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Statutory Liquidity Ratio (SLR), Meaning, Objectives, Components

December 26, 2025 • vajiramandravi.com

The **Statutory Liquidity Ratio (SLR)** is the minimum percentage of a commercial bank's deposits that must be maintained in the form of **cash, gold, or government-approved securities**. It is mandated by the **Reserve Bank of India (RBI)** to regulate liquidity and ensure financial stability. The main **objectives** of SLR are to control credit flow, manage inflation, and ensure the solvency of banks. Its **major components** include **liquid assets** and **Net Demand and Time Liabilities (NDTL)** of banks.

What is Statutory Liquidity Ratio?

The **Statutory Liquidity Ratio (SLR)** is the minimum percentage of a bank's **Net Demand and Time Liabilities (NDTL)** that must be maintained in the form of **liquid assets** such as cash, gold, or government securities. It is prescribed by the **Reserve Bank of India (RBI)** as a tool of monetary policy. Unlike CRR, SLR is maintained by banks **with themselves** and not with the RBI. SLR helps control credit growth, ensure bank solvency, and maintain liquidity in the economy.

Statutory Liquidity Ratio (SLR) Objectives

The Statutory Liquidity Ratio is maintained to regulate the lending capacity of banks and ensure financial stability in the economy. By mandating banks to hold a portion of deposits in liquid assets, RBI controls credit flow and inflation.

- To prevent excessive credit creation and over-lending by banks
- To control inflation by restricting liquidity during inflationary periods
- To encourage banks to invest in government securities
- To ensure solvency and financial stability of banks
- To regulate money supply as a tool of monetary policy

Major Components of Statutory Liquidity Ratio

The Statutory Liquidity Ratio is calculated based on a bank's **Net Demand and Time Liabilities (NDTL)** and the liquid assets it holds. These components together determine the minimum liquidity that banks must maintain as prescribed by the RBI.

- **Liquid Assets:** Assets that can be easily converted into cash, including cash balances, gold, treasury bills, government bonds, government-approved securities, and securities issued under Market Stabilisation Scheme (MSS) and market borrowing programmes.
- **Net Demand and Time Liabilities (NDTL):** Total liabilities of a bank payable to the public.
- **Demand Liabilities:** Current deposits, demand drafts, balances in overdue fixed deposits, and the demand portion of savings bank deposits.
- **Time Liabilities:** Fixed deposits, time portion of savings bank deposits, and staff security deposits.

Difference Between Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Cash Reserve Ratio and Statutory Liquidity Ratio are quantitative monetary policy tools used by the RBI to control liquidity and credit creation in the banking system. The Difference Between Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have been highlighted below:

Difference Between Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)		
Basis of Difference	**Cash Reserve Ratio (CRR)**	**Statutory Liquidity Ratio (SLR)**
Full Form	Cash Reserve Ratio	Statutory Liquidity Ratio
Maintained With	Reserve Bank of India	Bank itself
Form of Reserve	Cash only	Cash, gold, and government securities

Interest Earnings	No interest earned	Interest earned on government securities
Objective	Control liquidity in the banking system	Control credit expansion and ensure solvency
Effectiveness	More effective liquidity control tool	Relatively less effective than CRR
Legal Provision	RBI Act, 1934	Banking Regulation Act, 1949