Economics Class Notes for IAS and PCS

Chapter 9: Monetary and Credit Facility

Monetary and Credit Facility
Bank Rate
➢ Rate at which RBI lend long term to commercial bank called "Bank Rate". Bank rate has been replaced with Repo rate. ➢ RBI lend on short base to bank on security of government bond called "Repo rate" ➢ If RBI Borrow from Market (Absorb excessive liquidity) called " Reverse Repo rate" ➢ RBI use Repo rate/ Reverse repo rate instrument for liquidity adjustment in system.
MSF
➢ Marginal Stability Facility –it is type of window in which commercial bank can take borrow from RBI, 1% more at Repo rate. ➢ Bank can use Repo rate over securities and if bank want more above so can use mandatory SLR holding (23% of Bank deposit) ➢ MSF is open to bank that want borrow from RBI even if credit costly (2%). If bank have no access SLR, than bank can go to – MSF ➢ LAF (Liquidity Adjustment Facility) – Introduced by RBI, under which base use it for day to day mismatch liquidity.
SLR
➢ Statutory Liquidity Ratio ➢ It may be government security, RBI approved security, gold ➢ It is portion of time & demand viability of bank – bank have to keep it in form of liquid asset.it is approx. 23% of total amount in bank. ➢ CRR (Cash Revenue Ratio) – Bank should keep with RBI in cash form (no earn interest)
Market Stabilizing Bond
➢ To absorb excessive liquidity in market, RBI buy normally available govt. security are not enough for RBI to suck the huge rupee supply that buy dollar so MSS are started.
Function of RBI
➢ Bank Issue, Bank of govt., Control of credit, Agent & advice of govt., function as National cleaning home, custodian foreign reserve, supervision & control over commercial & co – operative base, banker of bank ➢ Liquidity Trap – Inflation of cash into Private Bank system by central base fail to lower interest rate.
FSDC

- Financial Stability & Development Council – apex body (chairman as Finance Minister)
- Member pf FSDC– governor of RBI, SEBI, IROA, PFRDA, etc.
- Help in Financial stability and Collaborate with – FATF, FSB (Financial Stability Board

Economics Class Notes for IAS and PCS

Chapter 10: Fiscal System

Fiscal System

Fiscal Policy

- Raising & spending money in quantitative & qualitative term.
- Fiscal Policy include Expenditure of center, state government, Public debt, and deficit.
- Fiscal policy Taxation, disinvestment, borrowing from internal & external sources.

Revenue Receipt (RR)and Revenue Expenditure (RE)

- Revenue Receipt (RR)
  - Taxation
  - User charge (water & power)
  - Disinvestment
  - Borrow may be capital receipt
- Revenue expenditure (RE)
  - Plan Expenditure – Rural development + Irrigation + Science and Technology + Research & Development + environment + economic service
  - Non Plan Expenditure– Defense + Public Administration + Subsidy + Interest Payment
- Revenue Deficit (RD): RR – RE =(Tax + Non Tax receipt)– (Plan & non plan expenditure)
- Art 112: Mandate that expenditure show in revenue source

Capital Account (CA)

- Capital Revenue(CR): Recovery of loan, fresh borrow from inside & outside & disinvestment department & non department
- Capital Expenditure (CE): loan to state & UT, loan repaid, social area, infrastructure
- Fiscal deficit: (RR + CR) – (RE + CE) = (revenue receipt+ capital receipt)- (revenue expenditure + capital expenditure)
- Primary deficit: (Revenue deficit) – (Payment of Interest)
- Effective Revenue deficit (ERD): RD – (grants to state)

Gross Fiscal Deficit (GFD)

- Gross FD: (flagship & non flagship program expenditure)– (Receipt by tax & non tax + capital receipt by non-debt)
- Net FD: GFD – Loans grants to state/ UT
- Financing gap between govt. receipt & expenditure by RBI. Printing by RBI called “high powered money” (Reserve Money)

WMA

- Prior 1997, RBI lent to central govt. against Adhoc Treasury bill, this provision for extending short term finance bridge and RBI have to print money if govt. have deficit.
- Now rule changed
  - Security replace by Repo rate
  - Overdraft – 2% + Repo rate
- In the case of state – RBI Provide two type of WMA
  - Normal WMA – unsecured advanced extend to bank rate.
  - Special WMA – Against govt. security.

FRBM

- Fiscal Responsibility & Budget Management
- Fiscal Discipline – RBI print only in exception situation (Natural Calamity)
- New Zealand Ist country to impact this.
- FRBM 2.0: ERD Introduced ERD (effective revenue deficit) concept

Zero Base Budget

- Cut wasteful expenditure & critical examine of govt. program.
- FBT(Frings benefit tax)– tax on enjoyable by companies to their employee
- Perquisites- Facility by company (car, club membership etc.)
- Fiscal cliff- Tax cut & spending cut
- Twin deficit-FD + CAD
- Griffin good- Demand up when price (↑)
- Demerit good-Tabaco, cigarette etc.
- Merit good-good for public like Park, Light. defense
- Pump priming- More expenditure by govt.
- Crowded out-Excessive govt. borrowing & lead to shrinkage of liquidity
- Fiscal drag- Automatic stabilize

Sensex

- NASDAQ – New York
- Hong Song – honk kong
- Nikki – Tokyo/ Japan
- Straight line – Singapore
- Shanghai – China
- Down-Jones – New York
- JCT – Indonesia

Inflation rate (IR)

- Government Borrowing – Interest rate (↑)
- Inflation = Interest rate (↑)
- Need of growth = cast of credit (↓) = More credit =IR (↓)
- NRI, Promotion of foreign investment = IR (↑)

	Tight Money/ Clear Money (Inflation)	Cheap Money/ Available
CRR	(↑)	(↓)
BR	(↑)	(↓)
RR	(↑)	(↓)
OMR	Sell	Buy

Quantitative Easing

- Central bank purchase government security or other from market to order to lower interest rate & increase money supply called "Quantitative Easing"

Liquidity Trap

- When govt. fail to decrease Interest rate and people think this interest rate will goes increase and people start take out money from bank
- Bond $\propto \frac{1}{\text{Interest Rate}}$

Rahein Education

Free online Test: www.coderunnertest.com

Email Id: raheineducation@gmail.com

Website: www.raheineducation.com

YouTube link: https://youtube.com/@insightadda?si=S0awd3xnkHB6Pbjr

Insight Adda 365 by TKG

@InsightAdda

Telegram Link: https://t.me/insight2020

@INSIGHT2020