

Cash Reserve Ratio (CRR)

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About Cash Reserve Ratio (CRR)

- Cash Reserve Ratio (CRR) is the **share of a bank's total deposit** that is mandated by the Reserve Bank of India (RBI) **to be maintained with the latter as reserves in the form of liquid cash.**
- The bank **cannot use this amount for lending and investment purposes and does not get any interest from the RBI.**
- CRR **applies to scheduled commercial banks**, while the **regional rural banks and NBFCs are excluded.**
- Key objectives of the Cash Reserve Ratio
 - CRR helps **control inflation. In a high-inflation environment, RBI can increase CRR** to prevent banks from lending more.
 - CRR **also ensures banks have a minimum amount of funds** readily **available to customers even during huge demand.**

- CRR **serves as the reference rate for loans**. Also **known as the base rate for loans**, the banks **cannot offer loans below this rate**.
- Since CRR regulates the money supply, it **boosts the economy whenever required by lowering the CRR**.

How is CRR Calculated?

- CRR is calculated as a **percentage of Net Demand and Time Liabilities (NDTL)**.
- This percentage is **fixed by the RBI** and is changed from time to time by the central bank itself.
- **NDTL for banking refers to the aggregate savings account, current account and fixed deposit balances held by a bank**.
- **Currently, the CRR is fixed at 4.50%**. This means that for every Rs 100 worth of deposits, the bank has to keep Rs 4.5 with the RBI.

Key Facts about Statutory Liquidity Ratio (SLR)

- SLR is a **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**.
- However, these **deposits are maintained by the banks themselves and not with the RBI**.
- The SLR is **fixed by the RBI**.
- **How does SLR work?**
 - Every **bank must have a particular portion of their NDTL in the form of cash, gold, or other liquid assets** by the end of the day.
 - The **ratio of these liquid assets to the demand and time liabilities is called the SLR**.
- **Importance of SLR:**
 - The government **uses the SLR to regulate inflation and liquidity**.
 - **Increasing the SLR will control inflation** in the economy while decreasing it will cause growth in the economy.
 - Although, the SLR is a monetary policy instrument of RBI, **it is important for the government to make its debt management programme successful**.
 - SLR has **helped the government to sell its securities or debt instruments to banks**.
 - Most of the **banks will be keeping their SLR in the form of government securities as it will earn them an interest income**.

Q1) What are scheduled commercial banks?

Scheduled banks are those banks that are listed under Schedule II of the Reserve Bank of India Act, 1934. The bank's paid-up capital and raised funds must be at least Rs. 5 lakh to qualify as a scheduled bank. These banks are liable for low interest loans from the RBI. They also have membership in clearing houses. They also have numerous obligations to fulfil such as maintaining an average daily Cash Reserve Ratio with the central bank.

Source: [RBI Asks Banks To Set Aside Incremental Cash Reserve Ratio](#)

Source: <https://vajiramandravi.com/current-affairs/cash-reserve-ratio-crr/>

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