **(b) 2 and 4 only**
(c) 1 and 3 **(d) 2, 3 and 4**



In such cause-consequence MCQs, always attack the wrong thing first.

सबसे गलत वाक्य को सबसे पहले हटाना चाहिए

100% Surety

50:50

三

Try this

Q. Which of the following measures would result in **an increase in the money supply** in the economy? (Asked in UPSC-Pre-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

Select the correct answer using the codes given below:

- (a) 1 only
(c) 1 and 3

#1 definitely right. It all depends on validity of 3

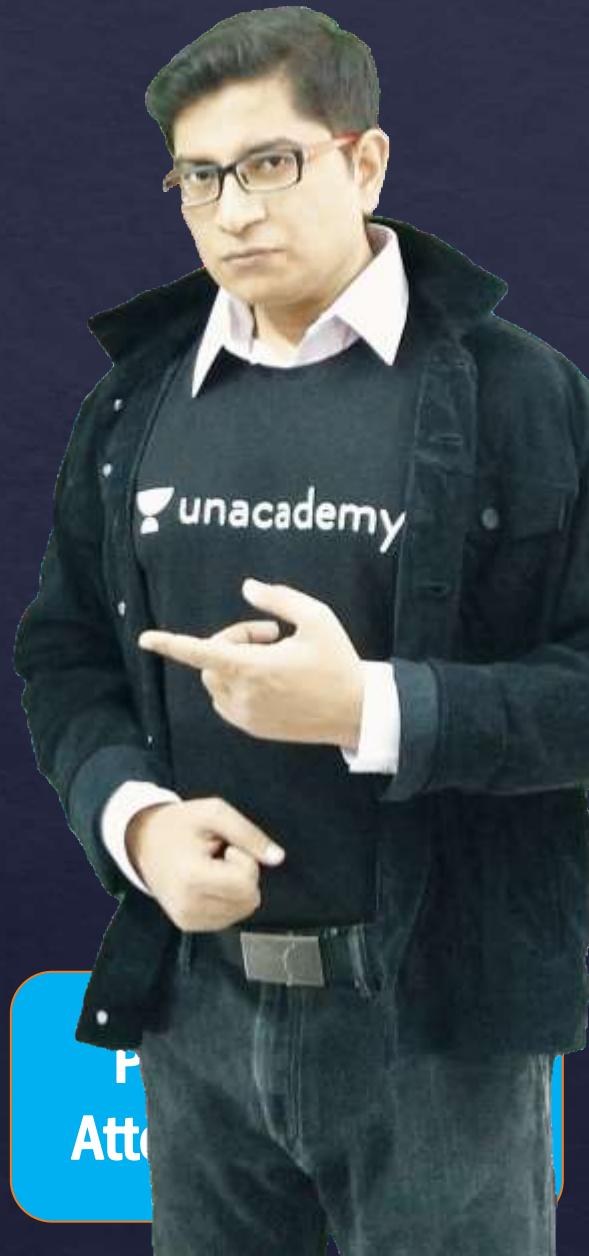
- (b) ~~2 and 4 only~~
(d) ~~2, 3 and 4~~

100% Surety

50:50

E) Skip

P
Atte



RBI's ISSUE Dept has to “Supply Money”, before we get into M1234

अगर सरकार कर लेगी रिजर्व बैंक से तो बाजार में मुद्रा की आपूर्ति बढ़ेगी

Assets

RBI issue
dept

Liabilities

Gold (coins, bullion)

Foreign Securities

(Indian) Govt Securities

Rupee coins, 1 rupee note



Money in circulation



- If Government borrowing from Central Bank, then G-Sec in RBI Asset side ↑ &
- Whatever ↑ the assets-> liabilities will ↑ in the RBI's balancesheet.
- So currency circulation ought to ↑!

Try this

Q. Which of the following measures would result in **an increase in the money supply in the economy?** (Asked in UPSC-Pre-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

Select the correct answer using the codes given below:

- (a) 1 only
(c) 1 and 3

#1 definitely right. It all depends on validity of 3

- (b) 2 and 4 only
(d) 2, 3 and 4

100% Surety

50:50

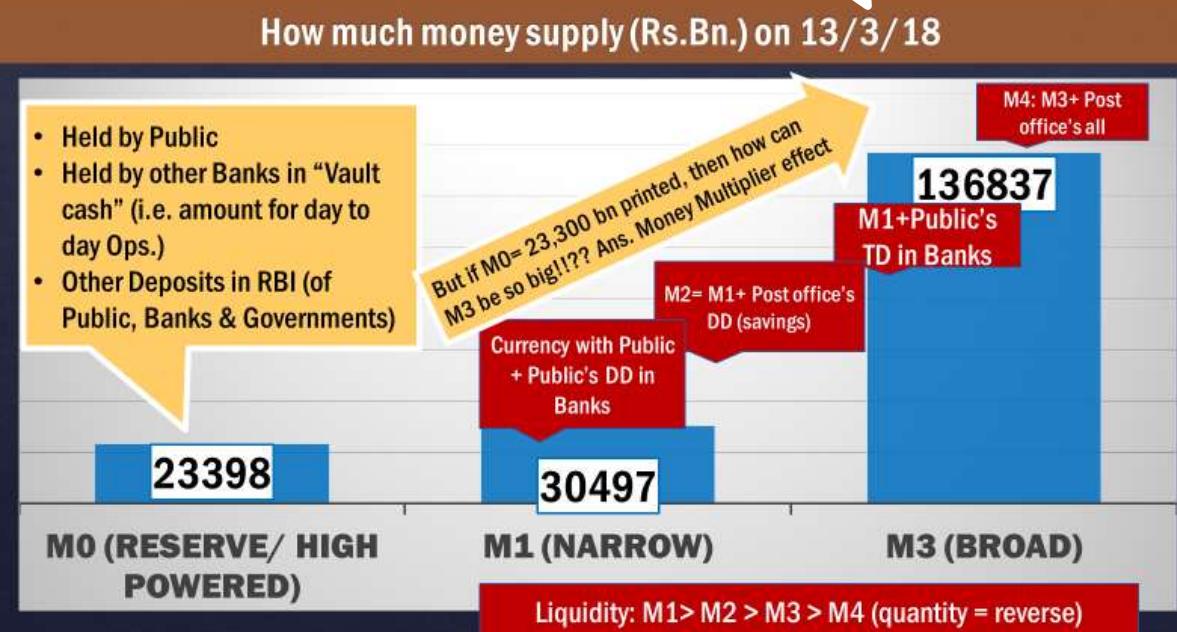
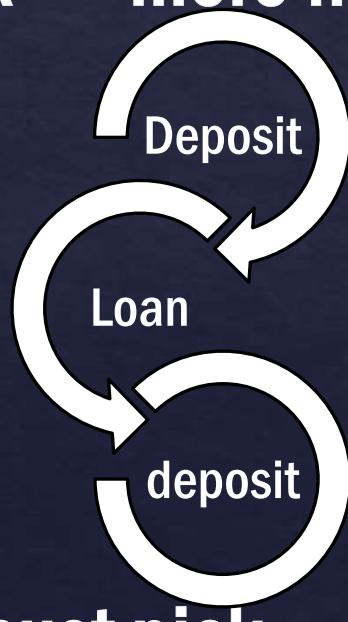
E) Skip

प्रश्न: यदि जनता बैंक में पैसा जमा कराएगी तो मुद्रा आपूर्ति बढ़ेगी की नहीं



Counter argument...

- ❖ #2: Deposit of currency in commercial banks by the public.
- ❖ Does it not  money supply (M3) in the economy- Due to Money Multiplier effect ?
- ❖ if more money goes to bank → more fractional reserves & lending?
- ❖ Ans. Yes, बढ़नी तो चाहिए
- ❖ But there is no option
- ❖ where 1,2,3 are together.
- ❖ So from available opt. we must pick



प्रश्न: यदि जनता बैंक में पैसा जमा कराएँगी तो मुद्रा आपूर्ति बढ़ेगी की नहीं

DO NOT OPEN THIS TEST BOOKLET UNTIL YOU ARE ASKED TO DO SO

T.B.C. : P-DTQ-M-DA

Test Booklet Series

Serial No.



**TEST BOOKLET
PAPER—I**

A

Time Allowed : Two Hours

Maximum Marks : 200

INSTRUCTIONS

Examination: Civil Services (P) Exam 2012

Paper: Paper-I

Test Booklet Series:A

No. of Maximum Marks : 200

No. of items : 100

No. of items to be scored : 100

No. of Items to be dropped: Nil

1	B	16	B	31	B	46	A	61	D	76	B	91	D
2	A	17	C	32	A	47	D	62	D	77	C	92	A

77. Which of the following measures would result in an increase in the money supply in the economy?

1. Purchase of government securities 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~~

Select the correct answer using the codes given below :

- (a) 1 only
~~(b) 2 and 4 only~~
(c) 1 and 3
~~(d) 1, 3 and 4~~

इसकी ans-key में
जनता ने ऑनलाइन
बहुत धमाल किया था



DO NOT OPEN THIS TEST BOOKLET UNTIL YOU ARE ASKED TO DO SO

T.B.C. : P-DTQ-M-DA

Test Booklet Series

Serial No.

TEST BOOKLET
PAPER—I**A**

Time Allowed : Two Hours

Maximum Marks : 200

INSTRUCTIONS

Examination: Civil Services (P) Exam 2012

Paper: Paper-I

Test Booklet Series:A

No. of Maximum Marks : 200

No. of items : 100

No. of items to be scored : 100

No. of Items to be dropped: Nil

1	B	16	B	31	B	46	A	61	D	75	B	91	D
2	A	17	C	32	A	47	D	62	D	77	C	92	A

77. Which of the following measures would result in an increase in the money supply in the economy?

1. Purchase of government securities 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

Select the correct answer using the codes given below :

- (a) 1 only
(b) 2 and 4 only
(c) 1 and 3
(d) 1, 3 and 4



Lessons:

- 1) Go by elimination, don't overthink the logic like Birbal ki Khichdi.
- 2) Don't waste time debating answerkeys in online forum. If problem in Q- you can file online representation to UPSC

Tragedy of commons:

Nobody files representation thinking 'others will do it' & one week deadline is over!

Registration Id	<input type="text"/>	
Roll No	<input type="text"/>	
Name	<input type="text"/>	
Father's Name	<input type="text"/>	
Date Of Birth	01-11-84	
Exam Date	<input type="text" value="03-06-2018"/>	Subject <input type="text" value="Paper - I"/>
Representations	<input type="text"/>	

Limited window for
1 week only

Attach PDF (if any): No file selected.

Instructions

1. You may scan the relevant document in 200 dpi grey scale and convert to a single pdf file up to 2 MB. The PDF so created must not be password protected.
2. You must ensure that uploaded pdf file is legible.

Saved Representations

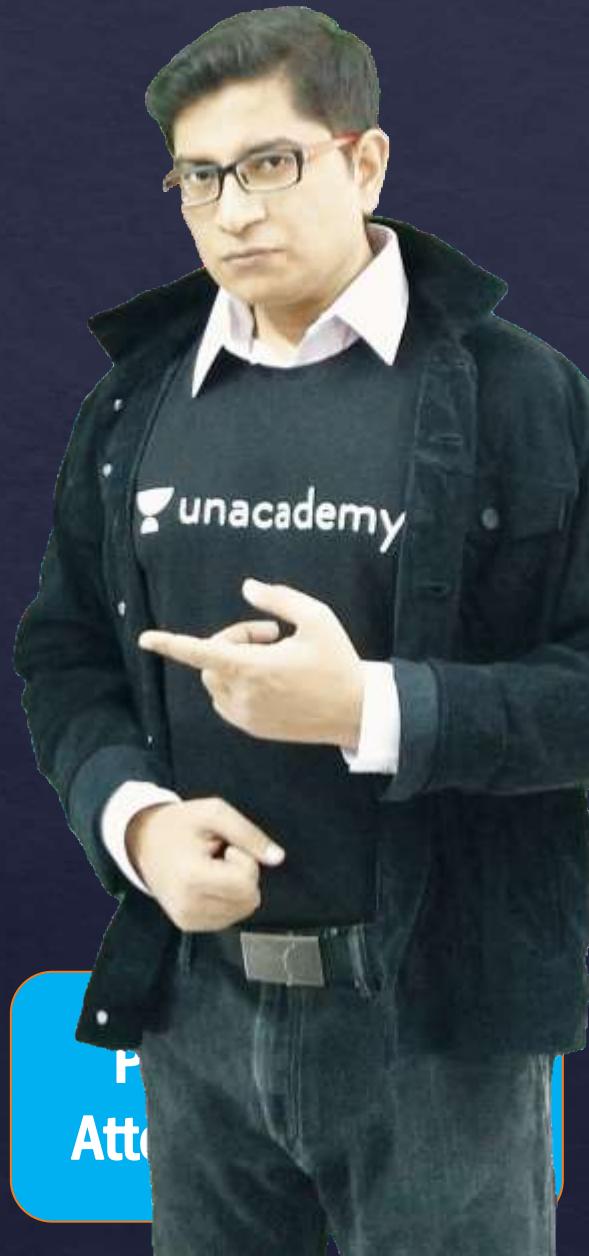
India Government Bond Yields are influenced by which of the following?

[भारत सरकार की बांड यील्ड निम्नलिखित में से किन से प्रभावित होती है]

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]

Select the correct answer using the code given below

- | | |
|-----------------|---------------|
| a) 1 and 2 Only | b) 2 Only |
| c) 3 Only | d) 1, 2 and 3 |



100% Surety

50:50

E) Skip

P
Atte

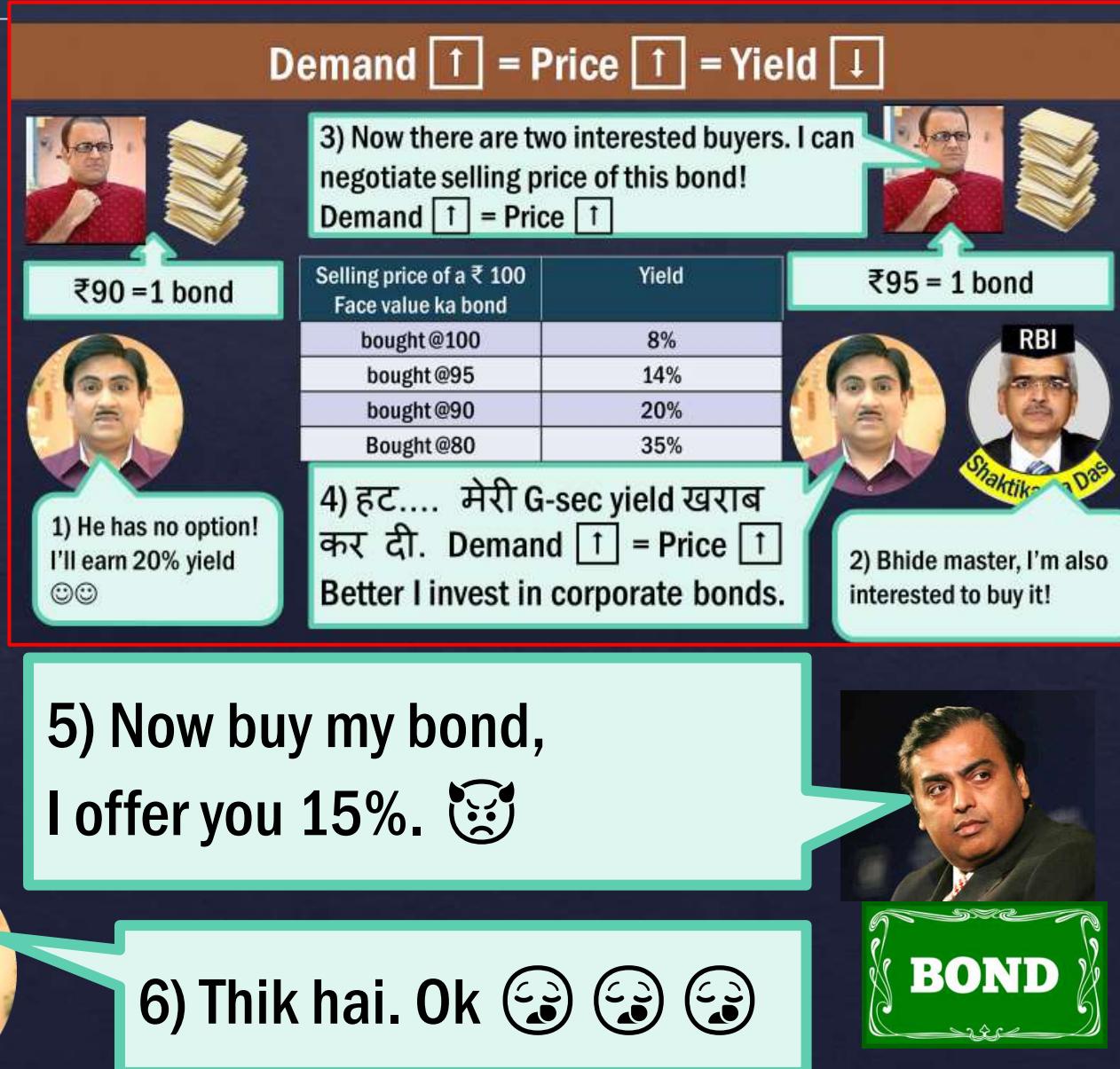
Why Operation TWIST? = special type of OMO

- ◆ RBI Starts buying (long term: 10-14 years maturity) G-Sec worth ₹10,000 crore from secondary market

- ◆ G-sec Demand \uparrow = Price \uparrow = G-sec Yield \downarrow

- ◆ = Investors' arrogance \downarrow

- ◆ Corporates can borrow money through bonds more easily.



India Government Bond Yields are influenced by which of the following?

[भारत सरकार की बांड यील्ड निम्नलिखित में से किन से प्रभावित होती है]

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]

Select the correct answer using the code given below

a) 1 and 2 Only

b) 2 Only (💡)

~~c) 3 Only~~

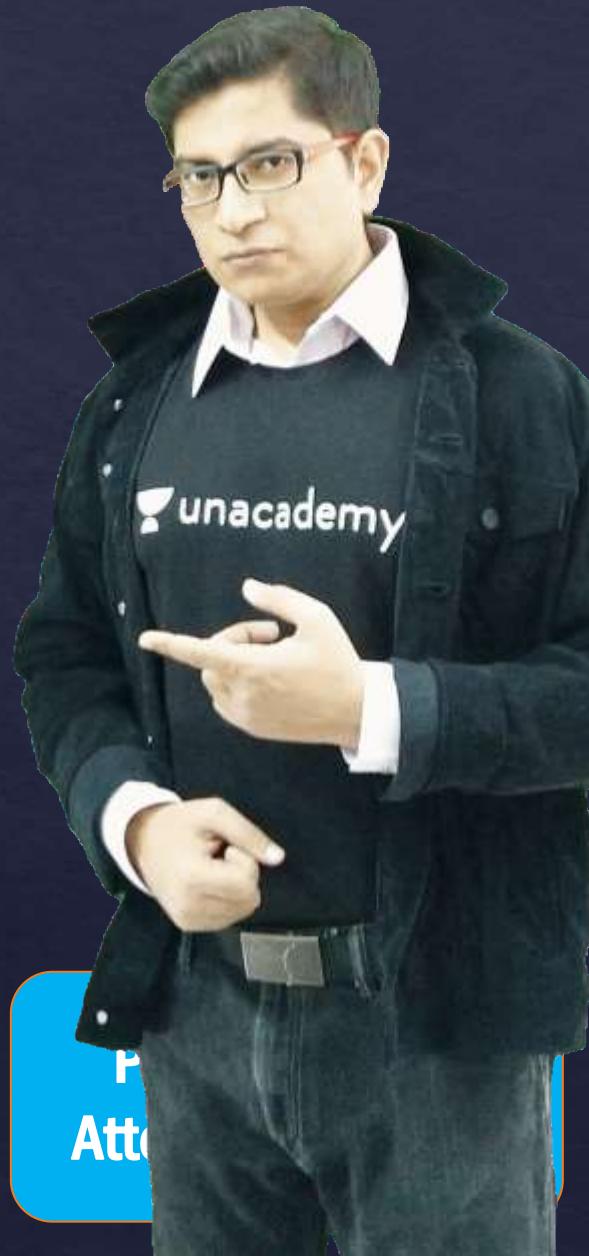
d) 1, 2 and 3 (💡)

100% Surety

50:50

E) Skip

P
Atte





**Inflation
5%**



**income from
G-Sec 6%**



**5-6=(-1) = WE
ARE SAFE**



Inflation
5%



income from
G-Sec 6%



**5-6=(-1) = WE
ARE SAFE**



inflation
7%

income from
G-Sec 6%



**7-6=(+1) = WE
ARE DOOMED**



Inflation
5%



income from
G-Sec 6%



$5-6=(-1)$ = WE
ARE SAFE



inflation
7%



income from
G-Sec 6%



$7-6=(+1)$ = WE
ARE DOOMED

महंगाई हमारी आमदनी को खा जाएगी



Inflation
7%



PROFIT
GOLD 9%



$7-9=(-2)$ = WE
ARE SAFE



Inflation
5%



**income from
G-Sec 6%**



**5-6=(-1) = WE
ARE SAFE**



inflation
7%



**income from
G-Sec 6%**



**7-6=(+1) = WE
ARE DOOMED**

महंगाई हमारी आमदनी को खा जाएगी



Inflation
7%

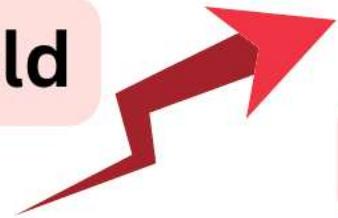


**PROFIT
GOLD 9%**



**7-9=(-2) = WE
ARE SAFE**

Bond Yield
7%



**11%
increase**

plz buy my ₹100 face
value G-sec at 83

I want to unlock money
to buy GOLD



1

Srilankan Govt Bonds : Rs.100 @7% interest



2

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



3

Srilankan economy collapse, riots, Prez runs away

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



5

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

Bond Yield

7%

11%

increase

when investor exits at lower price



1. Political instability / Risk of govt defaulting on loans e.g. SriLanka, Pakistan.



2. better profits in shares, gold, real-estate, other nations' financial markets etc.



3. ↑ Inflation ➡ investor shifting from bonds to gold/real-estate for better profit.



Shaktikanta Das

4. Central Bank's buying-selling of Govt Bonds & depending on how it affects supply/demand of those Govt Bonds.



India Government Bond Yields are influenced by which of the following?

[भारत सरकार की बांड यील्ड निम्नलिखित में से किन से प्रभावित होती है]

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] 🤔

Select the correct answer using the code given below

- a) 1 and 2 Only 🤔
- b) 2 Only 🤔
- c) 3 Only

- d) 1, 2 and 3 🤔

Only one option where
2 and 3 are together
-> Answer is “D”.

100% Surety

50:50



India Government Bond Yields are influenced by which of the following?

[भारत सरकार की बांड यील्ड निम्नलिखित में से किन से प्रभावित होती हैं]

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] 🚫

Select the correct answer using the code given below

- a) 1 and 2 Only 🚫
b) 2 Only 🚫
c) 3 Only
d) 1, 2 and 3 🚫

100% Surety

50:50

Only one option where
2 and 3 are together
-> Answer is “D”.



1. What about actions of USA Federal Reserve?

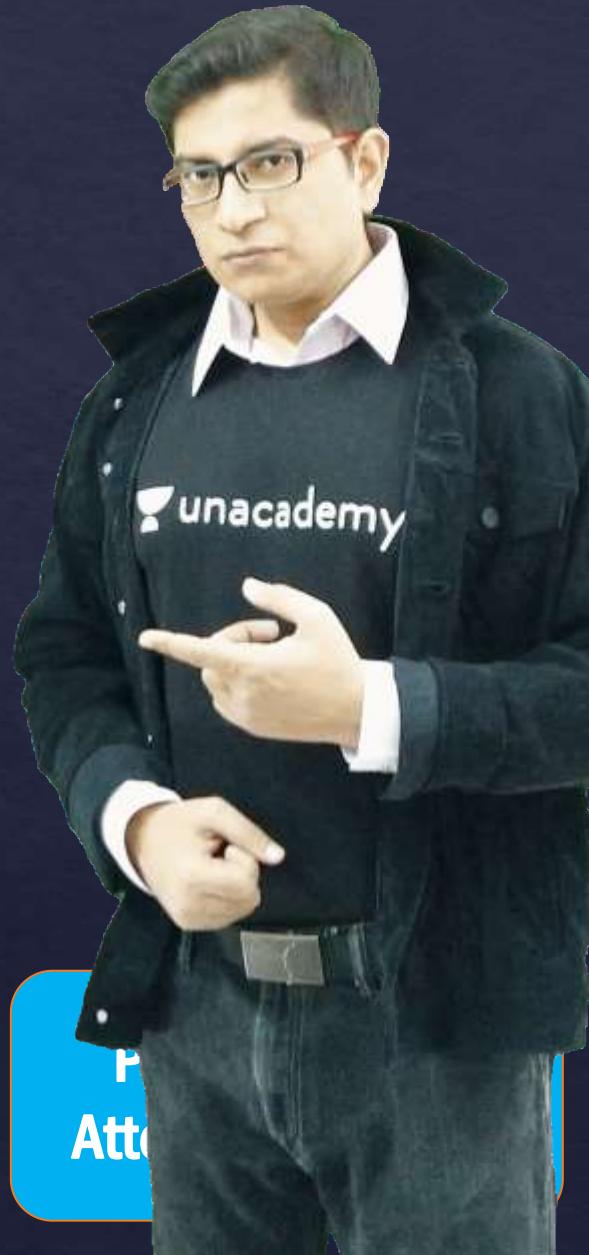
- 1) This requires knowledge of
 - 1) 3A: FPI
 - 2) 3A: Currency Exchange Rate,
 - 3) So wait and watch.
- 2) But even without knowing it, u can arrive at answer

Find correct statement

1. If the inflation is too high, RBI is likely to buy G-Sec. (यदि महंगाई बहुत ज्यादा है तो रिजर्व बैंक सरकारी प्रतिभूतियां खरीदेगी)
2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market. (यदि रुपया कमज़ोर हो रहा है तो रिजर्व बैंक बाजार में डॉलर बेचेगी)
3. If interest rates in the USA or EU were to fall, that is likely to induce RBI to buy dollars. (अमेरिका या यूरोप में लोन ब्याज दर गिरने वाले होंगे तो रिजर्व बैंक डॉलर खरीदेगी)

Which of the statements given above are correct ?

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



100% Surety

50:50

E) Skip

P
Atte

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

In inflation -> RBI will sell G-Sec to reduce money supply

Find correct statement

1. If the inflation is too high, RBI is likely to buy G-Sec. (यदि महंगाई बहुत ज्यादा है तो रिजर्व बैंक सरकारी प्रतिभूतियां खरीदेगी)
2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market. (यदि रुपया कमज़ोर हो रहा है तो रिजर्व बैंक बाजार में डॉलर बेचेगी)
3. If interest rates in the USA or EU were to fall, that is likely to induce RBI to buy dollars. (अमेरिका या यूरोप में लोन ब्याज दर गिरने वाले होंगे तो रिजर्व बैंक डॉलर खरीदेगी)

Which of the statements given above are correct ?

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



By Elimination the answer is B

100% Surety

50:50

Find correct statement

1. If the inflation is too high, RBI is likely to buy G-Sec. (यदि महंगाई बहुत ज्यादा है तो रिजर्व बैंक सरकारी प्रतिभूतियां खरीदेगी)

2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market. (यदि रुपया कमज़ोर हो रहा है तो रिजर्व बैंक बाजार में डॉलर बेचेगी)

3. If interest rates in the USA or EU were to fall, that is likely to induce RBI to buy dollars. (अमेरिका या यूरोप में लोन ब्याज दर गिरने वाले होंगे तो रिजर्व बैंक डॉलर खरीदेगी)

Which of the statements given above are correct?

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

100% Surety

50:50

By Elimination the answer is B



What is meaning of statement 2 and 3

- 1) This requires knowledge of
 - 1) 3A: FPI
 - 2) 3A: Currency Exchange Rate,
 - 3) So wait and watch.
- 2) But even without knowing it, u can arrive at answer

Which of the following is not an instrument of Selective Credit Control? (इनमें से कौन सिलेक्टिव क्रेडिट कंट्रोल का साधन नहीं है)

- A. Regulation of consumer credit.
- B. Rationing of credit
- C. Margin requirements
- D. Cash Reserve Ratio

- इन सब शब्दों का यूपीएससी में हिन्दी अनुवाद देखेंगे तो यह प्रश्न और कलिस्ट हो जाएगा.
- इसको अंग्रेजी में समझ के ही टिक करना चाहिए

100% Surety

50:50



RBI Monetary Policy Tools

CRR is in separate category!

वो CRR तो दुनिया ही अलग है



Quantitative, Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]

OMO & MSS, SDF



Volume of loans

Qualitative: Selective, Direct



- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Distribution of loans

Which of the following is **not** an instrument of Selective Credit Control?

- A. Regulation of consumer credit. **EMI**
- B. Rationing of credit. **USSR/Russia**
- C. Margin requirements. **LTV Akshay**
- D. **Cash Reserve Ratio**



- CRR is quantitative tool.
- Others are qualitative tools.

100% Surety

50:50

E) Skip

Handout is prepared based on the books and web-resources

But margin requirement is not part of SCC, if we go by the sequence of topics in handout.



5.2 ④ Direct Action (सीधी कार्यवाही: क्योंकि लातों के भ्रुत बातों से नहीं मानते)

RBI can punish banks (and even non-banks) for not complying with its directives under the RBI Act, Banking Regulation Act, Payment and Settlement Systems Act, Prevention of Money Laundering Act (PMLA), Foreign Exchange Management Act (FEMA).

2019: RBI ordered the banks to have a “Clawback (लौटना)” provision in their CEO & 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.

5.3 ⑤ Margin Requirements / Loan to Value (LTV) (सीमा अनिवार्यता)

Figure 11: जब घर में पढ़ा हैं सोना, फिर कहाँ को रोना?

- RBI can mandate Loan to Value (LTV) for a gold-loan, home loan, auto loan etc. so a Bank/NBFC can't lend more than x% of the value.
- RBI can change this x% to boost / curb inflation.

12.5.4 Selective Credit Control (चयनात्मक ऋण कंट्रोल)

In a negative / restrictive direction

- Credit Rationing System: English (in 18th century) and USSR (till 1990s)- their central bank will not give more

UPSC Prelims 1995

Which of the following is **not** an instrument of Selective Credit Control?

A. Regulation of consumer credit
B. Rationing of credit
C. Margin requirements
D. Cash Reserve Ratio

unacademy

- CRR is quantitative tool.
- Others are qualitative tools.

100% Surety → 50:50 → Skip → Pause Video to Attempt it Yourself

- CRR “NOT instrument” of SCC. You’ve to tick it.
- **SCC internal Classification** varies as per books.
अलग अलग किताबों में वर्गीकरण थोड़ा अलग है
- **Real UPSC exam requires lot of thinking on your feet.** असल परीक्षा में अपने कम गलत चीज़ को tick करना होगा

मौद्रिक नीति बनाने के 3 तरीके होते हैं: 1) विनिमय दर में स्थिरता

3 ways of making monetary policy

Exchange rate stability

- Singapore & other export oriented economies.

Lee Kuan Yew



- We are not so concerned with inflation control. महंगाई नियंत्रण कि हमें कोई परवाह नहीं
- We just want $1 \text{ US \$} = 2 \text{ Singapore Dollars}$ = This helps in tourism & exports.
- We'll try to regulate the money supply of our local currency against the US dollars to this (more in Pillar #3A on currency exchange).

मौद्रिक नीति बनाने के 3 तरीके होते हैं: 2) एकाधिक लक्ष्यों को हासिल करना
आर्थिक वृद्धि बढ़े, रोजगार बढ़े, महंगाई नियंत्रण में रहें, विनिमय दर नियंत्रण में रहें

3 ways of making monetary policy

Exchange rate stability

- Singapore & other export oriented economies.

Lee Kuan Yew



Multiple Indicators

- Growth↑
- Employment↑
- Inflation control
- Stable Exchange rate



19	C. Rangarajan		22 December 1992	21 November 1997
20	Bimal Jalan		22 November 1997	6 September 2003
21	Y. Venugopal Reddy		6 September 2003	5 September 2008
22	D. Subbarao		5 September 2008	4 September 2013

We'll try to set Repo rate @such level ke all these goals are targeted. – India used this method till 2016.

मौद्रिक नीति बनाने के 3 तरीके होते हैं: 3) महंगाई/ मुद्रास्फीति नियंत्रण
सिर्फ महंगाई को काबू में करने की कोशीश करो बाकी सारी चीजें अपने आप दुरुस्त हो जाएंगी

3 ways of making monetary policy

Exchange rate stability

- Singapore & other export oriented

Lee Kuan Yew



Multiple Indicators

- Growth
- Employment
- Inflation WPI,CPI
- Exchange rate



Inflation targeting

- Other indicators fall in line. Successful in western nations.



India adopted this from 2016



Before Rajan

- Update: 45-45 days

From Rajan

- 60-60 days (Bi-monthly)

GSM2: Statutory, regulatory bodies: RBI Act amendment in 2016

45ZB. Constitution of Monetary Policy Committee.

(1) The Central Government may, by notification in the Official Gazette, constitute a Committee to be called the Monetary Policy Committee of the Bank.

(2) The Monetary Policy Committee shall consist of the following Members, namely:—

(a) the Governor of the Bank—Chairperson, *ex officio*;

(b) Deputy Governor of the Bank, in charge of Monetary Policy—Member, *ex officio*;

(c) one officer of the Bank to be nominated by the Central Board—Member, *ex officio*; and

(d) three persons to be appointed by the Central Government—Members.

(3) The Monetary Policy Committee shall determine the Policy Rate required to achieve the inflation target.

(4) The decision of the Monetary Policy Committee shall be binding on the Bank.

synonyms

Repo rate

= policy rate

= benchmark

interest rate

६- सदस्य वाली एक वैधानिक मौद्रिक समिति तय करेगी रेपो दर कितना होना चाहिए और यह निर्णय रिजर्व बैंक पर बाध्य होगा

Composition of Monetary Policy Committee (MPC)

मौद्रिक समिति का गठन



RBI side 3

Govt side 3

Govt side members= 4 years tenure

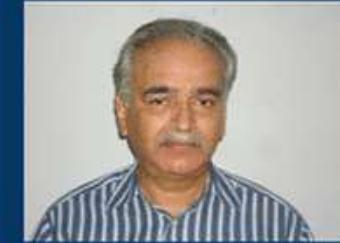
2016-2020: पहले 4 साल यह लोग थे



Pami Dua
Delhi School of Economics



Chetan Ghate
Indian Statistical Institute



Ravindra Dholakia
IIM Ahmedabad

 Members
NAMES
NOT IMP4IAS
ये सभी सदस्यों के नाम
याद नहीं रखनी हमने

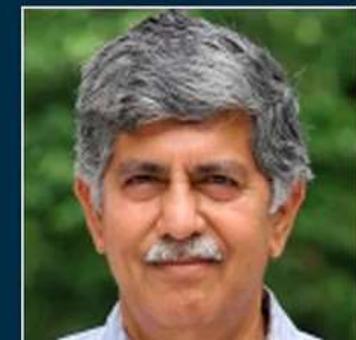
2020-2024: अब यह नए सदस्य आए हैं



ASHIMA GOYAL
Professor, IGIDR



JR VARMA
Professor, IIM Ahmedabad



SHASHANKA BHIDE
Senior Advisor, NCAER

Composition of Monetary Policy Committee (MPC)

1 Dy.Gov



Ex-officio
Chairman

पदेन अध्यक्ष. यानी कि
जो व्यक्ति गवर्नर है वह
अपने आप ही इस
समिति का अध्यक्ष बन
जाएगा

1 Executive
Director of
RBI



ASHIMA GOYAL
Professor, IGIIDR



JR VARMA
Professor, IIM Ahmedabad



SHASHANKA BHIDE
Senior Advisor, NCAER



Tenure tied with official post in RBI. E.g. Shaktikanta Das= 3 year tenure (as RBI governor). If he's reappointed as RBI gov., he'll continue here also.

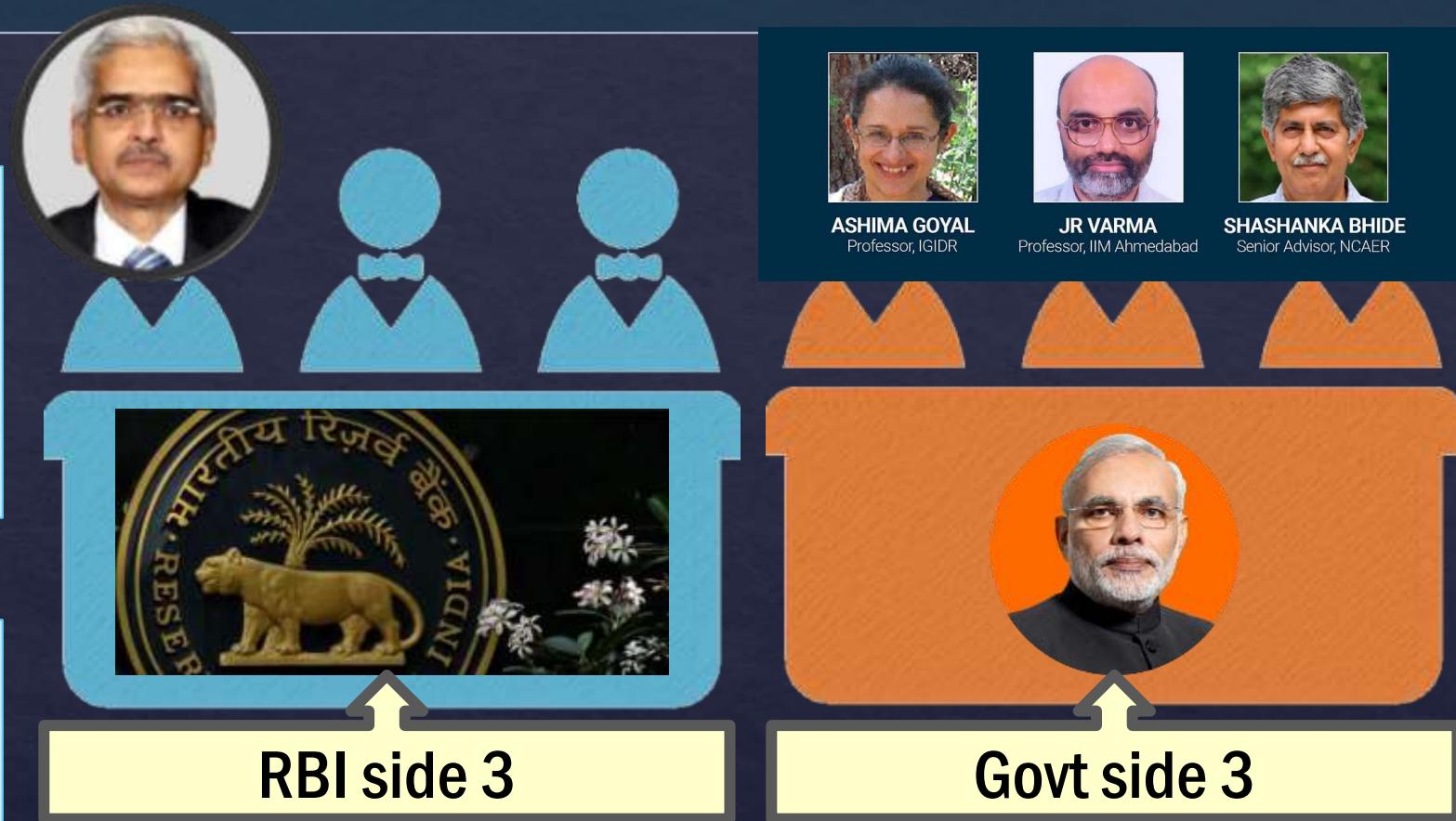
quorum 4 members- incl. governor

Quorum

- Minimum 4 person including governor required.
- ELSE meeting can't start.

Decisions?

- Take vote. Governor will also vote.
- If tie → governor will again cast a vote second time, to break tie. (CASTING Vote)



- कम से कम 4 लोग हाजिर होने चाहिए, वरना मीटिंग नहीं होगी
- सभी वोटिंग में गवर्नर वोट/ मत कर सकते हैं
- और अगर टाइ पड़े तो गवर्नर दोबारा भी निर्णायक मत कर सकते हैं

Who selects these people? चयन समिति

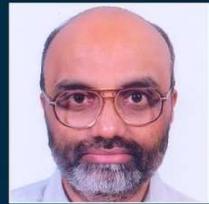
All these people are selected by two different Committees. Both those 'selection Committees' are headed by Cabinet Secretary (IAS)



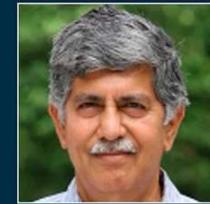
Term tied with official post
e.g. RBI gov: 3 years



ASHIMA GOYAL
Professor, IGIIDR



JR VARMA
Professor, IIM Ahmedabad



SHASHANKA BHIDE
Senior Advisor, NCAER

4 years, no re-appointment



Autonomy for the MPC-Committee

समिति की स्वायतता बढ़ाने के लिए और सरकारी दखल रोकने के लिए ...



ASHIMA GOYAL
Professor, IGIDR



JR VARMA
Professor, IIM Ahmedabad



SHASHANKA BHIDE
Senior Advisor, NCAER



- Government can send message to Committee only in writing
- “**elections coming so make repo 0% for cheap loans to farmers...**” ok but send it in writing. **कानूनन, सरकार इस समिति को कुछ भी कहना चाहे तो लिखित में देना होगा**

RBI Act: Inflation targeting- target

45ZA. Inflation target.

(1) The Central Government shall, in consultation with the Bank, determine the inflation target in terms of the Consumer Price Index, once in every five years.



2016-2020 [till financial year ending @31stMarch 2021]

Same then extended for next 5 years till 31/3/2026

We'll decide this.
But after consulting
with RBI governor .

गवर्नर से विमर्श करने के
बाद सरकार तय करेगी

2% से कम भी नहीं

not lower than this because
deflation = unemployment
(Philip curve)

4%



6% से ज्यादा भी नहीं

not higher than this because
too much inflation= hardship
to poor people.



Transparency and accountability within RBI Act

पारदर्शिता और जवाबदेही के लिए कुछ प्रावधान

◆ Min.4 meetings a year. (in practice bi-monthly 2-2-months). During Corona even met earlier. सालाना कानूनन रूप से कम से कम 4 बार तो मिलना होगा

◆ Minutes of the meeting have to be published on 14th day (i.e. “during the meeting, this member said this & voted like this”)

◆ Every 6 months publish “Monetary policy report”.

◆ Target fail: if inflation not kept in this 2-6% zone for 3 consecutive quarters (9 months) then send report to Govt with reasons and remedies. सतत 9 महीनों तक महंगाई को इस सीमा में नियंत्रित नहीं कर पाए तो असफलता मानी जाएगी

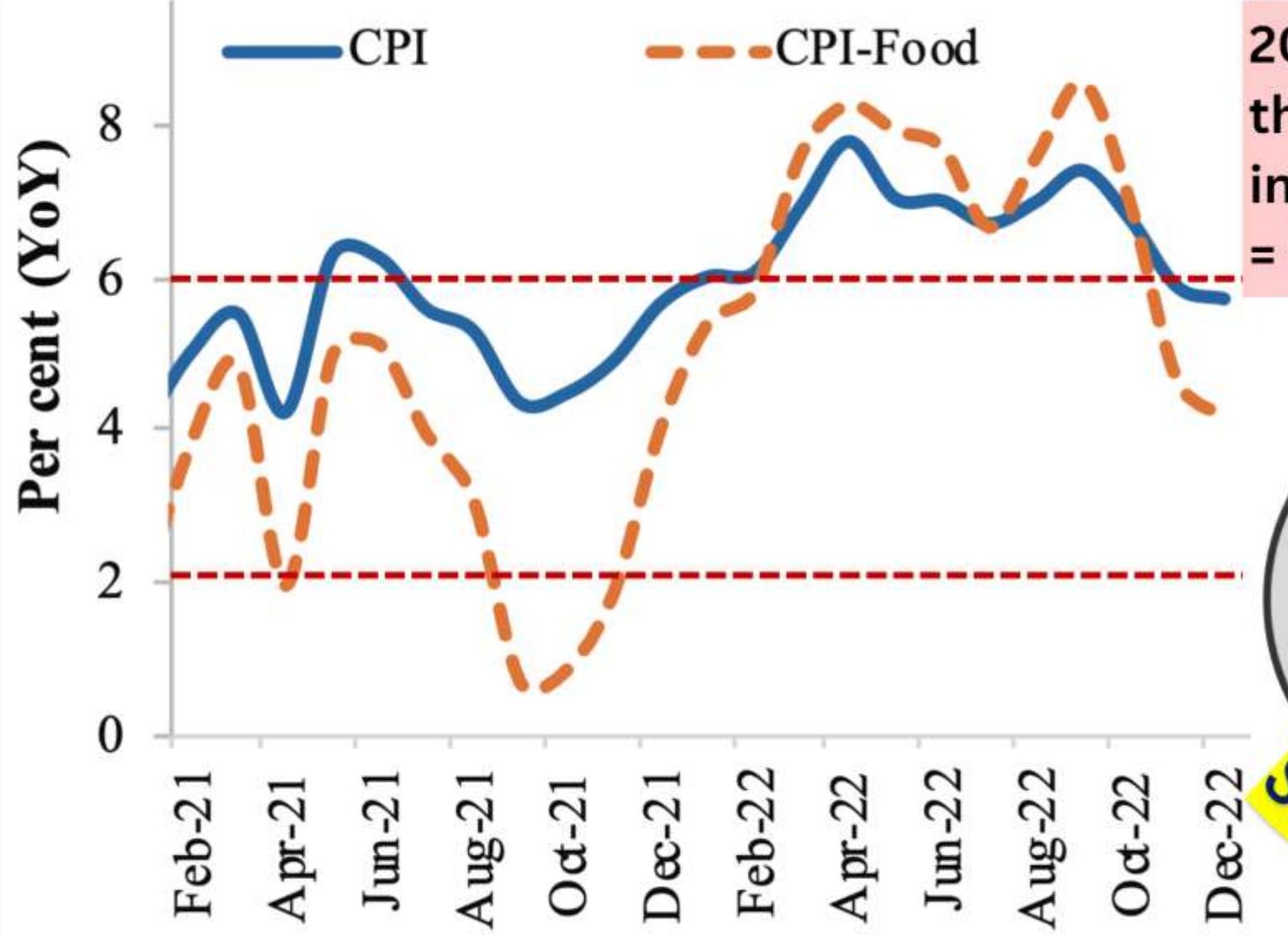
2016-2020
[31st March 2021]

2%

4%

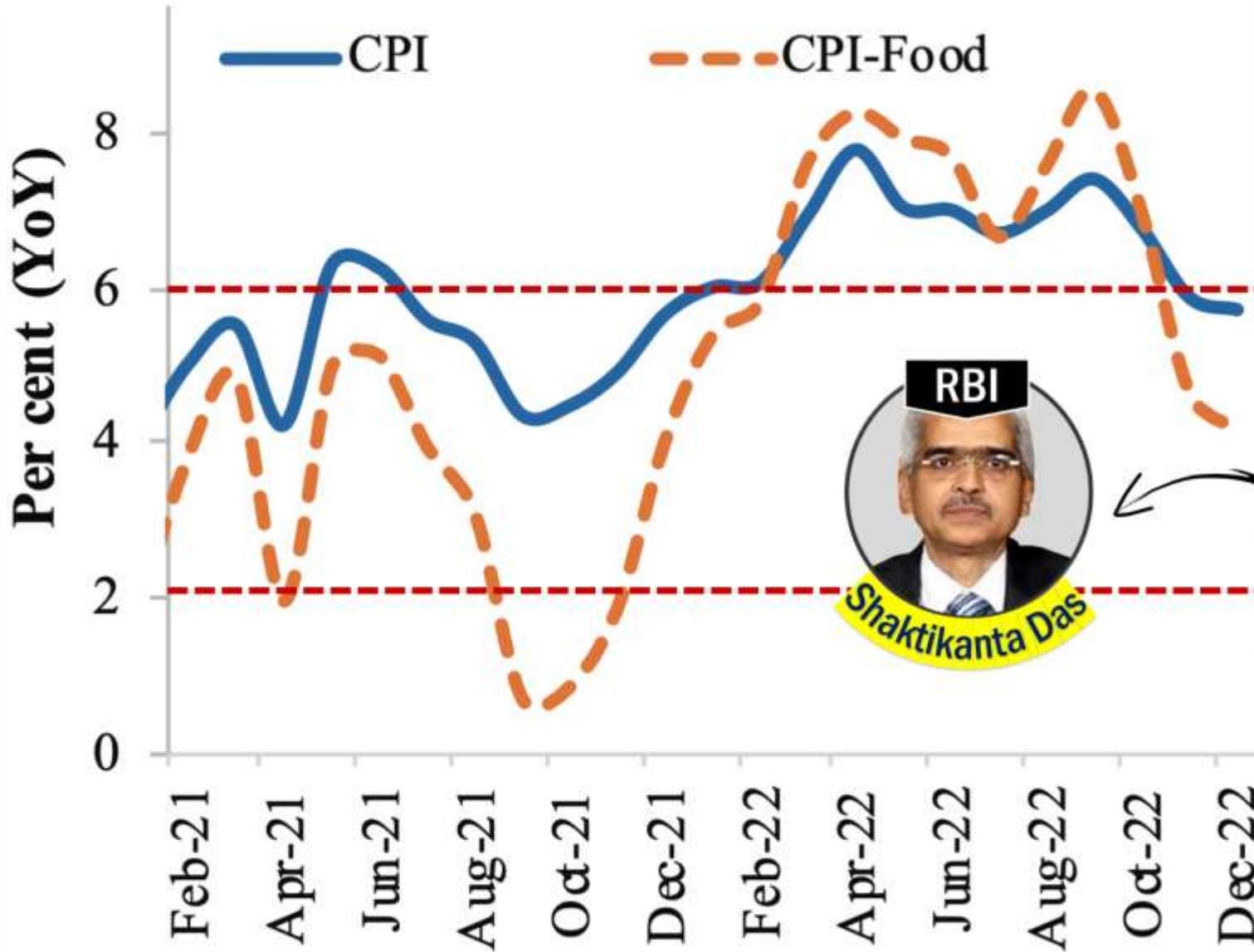
6%





2022-Jan to Nov = more
than 9 months the
inflation >6%
= target fail.





2022-Jan to Nov = more than 9 months the inflation $>6\%$ = target fail.



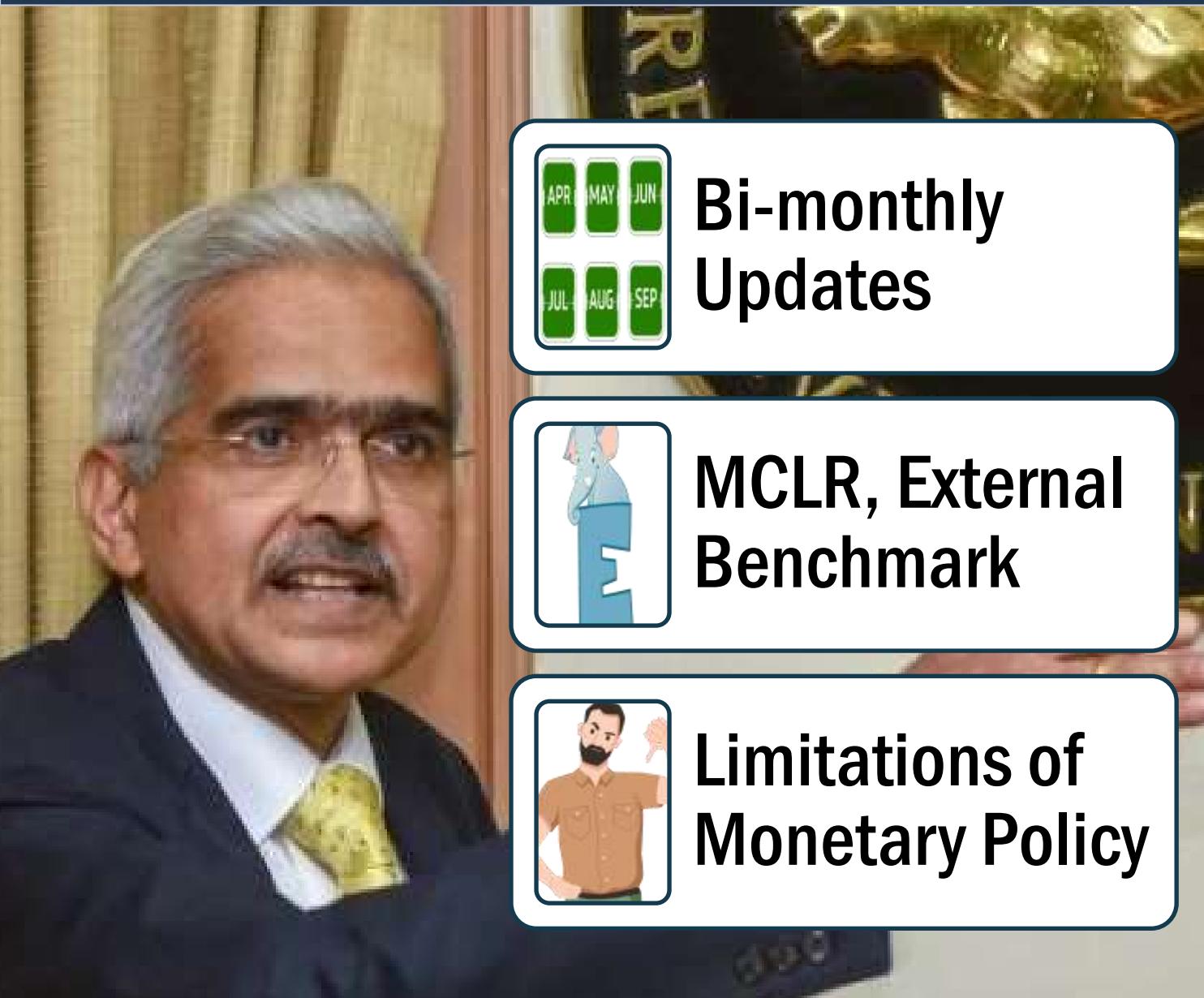
i'll submit the report to Govt about this #EPICFAIL but i'll not release report to media/public.



RBI managed to control inflation below 6% from Nov-Dec-2022 इसलिए वो बहुत महान है!



Pillar#1A2:Review of bi-monthly policies <Continued>



Bi-monthly
Updates



MCLR, External
Benchmark



Limitations of
Monetary Policy



Tools → Quantitative,
Gen., Indirect

Reserve Ratios (CRR, SLR)
Rates: Bank, MSF, LAF [Repo, RR]
OMO, Op Twist



Tools → Qualitative:
Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Repo Rate Trend in India



Repo in Global financial crisis
वैश्विक आर्थिक संकट के चलते
लोन सस्ते किए गए. Pillar#3A



D. Subbarao Era (2008-13)



Rajan Era (2013-16)

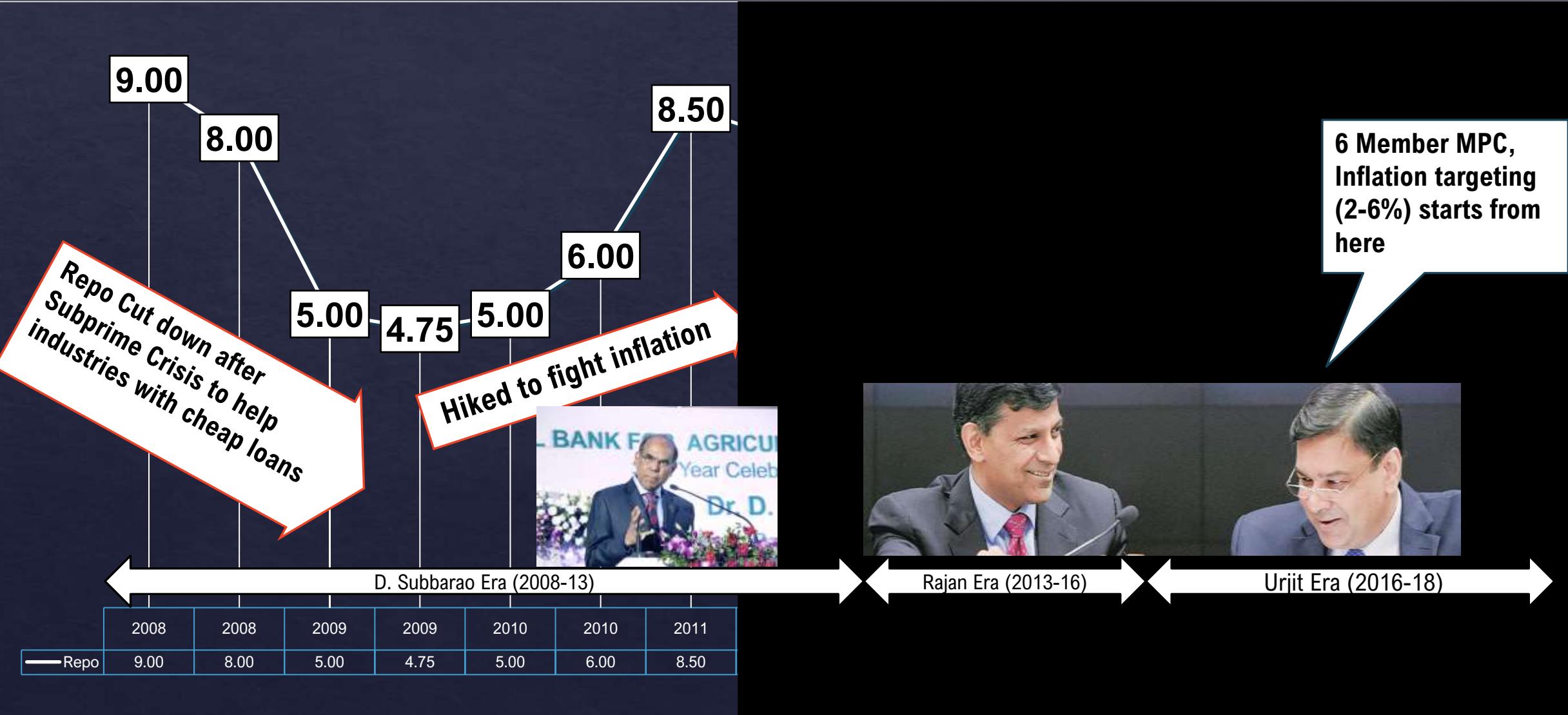
Urjit Era (2016-18)

6 Member MPC,
Inflation targeting
(2-6%) starts from
here

Previous governor's timeline / names not
imp. but one should be aware of 'trend'

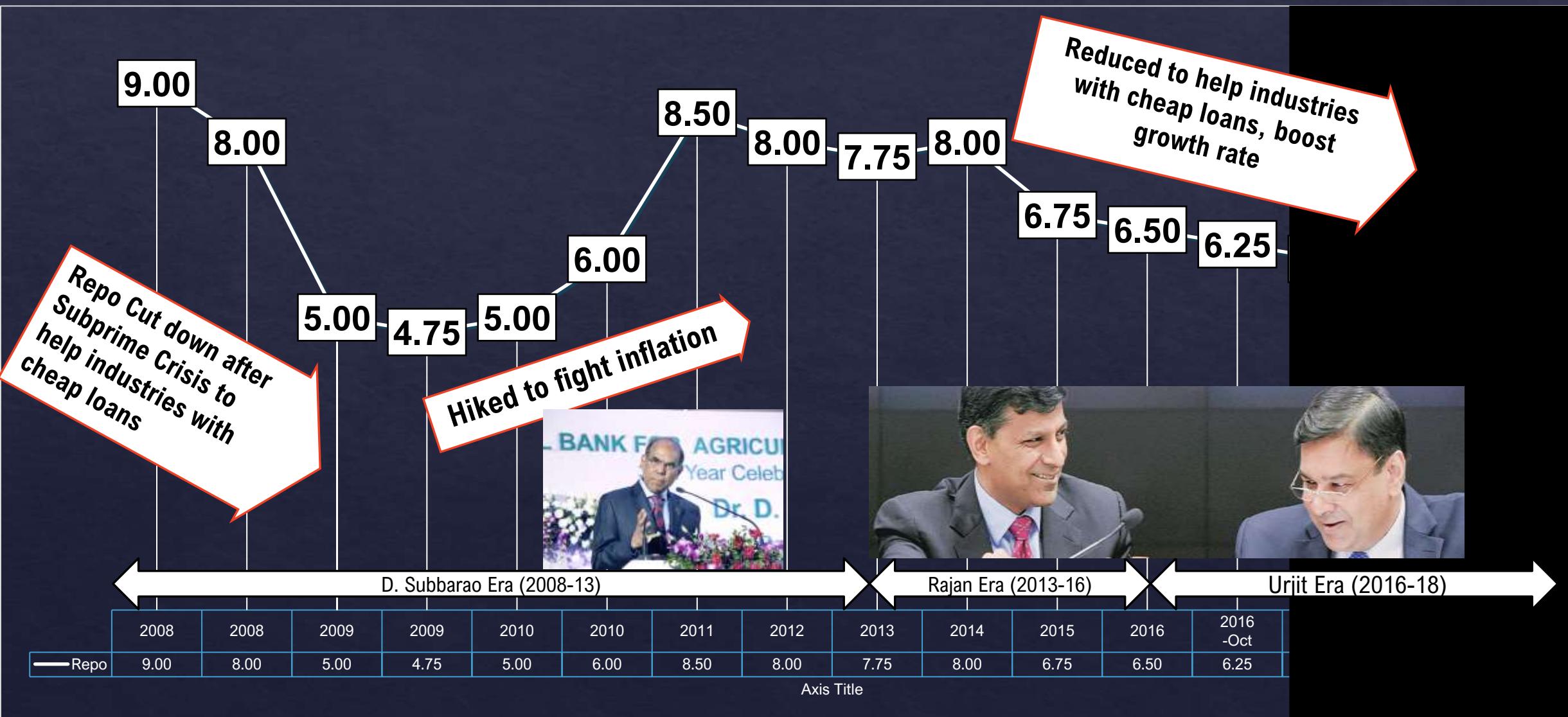
Repo Rate Trend in India

महंगाई में बढ़ोतरी के चलते लोन महंगे किए गए



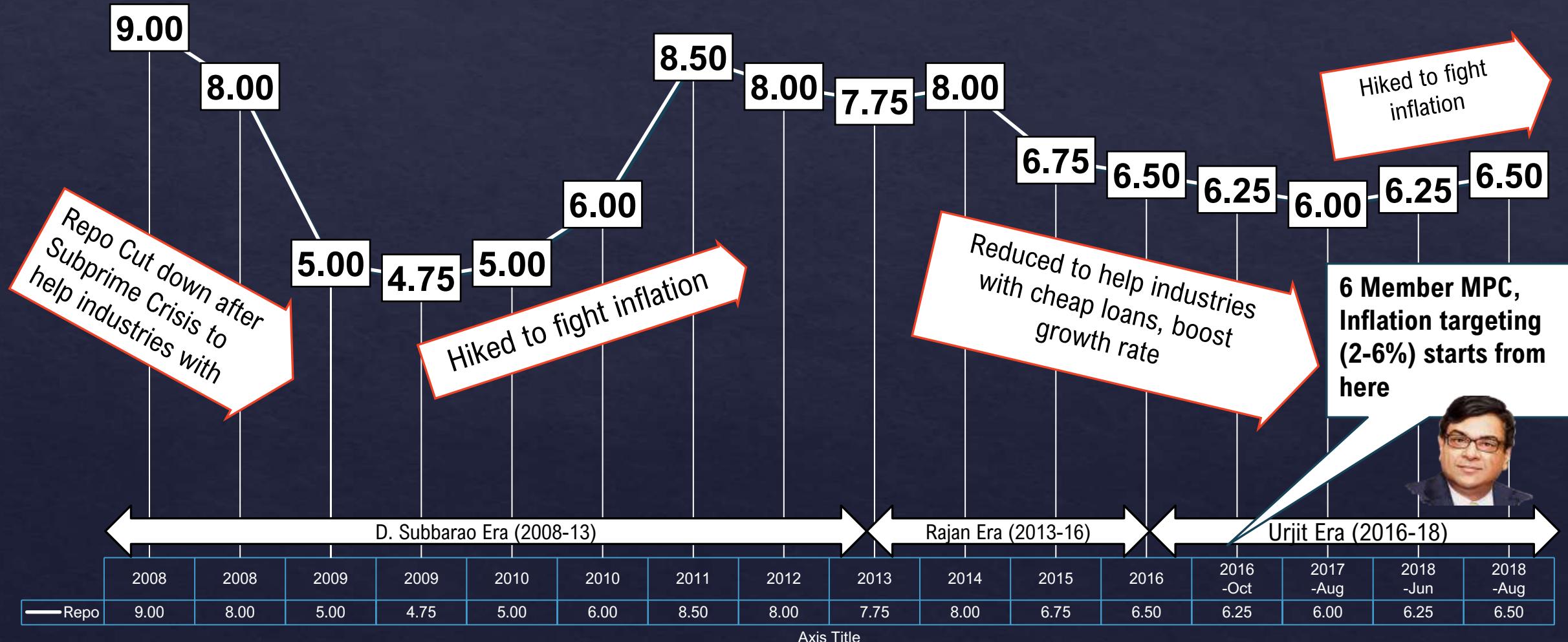
Repo Rate Trend in India

फिर महगाई नियंत्रण में हुई लोन सस्ते करने की कोशिश ताकि अर्थव्यवस्था में तेजी आए



Repo Rate Trend in India

2016 पश्चात महंगाई नियंत्रण कानूनी जिम्मेदारी बनी



RBI



Shaktikanta Das

Failure if
continuously outside
this range for
9 months

Priority
#1



Inflation ↑ ↘

महंगाई को बढ़ने से रोकना है

Keep in 2-6% CPI Range

Needs Hawkish/Tight/
Dear
Money Policy

RBI

Make Loans
Expensive →
 Repo,
CRR, SLR

 Demand
→
 Inflation

 Failure if
continuously outside
this range for
9 months

Priority
#1

Inflation  
महंगाई को बढ़ने से रोकना है
Keep in 2-6% CPI Range



Needs Hawkish/Tight/Dear Money Policy

RBI

Make Loans Expensive →
↑ Repo, CRR, SLR

⬇ Demand →
⬇ Inflation

⌚ Failure if continuously outside this range for 9 months -> then send report to Govt

Priority #1

Inflation ↑ ⚡ महंगाई को बढ़ने से रोकना है
Keep in 2-6% CPI Range

Priority #2

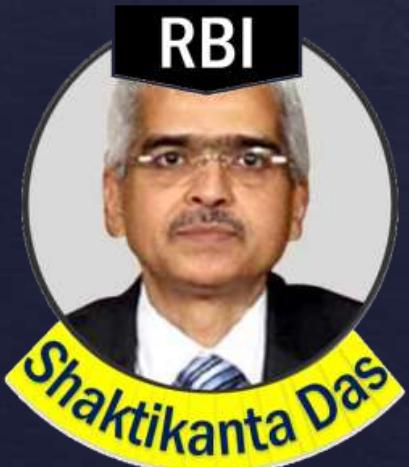
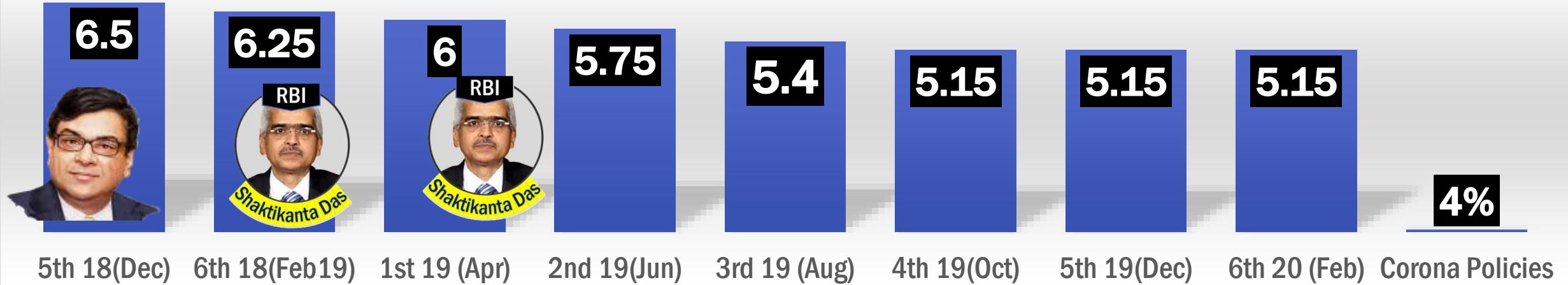
Make Loans Cheap →
⬇ Repo, CRR, SLR

↑ Demand →
↑ GDP

GDP Growth, Job Creation
↑ ↑



Trend of repo rate.



2019-Dec: Repo unchanged @5.15%
Stance: Accommodative. Meaning when in 2020-Feb:
A) either will keep unchanged @5.15% OR
B) Will reduce @4.##%

RBI's monetary policy stance (repo rate)

Stance: नीति का रुख क्या रहेगा 2 महीने बाद हम क्या करेंगे उसकी **Hint** देना

What we'll do in the next meeting after 2 months?



RBI's Stance

Calibrated Tightening

Increase (Hike)

No change (hold)

To fight Inflation
मंहगाई मे ये रवैया / रुख
अपनाएँगे

2 महीने बाद जो मीटिंग होगी
उसमें रेपो में या तो बढ़ोतरी करेंगे
या उसको (=)यथास्थिति रहेंगे
लेकिन कम तो नहीं ही करेंगे

RBI's monetary policy stance (repo rate)

What we'll do in the next meeting after 2 months?



RBI's Stance

Calibrated
Tightening

Increase (Hike)

No change (hold)

Inflation
मे ये रवैया / रुख
अपनाएँगे

Increase

Neutral

No change (hold)

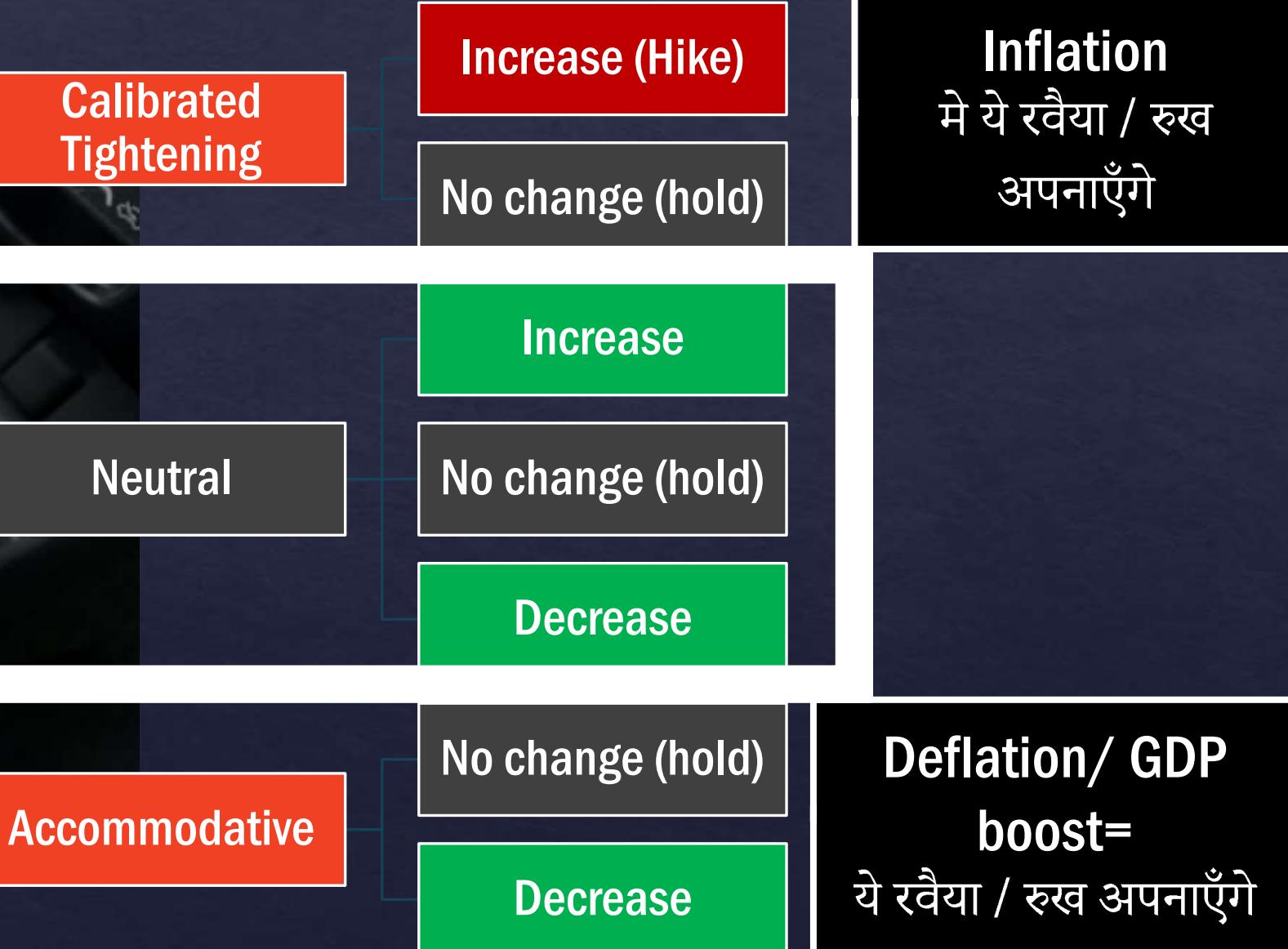
Decrease

रेपो दरों को बढ़ा भी सकते हैं गिरा भी
सकते हैं या यथास्थिति रख सकते हैं

RBI's monetary policy stance (repo rate)

What we'll do in the next meeting after 2 months?

RBI's Stance



RBI's monetary policy stance (repo rate)

What we'll do in the next meeting after 2 months?



RBI's Stance

This is the stance

Accommodative

Calibrated Tightening

Increase (Hike)

No change (hold)

Neutral

Increase

No change (hold)

Decrease

No change (hold)

Decrease

Inflation
मे ये रवैया / रुख
अपनाएँगे

Deflation/
GDP boost=
ये रवैया / रुख अपनाएँगे

All given in handout.

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.

- **Stance is not 'legally-binding'.** हालांकि ये रखिया जो घोषित किया वो कानूनन रूप से बाध्य नहीं है
- **If Committee feels situation is changed → they may not abide by it.** → अगर समिति को जरूरत लगे तो. **अपनी बात से मुकर भी सकती है**

Page 71. Inflation so what to do?



MONETARY POLICY TOOLS: A READY RECKONER TABLE

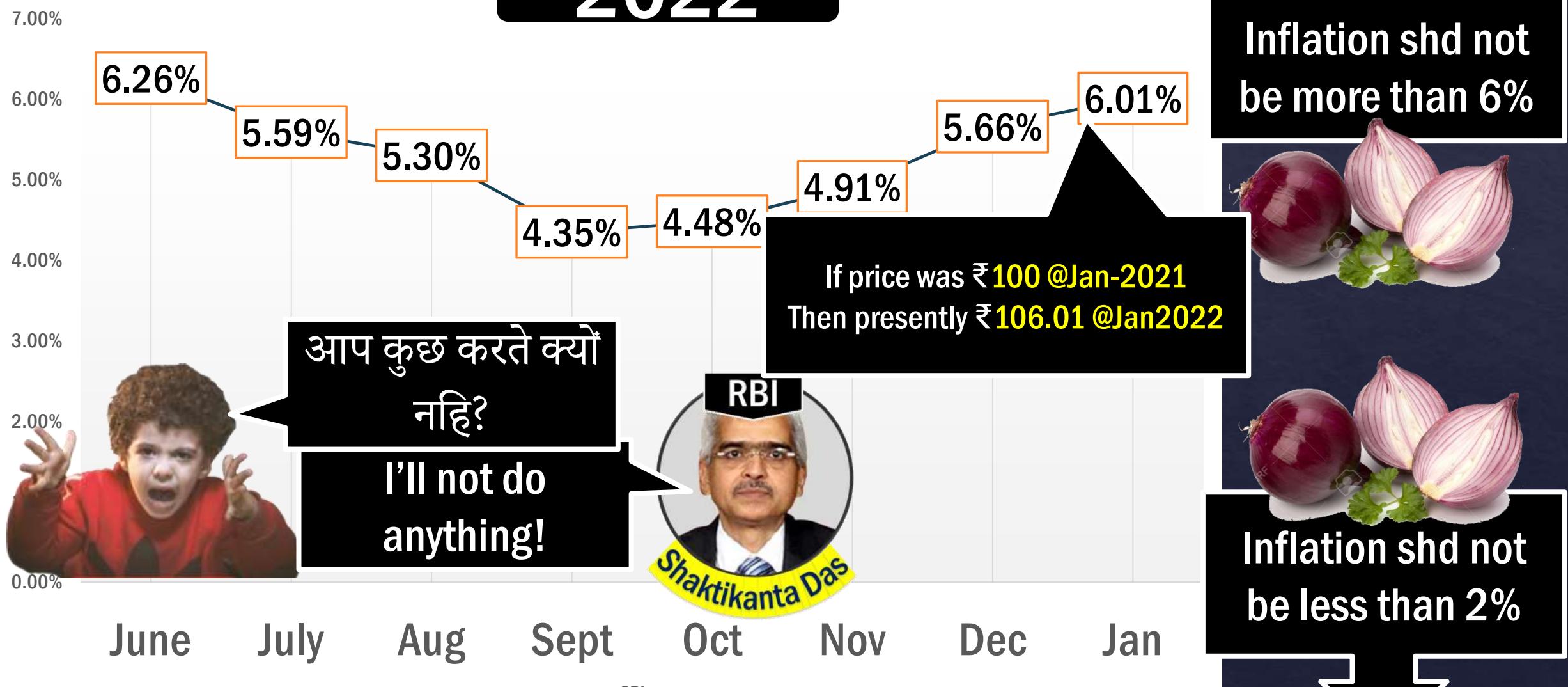
Table 6: समज में आ गया हो तो बढ़िया है, नहीं तो रट्टा मारो जिंदाबाद (If understood then well & good, else memorize by Rot-Learning)

Tools & Strategy?	<2%CPI= Fight deflation (अपस्फीति)	>6%CPI= Fight Inflation (मुद्रास्फीति)
⇒ Deflation: ↑ money supply, inject liquidity=> make loans cheaper, ↑ consumption	Easy, Cheap, Dovish, Expansionary policy. आसान-सस्ता व्याजदरे, विस्तारवादी	Tight, <u>Dear</u> , Hawkish, Contractionary तंग- मँहगी व्याजदरे, संकुचनवादी
⇒ Inflation: Do reverse		
Quantitative	Reserves: CRR, SLR	↓ (Decrease) ↑ (increase)
	Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease) ↑ (increase)  REPO
	Market Ops (OMO)	OMO: RBI Buys G-Sec from market. OMO: RBI Sells G-Sec

MoSPI → National Statistical Office (NSO) → Consumer Price Index

Inflation outside RBI's 2-6% CPI (All India) limit

2022



RBI



Repo Loan%



Expensive Loans

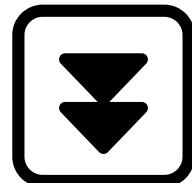


Tool

Repo

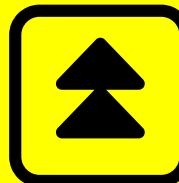
Combat Deflation /

GDP



Expensive loans

Combat Inflation



Shopping

Inflation controlled

Sellers price to attract customers

Inflation not under control then why not increase repo in 2020-21?

लेकिन महंगाई को काबू में नहीं है तो ये repo increase क्यों नहीं करते ?

GDP Growth / Post-Corona revival

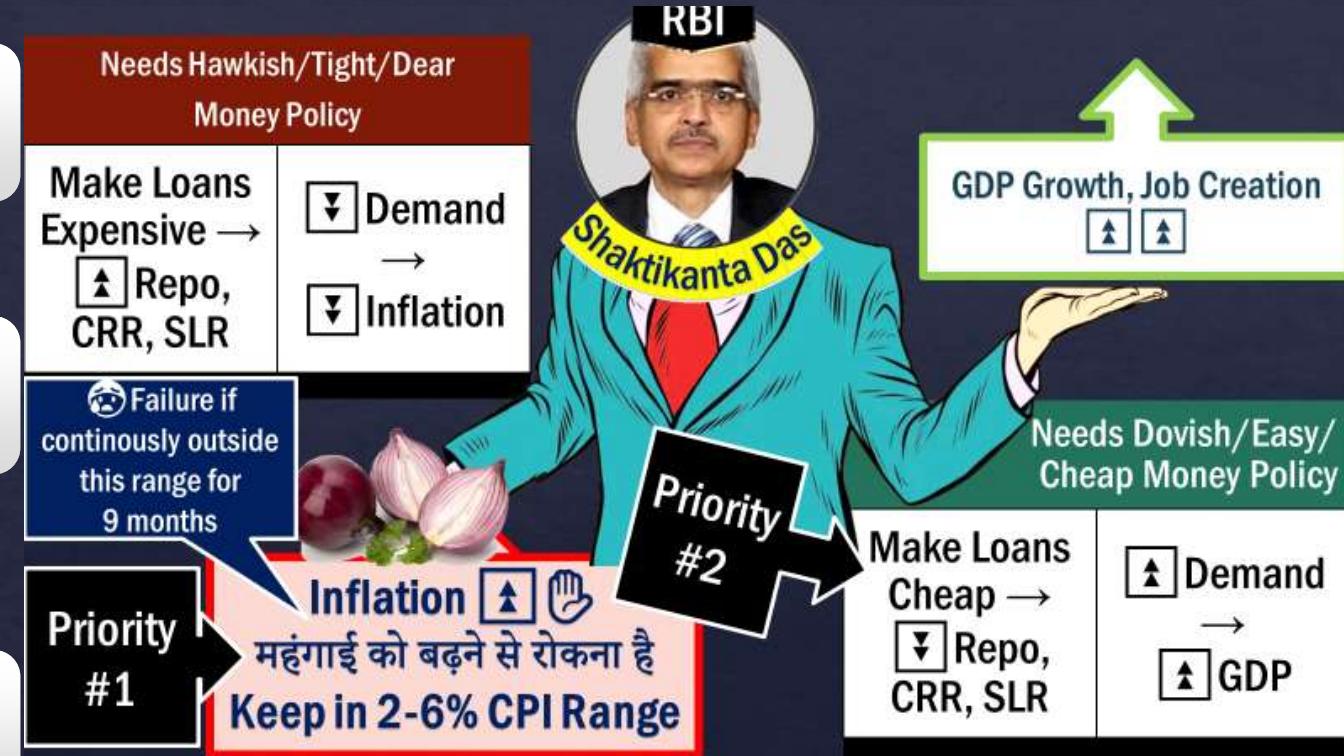
- Cheap loans requires this.

Failure

- If only inflation outside 2-6% range for 9 months continuously

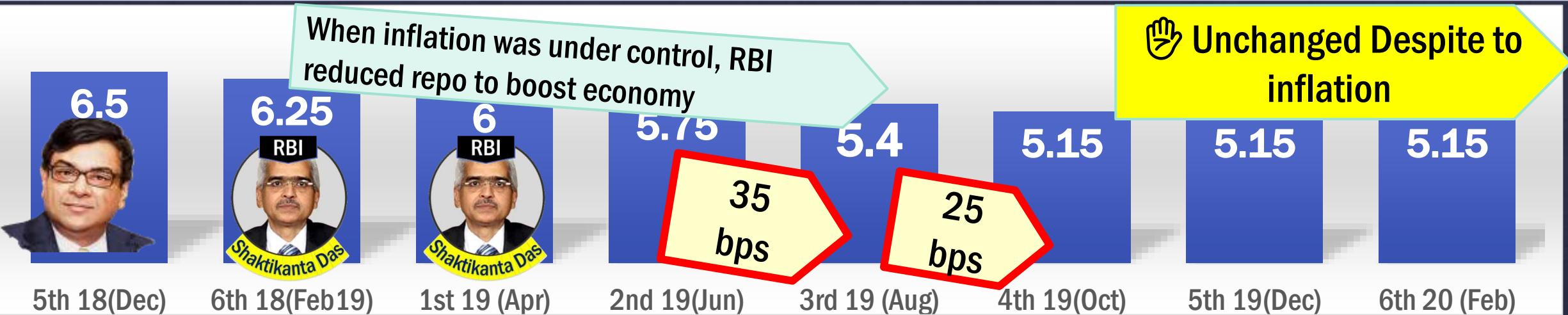
Supply side factors

- Crude oil, Russia-Ukraine War
- Global commodity prices
- REPO can't fix.



Updates in Dec-2019 and Feb-2020

हालांकि महंगाई बढ़ रही थी लेकिन जीडीपी में भारी गिरावट थी इसलिए रिजर्व बैंक ने लोन महंगे नहीं किया



- RBI required to **control inflation** with 2-6%
- But **inflation crossing 7%**
- **YET Repo not ↑** because otherwise GDP growth will be harmed. 😢
- So, in the latest two policies, repo kept unchanged.
- Stance: accommodative.

Inflation in 2019 leaves consumers teary-eyed as pricey onions, food items bite

PTI | Updated: Dec 27, 2019, 12:00 IST



NEW DELHI: Onion literally brought tears to the eyes of consumers as retail prices touched Rs 200 per kilogram

ASIA ECONOMY

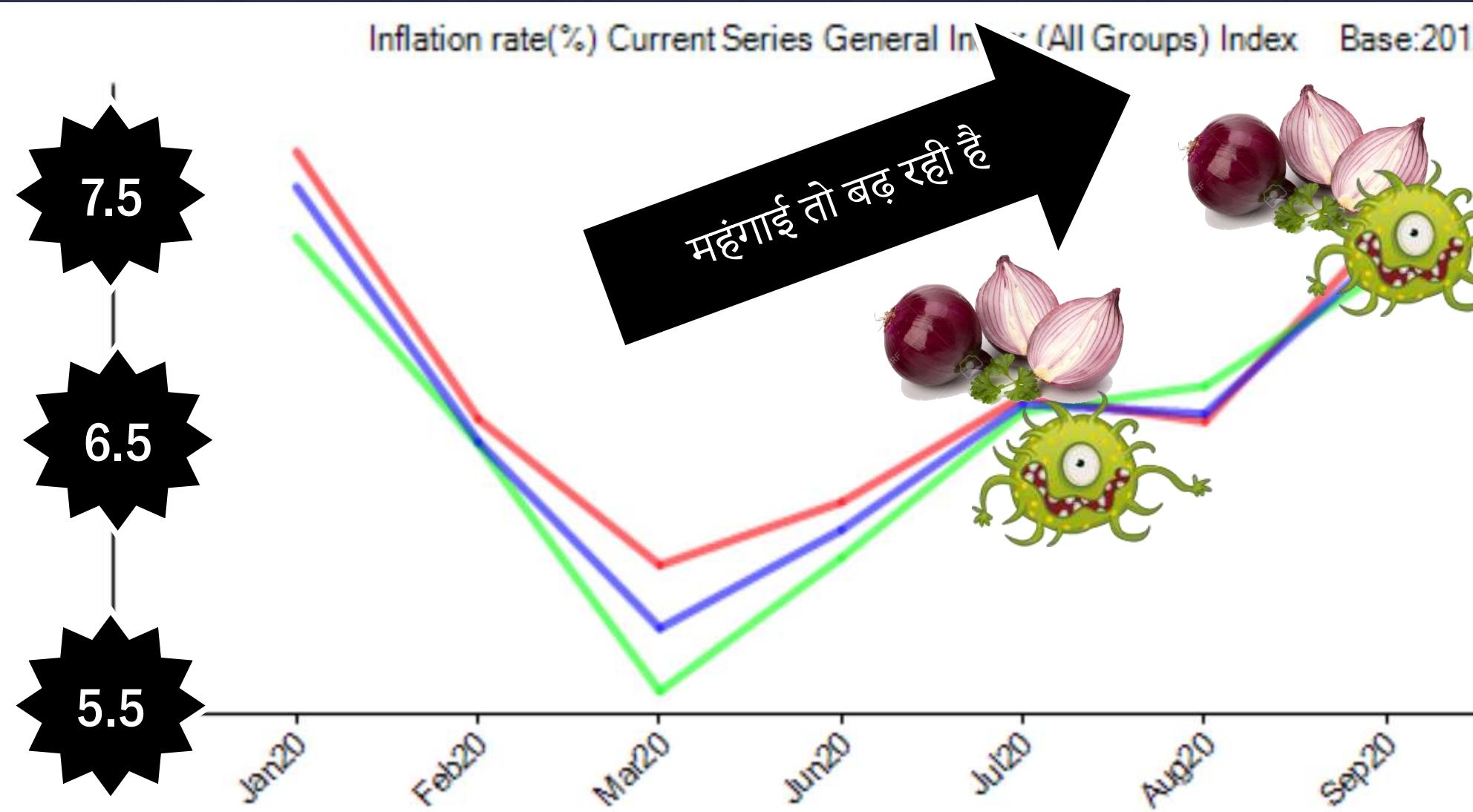
India's GDP growth falls to slowest pace since 2013

PUBLISHED: FRI, NOV 29 2019, 2:35 AM EST | UPDATED: SUN, DEC 1 2019, 8:56 PM EST

Mid-2020: inflation

हालांकि महंगाई बढ़ रही थी लेकिन post-corona-economic-revival के लिए लोन सस्ते रखना जरूरी

6% से ज्यादा
नहीं होनी चाहिए
महंगाई



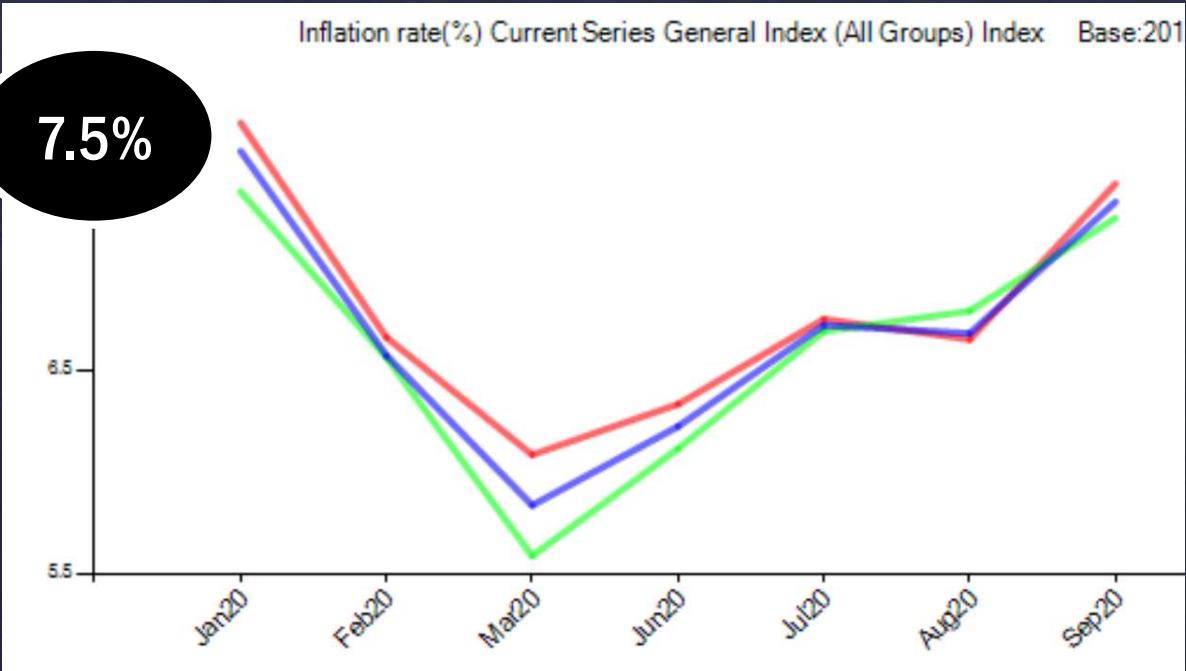
Page 87. Inflation so what to do?

12.18 🔊 ⚡ 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 (अपस्फीति)	>6%CPI= Fight Inflation (मुद्रास्फीति)
⇒ Deflation: ↑ money supply, inject liquidity=> make loans cheaper, ↑ consumption	Easy, Cheap, Dovish, Expansionary policy. आसान-सस्ता व्याजदरे, विस्तारवादी	Tight, <u>Dear</u> , Hawkish, Contractionary तंग- मँहगी व्याजदरे, संकुचनवादी
⇒ Inflation: Do reverse		
Quantitative	Reserves: CRR, SLR	↓ (Decrease)
	Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease)
	Market Ops (OMO)	OMO: RBI Buys G-Sec from market.
		↑ (increase)  REPO
		OMO: RBI Sells G-Sec

Post Corona “unlockdown” → supply → inflation

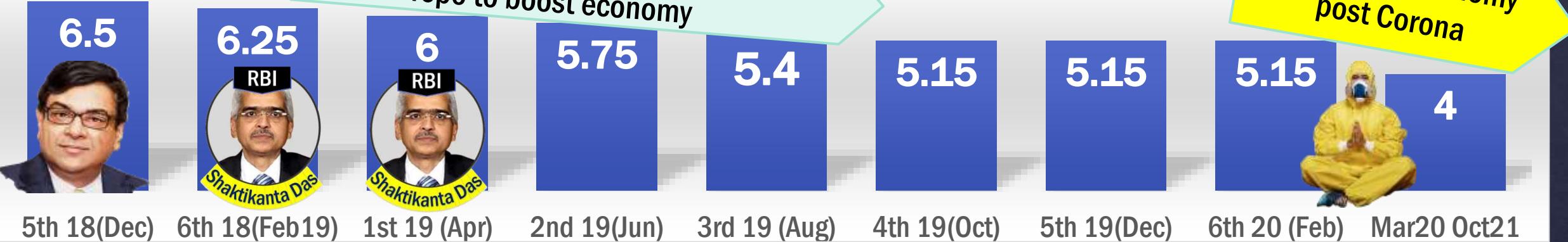


जब लॉकडाउन खुलेगा तो → अपने आप
चीज वस्तुओं की आपूर्ति बढ़ जाएगी →
महंगाई काबू में आ जाए उसके लिए रेपो में
छेड़छाड़ करने की कोई जरूरत नहीं

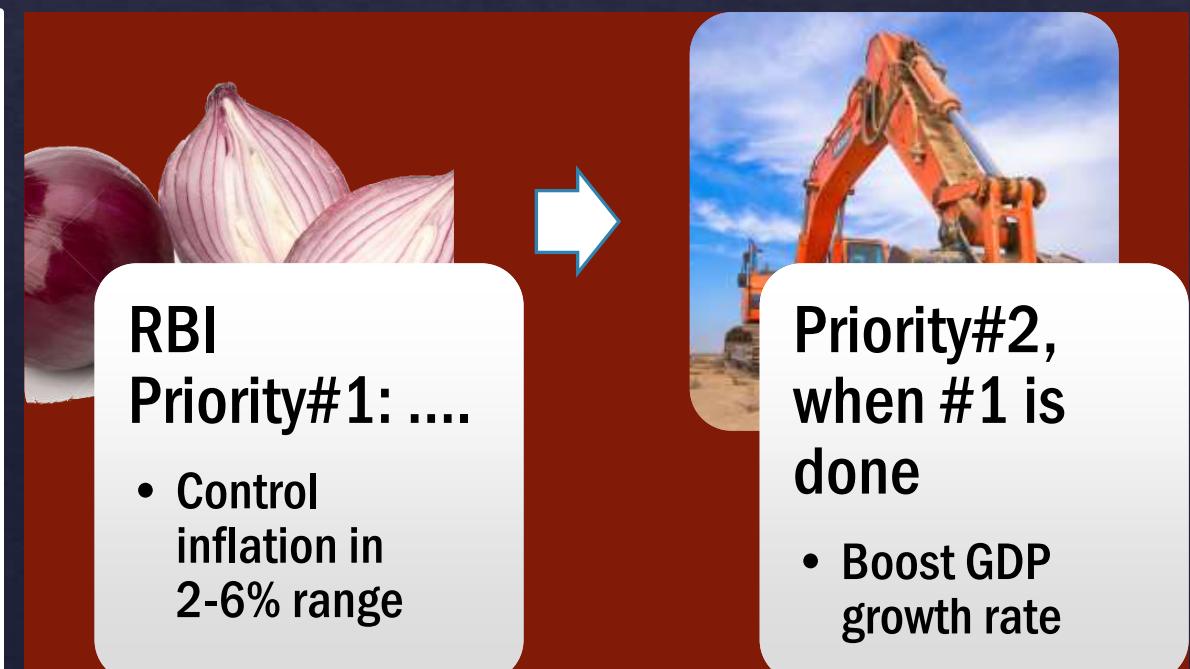


RBI Monetary Policy → Repo Rate

When inflation was under control, RBI reduced repo to boost economy



- Repo to @4%
- Stance: Accommodative
- वैसे तो महंगाई से लड़ने के लिए रेपो को महंगा करना जरूरी कितु लोन सस्ते में मिले तो अर्थतंत्र पुनर्जीवित हो सके ऐसा सोच के



Atmanirbhar Bharat 2020→ RBI Governor announcements

यह मुद्दे पढ़कर अभी टेंशन में नहीं आना है उसको हम अलग-अलग पिलर में पढ़ेंगे आराम से

⇒     RBI's special or flexible liquidity window to help Mutual fund companies.

 ATMANIRBHAR → Reforms by RBI in Mar2May-2020	We'll learn in  Pillar#
    Loan/EMI/NPA relief / Moratorium (ऋण अदायगी पर अस्थाई रूप से रोक)	 1B2: NPA
    Special Refinance Facility (All India Financial Institutions). खास किस्म की पुनर्वित्तन सेवा भारतीय वित्तीय संस्थानों के लिए	 1B1: classification of Banks → AIFI (NABARD, SIDBI, EXIM, NHB)
RBI defers BASEL Norms, Instructs Banks to pause/halt the Dividend payments (दिविडेंड) किया गया)	 1B2: BASEL norms
   : RBI reforms (WMA) and Consolidation	 1C: SEBI/Sharemarket: Short term Debt instruments
RBI reforms attracting FDI, FPI ⇒ Voluntary Retention ⇒ Fully Accessible Route (FAR)	 3A: Balance of Payment (BoP): FDI, FPI

12.23.2   RBI's Monetary Policies: 2020-August (Earlier meeting in May-2020)

- ⇒ Repo unchanged @4% so Automatically MSF@4.25 and RR@3.35%. Stance: Accommodative
- ⇒ No changes in repo because (रेपो दरों में कोई बदलाव नहीं किया क्योंकि)

Atma-Nirbhar
= set of initiative by RBI
And Government
To revive Indian Economy Post Corona.
We'll learn them in different pillars:

RBI Monetary Policy → Repo Rate

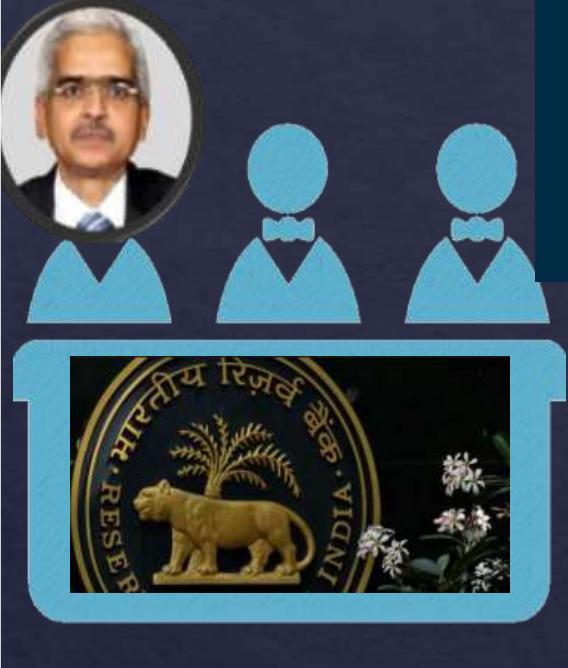


Shouldn't they meet at 2-2 months?

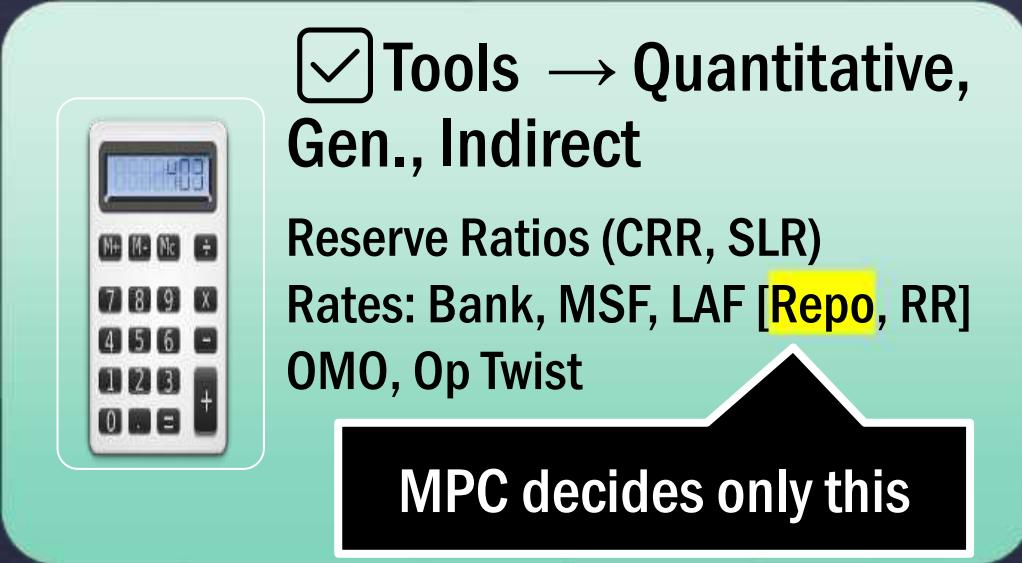
- NOT Compulsory

If accommodative Stance, how can they raise REPO?

- Not Compulsory



- committee to decide only the repo rate.
- All other tools = decided solely by Governor
- इन सभी हथियारों में से समिति तो सिर्फ और सिर्फ repo ही तय करेगी. बाकी सारे हथियार गवर्नर अकेला अपने विवेक से तय करेगा



1) MPC Committee =
only 1 function. Decide repo rate.



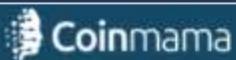
- 2) After meeting is over, RBI governor separately and by his own discretion announce other regulatory measures.
 - ✓ Monetary policy: launch TLTRO, ↓ CRR, SLR, PSL, etc.
 - ✓ Regulatory reforms: ban magnetic chip-walle cards. Use EMV card etc, cryptocurrency related.. (Pillar#1A1)

रेपो रेट के बारे में समिति बहुमत से निर्णय लेगी. इसके अलावा वाले जितने भी साधन हैं जैसे CRR, SLR, PSL वरैरह → रिजर्व बैंक के गवर्नर अपने विवेक से खुद अकेले निर्णय लेंगे



Examples RBI's regulatory announcement: April 2018

जैसे कि बिटकॉइन पर प्रतिबंध लगा दिया हालांकि बाद में सुप्रीम कोर्ट ने उसे हटा दिया था



The **easiest** way to buy bitcoin

Trusted by over 1,000,000 people across 188 countries



Buy with Credit card

We accept any credit or debit card from VISA or MasterCard.



Safe and secure

Your data is encrypted, and we don't keep any of your coins or money.



Bitcoin and ethereum

Pay in dollars, euros or with any other currency you choose



Global coverage

Operating in 188 countries, you can use our services wherever you go

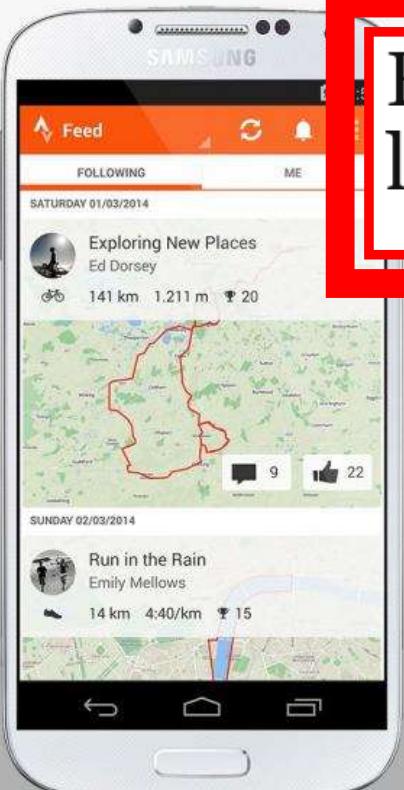
- cryptocurrencies are dangerous WRT consumer protection, market integrity and money laundering.
- No entity regulated by RBI shall deal with Cryptocurrencies....

Later recall how SC revoked the Ban
(Pillar#1A1)

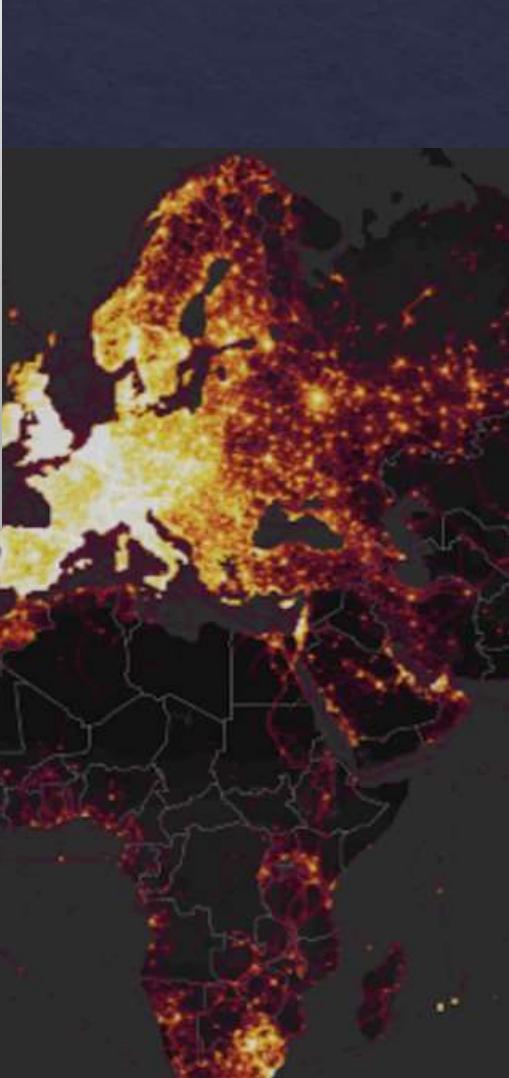
जैसे कि बिटकॉइन पर प्रतिबंध लगा दिया हालांकि बाद में सुप्रीम कोर्ट ने उसे हटा दिया था



STRAVA™



Fitness tracking app Strava gives away location of secret US army bases



आप कौन से इलाके में
Jogging करते हैं
उस के नक्शे वेबसाइट
पर डाल दिए 😊

Indian Air Force Asks Personnel Not to Use Chinese Xiaomi Phones

India | Press Trust of India | Updated: October 24, 2014 20:52 IST

Don't use Huawei phones, say heads of FBI, CIA, and NSA

The US intelligence community is still worried about Chinese tech

By James Vincent | @jjvincent | Feb 14, 2018, 5:05am EST

Fitness tracking app Strava gives away location of secret US army bases



2018: RBI ordered- all banks, payment-App-wallas etc ke

“Payment System data must be stored in India”

भुगतान संबंधित सारा डाटा भारत के अंदर ही स्टोर करना होगा

(Pre19-SetA) Q87.

The Reserve Bank of India's recent directives relating to 'Storage of Payment System Data', popularly known as data diktat command the payment system providers that :

1. They shall ensure that entire data relating to payment systems operated by them are stored in a system only in India. भारत में ही डाटा स्टोर करना होगा
 2. They shall ensure that the systems are owned and operated by public sector enterprises. सरकारी कंपनियों के सिस्टम में ही डेटा स्टोर करना होगा
 3. They shall submit the consolidated system audit report to the comptroller and Auditor General of India by the end of the calendar year. सीएजी इसकी जांच करेंगे

Which of the statements given above is/are correct



रिजर्व बैंक ने पेमेंट डाटा के
बारे में जो दिशा निर्देश जारी
किए उसके सही वाक्य ढूँढिए

100% Surety

50:50

E) Skip

(Pre19-SetA) Q87.

The Reserve Bank of India's recent directives relating to 'Storage of Payment System Data', popularly known as data diktat command the payment system providers that :

1. They shall ensure that entire data relating to payment systems operated by them are stored in a system only in India.
 2. They shall ensure that the systems are owned and operated by public sector enterprises. It can be stored in India- private /Government company providing server facility. No compulsion to use only Government (public sector) companies.
 3. They shall submit the consolidated system audit report to the comptroller and Auditor General of India by the end of the calendar year. CAG will be overburdened, this is not his Constitutional mandate.

Which of the statements given above is/are correct

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

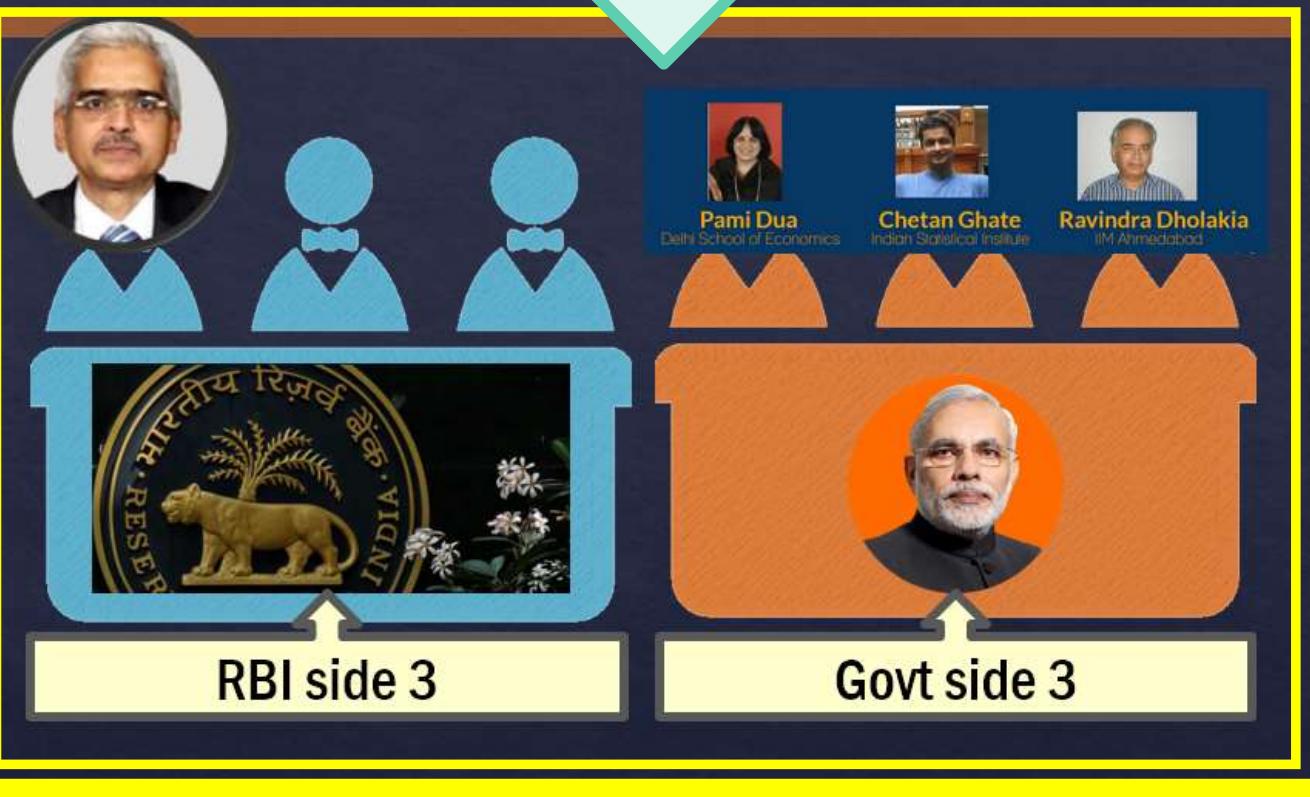


- भारत के अंदर किसी **server** में रखना होगा
 - ऐसा नियम नहीं कि सरकारी कंपनी के सर्वर में रखता है- **they may store it in Infosys/Wipro company's server etc**
 - ऐसा नियम नहीं कि **CAG** से उसका ऑडिट करवाना

100% Surety

50:50

1) MPC Committee =
only 1 function. Decide repo rate.



- 2) After meeting is over, RBI governor separately and by his own discretion announce other regulatory measures.
 - ✓ Monetary policy: launch TLTRO, ↓ CRR, SLR, PSL, etc.
 - ✓ Regulatory reforms: ban magnetic chip-walle cards. Use EMV card etc, cryptocurrency related.. (Pillar#1A1)

रेपो रेट के बारे में समिति बहुमत से निर्णय लेगी. इसके अलावा वाले जितने भी साधन हैं जैसे CRR, SLR, PSL वरैरह → रिजर्व बैंक के गवर्नर अपने विवेक से खुद अकेले निर्णय लेंगे





I've ignored useless technical announcements of RBI



- ❖ Will setup new committees to review regulatory guidelines for systemically important Core Investment Companies (CICs).
- ❖ Technical guidelines for retail investors to participate in State G-Sec auctions.
- ❖ Basel-III standards Leverage Ratio guidelines: 4% for Domestic Systemically Important Banks (DSIBs) and 3.5% for other banks.
- ❖ Will implement recommendations of Usha Thorat Task Force on Offshore Rupee Markets.
- ❖ Updated norms for non-interest bearing Special Non-resident Rupee (SNRR) Account

Everything said/done by RBI or the Hindu or private quiz master is not important for exam. Look at previous papers.

ये सब क्यों नहीं पढ़ाया?
XYZ वालों ने अपनी प्राइवेट टेस्ट सिरीज़ में पूछा था!



Audio/Video
Problem?

Pillar#1A2:Review of bi-monthly policies



Edu Doubt?
Ask through
Google
Forms



Bi-monthly Updates
(2020, 2021, 2022-Feb)



MCLR, External
Benchmark



Limitations of Monetary
Policy



Impact of US Policy



Mains Model Ans.
PCB7/ QEP



Tools → Quantitative,
Gen., Indirect

Reserve Ratios (CRR, SLR)

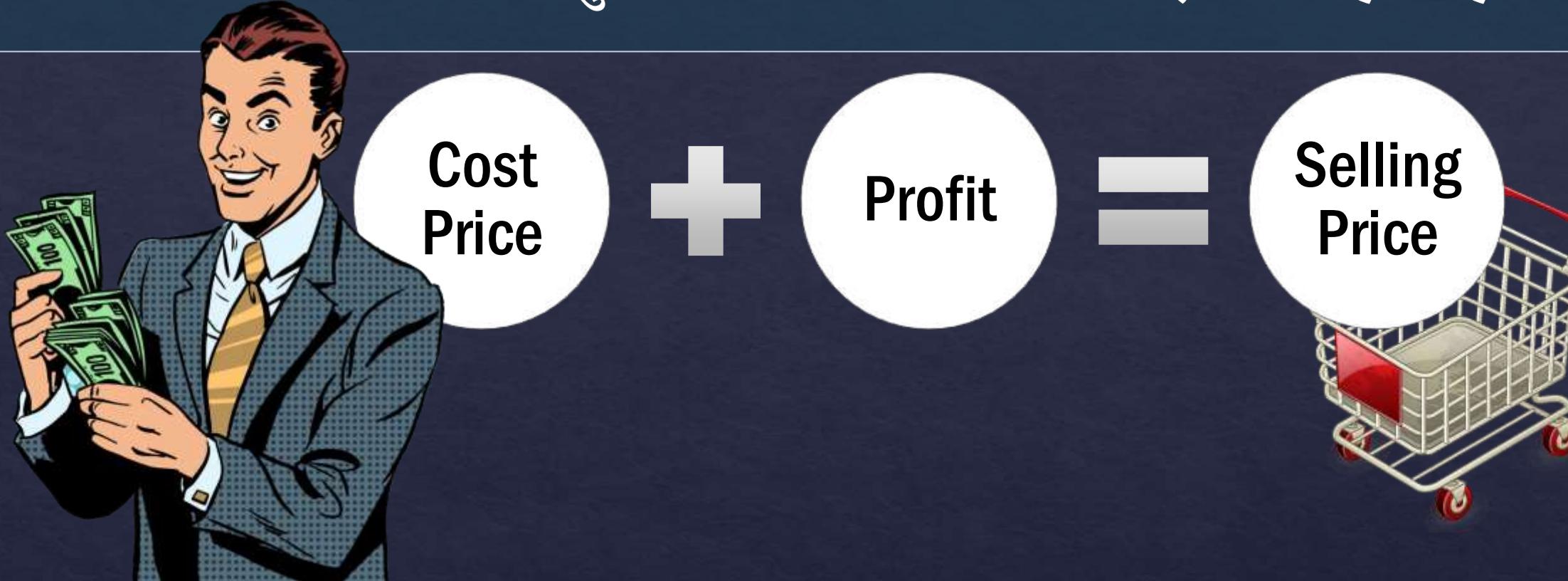
Rates: Bank, MSF, LAF [Repo, RR]
OMO, Op Twist



Tools → Qualitative:
Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

In any business लागत खर्च में मुनाफा जोड़ने पर बिक्री का दाम तय होता है



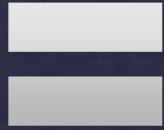
In any business लागत खर्च में मुनाफा जोड़ने पर बिक्री का दाम तय होता है



Cost
Price



Profit



Selling
Price



How to decide this?

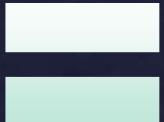
There are some
formulas.....

1. BPLR
2. Base Rate
3. MCLR
4. External
Benchmark

Bank's
Cost
Price



Spread
(Profit)



Loan
Interest
Rate

RBI



Shaktikanta Das

How does a banker decide lending rates?

बैंकर कैसे तय करेगा कि लोन की ब्याज दर क्या होनी चाहिए?

RBI



Shaktikanta Das

4) I don't get
interest on CRR

Internal formula
components
NOT IMP 🙅

Asset

CRR: 4
SLR: 18

Loanable: 78



Liability

RBI loans

Time Deposits

Demand Deposits

3) pay repo%,
MSF%

2) Staff salary,
Telephone bill

1) I've to pay ~3-
6% deposit
interest rate.

then what should be
loan interest % to
make profit?



In any business लागत खर्च में मुनाफा जोड़ने पर बिक्री का दाम तय होता है



How to decide this?

There are some formulas.....

1. BPLR
2. Base Rate
3. MCLR
4. External Benchmark

Cost Price



Profit



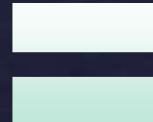
Selling Price



Bank's Cost Price



Spread (Profit)



Loan Interest Rate

How banks decide loan interest rate → External Benchmark

बैंक अपने लोन ब्याज दर कैसे तय करेंगी ? = बाह्य बेचमार्क प्रणाली

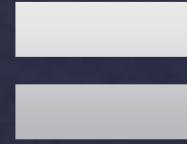
External
Benchmark



Spread



Risk
Premium



Loan
Interest
Rate

Select any single benchmark

- RBI repo rate (4%)
- 91-day T-bill yield (6.56%)
- 182-day T-bill yield (6.73%)
- Any other benchmarks by Financial
Benchmarks India website

How banks decide loan interest rate → External Benchmark

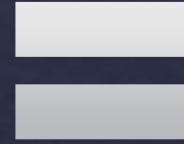
External
Benchmark



Spread or
margin or
profit



Risk
Premium



Loan
Interest
Rate

Select any one benchmark

- RBI repo rate (4%)
- 91-day T-bill yield (6.56%)
- 182-day T-bill yield (6.73%)
- Any other benchmarks by Financial Benchmarks India website

Depending on bank's risk
on: (जोखिम कितना है?)

- Category (bike, home)
- Borrower (salaried, self-employed, past credit history..)

Recalculate
with atleast
once every
3-3 months.

Feed latest data
every 3 months

can't change after
giving loan

can update if
client lost job etc.

External
Benchmark

Spread
(Profit)

Risk
premia

Bank's Loan
interest rate

- 1) RBI repo rate or
- 2) 91-day T-bill yield or
- 3) 182-day T-bill yield etc



Feed latest data
every 3 months

can't change after
giving loan

can update if
client lost job etc.

External
Benchmark

Spread
(Profit)

Risk
premium

Bank's Loan
interest rate

Benchmark

Jan

Mar

Jun

Repo Rate

5%

4.5%

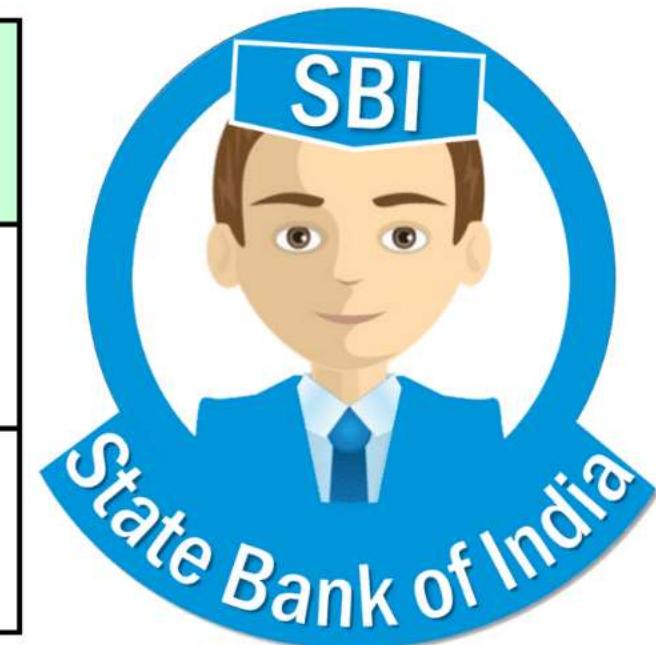
4%

G-Sec Yield

6%

6%

7%



Benchmark	Jan	Mar	Jun
Repo Rate	5%	4.5%	4%
G-Sec Yield	6%	6%	7%



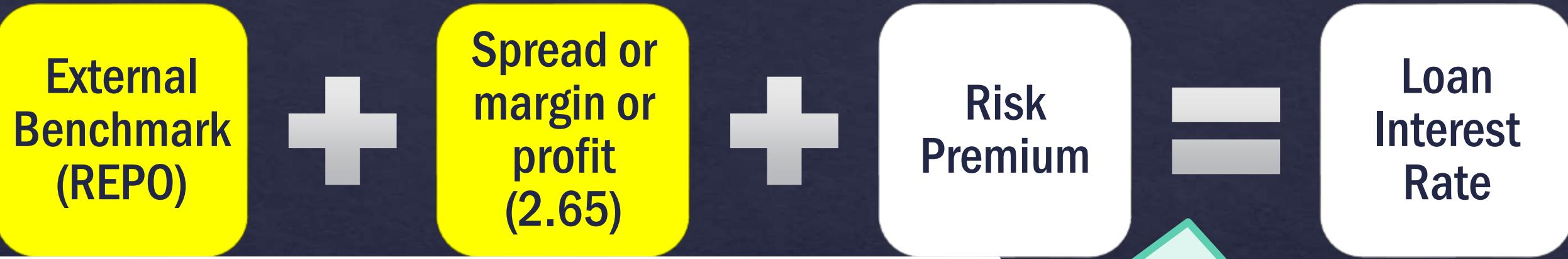
**I had given loan in January @Repo benchmark
Now i want to change benchmark to @G-sec Yield**

Benchmark	Jan	Mar	Jun
Repo Rate	5%	4.5%	4%
G-Sec Yield	6%	6%	7%



- **@SBI can't change benchmark after giving loan.**
- **SBI has to update ONLY that benchmark's numbers every 3-3 month in the formula**

How banks decide loan interest rate → External Benchmark



एक बार loan देने के बाद ग्राहक के
यह **yellow** चीजो को बदल नहीं सकते

- e.g. after giving loan If repo → then
BANKER **can't switch to “G-Sec yield” as “benchmark”**
- after giving loan banker Can't spread.

Recalculate with atleast once every 3-3 months.

After giving loan,
Banker can't change
YELLOW part.

Suppose, SBI keeps home loan lending rate



लोन देने के बाद भी इसे बदला जा सकता है अगर रिस्क बढ़ जाए

- ◆ After giving loan → Risk premium may be changed subject to some technical norms.
- ◆ E.g. employee lost job → risk of loan default . मान लीजिए लोन पास करने के बाद उस कर्जदार की नौकरी चली जाए तो फिर वो उसके दिवालियापन का जोखिम बढ़ जाएगा तो यह आंकड़ा बदला जा सकता है
- ◆ Overall, If repo = bank's loan interest



Repo



AXIS

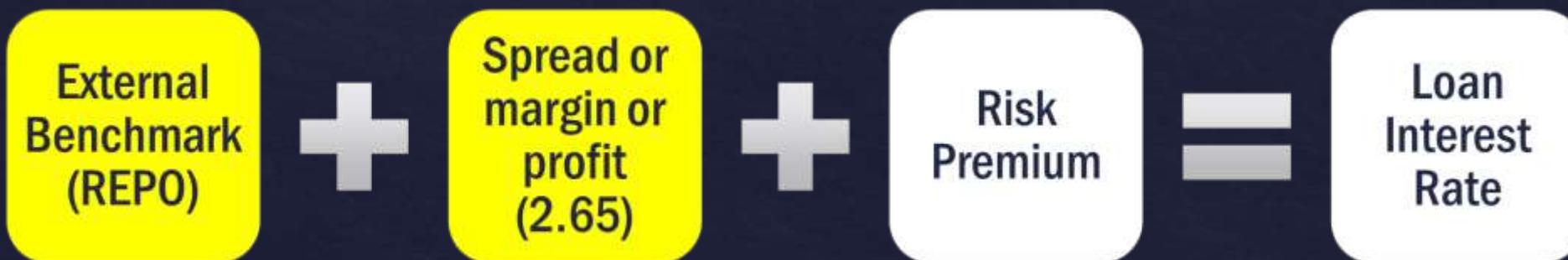
Loan interest



Benefits of External Benchmark System



- ◆ So basically, If repo ↓ = bank's loan interest ↓
- ◆ Better transmission of monetary policy. ऊपर यदि रिपो सस्ता हुआ तो नीचे लोन की ब्याज दर सस्ते होंगे
- ◆ Better transparency & accountability to loan takers. Especially Home Loan, MSME loans.
- ◆ Further implications, how it's calculated in real life - not important.



How banks decide loan interest rate → External Benchmark

बैंक अपने लोन ब्याज दर कैसे तय करेंगी ? = बाह्य बेंचमार्क प्रणाली

◆ RBI mandated banks to do it from 1/10/19

◆ This system applicable on new loans given to...

MSME definition, we'll see in pillar4C

अभी मान लो की अचार पापड़ अगरबत्ती जैसे लघु उद्योग की बात हो रही है

personal loans
(taken for any sudden emergency expenditure)

retails loans
(home, vehicle, electronics etc)

Loans to micro & small enterprises

Loans to medium enterprises
(from 1/April/2020).



Older / Existing borrowers (Base Rate / MCLR walle)

can switch this new External Benchmark system after paying fees to bank
पुराने कर्जदार जो पुरानी व्यवस्था में थे वो भी अर्जी डालकर नई व्यवस्था में आ सकते हैं



Because some students will ask this...

3) What if old borrower joined during Base Rate or MCLR Rate? Jab External Benchmark NAHI tha.

- Then they can switch their loan account to “EXTERNAL Benchmark” by paying some fees.



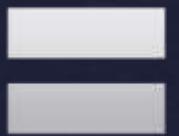
External
Benchmark
(REPO)



Spread or
margin or
profit
(2.65)



Risk
Premium



Loan
Interest
Rate



Because some students will ask this...

1) If Repo reduced then WHAT IF SBI changes its benchmark to T-bill YIELD?



Once a benchmark selected, then SBI can't switch it like that mid-way.
टीवी चेनल नहीं है कि बीच मे बदल सकते हैं।

External
Benchmark
(REPO)



Spread or
margin or
profit
(2.65)



Risk
Premium



Loan
Interest
Rate



Because some students will ask this...

3) Will existing borrower benefit when repo changed?

क्या रिपो सस्ते होने पर पुराने ग्राहक को फायदा होगा?

- Axis Bank- every **3-3 months** they feed new data in formula.
- So, accordingly, **old borrower will have to pay less interest.**
- **Further BankingGK not req.**

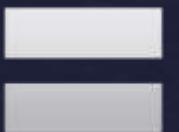
External
Benchmark
(REPO)



Spread or
margin or
profit
(2.65)



Risk
Premium



Loan
Interest
Rate



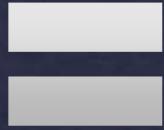
In any business लागत खर्च में मुनाफा जोड़ने पर बिक्री का दाम तय होता है



Cost
Price



Profit



Selling
Price



How to decide this?

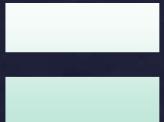
There are some
formulas.....

1. BPLR
2. Base Rate
3. MCLR
4. Done External
Benchmark

Bank's
Cost
Price



Spread
(Profit)



Loan
Interest
Rate

In any business लागत खर्च में मुनाफा जोड़ने पर बिक्री का दाम तय होता है



How to decide this?

There are some formulas.....

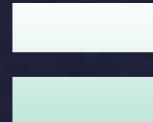
1. BPLR
2. Base Rate
3. MCLR
4. External Benchmark

- RBI's previous formulas were not very effective.
- so RBI had came up with External benchmark

Bank's Cost Price



Spread (Profit)



Loan Interest Rate

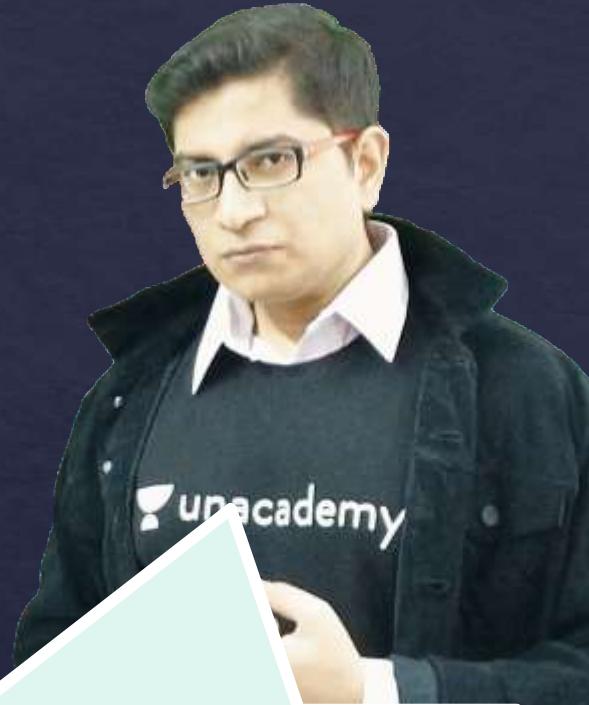
Asked in UPSC-Pre-2016. we'll not waste time solving this because outdated for 2023

What is/are the purpose/purposes of the 'Marginal Cost of Funds based Lending Rate (MCLR)' announced by RBI?

1. These guidelines help improve the **transparency** in the methodology followed by banks for determining the interest rates on advances.
 2. These guidelines help ensure availability of bank credit at interest rates which are **fair** to the **borrowers** as well as the **banks**.

Select the correct answer using the code given below.

- (a) 1 only** **(b) 2 only**
(c) Both 1 and 2 **(d) Neither 1 nor 2**



- RBI did not say count only “REPO RATE”. MCLR formula uses Deposit rate, repo rate... so it's 'fair' to the bank as well.
 - This technical CA is way older than D-2 years so don't loose sleep, beyond basic word association.
 -   अब तो यह MCLR सिस्टम ही बदल चुकी है, इसलिए हम इसको अब तैयार नहीं करेंगे

Who decides Lending rates of Commercial Banks?



Post nationalization:
Govt “administered”



1991:
M. Narsimham-
deregulate

RBI gave Benchmark
Prime Lending Rate
(BPLR) Methodology



2010: Base Rate

2016: MCLR



2019: External
Benchmark

banks not transmitting my repo rates cuts.

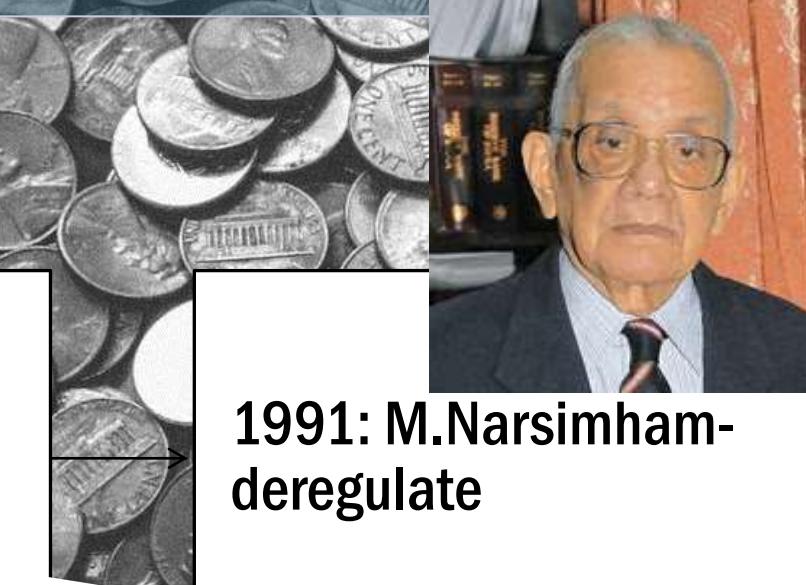
We'll not waste time learning previous methods.

Who decides Lending rates of Commercial Banks?

सरकारी बैंकों के लोन दर सरकार तय करती थी, लेकिन लोकलुभावन के चक्कर में नुकसानी में जाती थी



Govt “administered”
rates on Public Sector
Banks (PSBs)



1991: M. Narsimham-
deregulate



RBI gave Benchmark
Prime Lending Rate
(BPLR) Methodology
(👉 notimp at present)

2010: Base Rate (सीधा
हम इसको देखते हैं)

- Kisan loan _ %
- Cattle purchase loan _ %
- Irrigation Pumpset purchase loan _ %...

Pillar#1A2:Review of bi-monthly policies

The collage includes the following elements:

- Bi-monthly Updates**: An icon showing a grid of four green squares labeled APR, MAY, JUN, JUL, AUG, SEP, with a checked checkbox.
- MCLR, External Benchmark**: An icon of a blue piggy bank with a dollar sign, with a checked checkbox.
- Limitations of Monetary Policy**: An icon of a person in a red hoodie, with a yellow background.
- Impact of US Policy**: An icon of Uncle Sam's face, with a white background.
- Mains Model Ans. PCB7/ QEP**: An icon of a person holding a megaphone, with a white background.
- Tools → Quantitative, Gen., Indirect**: A light blue background box containing a digital calculator icon and text about reserve ratios and various interest rates.
- Tools → Qualitative: Selective, Direct**: A light green background box containing a hand holding grain, with a bulleted list of qualitative tools.

Limitations of monetary policy in India.

मौद्रिक नीति की मर्यादा: जादू की छड़ी नहीं है. महंगाई को नियंत्रण में रख पाए (bullseye) और जीडीपी में बढ़ोतरी करें (bullseye)



Failed to control inflation:
न तो महंगाई नियंत्रण में कर पाती है



**Failed to boost
GDP growth:** ना जीडीपी में वृद्धि

Non-transmission of monetary policy
(मौद्रिक नीति का गैर-प्रसारण)

असफल है
रिजर्व बैंक

Non-transmission of monetary policy → inflation control #EPICFAIL

- ❖ Supply side issues: El-Nino/Poor monsoon hurting crop production etc. (more in Pill#4A)

बारिश के चलते प्याज
की पैदावार कम 😞

- ❖ Geopolitical & international issues (Pill#3)

- ❖ Currency exchange rates ($1\$=?₹$)

- ❖ Global crude oil & raw material prices

Even if crude oil becomes cheap.
Government ↑ taxes on petrol diesel so
govt can earn more ₹₹ for welfare
scheme → what can RBI do? #तम्बूरा



रिजर्व बैंक
खुद तेल का कुआं नहीं
खोद सकता

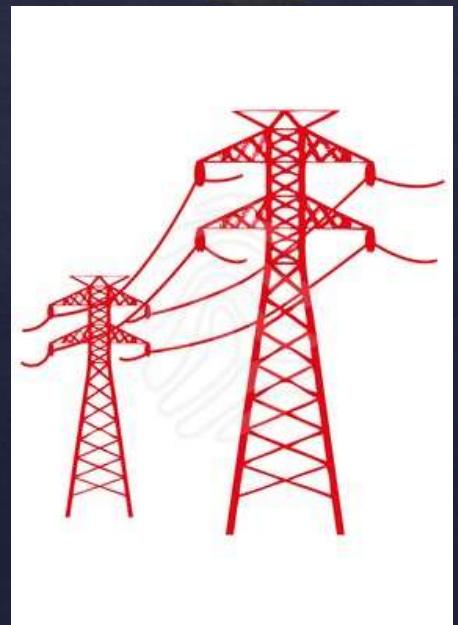


monetary policy can't fix inflation because: **Structural Issues in Economy**

◆ lack of **electricity-road infrastructure**: बिजली नहीं तो
उत्पादन से हो नहीं सकता उत्पादन हो भी गया तो समय पर
बाजार तक पहुंच नहीं सकता

◆ **no Ease of Doing Biz** व्यापार में सुगमता नहीं। 100 प्रकार
के फॉर्म भरने पड़ते हैं फैक्ट्री शुरू करने के लिए

◆ production & supply can't ↑



monetary policy can't fix inflation because: Government side Issues

सरकार खुद ज्यादा कर्ज लेगी किसानों का कर्ज माफ़ करेगी तो फिर महंगाई काबू में रखना मुश्किल

◆ **Fiscal deficit:** राजकोषीय खाद सरकार का बाजार से कर्ज लेना

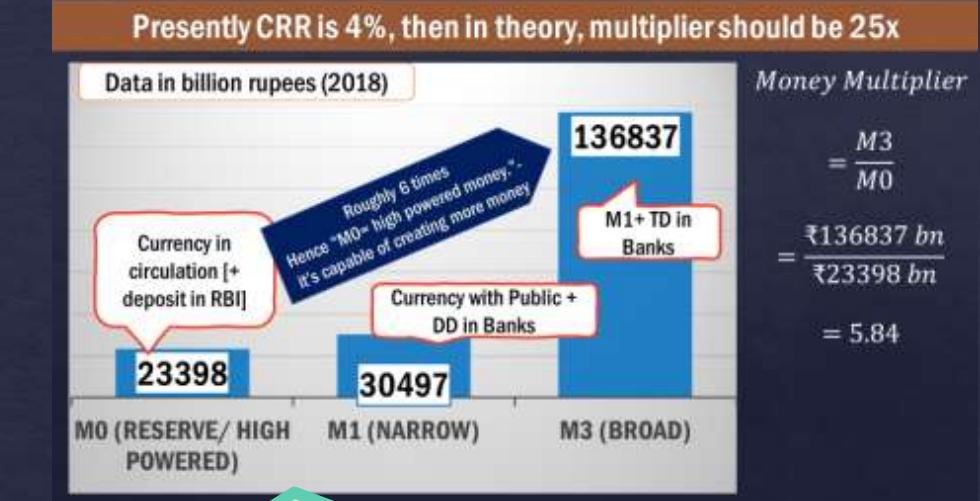
◆ “Govt Borrowing↑” =  RBI's asset side = money supply ↑ = inflation. ( Pillar# 2D)

◆ **Populist Loan-waivers:** जब सरकार किसानों का कर्ज माफ करें और किसानों की वजह सरकार खुद बैंकों को पैसा देने की बात करें ( Pillar#4A)



Money multiplier depends on Banking habits of people.

- ◆ Poor penetration of banking sector and financial inclusion etc.
- ◆ Challenges to digital / less cash economy (e.g. MDR)
- ◆ Cash intensive economy.
- ◆ Black money (hidden from tax authorities)



Even if RBI CRR:
it doesn't greatly affect
money multiplier.

Bribes, Blackmoney, Parallel Economy (Pillar2)

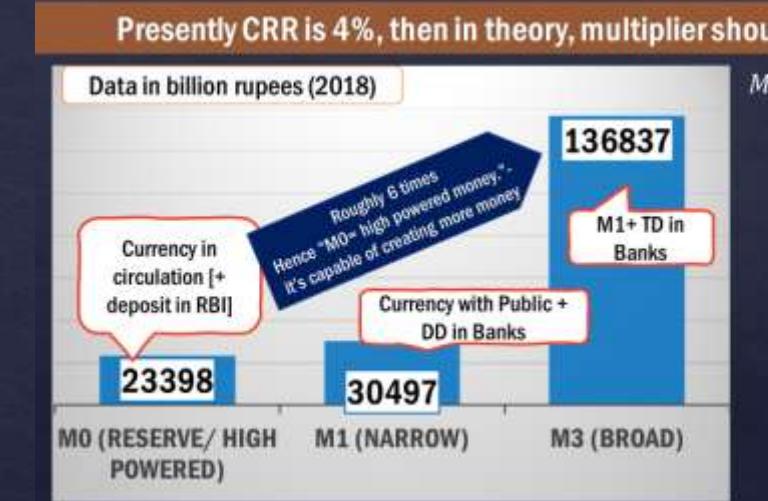
भ्रष्टाचार कालेधन समांतर अर्थव्यवस्था के चलते भी बेकाबू महंगाई =रिज़र्व बैंक कुछ नहीं कर सकता

- ◆ Builders paid bribes to ministers get land allotments →

- ◆ builders not ↓ home prices (because he has to recover his “bribe” investment), even if steel-cement become cheaper.

- ◆ Minister got bribes → keeps in cash/gold. but not in bank. → money multiplier doesn't improve.

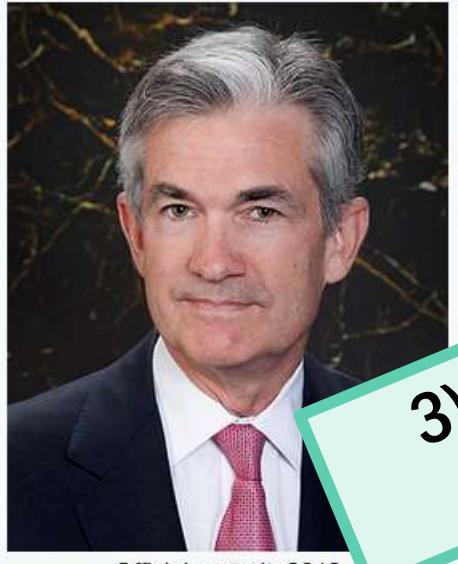
अगर बिल्डर ने नेता को बहुत रिश्वत दी है तो बिल्डर अपना पैसा रिकवर करने के लिए मकान थोड़ी सस्ते में बेचेगा!?



for American banks: Repo borrowing more than public deposits

अमीरिकी बेको का ज्यादातर कच्चा माल (पैसा) जनता के डिपॉजिट से नहीं आता

Jerome Powell



Official portrait, 2012

16th Chair of the Federal Reserve

3) Loans from
central bank



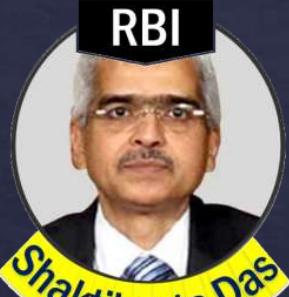
1) Public deposits Less in banks because
Consumerist society = savings ↘
Invest in Sharemarket, pension funds.



2) We rely more on borrowing from US-Feds so repo changes will be instantly reflected in lending rates. तुरंत असर दिखता है।

for Indian banks: उनका ज्यादातर कच्चा माल (पैसा)

जनता की डिपाजिट से आता है, रेपो लोन से नहीं



Loans from central
bank



बच्चों की शादी व्याह
के लिए पैसा बचत
करता हूँ !



- 1) Public deposits more in banks because
- Savings oriented mindset
- Fear/distrust of Sharemarket

2) Repo is not the primary raw material for our biz. so, repo had little impact in changing loan rates. (until external benchmark system)

Limitation of Monetary Policy: Dual struggle between inflation vs economic growth

We've to fight inflation
=Hawkish Policy
= Repo 



Rajan Era (2013-16)

Urjit Era (2016-18)

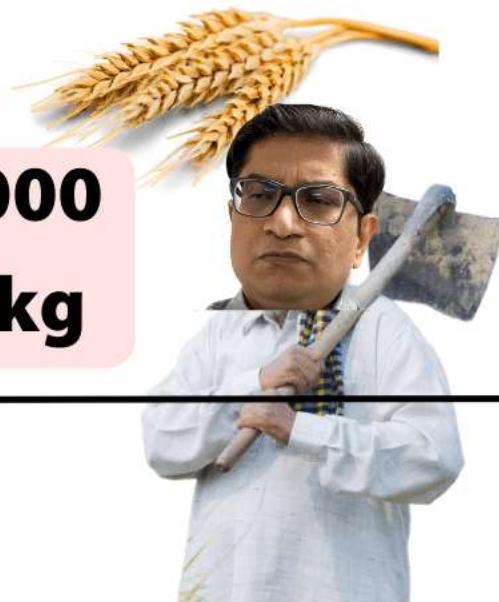
- High repo rate → loans not getting cheap
 - →  biz expansion, home/auto/edu loans  →
 factory production, new jobs 
 - महंगाई से लड़ने के चक्र में → लोन सस्ते करते नहीं → जिसके चलते → अपनी आर्थिक वृद्धि में बढ़ोतरी नहीं हो रही

Subramanian Swamy

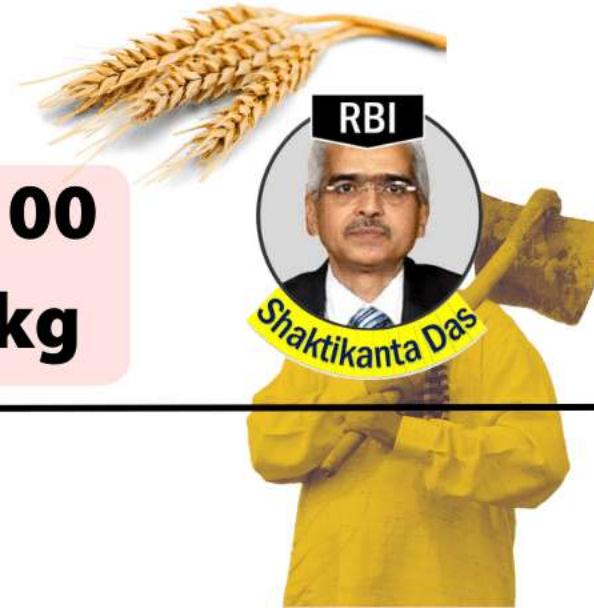




**Rs.3000
/100kg**



**Rs.2100
/100kg**



2022



चल ठीक है
तुझको ₹3300
देता हूँ

Rs.3000
/100kg



Rs.2100
/100kg

Rs.2500
/100kg



2022

2023

- बाबूजी मेरा गेहूँ, शक्तिकांता
उसकी तुलना में अच्छा है.
- अगर शक्ति ने भाव बढ़ाया
- तो तुम मेरा भी भाव बढ़ाव.
- वरना मैं तो नहीं दूँगा

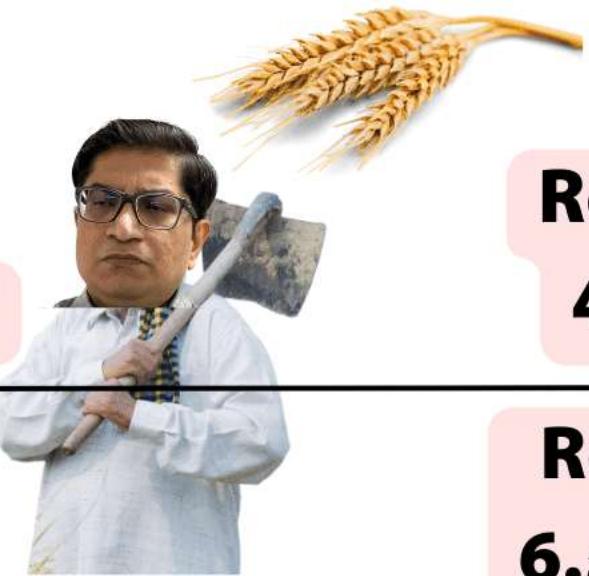
आपको गेहूँ

मान लो शक्तिकांता
ने अपने गेहूँ का दाम
बढ़ा दिया

linkage between repo rate and deposit interest rates



Fixed
Deposit
Interest 6%



Repo
4%



2022

Repo
6.50%



2023

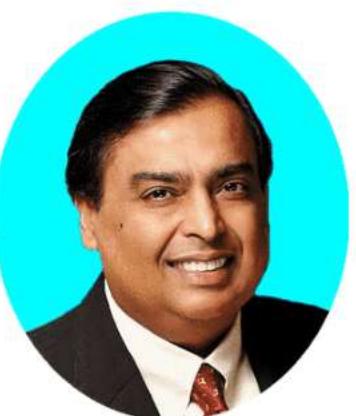
चल ठीक है
तुझको 8%
देता हूँ*

बाबूजी मेरा थोड़ा तो भाव
बढ़ाओ वरना मैं तो नहीं
दूंगा आपको deposit!

मान लो शक्तिकांता
ने अपने repo loan
interest बढ़ा दिया

**बैंकों के विवेक पर निर्भर है ऐसा कोई कानून नहीं है

BOTH CANNOT BE HAPPY AT THE SAME TIME



Shaktikanta Das

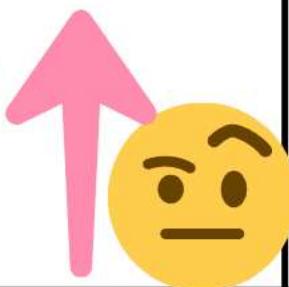
LOAN TAKER

DEPOSITOR

**TO FIGHT
INFLATION**

**When Repo
Rate increase**

**Loan rate
increase**



**Deposit rate MAY
increase**



BOTH CANNOT BE HAPPY AT THE SAME TIME

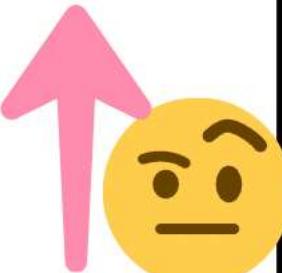


LOAN TAKER

DEPOSITOR

**TO FIGHT
INFLATION**

**TO BOOST
GDP**

When Repo Rate increase	Loan rate increase 	Deposit rate MAY increase 
When Repo Rate decrease	Loan rate decrease 	Deposit rate MAY decrease 

Stagflation (more in Pillar4C: GDP)



Philips Curve:

↑ Inflation → ↑ Job . But ↘ upto a certain level only.

If onions sell for ₹5000/kg → no one will buy → onion farming jobs will not ↑

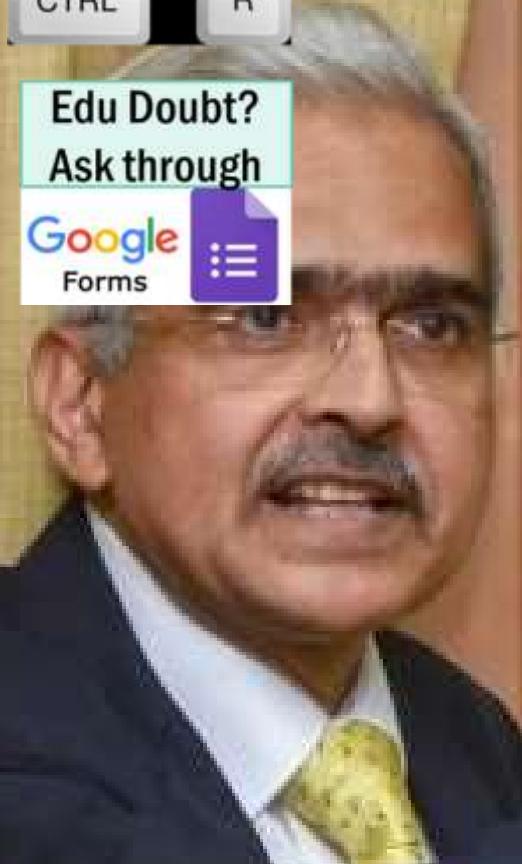
Audio/Video
Problem?

Pillar#1A2:Review of bi-monthly policies



Edu Doubt?
Ask through

Google
Forms



Bi-monthly Updates
(2020, 2021, 2022-Feb)



MCLR, External
Benchmark



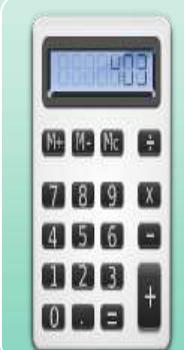
Limitations of Monetary
Policy



Impact of US Policy



Mains Model Ans.
PCB7/ QEP in June



Tools → Quantitative,
Gen., Indirect

Reserve Ratios (CRR, SLR)

Rates: Bank, MSF, LAF [Repo, RR]
OMO, Op Twist



Tools → Qualitative:
Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

क्यों रिजर्व बैंक महंगाई काबू नहीं कर पाती



RBI can't bring
rain/grow onions



RBI can't reduce
global crude oil
prices



RBI can't fix ease of
doing Biz. alone



RBI can't prevent
bank scams alone



RBI can't fix infra
alone.



& many more
reasons

**HARD LANDING
FED TAPERING!
BLACK SWAN
CANTILLON**



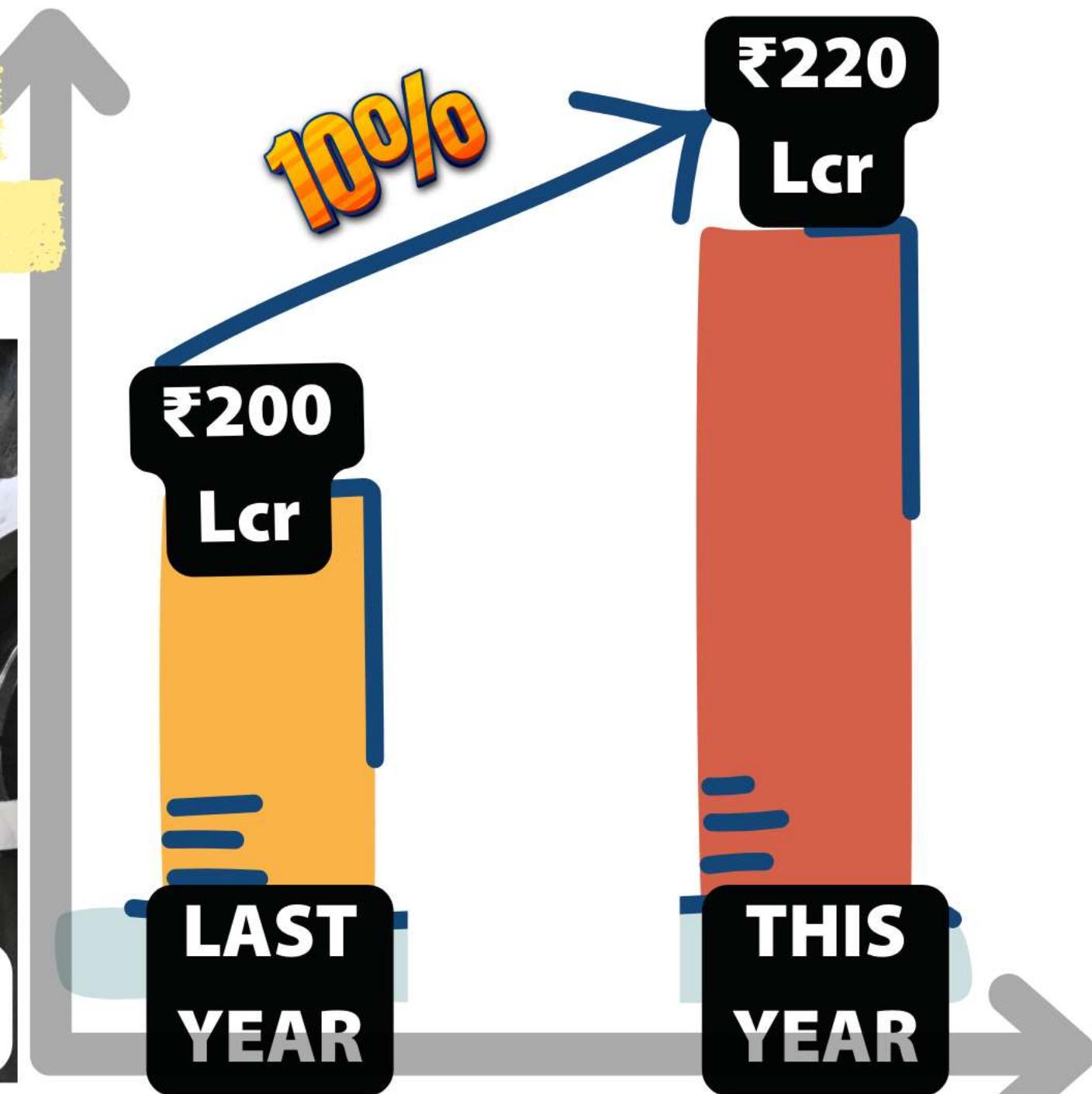
SOFT LANDING'

HARD LANDING

GDP growth Economic Growth



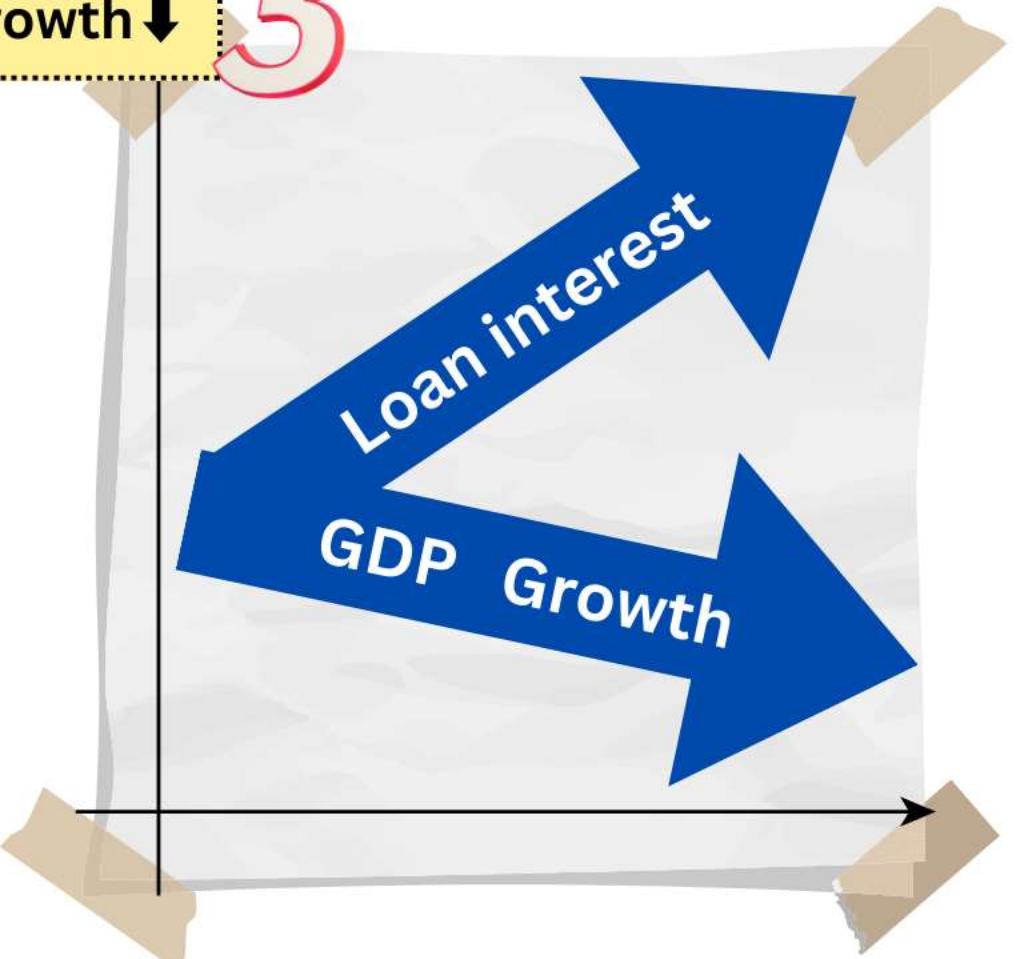
production of
goods and services



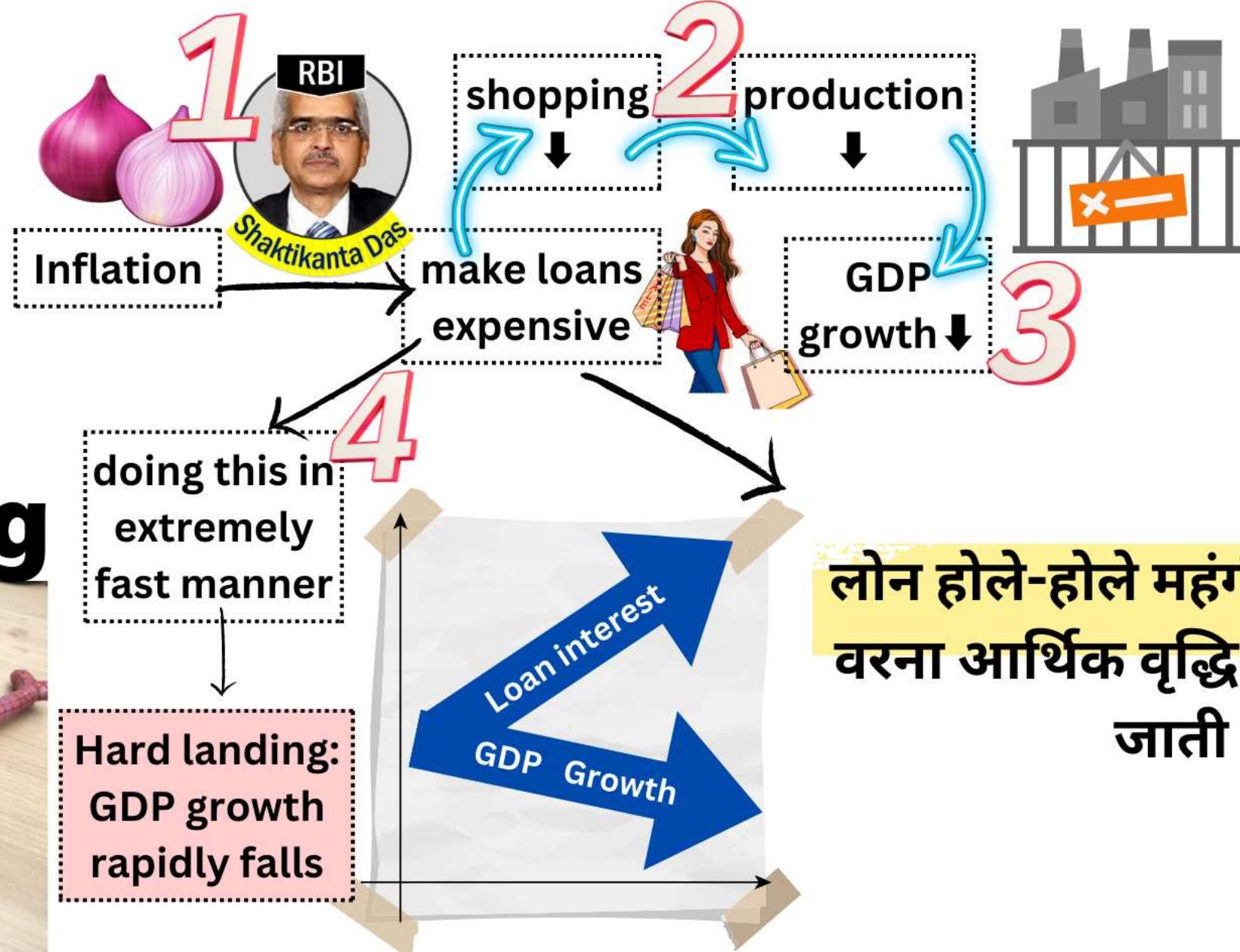




मंगाई से लड़ने के लिए यदि लोन महंगे किए
तो लोग खरीदारी भी कम करेंगे जिसके चलते
उत्पादन भी में भी कमी आएगी
तो आर्थिक वृद्धि दर में गिरावट हो सकती है



Hard landing

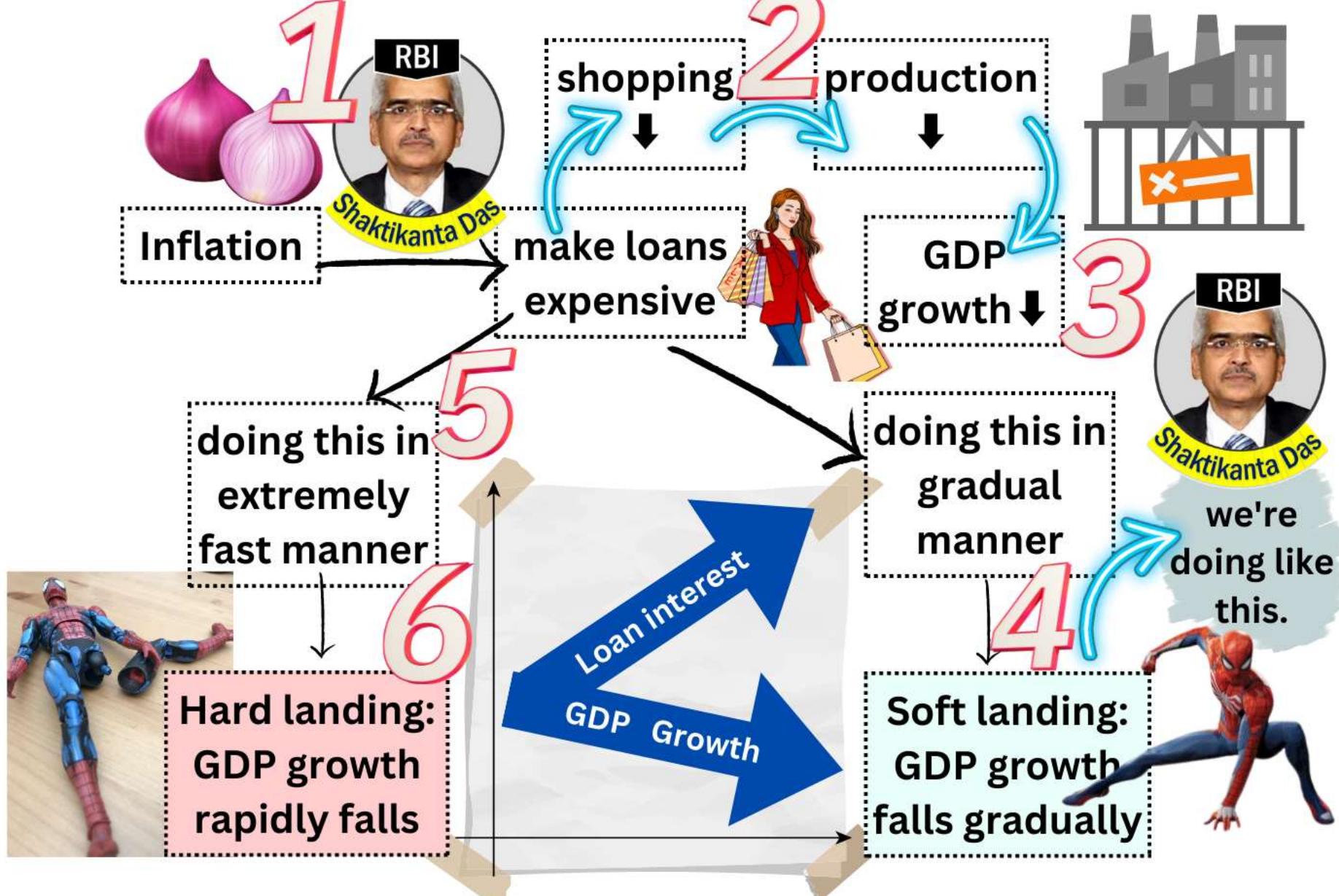


लोन होले-होले महंगी करने चाहिए.
वरना आर्थिक वृद्धि दर की टांगे टूट
जाती है

2022

Nation / Central Bank	Repo Hike
US Federal Reserve	4.25%
European Central Bank (ECB)	3%
Bank of England	2.50%
India's RBI	2.25%





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



Fed tapering will be more clear after

- Pilar1C Sharemarket
- Pillar3A: FPI, Currency Exchange



RBI can't bring
rain/grow onions



RBI can't reduce
global crude oil
prices



RBI can't fix ease of
doing Biz. alone



RBI can't prevent
bank scams alone



RBI can't fix infra
alone.



& many more
reasons

**HARD LANDING
FED TAPERING!
BLACK SWAN
CANTILLON**

Post-Corona: American quantitative Easing



CRR , Repo
OMO-> Dollar Supply

Cheap loans →
Revive Economy

Suppose Loans
@5%



कोरोना के दौरान अमेरिकी केंद्रीय बैंक ने
लोन पर काफी सस्ते कर दिए तो उधर से
5% ब्याज पे पैसा उधार

Post-Corona: American quantitative Easing



CRR , Repo
OMO-> Dollar Supply

Cheap loans →
Revive Economy

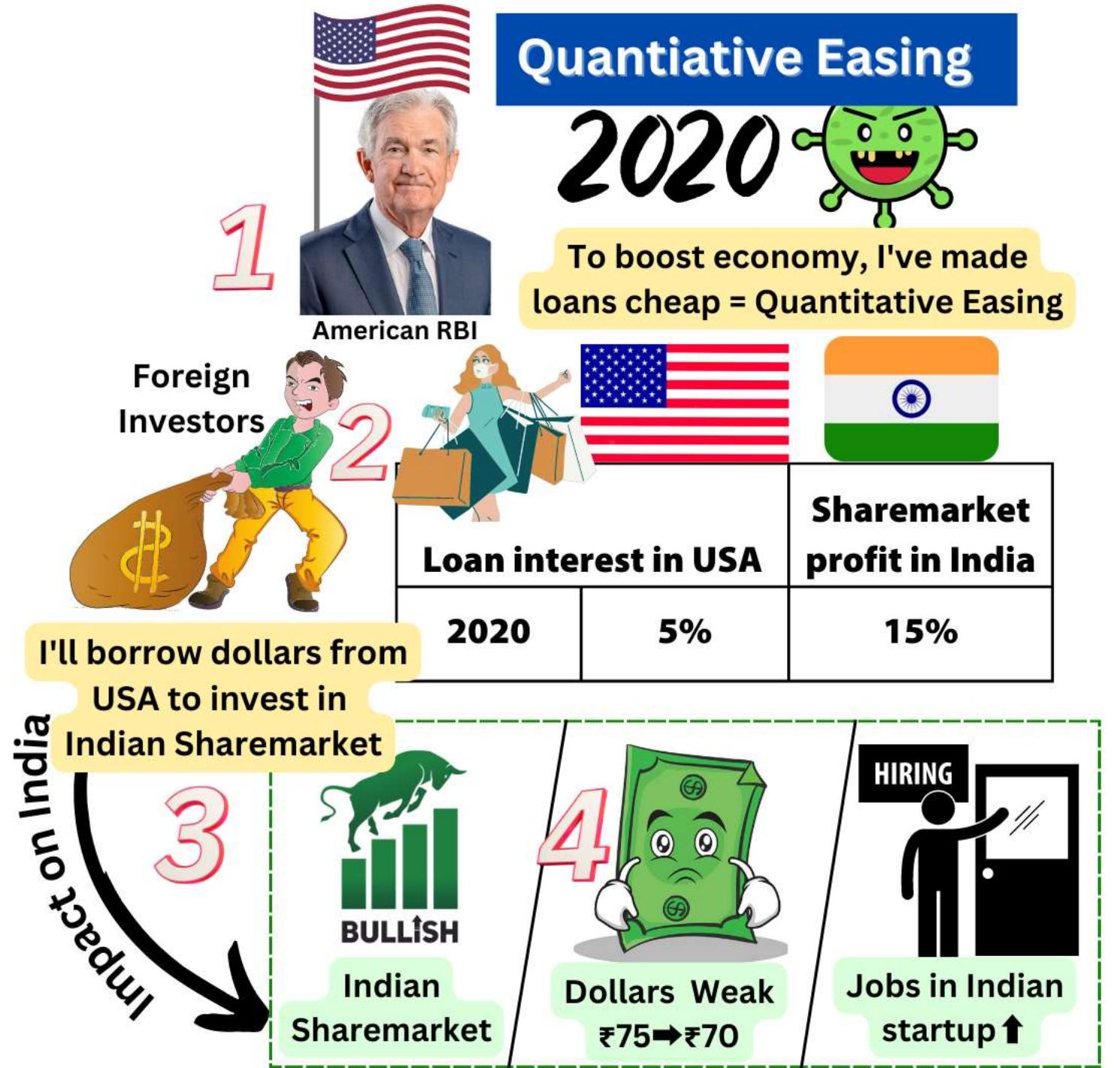
Suppose Loans
@5%



FPI: Borrow\$\$ from USA → Convert ₹₹
Invest in Indian Sharemarket to earn
may be 15% profit per month

SHARE

कोरोना के दौरान अमेरिकी केंद्रीय बैंक ने लोन पर काफी सस्ते
कर दिए तो उधर से 5% व्याज पे पैसा उधार पर उठा के →
विदेशी निवेशक भारतीय शेयर बाजार में निवेश कर रहे हैं →
और मान लीजिए 15% महीने का मुनाफा कमा रहे



- 1. कोरोना के बाद अमेरिकी अर्थ तंत्र को वापस खड़ा करने के लिए**
- 2. उनकी केंद्रीय बैंक ने ब्याज दरों को बहुत सस्ता कर दिया।**
- 3. और वही डॉलर्स विदेशी निवेशक अमेरिका से**
- 4. भारत में निवेश वास्ते लेके आये**

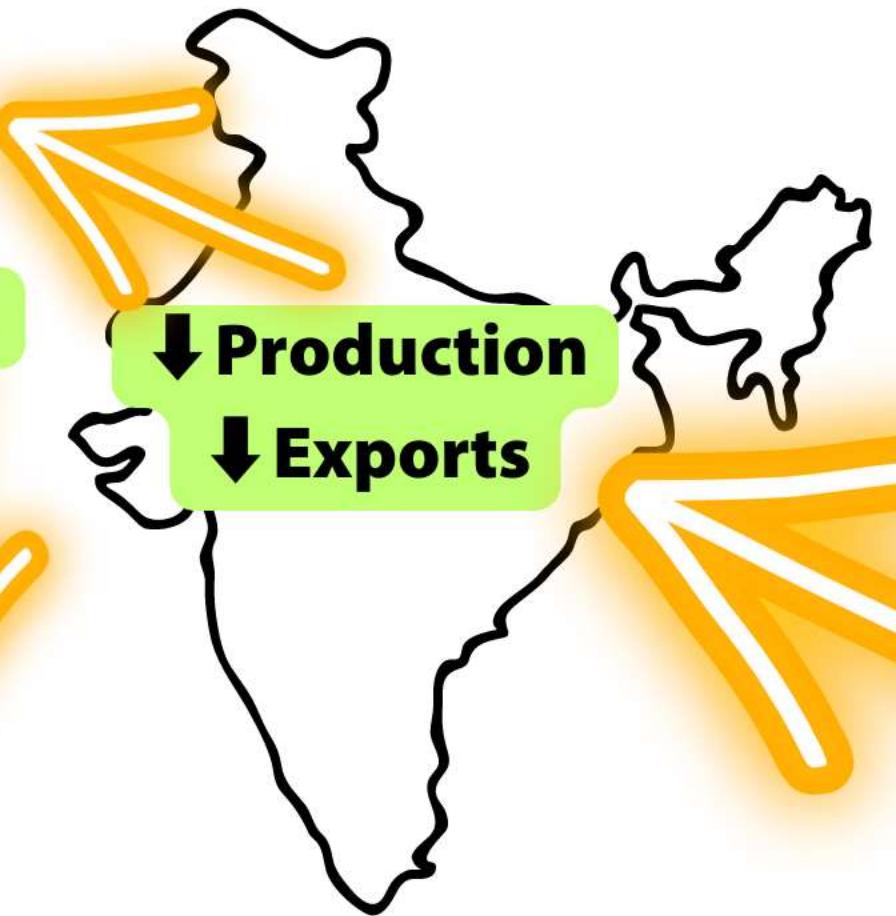
भारतीय शेयर बाजार से
पैसा निकाल कर भागने का
वक्त आ गया है।



Foreign
Investors in India



Indian
Sharemarket



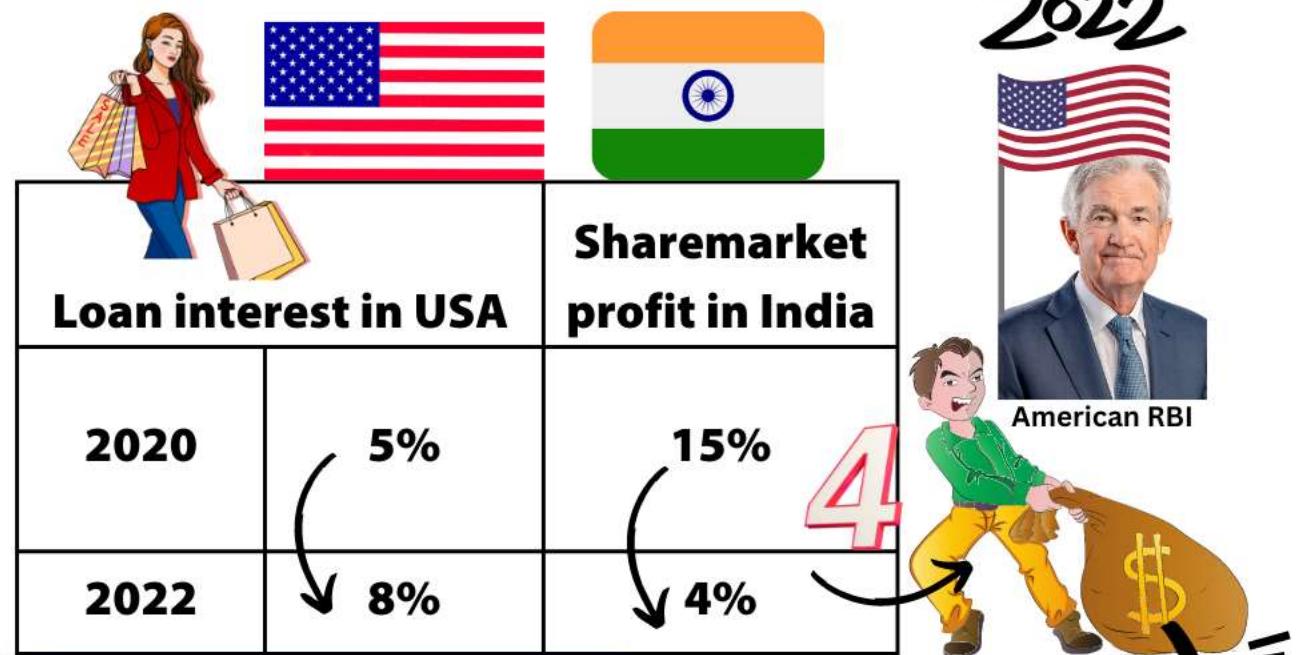
↓ Production
↓ Exports



Potash
Fertilizer

Crude
Oil

Inflation



3 To combat inflation in USA,
I'm doing this "Fed Tapering"
(making loans expensive)

I will pullout money
from Indian market to
return to USA

Fed Tapering: impact



Indian
Sharemarket



Imported
Inflation

Price of Dollars
₹75 → ₹80

1. अब अमेरिका में महंगाई से
लड़ने के लिए उनका केंद्रीय
बैंक लोन ब्याज दर महंगे
कर रहा है

2. और साथ ही साथ भारत के
शेयर बाजार में विदेशी
निवेशकों को मुनाफा कम
लग रहा है

3. इसलिए वह अपना पैसा
निकाल कर भारत से भाग
रहे हैं



क्यों रिजर्व बैंक महंगाई का बूढ़ा नहीं कर पाती



RBI can't bring
rain/grow onions



RBI can't reduce
global crude oil
prices



RBI can't fix ease of
doing Biz. alone



RBI can't prevent
bank scams alone

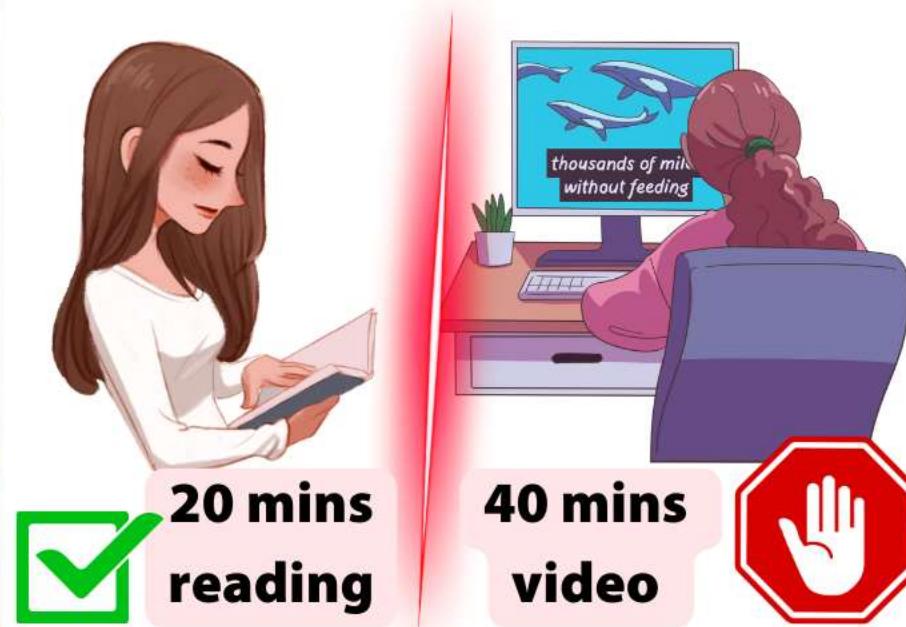


RBI can't fix infra
alone.



& many more
reasons

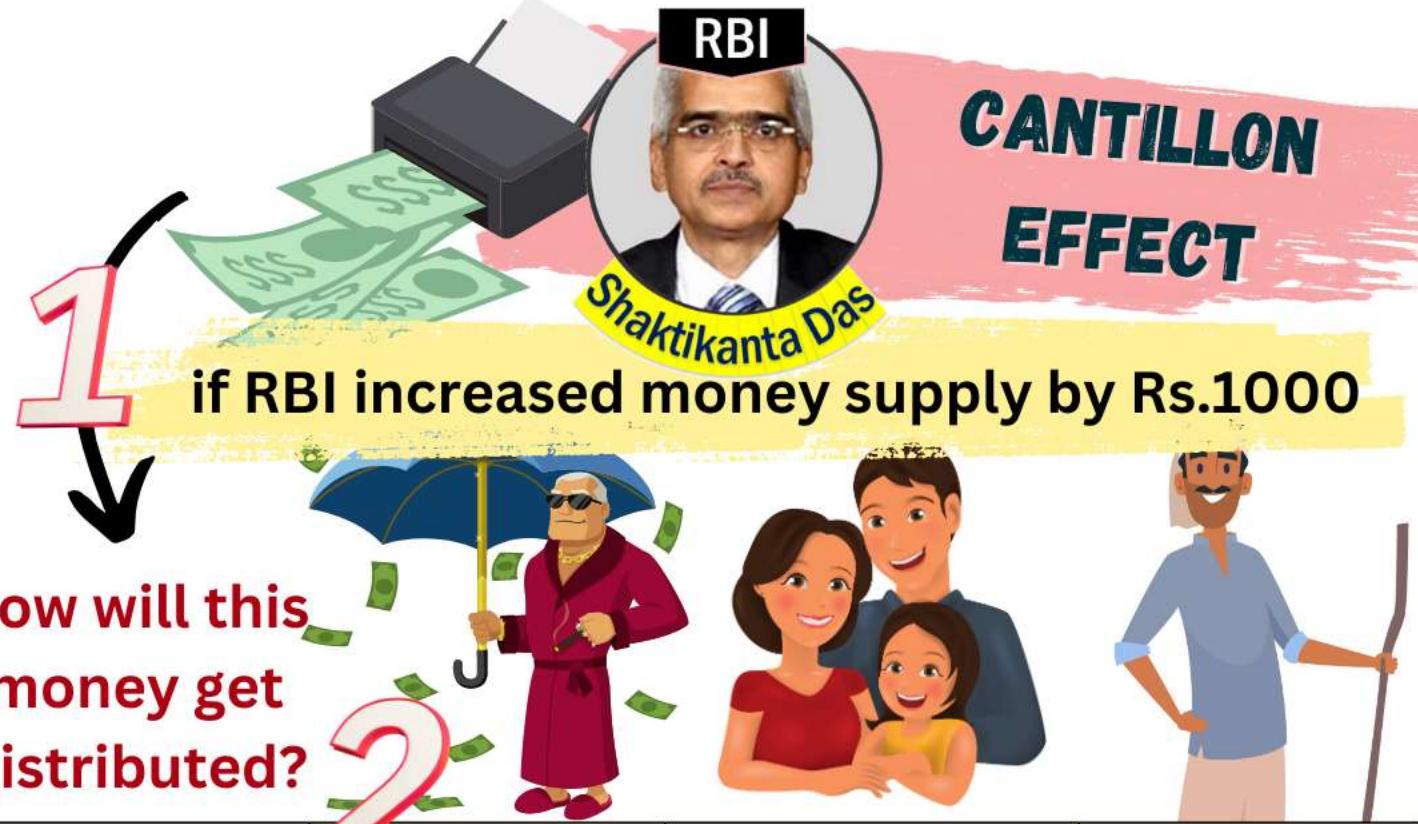




black swan
unexpected event
causing massive loss
to economy e.g.
Corona



finish from handout



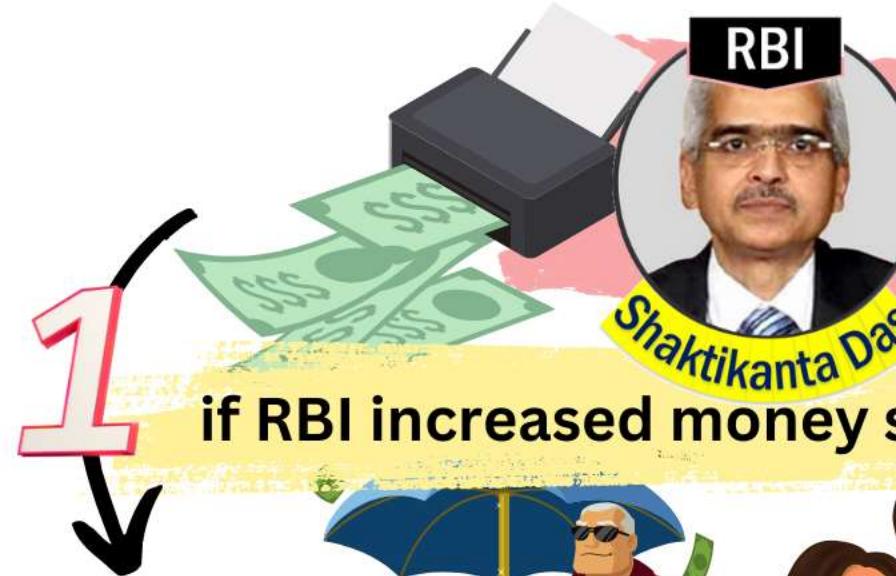
	Rich	Middle Class	Poor
Expectation	333.33	333.33	333.33

यदि रिजर्व बैंक मुद्रा आपूर्ति बढ़ाती है तो समाज के सभी वर्गों में क्या उस नए/ताजा पैसे का एक समान रूप से वितरण होगा?

नहीं

RBI

CANTILLON EFFECT



1
how will this
money get
distributed?

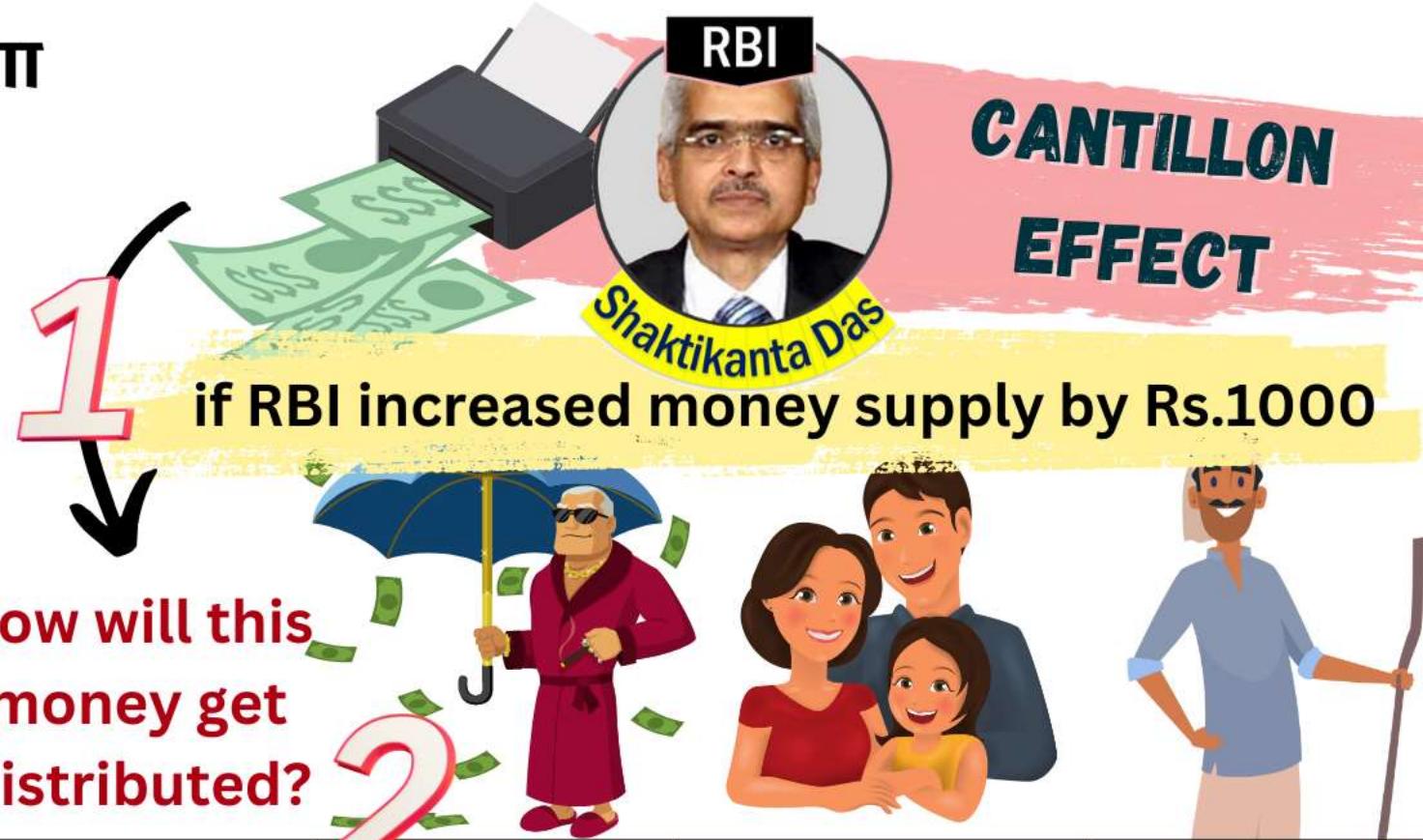


	Rich	Middle Class	Poor
Expectation	333.33	333.33	333.33
REALITY (Cantillon Effect)	800	190	10

अमीरों के हाथ में पहले पैसा आएगा
और वह पहले चीजें खरीद लेंगे

RBI

CANTILLON
EFFECT



↑ demand of the
goods/services used by
Rich people e.g.
bunglows →
price of bunglows ↑

	Rich	Middle Class	Poor
Expectation	333.33	333.33	333.33
REALITY (Cantillon Effect)	800	190	10

how will this
money get
distributed?



2

	Rich	Middle Class	Poor
Expectation	333.33	333.33	333.33
REALITY (Cantillon Effect)	800	190	10

3

↑ demand of the goods/services
used by Rich people e.g. bunglows →
price of bunglows ↑



Shaktikanta Das

CANTILLON EFFECT

if RBI increased money supply by Rs.1000



now i want to buy it, but it's
very expensive. 😱😱

4

MPC Member: Jayanth Verma wants Repo to combat inflation when 2020-Repo reduced to boost economy

Shahid Kapoor Reportedly Bought ₹ 55 Crore Apartment In Worli. Details Here

The new apartment is registered in Shahid Kapoor and Mira Rajput's names

Entertainment | Written by Divya Goyal | Updated: July 23, 2018 8:51 pm IST



JAYANTH R VARMA
Member, MPC

- 😢 Cheap Loans → rich Indian buy 2-5 home for ‘investment’ → shortage of homes → housing inflation सस्ते लोन की मदद से अमीर लोग तो बंगले खरीद रहे हैं जिसमें उनको रहना नहीं है बस निवेश के लिए खरीदा है . इससे मकानों की कीमतें बढ़ रही है
- Better to  Repo rate to combat inflation.



क्यों रिजर्व बैंक महंगाई का बू नहीं कर पाती



RBI can't bring
rain/grow onions



RBI can't reduce
global crude oil
prices



RBI can't fix ease of
doing Biz. alone



RBI can't prevent
bank scams alone



RBI can't fix infra
alone.



& many more
reasons



Pillar#1A2:Review of bi-monthly policies

Bi-monthly Updates

MCLR, External Benchmark

Limitations of Monetary Policy

Impact of US Policy

Mains Model Ans.
PCB7/ QEP

Tools → Quantitative, Gen., Indirect
Reserve Ratios (CRR, SLR)
Rates: Bank, MSF, LAF [Repo, RR]
OMO, Op Twist

Tools → Qualitative: Selective, Direct

- Moral Suasion, Direct Action
- Margin req / LTV
- Selective Credit Control:
- Credit Rationing, Consumer Credit control / EMI, PSL

Mrunal's Economy for UPSC Prelims-2023

A-1

- Money: barter to Bitcoin

done

A-2

- RBI's monetary policy
- CRR, SLR, Repo etc

done

B-1

- Classification of Banks-NBFC

next

B-2

- Burning issues in Banking sector
- NPA, IBC, BASEL...

C

- SEBI Sharemarket

D

- Insurance, Pension, Fin. Inclusion

Audio/Video
Problem?

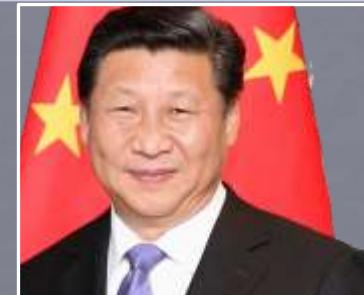
CTRL R



1) MBFI



2) Budget



3) Intl. Trade



4) Sectors of
Economy



5) Infrastructure



6) HRD

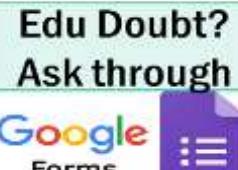


मुझे बाकी जवानी इसी
में खत्म करनी है

बाकी विषय कब पढ़ोगे

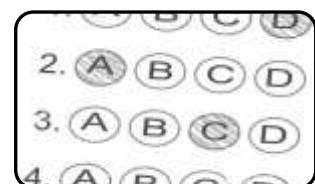
इतनी पंचात क्यों करनी है, भारतीय

PLAN FOR NEXT WEEK: अगले हफ्ते का कार्यक्रम



Google Form FAQ

- Whatever doubts received in google form till **Monday 9AM**:
- Ans in a PDF file in course page → update section
- **by Wed 10PM OR LATER**, depending on volume of queries



Wednesday 9PM:

- Weekly Economy Quiz upto what we learned this week



Wednesday Win23 free lecture update for old batch students

- You don't have to sit in it.



Thursday

- By 7PM Handout for next week:



Thursday onwards 9PM

- LIVE Classes

February, 2023

Mo	Tu	We	Th	Fr	Sa	Su
30	31	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	1	2	3	4	5