

# Open Market Operations



**Government  
Bonds**

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Bonds**



Sale and purchase of Government Securities

Why will a bank buy government securities ?

**IDLE MONEY**

# Effect

Inflation	Deflation
RBI ▲ CRR/SLR	RBI ▼ CRR/SLR
Tight   Dear Money Policy	Easy   Cheap Money Policy
RBI will sell OMO	RBI will buy OMO

# Bank Rate



Long Term Loan

20%



J&K Bank

Loan

40%

Car, Education,  
Marriage

- The Rate at which RBI lends long term loan to banks
- No Collateral / Mortgage
- If bank rate is increased, the rate at which loan is available from banks will also increase
- It is not the main tool to control money supply

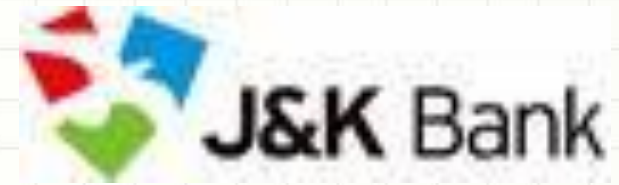
# Effect

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Bank Rate ▲	Bank Rate ▼

# LAF (Liquidity Adjustment Facility) Repo Rate and Reverse Repo Rate



Short Term Loan



- The interest rate at which Banks borrow money from RBI – **Repo Rate**
  - Collateral - Government security (not from SLR) with repurchase agreement
- Interest rate paid by RBI when Banks deposit money in RBI – **Reverse Repo Rate**
  - Collateral - Government security with repurchase agreement

# Repo Rate and Reverse Repo Rate

- Reverse Repo Rate = Repo Rate - 1% (100 base points)

**Policy Rate= Repo Rate**



# Effect

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RBI ▲ CRR/SLR	RBI ▼ CRR/SLR
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Bank Rate ▲	Bank Rate ▼
Repo Rate ▲	Repo Rate ▼

# Recap

CRR (4%)

SLR (22%)

RR (6%)

Rev RR  
(5%)

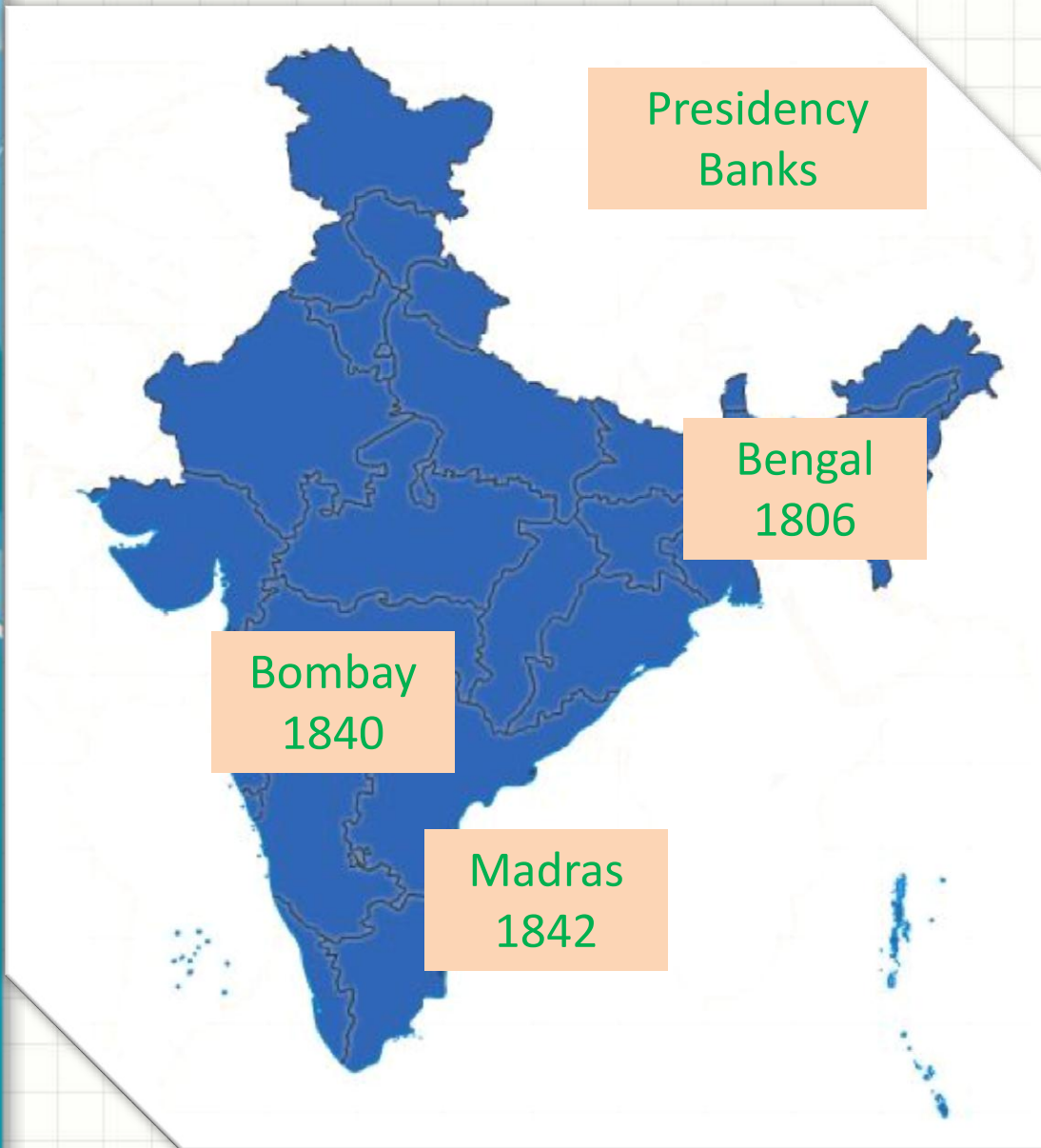
Bank  
Rate(7%)



# Other tools

- Consumer Credit Control
  - Margin Requirements – Gold Ornaments-mortgage
  - Down payment – Car 30%
  - Rationing – Priority Sector Lending
    - » Farmers
    - » Education
    - » Small Business
    - » Home loan

# Banking Sector Evolution



1861: all 3 ; issue currency

1921: Imperial Bank of India

1955 (nationalized)  
State Bank of India

# Indian Banks

- ~~1707 : Bank of Hindustan~~
- 1865 Allahabad Bank
- 1908 Bank of Baroda

By 1930's there were 1200+ banks in india

1930 – Great Depression – defaults

1934- RBI Act

1935- RBI established

1955 – 1 bank nationalized

1969 – 14 50Cr Deposit

1980 – 6 200Cr Deposit

# 1969

Central Bank of India

Bank of India

Bank of Madras

PNB

UCO

Canara

Dena

United Bank

Syndicate

Allahabad

Indian Bank

Indian Overseas

Union

Bank of Bombay

# 1980

Andhra Bank

Corporation Bank

New Bank of India

Vijaya Bank

Oriental Bank of Commerce

Panjab and Sindh Bank

# Banks in India

- Public Sector Banks (27 PJ nayak committee)
  - 1969/14 + 1980/5 + 2004/IDBI + 1955/SBI + 2004/BMB + 5 Associate Banks
- Private Sector Banks 23
  - [iba.org.in/viewmembanks.asp?id=3](http://iba.org.in/viewmembanks.asp?id=3)
- Foreign Banks 41
  - [iba.org.in/viewmembanks.asp?id=4](http://iba.org.in/viewmembanks.asp?id=4)
- *Banking Ombudsman*
  - *Who hears the complaints of customers against the banks*
  - *Setup in 1995 on the recommendation of Narsiman Committee*

## Bank

## NBFC

RBI registers them under Banking Regulation Act

Registered under Companies Act

RBI Supervision

Depends:

Insurance: IRDA

Merchant Bank : SEBI(Securities and Exchange Board of India)

Deposits FD TD

Can take FD but not TD

CRR(4%) and SLR(22%)

TD 15% SLR

Banks lend deposited money; but cannot invest in Stock Market

Can lend money and can invest in stock market (Mutual Fund), Insurance

Loan rates depend on base rate

Depends on risk factor e.g. Gold 15% - 25%



# Feedback

- Drop your feedback at [syedazadhb@gmail.com](mailto:syedazadhb@gmail.com)