RBI's qualitative and quantitative instruments of credit control?

1.Quantitative instruments	2.Qualitative instruments
1. Bank rate	1.Margin requirements:
2. Repo rate.	2.Consumer Credit Regulation
3. Reverse repo rate.	3.Guidelines:
4. CRR	4.Rationing of credit:
5.SLR	5.Moral Suasion:
6.MSF	6.Direct Action:

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1.Quantitative instruments

1.Bank Rate -

This is the long term rate(Repo rate is for short term) at which central bank (RBI) lends money to other banks or financial institutions.

Bank rate is not used by RBI for monetary management now. It is now same as the MSF rate. Current bank rate is 6.75%

Repo rate

repro rate also known as the benchmark interest rate is the rate at which the RBI lends money to the banks for a short term.

When the repo rate increases, borrowing from RBI becomes more expensive.

If RBI wants decrease in money supply then increases the repo rate .
if it wants to make it cheaper for banks to borrow money it reduces the repo rate.

Current repo rate is 6.50%

3.Reverse Repo rate

Reverse Repo rate- is the short term borrowing rate at which RBI borrows money from banks.

The Reserve bank uses this tool when it feels there is too much money floating in the banking system.

In this way surplus fund with commercial bank goes with RBI.

Reverse Repo rate signifies the rate at which the central bank absorbs liquidity from the banks.

RRR is variation rate (.25%) lower than the repo rate.

Current R.R.R is 6. 25%.

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4.CRR - Cash Reserve Ratio

CRR - Banks in India are required to hold a certain proportion of their deposits in the form of cash.

However Banks don't hold these as cash with themselves, they deposit such cash with Reserve Bank of India .

Currently CRR is 4 %

CRR can vary from 3% to 15% .

5. SLR - Statutory Liquidity Ratio -

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).

Currently SLR is 19.5%

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SLR can vary from 25% to 40%.

6. MSF - Marginal Standing facility

It is a special window for banks to borrow from RBI against approved government securities in an emergency situation like an acute cash shortage.

MSF rate is higher then Repo rate.

Current MSF Rate: 6.75%

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2.Qualitative instruments

1.Margin requirements

Margin requirements This refers to difference between the securities offered and amount borrowed by the banks.

2.Consumer Credit Regulation

Consumer Credit Regulation refers to issuing rules regarding down payments and maximum maturities of instalment credit for purchase of goods.

3.RBI Guidelines

RBI Guidelines RBI issues oral, written statements, appeals, guidelines, warnings etc. to the banks.

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Rationing of credit

Rationing of credit -The RBI controls the Credit granted / allocated by commercial banks.
Liberal policy – during deflation.
Dearer policy – during inflation.

Moral Suasion

Moral Suasion Psychological means and informal means of selective credit control.

The moral suasion develops a more psychological effect as the central bank makes an appeal to the bank's nationalism spirit.

It is purely informal and involves personal interaction between the central bank and the commercial banks.

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Direct Action

Direct Action This step is taken by the RBI against banks that don’t fulfil conditions and requirements.

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NON-BANKING FINANCIAL INSTITUTIONS (NBFIS)

NBFIs in India are:

EXIM Bank
NABARD ,
National Housing Bank ,
SIDBI ,
Industrial Investment Bank of India.

NBFIs account for 12.3% of the assets of the total financial system.

'Capital Adequacy Ratio

CAR and *Capital to Risk (Weighted) Assets Ratio* (CRAR), is the ratio of a bank's capital to its risk.

The Capital Adequacy Ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Two types of capital are measured:

Tier one capital is the capital that is permanently and easily available to remove losses suffered by a bank without it being required to stop operating.

Tier 1 capital is a bank's core capital,