

# Monetary Policy of India (RBI)

## Objectives (Goal kya hai?)

- 1. Price Stability: Control Inflation (Mehangai control)
- 2. Economic Growth: Promote investments & production
- 3. Exchange Rate Stability: Manage value of Rupee (₹)
- 4. Financial Stability: Prevent bank failures & crises

## Tools of Monetary Policy (Quantitative - Direct & Indirect)

Instruments

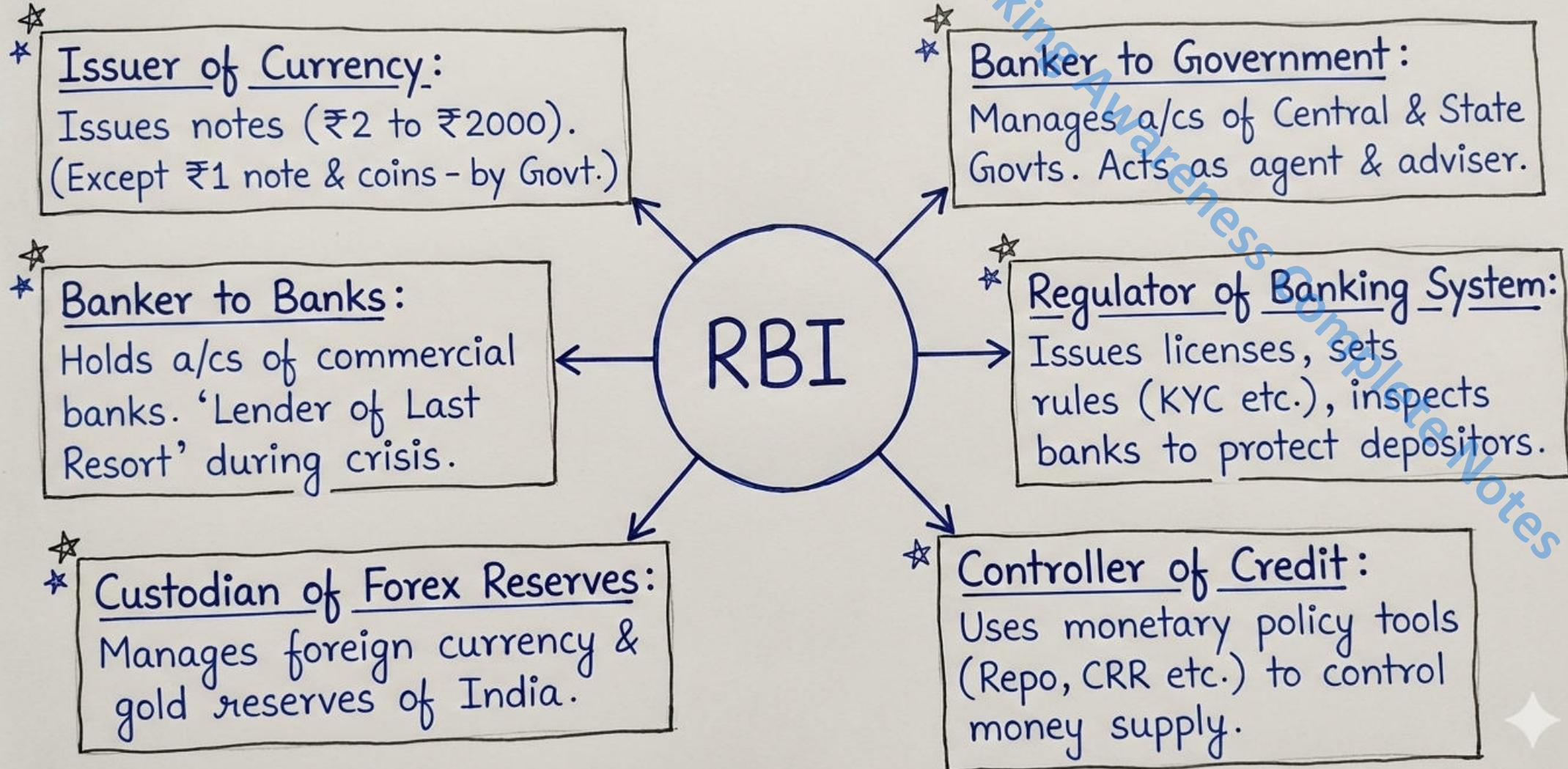
→ Direct →

\* **CRR** (Cash Reserve Ratio): % of deposits banks MUST keep as CASH with RBI. NO Interest paid by RBI. (Liquidity soakh leta hai)

→ Indirect →

\* **SLR** (Statutory Liquidity Ratio): % of deposits banks must keep with THEMSELVES in liquid assets (Cash, Gold, Govt. Securities). Earns interest. (Bank ki safety ke liye)

# Functions of RBI (Reserve Bank of India) - 'Papa Bank'

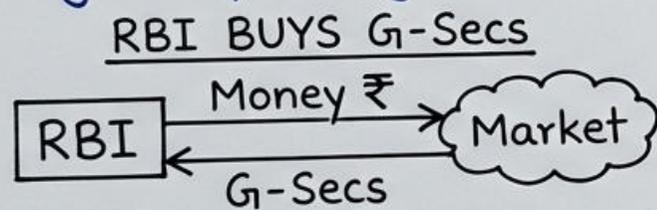


## Policy Rates (Indirect Instruments)

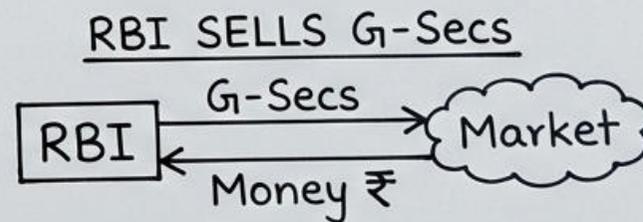
- Repo Rate: Rate at which RBI LENDS short-term money to banks against securities. (Repo  $\uparrow$   $\Rightarrow$  Costly loan for banks  $\Rightarrow$  Liquidity  $\downarrow$ )
- Reverse Repo Rate: Rate at which RBI BORROWS excess funds from banks. (Rev. Repo  $\uparrow$   $\Rightarrow$  Banks park more with RBI  $\Rightarrow$  Liquidity  $\downarrow$ )
- Bank Rate: Rate for LONG-TERM loans by RBI to banks. No collateral needed. Also a penal rate.

## Open Market Operations (OMO)

Buying & Selling of Govt. Securities (G-Secs) by RBI in market to manage liquidity.



Liquidity **INCREASES**  
(Money injected)



Liquidity **DECREASES**  
(Money absorbed)

# Types of Bank Accounts

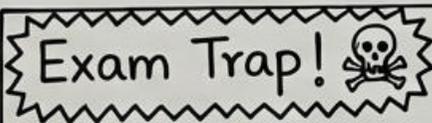
## Domestic Accounts Comparison

Feature	Savings A/c	Current A/c	Fixed Deposit (FD)	Recurring Deposit (RD)
Purpose	To save money for future	For business transactions	Lump sum investment for fixed tenure	Monthly savings for fixed tenure
Interest Rate	Low (e.g., 3-4%)	No Interest (0%)	High (Fixed for tenure, e.g., 6-7%)	High (Similar to FD)
Liquidity / Withdrawal	High (ATM, Chq, Online - some limits)	Very High (No limits on trans.)	Low (Penalty on premature withdrawal)	Low (Penalty on premature withdrawal)
Suitability	Individuals, Students, Salaried	Businessmen, Companies, Firms	Those with lump sum cash	Those with regular income (Salaried) ✨

# NRI Accounts (Non-Resident Indian)

NRE vs NRO vs FCNR (Important for Exams!)

Feature	NRE (Non-Resident External)	NRO (Non-Resident Ordinary)	FCNR (Foreign Currency Non-Resident)
Source of Funds	Foreign Earnings only	Indian Earnings (Rent, Pension etc.)	Foreign Earnings only
Currency Held In	Indian Rupee (₹) (Converted)	Indian Rupee (₹)	Foreign Currency (USD, GBP, etc.)
Tax on Interest (India)	Tax-Free ✓	Taxable (30% + cess) ✗	Tax-Free ✓
Repatriation (Transfer abroad)	Fully Repatriable (Principal & Interest) ✓	Restricted (Interest is fully, Principal has limits) ✗	Fully Repatriable ✓



don't confuse: NRE & FCNR interest is TAX-FREE.  
NRO interest is TAXABLE.  
FCNR is held in FOREIGN CURRENCY, no exchange risk!

## Priority Sector Lending (PSL)

→ RBI mandate for banks to lend to vulnerable sectors.

### Categories:

1. Agriculture (Farming + Allied)
2. MSME (Micro, Small & Medium Enterprises)
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others

### PSL Targets (for Commercial Banks):

Total Target	40% of ANBC ★
Agriculture	18% (Sub-target: Small & Marginal Farmers - 10%)
Micro Enterprises	7.5%
Advances to Weaker Sections	12%

### Weaker Sections Criteria:

- Small & Marginal Farmers
- SCs & STs
- Self Help Groups (SHGs)

→ Persons with Disabilities

→ Minority Communities

↳ Goal: Inclusive Growth

## Basel Norms (International Banking Standards)

→ To ensure banks have enough capital to absorb losses.

Basel I, II, III:

I: Focus on Credit Risk (Min. Capital)

II: + Operational & Market Risk (3 Pillars)

III: Stricter rules post-2008 crisis (Better Quality Capital)

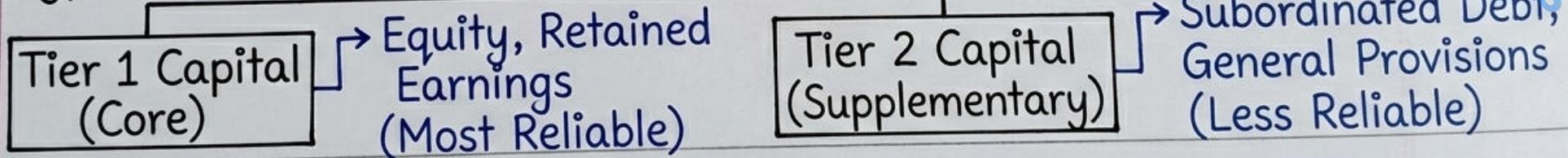
Capital Adequacy Ratio (CAR) / CRAR:

Important:

$$\text{CAR} = \frac{\text{Tier 1 + Tier 2 Capital}}{\text{Risk Weighted Assets (RWA)}} \times 100$$

RBI Requirement for India: Min. 9% (+ Capital Conservation Buffer)

Types of Capital:



★ Higher CAR = Safer Bank

## Payment Systems in India

Feature	NEFT	RTGS	IMPS/UPI
Full Form	National Electronic Funds Transfer	Real Time Gross Settlement	Immediate Payment Service / Unified Payments Interface
Speed	Batches (Slow)	Real-time (Fast)	Instant (Fastest)
Min. Amount	₹ 1	₹ 2 Lakhs	₹ 1
Max. Amount	No Limit (Bank specific)	No Limit	IMPS: ₹5L / UPI: ₹1L-₹5L
Availability	24x7x365	24x7x365	24x7x365

→ NPCI (National Payments Corporation of India): Umbrella organization for retail payments (manages UPI, IMPS, RuPay etc.)

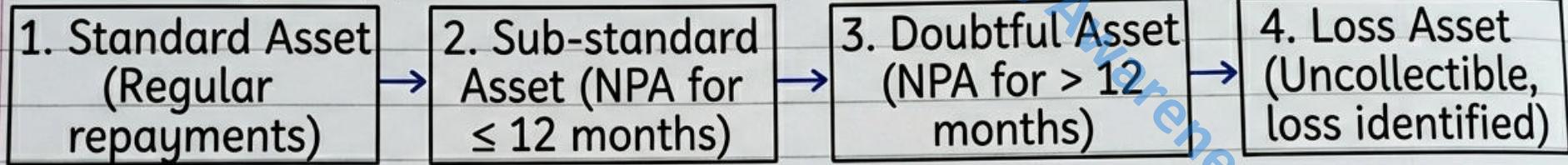
### Financial Committees

1. Narasimham Committee (I & II): Banking Sector Reforms (Reduced CRR/SLR, Deregulation of Interest Rates, Asset Reconstruction Companies - ARCs) (Important)
2. Nachiket Mor Committee: Financial Inclusion (Small Finance Banks & Payments Banks concept)
3. Urjit Patel Committee: Monetary Policy Framework (Inflation Targeting, CPI as anchor)

## NPA (Non-Performing Asset) & Asset Classification

→ Loan where interest/principal is overdue for > 90 days.

Asset Categories (based on overdue period):



### Provisioning & Recovery:

→ Banks must set aside funds (provisioning) for NPAs.

→ SARFAESI Act, 2002: Allows banks to auction properties of defaulters without court intervention (for secured loans).

### Important Banking Abbreviations

- CAR: Capital Adequacy Ratio
- CRR: Cash Reserve Ratio
- SLR: Statutory Liquidity Ratio
- CASA: Current Account Savings Account
- MCLR: Marginal Cost of Funds based Lending Rate
- LAF: Liquidity Adjustment Facility
- NEFT: National Electronic Funds Transfer
- RTGS: Real Time Gross Settlement
- UPI: Unified Payments Interface