**Subject; Banking (Major & Regular)**

**5th and 66th semester (SBCS and Non-CBCS)**

**Question** –

1. **What is the role of Reserve bank of India in monetary policy?**

**Or what are the monetary policy measures of R B I**

**Answer** :-Under the reserve bank of India Act 1934 ( as amended in 1916) RBI is entrusted with the responsibility of conducting monetary policy in India with the primary objectives of maintaining price stability while keeping in mind the objectives of growth .the RBI is the main authority for the monetary policy of the country The main function of RBI are to maintain financial stability and the required level of liquidity in the economy The RBI also controls and regulates the currency system of our economy the main instrument of the monetary policy are cash reserve ratio (C R R ) statutory liquidity ratio (SLR), bank rate (BR) ,repo rate (RR) , reverse repo rate (RRR) , marginal standing facilities (MSF) and open market operation (OMO).

1 **Cash reserve ratio (CRR)**:--Cash reserve ratio is specific minimum fraction of the total deposit of customers ,which commercial banks have to hold as reserves either in cash or as deposits with the central bank .CRR set as per the gridline issued by the central bank. The CRR is maintained with the RBI to ensured that banks have sufficient liquidity in order to handle any rush of banks withdrawals and is more of a safety measure .The RBI increases the CRR when it wants to suck out liquidity from the banking system and reduce lending capacity . at present CRR ratio 4.50% April 2024 .

## 2 . Statutory liquidity ratio (SLR);---- Statutory liquidity ratio (SLR) is a minimum percentage of deposit that a commercial banks has to maintain in the form of liquid cash ,gold or others securities .It is basically the reserve requirement that banks are expected to keep before offering credit to customers . SLR formula SLR=(liquid assets /(demand + time liabilities ) \*100%. Present rate of SLR is 18% RBI has to right to raise SLR rate up to 40%

3 .**Bank Rate (BR)**:---- Bank rate is a rate at which the RBI provides the loan to commercial banks without keeping any securities. There is no any agreement on repurchase that will be drawn up or agreed upon with no collateral as well. The RBI allows short term loans with the presence of collateral .Bank rate also known as discount rate , bank rate is a power full tool used by the RBI to control liquidity and money supply in the markets . The current bank rate is 6.50 % in February 2024.

4. **Repo Rate (RR):------** Repo rate full form is repurchase Agreement or repurchasing option Banks obtain loan from the RBI by selling qualifying securities. The repo rate is the interest rate at which the RBI loans money to commercial banks. When banks are short on funds or need to maintain liquidity under volatile market conditions this is done .The repo rate is utilized by the RBI to manage inflation The current repo rate is 6.50% on February 2024.

5. **Reverse repo rate** :---Reverse repo rate is the rate at which the RBI borrows money from the commercial banks when there is excess liquidity in the markets which helps the restrict the borrowing power of the investors It is an important monetary policy tool employed by the RBI to maintained the liquidity and check inflation in the economy. The current reverse repo rate is 3.35% on 14 may 2024.

**6. Marginal standing facility. (MSF)**:---MSF is a provision made by the RBI through which schedule commercial banks can obtain liquidity overnight. It interbank liquidity completely dries up. The correct MSF rate in India is 4.25%. This is the rate of which the bank can be pledge government securities for graining liquidity in situations when the liquidities dried up. MSF helps banks manage short term liquidity fluctuations by providing a quick source of fund during emergency period and control of money supply.

**7. Open market operation**: OMO is the buying and selling of government securities in the open market. It is done by the RBI. An open Market is a market with no regulatory where barriers, such a taxes, license, requirement, and government subsidies. The open market allows buyer and seller to trade freely without any external market. The prices for goods and services are determined by the shifts in supply and demand. Examples of open market are stock exchange, foreign exchange and various community markets.

Table-1

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| --- | --- |
| **Rate increase** | **Interest rate increase** |
| **C.R.R**  **S.L.R**  **BANNKING RATE**  **RAPO RATE**  **RIVERSE RAPO RATE**  **MSF** | **LOAN**  **CASH**  **DEMAND**  **PRICE**  **INFLATION** |

Table-2

|  |  |
| --- | --- |
| Rate decrease | Interest rate decrease |
| C.R.R  S.L.R  BANNKING RATE  RAPO RATE  RIVERSE RAPO RATE  MSF | LOAN  CASH  DEMAND  PRICE  INFLATION |

Conclusion: Monetary policy is just a masseuse adopted by the RBI for the control of money supply and credit creation by the commercial bank to keep ma check on the inflationary and deflationary situation in the economy.

Additional question:

1. What is CRR, SLR, Bank Rate, Repo Rate, Reverse Repo Rate and MSF.

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