

MANAGEMENT OUTLOOK

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WHAT IS SLR? What is CRR? What is BANK RATE?, What are REPO AND REVERSE REPOS? What is difference between CRR and SLR?

What is Bank rate?

Bank Rate is the rate at which central bank of the country (in India it is RBI) allows finance to commercial banks. Bank Rate is a tool, which central bank uses for short-term purposes. Any upward revision in Bank Rate by central bank is an indication that banks should also increase deposit rates as well as Prime Lending Rate. This any revision in the Bank rate indicates could mean more or less interest on your deposits and also an increase or decrease in your EMI.

What is Bank Rate ? (For Non Bankers) :

This is the rate at which central bank (RBI) lends money to other banks or financial institutions. If the bank rate goes up, long-term interest rates also tend to move up, and

vice-versa. Thus, it can said that in case bank rate is hiked, in all likelihood banks will hikes their own lending rates to ensure and they continue to make a profit.

What is CRR?

The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with its gazette notification. Consequent upon amendment to sub-Section 42(1), the Reserve Bank, having regard to the needs of securing the monetary stability in the country, can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate. [Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe CRR for scheduled banks between 3 per cent

and 20 per cent of total of their demand and time liabilities].

RBI uses CRR either to drain excess liquidity or to release funds needed for the economy from time to time. Increase in CRR means that banks have less funds available and money is sucked out of circulation. Thus we can say that this serves dual purposes i.e. it not only ensures that a portion of bank deposits is totally risk-free, but also enables RBI to control liquidity in the system, and thereby, inflation by tying the hands of the banks in lending money.

What is CRR (For Non Bankers) :

CRR means Cash Reserve Ratio. Banks in India are required to hold a certain proportion of their deposits in the form of cash. However,

Bank Rate	6.00% (w.e.f. 29/04/2003)
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Cash Reserve Ratio (CRR)	5.00% (w.e.f. 17/01/2009)
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Statutory Liquidity Ratio (SLR)	25% (w.e.f. 07/11/2009)	Increased from 24% which was continuing since 08/11/2008
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Reverse Repo Rate	3.25% (w.e.f. 21/04/2009)	Reduced from 4% which was continuing since 05/03/2009
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Repo Rate under LAF	4.75% (w.e.f. 21/04/2009)	Reduced from 5.00% which was continuing since 05/03/2009
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actually Banks don't hold these as cash with themselves, but deposit such case with Reserve Bank of India (RBI) / currency chests, which is considered as equivalent to holding cash with themselves.. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI and is known as the CRR or Cash Reserve Ratio.

Thus, When a bank's deposits increase by Rs100, and if the cash reserve ratio is 9%, the banks will have to hold additional Rs 9 with RBI and Bank will be able to use only Rs 91 for investments and lending / credit purpose. Therefore, higher the ratio (i.e. CRR), the lower is the amount that banks will be able to use for lending and investment.

This power of RBI to reduce the lendable amount by increasing the CRR, makes it an instrument in the hands of a central bank through which it can control the amount that banks lend. Thus, it is a tool used by RBI to control liquidity in the banking system.

What is SLR?

Every bank is required to maintain at the close of busi-

ness every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). Present SLR is 24%. (reduced w.e.f. 8/11/2008, from earlier 25%) RBI is empowered to increase this ratio up to 40%. An increase in SLR also restrict the bank's leverage position to pump more money into the economy.

What is SLR ? (For Non Bankers) :

SLR stands for Statutory

Liquidity Ratio. This term is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities. Thus, we can say that it is ratio of cash and some other approved to liabilities (deposits) It regulates the credit growth in India.

What are Repo rate and Reverse Repo rate?

Repo (Repurchase) rate is the rate at which the RBI lends short-term money to the banks. When the repo rate increases borrowing from RBI becomes more expensive. Therefore, we can say that in case, RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate; similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate

Reverse Repo rate is the rate at which banks park their short-term excess liquidity with the RBI. The RBI uses this tool when it feels there is too much money floating in the banking system. An increase in the reverse repo rate means that the RBI will borrow money from the banks at a higher rate of interest. As a result, banks would prefer to keep their money with the RBI