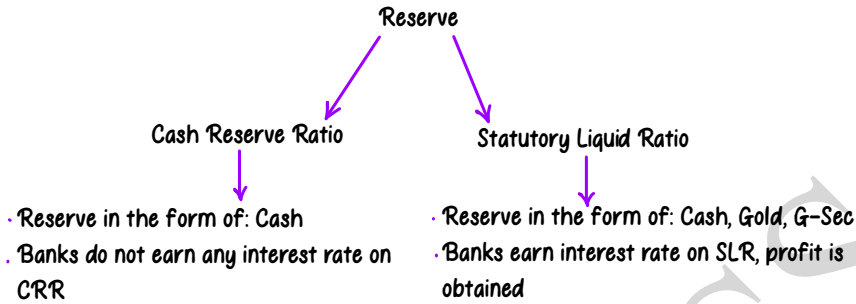


MONETARY POLICY



NDTL: Net Demand and Time Liability (RBI keeps a part of your NDTL as a reserve)



Different Assets and Liabilities of a Commercial Bank

BALANCE SHEET				
	LIABILITIES	AMT	ASSETS	AMT
Initial Money Invested	Share Capital		Vault Cash	
Sometimes bank borrows money from RBI	Loan taken from Central Bank if any		Deposits with Central Bank	
Saving Account, Current Account	Demand Deposits		Loans	
Fixed Deposits/ Recurring Deposits	Term Deposits		Investment in Government Securities	
	Total		Total	

Liability

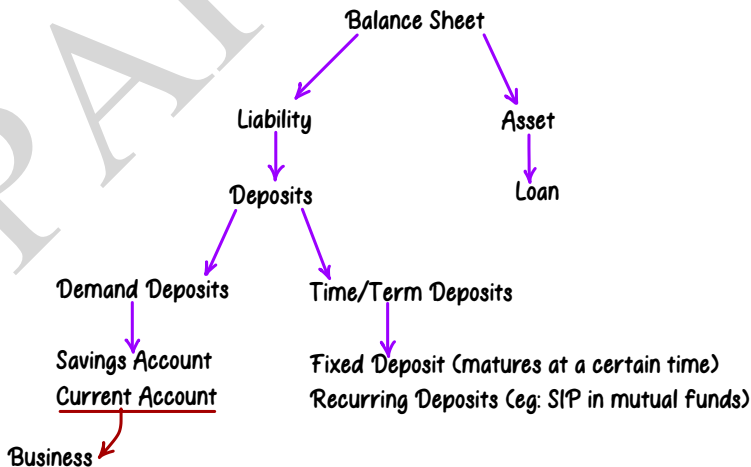
→ Cash kept in Bank for Withdrawal by customers

→ Amount deposited by Bank with RBI

→ Loan Given to Public

→ Amt invested in Government Banks

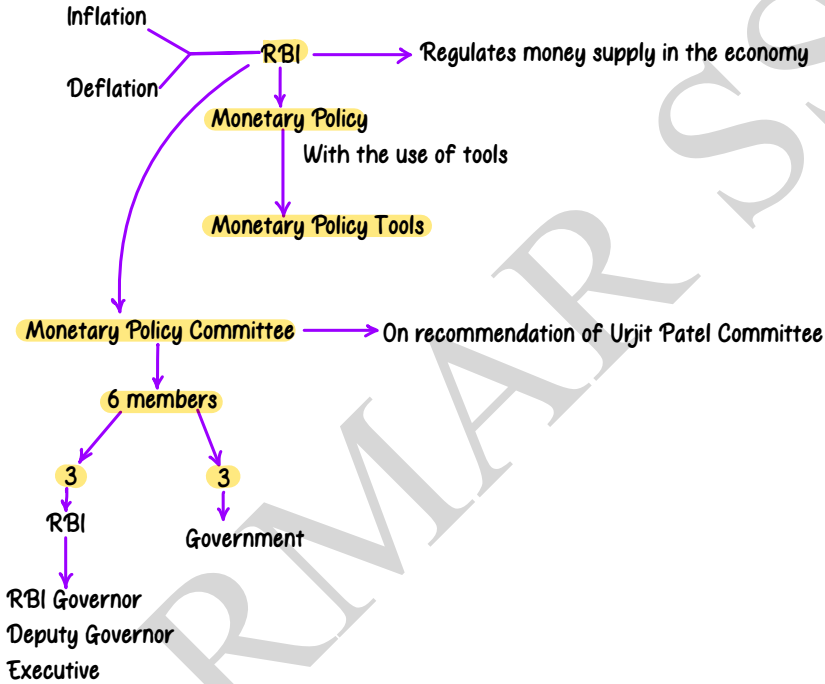
Asset



• Liquidity

eg:

1. Cash: more liquid (easily useable)
2. Gold chain
3. Property: least liquid



• **Money Multiplier:** a maximum amount of new money created by banks for every dollar of reserves

• $MM \propto \frac{1}{CRR}$

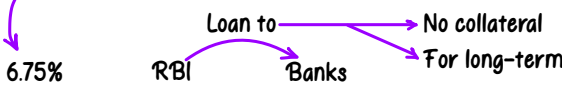
Monetary Policy Tools

Quantitative tools

- Bank Rate
- Open Market Operations
- Marginal Standing Facility

Qualitative tools

1. **Bank Rate:** RBI provides loan to Commercial Banks (without keeping any securities)



2. **Open Market Operation**

Types

— Outright purchase

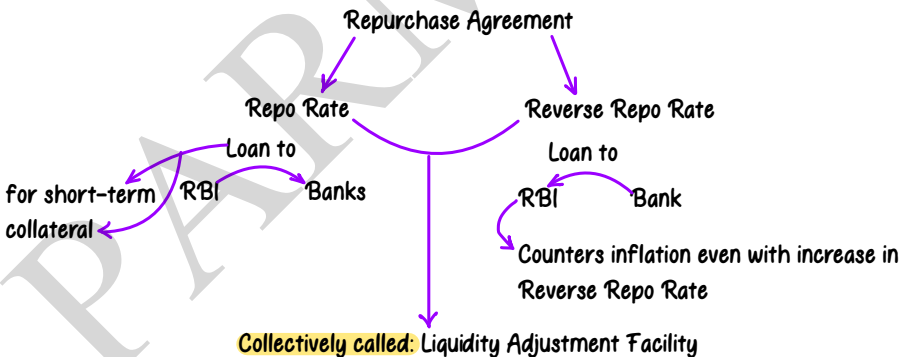
— Repurchase agreement → G-Sec as Collateral

- Selling and buying of Government securities



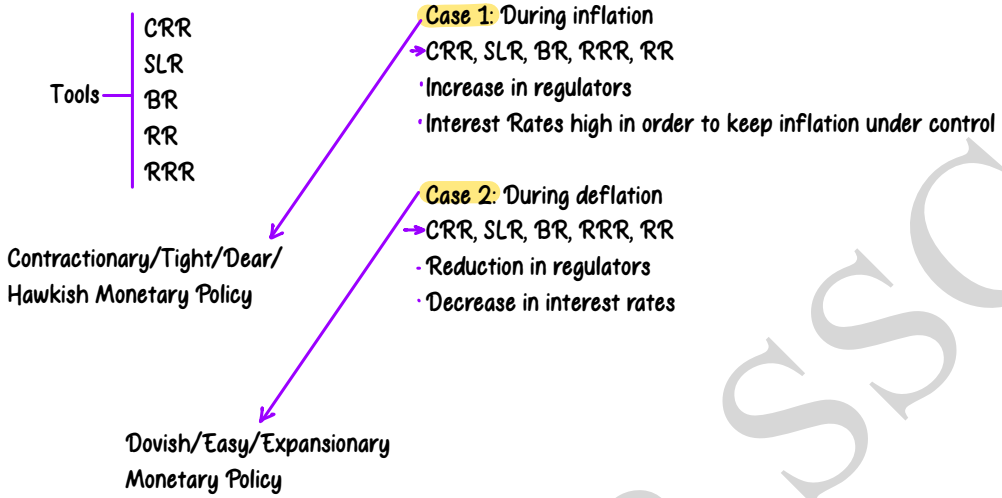
- When inflation is high → selling of G-sec by RBI

* Repo means Repurchase Obligation



3. **Marginal Standing Facility** → 2% NDTL is a limit


- CRR and SLR is not maintained → Is a "overnight loan"
- Penalty + loan
- Can use SLF Quota G-Sec as collateral



Currency Deposit Ratio =
$$\frac{\text{Money held by public in the form of currency}}{\text{Money in the form of Deposits in the Bank}}$$

Qualitative monetary policy tools of central bank

This slide shows the four major tools used by central bank of an economy to control credit and inflation. It includes rationing of credit, change in marginal requirements, regulation of consumer credit and moral suasion



Rationing of Credit

- Certain amount is fixed for industrial, household and other purposes
- Credit supply for each commercial bank is fixed
- Add text here

Change in marginal requirements

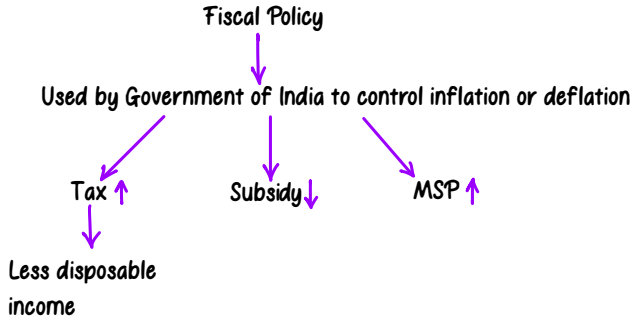
- Margin is increased for unnecessary sectors
- Margin is decreased for necessary sectors
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Regulation of consumer credit

- Instalment amount, down payment, loan duration are all fixed in advance
- Used to control inflation in country
- Add text here
- Add text here

Moral suasion

- Credit limit for each sector is imposed by rules and regulations
- Guidelines and regulations are fixed by central bank for speculative purposes
- Add text here



PARMAR SSC