[Economy] Liquidity Adjustment facility (LAF), Marginal Standing facility (MSF), Repo, reverse repo, SLR, CRR, NEFT, RTGS, NDTL: meaning explained

Liquidity?

- Liquidity is a relative term.
- **For assets:** Rs.1 crore worth gold is more liquid than Rs.1 crore worth farmhouse. Because you can quickly sell the gold in a few days, but for selling farmhouse you'll have to deal with so many prospective customers, real-estate agents, paper work, stamp duty etc., this would take more than 15 days= not so liquid.
- **For banking:** if yesterday SBI had Rs.100 to give as loan
- today SBI has Rs.200 to give as loan, then we say liquidity has increased. (And vice versa).
- In winter, supply of green vegetables increases (compared to summer) so selling price of green vegetables decreases in winter (compared to summer).
- Similarly when liquidity (money supply) increases, the cost of borrowing (=interest rates) goes down.
- Very high liquidity can create demand pull inflation=bad. for more, click me
- Very less liquidity=cost of borrowing is extremely high for businessman = bad because he cannot easily start or expand his business=less people get employment.
- So one of the job of RBI= control this "liquidity" in banking system.
- RBI mainly uses following tools to control this liquidity / money supply in the banking system.

1. Cash reserve Ratio (CRR)
2. Statutory Liquidity Ratio (SLR)
3. Liquidity Adjustment Facilities (LAF) (Repo and reverse repo)
4. Open market operations (OMO)

What is Cash reserve ratio (CRR)?

- For the sake of simplicity, let's assume there are only four people in India: 1) common men and 2) businessmen 3) Commercial banks (like SBI) 4) Central Bank (RBI.)
- Now the Question: How do commercial banks make money?
- Common men save their money in bank. Bank gives them say 7% interest rate on savings.
- Then Bank gives that money as loan to businessmen and charges 12% interest rate. So 12-7=5% is the profit of Bank. Although that's technically incorrect, because we've not counted bank's input cost=staff salary, telephone-internet-electricity bill, office rent, xerox machine etc. So actual profit will be less than 5%.
- But anyways, first let's construct a technically incorrect model.

1. SBI has only one branch in a small town. It was opened on Monday.
2. On the very same day, Total 100 common men deposited 1 lakh each in their savings accounts here (=total deposit is 1 crore)
3. and SBI offered them 7% interest rate per year on their savings

WHY CRR: Cash reserve ratio?

- On Tuesday, SBI Branch manager gives away entire 1 crore to a businessman as loan for 12% interest rate for 5 years.
- From SBI's point of view, sounds very good right? 12-7=5% profit!
- But we've not considered the fact that on Wednesday, some of those common men (account holders) will need to take out some money from their banks savings account- to pay for gas, electricity, mobile bills, college fees, writing cheques and

demand drafts etc.
- But SBI's office doesn't have a single paisa left! = problem, protest, rioting, suicides.
- So **condition #1:** Banks must not give away all of the deposit money to businessmen for loans. Banks must keep some money with aside.
- Ok but who'll decide how much minimum cash should a bank keep aside? Ans. RBI via CRR.(Cash reserve ratio).
- But banks donot like high CRR. We already saw that in the CRR controversy article: click me

WHY SLR: Statutory liquidity ratio?

- Continuing the same example. SBI got 1 crore on Monday.
- But suppose, RBI gave him order, "you must keep Rs.10 lakhs aside. (CRR)"
- Thus, SBI is left with only 1 crore – 10 lakhs = 90 lakh rupees.
- So SBI manager decides to get maximum profit out of remaining money. Suppose ongoing rate for business loans is 12%.
- But there is one businessman Mr.Parajay.
- No bank is offering him loan, because his past track record is not good: his earlier business adventures were epic fail.
- This Mr.Parajay comes to SBI

Mr.Parajay, the businessman	I desperately need loan for my business. but no other bank is giving me loan. Tell you what, give me all of those 90 lakh rupees as loans, I'm ready to pay 36% interest rate on it! And trust me, I'm going to make lot of money in my new business project. And I'm ready to mortgage all of my factories, cars, farmhouses. So if I can't repay loan, you can auction them and recover your money.
SBI manager	Good! I'll give you all of my 90 lakhs as loan!

- After six months, Mr. Parajay's new business project = also #EPICFAIL.
- He cannot pay back the EMIs.
- Although SBI can attach his assets and auction them to recover the money. But it'll take lot of time.
- In the mean time, common-men also read this story in local newspapers and they panic that SBI will collapse and bank manager will shut down the office and run away.
- So all the common men line up in front of bank and demand back their money. Recall that SBI still has 10 lakh left in CRR. But people want total 1 crore back!
- Again money of account holders (common men) is stuck =problem, protest, rioting, suicides.
- So, **Condition #2**: Bank must not give away all its loans to risky loan takers. Banks must invest part of its money in "safe and liquid" investment. So during emergency, bank can sell those "liquid" investments and take out the money.
- For example, Government securities, gold, corporate bonds of reputed companies like Infosys, reliance, TCS. These are "safe" investments.
- These are also "liquid", because you can sell them quickly whenever you want. (recall that SBI could also auction Mr.Parajay's properties, but it'll take lot of time in paperwork, legal issues etc.)
- Ok so, bank should invest part of common-men's money in "safe" investments like Government securities, gold and corporate bonds of highly reputed companies.
- **BUT who will decide how much money should be invested in this sector?** Ans. RBI via SLR (Statutory liquidity ratio). In earlier article, we've already seen SLR in detail. click me
- Let's assume RBI ordered SBI to keep Rs.25 lakhs under SLR.
- Thus, out of original Rs.1 crore that SBI had, 10 lakhs (CRR) + 25 lakhs (SLR) are gone.

Bank Runs: SLR+CRR

- Suppose a rival bank of SBI, hires some people to spread rumors against SBI.
- The rumor is something like this= *"SBI invested lot of money in sharemarket but sharemarket is crashed so now SBI doesn't have any money left. They're going to shut down the office and run away."*
- ^this is totally ridiculous rumor because according to RBI rules, banks cannot invest depositor's money in the sharemarket in the first place!
- Anyways, out of the 100 SBI account holders (common men), 30 common men believe in this rumor and run to the SBI office.
- They demand SBI to return their entire savings deposit. Such panic movement of bank customers is known as "bank run".
- Thankfully, SBI has total 10 lakh (CRR), so they can directly give it back. SBI also has set aside Rs.25 lakhs under (SLR), so SBI can sell away those Government securities, gold worth 25 lakhs and give that money back to account holders.
- Thus, SLR+CRR protects a bank against Bank runs.
- However in case of a "totally awesome" bankrun, nothing can protect a bank. (i.e. when all of the account holders simultaneously demand all of their money on the same day!) anyways back to the topic:

WHY Priority Sector lending?

So far, You know what is CRR and SLR.

Now SBI manager start making calculation, how much money is left with him?

Money received from common men	1 crore=100 lakh
Money set aside in CRR	MINUS 10 lakh

Money invested in SLR	MINUS 25 lakh
Money left	100-10-25=Rs.65 lakh.

- Out of that 65 lakhs, let's assume SBI manager has to keep aside 15 lakh for Administrative costs, salaries of employees, electricity bill, internet bill, Xerox machine etc. So he has only 50 lakh left for providing "loan" to needy people.
- Now loan-takers line up in front of SBI office

50 farmers	Give us loans of 1 lakhs each for buying seeds and fertilizers. However, given the vagaries of monsoon and low profit margin in agriculture, we cannot pay more than 5% interest rate.
25 Small businessman	Give us loans of 2 lakhs each to setup small retail shops / car mechanic / hair saloon etc. We offer 11% interest rate. we cannot offer a penny more because our profit margin isnot good.
2 Students	Sir please give us loan of Rs.25 lakhs each, for paying self-financed medical college. We can pay atmost 9% interest rate.
1 Big businessman	Give me those 50 lakhs. In a few months, Diwali is coming and I want to setup a new firecracker factory. I offer you 15% interest rate.

- if SBI is run from purely profit point of view, then farmers, small businessmen, students and weaker sections of the society will never get any loan.
- Because SBI manager would want to give loan to a person that offers him highest interest rate.
- Then who is going to protect those weak people? Who is going to help them get loans at reasonable rates? Ans. RBI.
- Suppose RBI tells the SBI manager, "40% of the money you lend, must go to priorities sectors viz. agriculture, small scale business, housing and education." (=40% of 50 lakh=20lakh).
- ^This is the basic funda of priority sector lending. More details are given on page 15.12 of Ramesh Singh.

What is NDTL?

- So far, We know that Banks have to comply with the CRR, SLR and priority sector lending rules of RBI.
- CRR, SLR is counted on amount of money a bank receives. But bank receives lot of money,

1. from depositors,
2. from loan takers who're re-paying EMI,
3. (fraudulent) hidden charges imposed on credit cards
4. Commission charged on giving demand draft
5. Commission charged on online money transfer
6. Commission charged on foreign currency conversion etc.etc.etc.

- So how does bank exactly count CRR, SLR requirements? = Net Demand and Time Liabilities (NDTL)

	Main example (list not exhaustive)
Time liabilities	1. Money deposited in Fixed deposits (FD) 2. Cash certificates 3. gold deposits. 4. Staff security deposit. E.g. in some banks when you join as Probationary officer, you've to sign bond worth RS.1-2 lakh rupees.
Demand liabilities	1. Money deposited in savings account 2. Money deposited in current account 3. Demand drafts 4. unclaimed deposits;

- I'm not going into minute nitty-gritty involved in computing NDTL because that's irrelevant from exam point of view. So long story cut short, CRR and SLR are calculated on this NDTL number with some caveats.
- And banks have to send reports to RBI on fortnight basis that *"our NDTL is xyz and we are maintaining xyz SLR and CRR on it as per your direction."*
- Now here comes the problem: In our example, SBI followed SLR, CRR and 50 lakh rupees left for loaning.
- However in the given period, priority sector loan takers (farmers, students etc.) and regular loan taker (businessmen, car/bike loans)….all of them together take total loans worth only Rs.30 lakhs.
- so SBI is left with 50-30=surplus of 20 lakh rupees.
- These 20 lakhs are just gathering dust in the office. Nobody is coming to take new loans! What should SBI do? because SBI has to give 7% interest even on these 20 lakh rupees, so SBI cannot afford to let this money gather dust!
- Now comes the Liquidity adjustment facilities, Repo Rate and reverse repo rate.
- Let's start with reverse repo rate.

Reverse repo rate?

- The book definition of Reverse repo rate = "it is interest rate paid by RBI to its **clients** for short term loans." Ok but who are the **clients** of RBI?

1. Central Government

2. State Government
3. Banks (commercial, regional rural banks, cooperative banks)
4. Non-banking financial institutions etc.etc.etc.

- anyways, Reverse repo rate in crude words= when SBI parks its surplus money in RBI for short term, SBI makes ^this much profit.
- But actually reverse repo rate works in a bit complicated manner= via selling and repurchase of Government securities.
- You're aware of Government securities: when Government wants to borrow money from market, Government security / Government bond is issued.
- Basically it's a piece of paper. It has agreement something like: *"whoever gives me Rs.100 will get 8% interest rate for 10 years and then principle will be repaid"*.
- For the purpose of understanding Reverse repo, let's construct a simplified technically incorrect model:

1. RBI has Government securities worth Rs.100 lakhs.
2. SBI has surplus Rs.100 lakhs and nobody is taking them as loans. But SBI is sure more people will come to take loans before Diwali. So SBI just wants to park this surplus 100 lakhs somewhere for the short-term.
3. SBI enters into Reverse Repo agreement with RBI.
4. The agreement reads "I (SBI) will give buy Government securities worth Rs.100 lakhs from the RBI, and RBI promises to buy back those securities from me after 6 months @Rs.106 lakhs.

Read it carefully:

- Time: after 6 months,
- SBI's investment: Rs.100 lakhs
- After 6 months, SBI gets: Rs.106 lakhs.
- So profit of SBI (or interest earned by SBI or interest paid by RBI)=(106-100)/100 = 6%. This is reverse repo rate.

Tied to repo rate

In 2011, under RBI made following rule:

1. reverse repo rate would not be announced separately but will be linked to repo rate.
2. The reverse repo rate will be 100 basis points below repo rate.(=minus 1%)

So if RBI declares "Repo rate=8%" then reverse repo-rate is automatically 8-1=7%.But now comes the question:

What is repo rate?

Common sense says, it has to be reverse of "reverse repo rate" right? Yes that is right.
Textbook definition says

- Repo rate is the rate RBI charges on its clients for short term loans.
- To put this crudely, when SBI wants to borrow money from RBI for short term, SBI will have to pay ^this much interest rate.
- (again) For the purpose of understanding repo rate, let's construct a simplified technically incorrect model:

1. RBI has cash of Rs.100 lakhs.
2. SBI has Government securities worth Rs.100 lakhs.
3. SBI enters into Repo agreement with RBI.
4. The agreement reads "I (SBI) am selling my Government securities worth Rs.100 lakh to RBI and I (SBI) promise to buy back(repurchase) those securities from RBI after 6 months @Rs.107 lakhs.

Read it carefully:

1. Time: after 6 months.
2. RBI's investment: Rs.100 lakhs
3. After 6 months, RBI gets: Rs.107 lakhs from SBI.
4. So profit of RBI (or interest earned by RBI or interest paid by SBI)=(107-100)/100 = 7%. This is Repo rate.

Question:

- Why all this *gadhaa majoori* (donkey labour), involving Government security? Why can't RBI and SBI give money to eachother without involving Government securities just like the normal people borrow and lend to each other?
- Answer= Because Government security acts as "collateral". So if first party doesn't honor the agreement (of repurchase), then second party can sell away the Government security to a third party and recover its money.
- Just like pawning your jewelry in Muthoot finance or Mannapuram gold loans.

Repo rate vs Bank rate?

Repo rate	RBI lends money to banks for short term loans @this interest rate.
Bank rate	RBI lends money to its clients for long term loans @this interest rate.

What is LAF?

- liquidity adjustment facilities (LAF).
- Recall that one of the main task of RBI is to control money supply in the economy.
- RBI controls money supply via monetary policy. For this RBI uses various "tools" e.g. SLR and CRR.
- Liquidity adjustment facilities (LAF) is also a tool used by RBI to control short-term money supply.

LAF timeline

1998	Narsminam Committee on banking rector reforms, recommends LAF
1999	RBI introduces interim LAF
2000	RBI introduces full-fledged LAF.

- In the old Bollywood movies, international smugglers often come to main villain's hideout with suitcases loaded with cash. Then main villain will auction some ancient Indian statues to them. Something similar happens under LAF.
- LAF helps banks to quickly borrow money incase of any emergency or for adjusting in their SLR/CRR requirements.
- Under LAF, RBI auctions Government securities, starting at the repo and reverse repo rate. Minimum bidding amount is Rs.5 crore.
- So LAF is a tool used by RBI to control short-term liquidity / money supply in the market.
- In LAF, money transaction is done via RTGS. (RTGS is an online money transfer method). So in this auction, players don't need to bring suitcases loaded with cash.

What is RGTS?

- RTGS, NEFT=These are online facilities for transferring money within the country.

Real Time Gross Settlement (RTGS)	National Electronic Fund Transfer (NEFT)
Fast (immediate money transfer)	Slow (done on hourly basis)
Can be used only if money transfer amount is minimum 2 lakh rupees or more.	Can be used for any amount. There is no minimum or maximum limit.

What is Marginal Standing facility (MSF)?

- RBI started this thing in 2011.
- Under MSF, Scheduled Commercial Banks can borrow money from RBI @1% higher than the ongoing Repo rate under liquidity adjustment facility (LAF.)
- Although, the system of lending remains same just like under repo. = SBI sells Government security to RBI, and promises to buy it back after sometime, at a higher rate. Difference in selling and purchase = interest rate earned by RBI.
- we can memorize it like

1. Repo rate = reverse repo + 1%
2. MSF rate= repo rate + 1%

Difference between LAF and MSF

LAF	MSF
Liquidity adjustment facility	Marginal standing facility
Minimum bidding amount is 5 cr.	1 cr.
All clients of RBI are eligible to bid.	Only scheduled commercial banks can bid.
Bank cannot sell Government security to RBI that is part of bank's SLR quota.	bank can sell the Government security from its SLR quota to RBI.
Bank can borrow any amount of money as long as it has the securities to sell.	Bank can maximum borrow upto 2% of its NDTL.
Suppose repo rate is "r%"	MSF lending rate is always (r+1)%

Food for thought

- Let's take some approx. numbers based on past few months.
- Repo rate has been around 8%. That means reverse repo is around 7% and MSF is 9%.
- SBI offers around 7% interest rate on savings account and 0% interest rate on current account.
- SBI charges around 10% on home loans, 12% on car loans and 18% on bike loans.
- That means SBI's profit margin is anything between 3% to 11%. (assuming that it doesn't borrow any money from RBI).
- Now consider what If SBI parks its money in RBI (via reverse repo rate). Well RBI's reverse repo is also around 7%! may be a few 0.25-0.75% higher than SBI's savings interest rate. Point being, SBI is better off finding more loan takers than parking money in Reverse repo rate because it can earn more profit that way. Reverse repo rate is there usually for worst case scenario, when bank is not finding any loan takers.(or there is recession so nobody is coming to take loans from SBI).

Open market operations?

- Open market operation= when RBI buys/sells securities in open market.
- How is it different from LAF or MSF?
- Well in LAF or MSF, one party buys Government security from second party. But second party has agreed to buy back (repurchase) the same security from first party after some time. So Government security is not "permanently" sold, it is only used as a collateral= that's like pawning your jewelry in Muthoot finance company.
- But in case of OMO, first party permanently sells the Government security to second party. Second party is free to do whatever it wants with that security.
- When RBI purchases Government securities =liquidity increased (because RBI is paying that party some money to buy that security, right? so RBI is pouring additional money into the system.)
- On reverse, when RBI sells Government securities= liquidity is decreased. (because those players are giving their cash to RBI to purchase the securities= money is sucked out of the system by RBI).

Summary

From SBI manager's point of view

CRR	I must keep this much money aside. I cannot give it as loan to anyone. I will not earn any interest rate on it.
SLR	I've to invest this much money in gold, Government securities (G-sec) and RBI approved corporate bonds.
Repo rate	If I borrow money from RBI for short term, I'll have to pay them this much interest rate.
Reverse repo rate	If I park my money in RBI, they'll pay me this much interest rate.
Bank rate	If I borrow money from RBI for long term, I'll have to pay this much interest rate.

Mock Questions

Q1. If RBI purchases Government securities via open market operations, then liquidity ________.

a. increases
b. decreases
c. Stays the same.
d. None of above.

Q2. Correct statement?

a. Repo rate is always 100 basis points higher than MSF lending rate.
b. Reverse repo rate is always 100 lower than MSF lending rate.
c. Repo rate is always 100 basis point higher than reverse repo rate.
d. None of above.

Q3. Incorrect statement?

1. RTGS and NEFT are two online money transfer methods within India.
2. NEFT is faster than RTGS.
3. NEFT can be used only for transections above Rs.2 lakh.

Choice

a. Only 1
b. Only 1 and 2
c. Only 2 and 3
d. All of them

Q4. In which of the following, Bank will not be making any money?

1. Meeting CRR requirement.
2. Meeting SLR requirement.
3. Parking money in RBI under Reverse repo.

Choice

a. Only 1 and 3
b. Only 2 and 3
c. Only 1
d. All of them

Q5. If RBI wants to inject more liquidity in the system, it should

a. Increase the CRR rate
b. Increase the SLR rate
c. Decrease the Reverse repo rate.
d. Decrease the repo rate

d. Decrease the repo rate.

Q6. If RBI wants to reduce liquidity from the system, it should

a. decrease the reverse repo rate
b. decrease the repo rate
c. increase the CRR rate
d. decrease the SLR rate

Q7. Time liabilities of a bank includes

a. demand drafts
b. cheques
c. fixed deposits
d. credit cards

Q8. Demand liabilities of a bank includes

a. fixed deposits
b. cash certificates
c. current account
d. Staff security deposits.

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Rajat Kashyap
Reply to this comment

Sir, I've been trying to get answer to this but couldn't quite find it anywhere…
Whenever there is a change in the rates by the RBI, all the newspapers and news channel say that this change would release 18,000 crores into the system…How is this amount calculated w.r.t. the change in these rates Sir…???

Arpit Goel
Reply to this comment

RBI has record of the reserves(CRR + SLR) maintained by banks so when RBI reduces CRR or SLR then the rate(%) reduced becomes the excess amount set aside by banks which RBI can calculate(this figure is shown in newspapers) and this amount will be released in the market and liquidity will be increased….

jiya
Reply to this comment

Thanx a lot SIR for wonderful article.

shrikrishna
Reply to this comment

Dear mrunal

thx for the valuable information for us in simple way…. lot of thx

Neeraj Shukla
Reply to this comment

Mrunal,
You are doing an amazing job by going in detail in an extremely simple language and graphic details in certain cases to explain an issue. My compliments to you and your team(if you have any)for making learning so easy for individuals of all ages.
I still have one query. How can these pages be saved as pdf files. Your instructions not withstanding, it seems something is missing because of which these pages can not be saved. May be you can put in more detailed instructions so that these write ups can be saved.

Neeraj
Washington DC

Nitin Pathak
Reply to this comment

In questions 5 and 6,
we can use Reverse Repo rate if we decrease/increase the liquidity increases/decreases.Is it true Sir?
Though 6 would always be true but in 5 it depends whether banks have surplus money to deposit in RBI for short time.Am I correct,Sir?
One more question which is very important for my preparations
How to judge myself for UPSC that where I stand for UPSC-2014???

ashif
Reply to this comment

sir i have done bsc with sericulture along with subject zoology,botany. can i fil the the form for BOTH IFS AND IAS .please rply soon…

ashif
Reply to this comment

koi to jwAB DO??????????????

Rakesh
Reply to this comment

yes

satender kumar
Reply to this comment

yes u can very well fill up the form for ias and ifs. As an science graduate is now eligible for IFS EXAMS.

Dr.pavan
Reply to this comment

can any one explain plz?
If SBI WANTS MONEY IT PARKS GOVT. SECURITIES IN RBI on repo ratethus get money. are these Govt. securities from SLR? or apart from it?

TRA
Reply to this comment

it should be apart from it.
because SLR is already parked statutarily with RBI for crisis mitigation in case of bank run at the same time yielding interest

though low

someone, do correct if above is wrong.thanks

TTK
Reply to this comment

Hi,

I think SLR is maintained with the bank itself (not with RBI).

Dr.pavan
Reply to this comment

Reply to this comment

so if a bank has no G-sec(excluding that are in SLR). it can't led money from RBI.RIGHT?

TRA
Reply to this comment

I cant be categorical as i dont major in economy or RBI jargons but only equivocally can say that.

i think Gsec or other AAA/AA rated corporate bonds = collateral in a form acceptable to RBI and at the same time non rudimentary for Bank as it would earn some definite return

To your previous question if repo Gsecs are not separate from SLR Gsecs then would it not mean collateral of one thing for two different benefits ?

well, if a bank doesn't have G-Sec , it can buy one and venture as callateral to RBI. U may say that bank doesnt have money to buy Gsec then i would say that why would that bank need to take loan from RBI if it doesnt have money beyond repos .I dont know. ask Mrunal Sir

In SOS cases SLR would come to rescue or may be even CRR. That may be the reason why these 2 instruments exists otherwise they would be rudimentary.

RBI wont lend without collateral .Moreover, Borrowing from RBI is limited by NDTL (say 2 % in case of MSF or any figure that RBI sets in for any other instruments).

As i said i am not sure about it.but its my considered opinion.(it may be wrong.do consult others and let me also know to conclude to its logical and legit end)

Dr.pavan
Reply to this comment

why wont the banks give interest on current account?

sankat mochan jha
Reply to this comment

sir current accounts are a credit facility that is holders of current accounts can draw more money from their accounts than there

balance permits…so if you have 100 rupees in your account but you need 200 for some business purpose urgently..you can still draw that much..its like the bank is lending you that money for a short term without any mortgage etc..so if i give you money i will obviously you not pay an interest..it is you who will pay me the interest. usually businessmen hold current accounts

TRA
Reply to this comment

it is called overdraft
is one of the features (/ a privilege) of current account and with terms and conditions.It cant define current account.

banks have been mulling and asking RBI to allow them pay interest on CA (RBIs monetary policy review meeting in 3rd week of january'13).
why = as at present CA forms only around 9%of deposits at bank. Paying interest will attract more money from market.and then banks can set a minimum balance requirement and in turn use that money to make profit and then can pay interest on CA as well.
Ex: at present cooperative bank may pay 1% interst on CA. In other nations some banks do pay interest over CA

Banks wont pay interest on CA as money is uncertain w.r.t withdrawal i.e bank cant use that money (and there is no minimum deposit scheme for ex 1 lakh)

Ranjeet Singh
Reply to this comment

1:a
2:d
3:
4:d
5:c
6:c
7:c
8:a

KRISHNA.V
Reply to this comment

3.a

KRISHNA.V

KRISHNA.V

Reply to this comment

sorry…rd question answer is c

TRA

Reply to this comment

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Banks wont pay interest on CA as money is uncertain w.r.t withdrawal i.e bank cant use that money (and there is no minimum deposit scheme for ex 1 lakh)

Dr.pavan

Reply to this comment

I HAVE ONE MORE DOUBT ACC TO MU SSC CERTIFICATE MY DATE O BIRH IS 26 JUNE, 1986. WHEN WOULD BE MY LAST ATTTEMPT.

TRA

Reply to this comment

what is MU SSC??

Rahul

Reply to this comment

My SSC*

Dr.pavan

my ssc, as u&y are adjacent. and i am unable to add a comment on forum .can u say. how/

TRA

ok.
try to avoid posts in caps. It distracts every time from reading.

CSE's CSP form which will be notified on 4th feb'2016 will look like this**

3. ELIGIBILITY CONDITIONS :
(ii) Age Limits :
(a) A candidate must have attained the age of 21 years and must not have attained the age of 30 years on 1st August, 2016,
i.e. he/she must have been born not earlier than 2nd August, 1986 and not later than 1st August, 1995.

**if u wouldn't have become an Officer by then / wouldn't have exhausted 4 attempt/ not quit by then and IF staus quo is maintained by UPSC.

you so would take last CSP of CSE in may/june 2015 for CSE'15

u missed one more attempt by just 36 days!!

TB

Reply to this comment

1(a) all others (c). please correct if errorenous…

Himanshu

Reply to this comment

1.a
2.c
3.c
4.c
5.d
6.a

7.c
8.c

Deepika J.
Reply to this comment

same answers from me… in ques 6. however, 'c'and 'A' options will be correct I think….

ram
Reply to this comment

all are correct except 3 and 6…for 3 ques 'a' will be right answer.And for 6 ques 'c' will be correct.In 6ques reduction in reverse repo rate won't decrease liquidity becoz as reverse repo is low banks get low interest for money they keep with rbi in short term..so they won't prefer and therefore money stays back in the system.

ram
Reply to this comment

sorry for 3ques 'c' is right..he has asked incorrect statements.

Niv
Reply to this comment

Sir, could please give out the correct answers?

Niv
Reply to this comment

ah you already did, thank you!

Gagan
Reply to this comment

1.a
2.c
3.a
4.c
5.d
6.c
7.c
8.c

Sumit
Reply to this comment

1 (a)
5 (d)
all other (c)

Shashank Shekhar Roy
Reply to this comment

1 a
2 d
3 c
4 c
5 d
6 not sure
7 c
8 c

Mrunal
Reply to this comment

6=c

Shashank Shekhar Roy
Reply to this comment

Thank you sir for answering my question.

Aashay
Reply to this comment

Sir what is the answer for 4th question?
Is is D? please reply

shiva sharma
Reply to this comment

1-a 2-c 3-a 4-c 5-d 6-c 7-a 8-c

shiva sharma
Reply to this comment

sir please clear the terminology used in budget e.g difference between all dificet terms .like revenue deficit, fiscal deficit .participatary notes.etc.sir please give one complete article on budgete terminolgy .

Neeraj Agarwal
Reply to this comment

Sir, you have written RGTS instead of RTGS..

Amrinder
Reply to this comment

RGTS or RTGS (Real time gross settlement)???

PD
Reply to this comment

1-a
2-c
3-c
4-c
5-d
6-c
7-c
8-c
murnal correct me if m wrong..

Mrunal
Reply to this comment

all correct.

Tuhin
Reply to this comment

what is Revised Estimate? What is Budget Estimate? what is the difference between the two?

mangesh
Reply to this comment

just superrrbbbb……

dallu
Reply to this comment

hamesha ki tarah ……….ULTIMATE

sam
Reply to this comment

thanx mrunal…..my long pending doubts abt. MSF& LAF r clear now….one more is still there….what is the meaning of long term in BANK RATE and will change in BANK RATE affect liquidty and inflation in market????plzzz…mrunal reply to this…

Shekhar

Shekhar
Reply to this comment

No . Change in Bank Rate does not affect liquidity in any appreciable way (as every action has some effect on liquidity) as it is just a penal rate (e.g. if SBI defaults on CRR or SLR at the rate mandated by RBI then it has to foot the bill at this interest rate) . Our Central bank does not discount any securities at this rate .Earlier it used to show RBI's reflection on medium (future) term interest rate …now it is not the case .

मनु झा
Reply to this comment

Nice MCQ's.

4th and 6th were headbangers !

मनु झा
Reply to this comment

In current scenario of Indian Economy , RBI has decreased the CRR and Repo Rate. State the effects of it by answering the following question.
Choose the Incorrect statement ?

1) The number of NPA's will increase.
2) Common man would become more helpless as it would directly impact the prices of daily commodities like milk.
3) This will increase Inflation in country.
4) CAD might increase.

Choices
a) 1 & 3

b) 2 & 3
c) 2 3 & 4
d) 2 & 4

TRA
Reply to this comment

none are correct.
1),2) and 4) may not be the effect of the stated conditions.
3)it may not increase inflation, moreover such calculated risk is taken by central bank anticipating growth. rate cut in both CRR and repo can be done only when inflation allows i.e if its not too high

do share ans.

मनु झा
Reply to this comment

Number of NPA's will definitely increase as the no of loans will increase. As the no. of loans will increas the no. of defaulters will increase.
2 is incorrect.
3 is incorrect too. Actually CRR and REpo rate are reduced to curb Inflation , so u are correct on that.
4 is true because as the liquidity in the market increases , people tend to Invest more. And the Economic Survey states Investment's first part is GOLD. Increase in Gold has a direct impact on CAD which will increase.

CHoice B. 2 & 3 are incorrect.

SONIYA
Reply to this comment

when there is already a process c/as repo rate under LAF then y need MSF…if am nt wrong both implies to money borrowed by banks,then y pay 1% higher interest rate in case of MSF, when bank can borrow same money paying 1% less interset as in case of repo rate…
KINDLY ENLIGHTEN ME,if m missing something…

TRA
Reply to this comment

let me toss some facts for your perusal
i hope the following points may help in comprehension of the structural and functional differences between them

1.under MSF Scheduled commercial banks(only) can avail funds from RBI on overnight basis whereas repo is generally used by RBI clients on diurnal range
to mitigate liquidity crunchesin the said range.
2 MSF's Minimum bidding amount is 1 cr. whereas in LAF bidding starts at 5 cr.
3.whereas LAF essentialy needs (gilt edged) securities/ AAA or AA rated corporate bonds distinct and exclusive of SLR securities. MSF can be availed by using

securities, MSF can be availed by using
the same bonds/secs reserved in SLR quota. (that should be the USP of MSF alongwith fortnightly term)
4. in a situation when banks run out of GSecs after repurchases done in repos, they are left with securities in SLR side which can be used for MSF borrowing
and this feature makes MSF unique per se.
it gives breather to banks in crisis situations.so was MSF originated in 2011.
**figures mentioned above are subject to change sub quarterly, but essence remains the same.

above points may suffice your enlightenment.

SONIYA
Reply to this comment

@TRA SO KIND OF U!!! thanks buddy!!

chandu
Reply to this comment

well explained,very useful,thank you.

raza
Reply to this comment

thankzX1000 alot sir u rockk!!

Usha
Reply to this comment

Can SLR hold cash apart from Gold & Bonds ?

Also, when we make online paymemts (viz. electricity/phone bills) what kind of online transfer method is used ? NEFT or what ?

Usha
Reply to this comment

Also, Can SLR money be used for purchasing Shares/Equity public or private sector corporations ?

I also wanted to know who permits a bank to dissolve SLR holding in case of bank solvency ?

Thanks a lot!
Usha

prabhakar
Reply to this comment

1.a
2.d
3.d
4.c
5.d

6.?
7.c
8.c

please reply this……………………

ONKAR
Reply to this comment

Mrunal, pls clear my doubt :
Referring to questions 5 & 6, although it is right that increase in CRR will decrease the liquidity, but in que 5, if decrease the repo rate increases the liquidity, then in que 6, why does increase in repo rate not decrease the liquidity?

Paras
Reply to this comment

Hey. U r wrkng so gudd. Giving relevant information nd tat too in simple language. Thnk yuuu. plss do helping us lyk dis only.

chandan
Reply to this comment

1-a
2-c

3-c
4-c
5-d
6-c
7-c
8-c

---

pranjal87
Reply to this comment

Wait…there is a problem. The RBI website says that NEFT & RTGS are within india only.
But if you look at the question 5 at this link (http://rbi.org.in/scripts/FAQView.aspx?Id=60) it mentions Nepal.

So?

---

alka
Reply to this comment

SIR I AM A STUDENT OF M.COM IN FINANCE. BUT I FEEL SHAME TO SAY THAT I REALLY DIDNOT KNOW PRACTICALLY WHAT ALL THESE TERMS MEANT AND WHAT IMPORTANCE THEY HAVE GOT. ALSO I NEVER FORCED MY BRAIN TO THINK OVER WHY RBI INCREASE OR DECREASE THESE RATES. YOU HAVE AMAZING POWER TO SIMPLIFY THINGS. MANY THANKS SIR.

---

niks

Reply to this comment

Exceptionally well article sir.. Thanks a lot…

---

harsh
Reply to this comment

CAN SOMEBODY EXPLAIN THE DIFFERENCE BETWEEN AIFs AND FIIs?

Shantanu
Reply to this comment

Great work…..

PRABHU
Reply to this comment

Banking Terms demystified. Superb sir.

---

shal
Reply to this comment

wow !!!

---

subhash
Reply to this comment

sir i read in a book “one and only individual person having account in rbi is rbi governer” explain it.

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