

Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank.

Statutory liquidity ratio (SLR) is the Indian government term for reserve requirement that the commercial banks in India require to maintain in the form of gold, government approved securities before providing credit to the customers.

Statutory Liquidity Ratio is determined by Reserve Bank of India maintained by banks in order to control the expansion of bank credit.

The SLR is determined by a percentage of total demand and time liabilities. Time Liabilities refer to the liabilities which the commercial banks are liable to pay to the customers after a certain period mutually agreed upon, and demand liabilities are such deposits of the customers which are payable on demand. An example of time liability is a six month fixed deposit which is not payable on demand but only after six months. An example of demand liability is a deposit maintained in saving account or current account that is payable on demand through a withdrawal form such as a cheque.

Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds.

In the event of inflation, central banks increase repo rate as this acts as a disincentive for banks to borrow from the central bank. This ultimately reduces the money supply in the economy and thus helps in arresting inflation.

The central bank takes the contrary position in the event of a fall in inflationary pressures.

Reverse repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country.

It is a monetary policy instrument which can be used to control the money supply in the country.

Repo and reverse repo rates form a part of the **liquidity adjustment facility**.

Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.

Banks borrow from the central bank by pledging government securities at a rate higher than the repo rate under liquidity adjustment facility or LAF in short. The MSF rate is pegged 100 basis points or a percentage point above the repo rate. Under MSF, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL).

Bank rate is the rate charged by the central bank for lending funds to commercial banks.

Bank rates influence lending rates of commercial banks. Higher bank rate will translate to higher lending rates by the banks. In order to curb liquidity, the central bank can resort to raising the bank rate and vice versa.

Market Stabilization scheme (MSS) is a monetary policy intervention by the RBI to withdraw excess liquidity (or money supply) by selling government securities in the economy. The MSS was introduced in April 2004. Main thing about MSS is that it is used to withdraw excess liquidity or money from the system by selling government bonds.

Open market operations (OMO) refers to the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system, facilitated by the RBI.