CURRENT AFFAIRS 8th Oct. 2022

STATUTORY LIQUIDITY RATIO -DEFINITION

Statutory Liquidity Ratio or SLR is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities. It is basically the reserve requirement that banks are expected to keep before offering credit to customers. The SLR is fixed by the RBI and is a form of control over the credit growth in India.

The government uses the SLR to regulate inflation and fuel growth. Increasing the SLR will control inflation in the economy while decreasing the statutory liquidity rate will cause growth in the economy. The SLR was prescribed by Section 24 (2A) of Banking Regulation Act, 1949.

Why is the SLR fixed?

- To check the expansion of bank credit.
- To ensure the solvency of commercial banks.
- To compel banks to invest in government securities like bonds.
- To fuel growth and demand; this is done by decreasing the SLR so that there is more liquidity with the commercial banks.

If a bank fails to maintain the prescribed SLR, it is liable to pay a penalty to the Reserve Bank of India. The defaulter bank has to pay a penalty of 3% above the bank rate on the deficient amount for that particular day.

SLR plays a very important role in fixing the minimum rate at which a bank can lend money to its customers. This minimum amount is called the base rate. This helps in building transparency between the Reserve Bank of India and other public dealing banks.

The Reserve Bank of India is the body which sets the SLR. The Reserve Bank of India increases the SLR at the time of inflation to control bank credit. At the time of recession, RBI decreases the SLR to increase bank credit.

What is the Cash Reserve Ratio?

CRR is an essential monetary policy tool used for controlling the money supply in the economy, a regulation implemented in almost every nation by the Central Bank of that country.

CRR rate is the minimum percentage of cash deposits (as specified by RBI) that must be maintained by every commercial bank as per the requirement of the Central Bank i.e. RBI.

Cash Reserve Ratio Rate is computed as a percentage of the net demand and time liabilities of each bank. Net Demand and Time Liability is reached with the total of the savings account, current account, and fixed deposit balances.

Impact of Covid on CRR

Due to the disruption caused by the Covid-19, the CRR of all banks was reduced by 100 basis points to 3.0 per cent for one year ending on March 26, 2021. The Reserve Bank of India (RBI) has decided to gradually restore the cash reserve ratio (CRR) in two phases in a non-disruptive manner.

The Cash Reserve Ratio will go up from 3 per cent to 3.5 per cent effective from March 27, 2021, and to 4.0 percent effective from May 22, 2021.

Though the permissible range of CRR rate is between 3 to 15%, the current CRR of India is 3%. That means banks have to keep 3 rupees with the RBI whenever their deposit increases by 100 rupees. Higher CRR means a lower amount of money available with banks to lend out or invest i.e. lower would be the liquidity and vice versa.

Even as RBI announced the restoration of CRR to 4 per cent, the central bank extended the relaxation in the marginal standing facility (MSF) for six more months – up to September 30, 2021 – to provide comfort to banks on their liquidity requirements.

Definition of CRR

The cash reserve Ratio is a particular minimum amount of the total deposits of customer that needs to be maintained by the commercial bank as a reserve either is cash or as deposits with RBI. The CRR rate will be fixed as per the guidelines of the Central Bank.

Explanation – The amount specified as the Cash Reserve Ratio is held or reserved in cash or cash equivalents with RBI. CRR aims to ensure that banks do not run out of cash to meet their depositors' payment demands.

Advantages Of CRR

CRR helps in spreading money circulation in the economy to manage the overall liquidity. CRR rate is fixed as per the money supply in the financial market. When there is an increase in monetary supply, the RBI instantly increases the CRR to remove the excess funds. Similarly, during the case of a liquidity shortage or a decrease in the monetary supply in the economy, RBI will decrease the CRR rate to let out more money into the market. Let's take a look at other advantages of the Cash reserve ratio.

- CRR helps commercial banks to build and sustain the solvency position.
- It ensures the liquidity system is consistent and maintained well in all commercial banks.
- RBI gets to control and coordinate the credit maintained by banks through the CRR rate which helps to have a smooth supply of cash and credit in the economy.
- When the CRR rate is reduced by RBI, commercial banks can offer more advances to borrowers which in turn increases the flow of cash to the public.
- CRR helps in improving the declining rate by absorbing the liquidity when market interest rates go down intensely.
- Cash reserve ratio implementation is more effective than the other monetary instruments Like Market Stabilization Scheme bonds. Mainly because MSS bonds take a lot of time in controlling the liquidity system in the country.
- During the surplus rupee situation, CRR plays a constructive role in easing the financial environment.

Importance Of Cash Reserve Ratio

Cash Reserve Ratio maintained by banks holds importance for both Banks as well as the depositors.

In the case of depositors, when the banks sincerely maintain the required CRR rate, depositors don't have to worry for their deposits as a portion of their money is safe in the form of reserve maintained with RBI.

The importance of CRR for banks is as mentioned below:

Banks allow customers to open deposits mainly for lending. Banks like to lend a maximum amount of funds to borrowers and retain very little money with themselves for other purposes. Therefore, banks like it when the CRR rate is low.

Maximum lending by banks helps them achieve high profits. However, banks do have enough funds to meet a sudden demand for withdrawals when they use a major portion of their money for lending purposes.

This is where CRR comes into the picture. The Cash Reserve ratio rate is fixed by RBI to avoid such situations where the bank cannot meet repayments due to a shortage of funds.

How does Cash Reserve Ratio help in times of high inflation?

At the time of high inflation, the government needs to ensure that excess money is not available in the economy.

- To that extent, RBI increases the Cash Reserve Ratio and the amount of money that is available with the banks reduces. This curbs the excess flow of money in the economy.

Effects Of CRR

- First of all, the chief goal of CRR is to ensure that a small portion of funds is always available against the deposits. Second, is to enable the RBI control rates and overall liquidity in the nation.
- Now, banks prefer CRR when it is low because they need to maintain the specified ratio of funds with RBI without earning any interest on the reserved fund that means the money is kept for free.
- The increased CRR rate means that banks have a low lending capacity in terms of funds. Consequently, banks would like to open more deposit accounts. Also, Banks will increase the interest rate which will discourage borrowers from applying for loans because high-interest rates indicate higher loan expenses.
- If any depositor has invested in bank stocks, then increased CRR rate indicates that their bank will have lower margins.
- Similarly, when the CRR rate is low, banks have more money to invest in other businesses this reduces the interest rates charged on loans.
- Also, a low cash reserve ratio means the money supply of the banking system will increase. Increased money supply means high inflation.

Cash Reserve Ratio In Gist

The Cash Reserve Ratio or the CRR is a regulation used by the Central Banks in most countries by which it sets the minimum fraction of customer deposits and currency that every commercial bank is required to hold as reserves with themselves. The required reserves are generally held in the form of deposits made with the central bank, or as cash physically stored in the vaults of the banks. The CRR is also called the Reserve Requirement.

The CRR is often used as a monetary policy tool by the central bank to influence the country's interest and borrowing rates by altering the funds available for banks to make loans with. When the government needs to pump funds into the system, it lowers the CRR rate, which in turn, helps the banks provide loans to a large number of businesses and industries for investment purposes. Lower CRR also boosts the growth rate of the economy.

In the West, central banks seldom change the CRR since it would cause instant liquidity problems for banks having low excess reserves. There, they normally prefer using open market operations like selling and buying government bonds to control the monetary policy. In China, the central bank (The People's Bank of China) utilizes the CRR as a tool to fight inflation. It had increased the reserve requirement 10 times in 2007 and 11 times since 2010 beginning.

CHEETAH INTRODUCTION PROJECT MONITORING: CENTRE SET UP 9-MEMBER TASK FORCE

Cheetah Introduction Project Monitoring: The Center has established a Task Force to oversee the introduction of cheetahs in Madhya Pradesh's Kuno National Park and other suitably specified places. The **National Tiger Conservation Authority (NTCA)** would support the Cheetah Task Force's operations and provide all essential assistance. Principal Secretaries of Madhya Pradesh's Forests and Tourism, as well as **Dr. Amit Mallick**, Inspector General of the NTCA in New Delhi, will be among the task force's nine members.