What is Cash Reserve Ratio (CRR)?

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About Cash Reserve Ratio (CRR)

- Under CRR, commercial banks have to hold a certain minimum amount of deposit as reserves with the RBI.
- The percentage of cash required to be kept in reserves as against the bank's total deposits is called the CRR.
- The RBI decides the amount, and is kept with them for financial security.
- The bank cannot use this amount for lending and investment purposes and does not get any interest from the RBI.
- The CRR applies to scheduled commercial banks, while regional rural banks and NBFCs are excluded.
- Following are the critical objectives of the CRR:
    - CRR helps control inflation. In a high inflation environment, the 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, 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 the CRR Calculated?
    - There is no CRR formula. In technical terms, CRR is calculated as a percentage of Net Demand and Time Liabilities (NDTL).

- NDTL for banking refers to the aggregate savings account, current account, and fixed deposit balances held by a bank.
- In case a bank fails to maintain its CRR, it will have to pay fines to the RBI because of that default. The fine is charged for the shortfall.

Q1) What are Green Deposits?

In general terms, a green deposit is a fixed-term deposit for those who want to invest in environmentally friendly projects. Just like a regular Fixed Deposit scheme, the green deposit pays interest to its investors and has a fixed term. The proceeds that a bank gets from deposit holders get earmarked for allocation to green finance.

Source: SBI seeking lower CRR on green deposits, says chairman Dinesh Khara

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