

JAIIB Examination 10-Minute Series

**Indian Economy and Indian Financial System
Module B – Liquidity Adjustment Facility**



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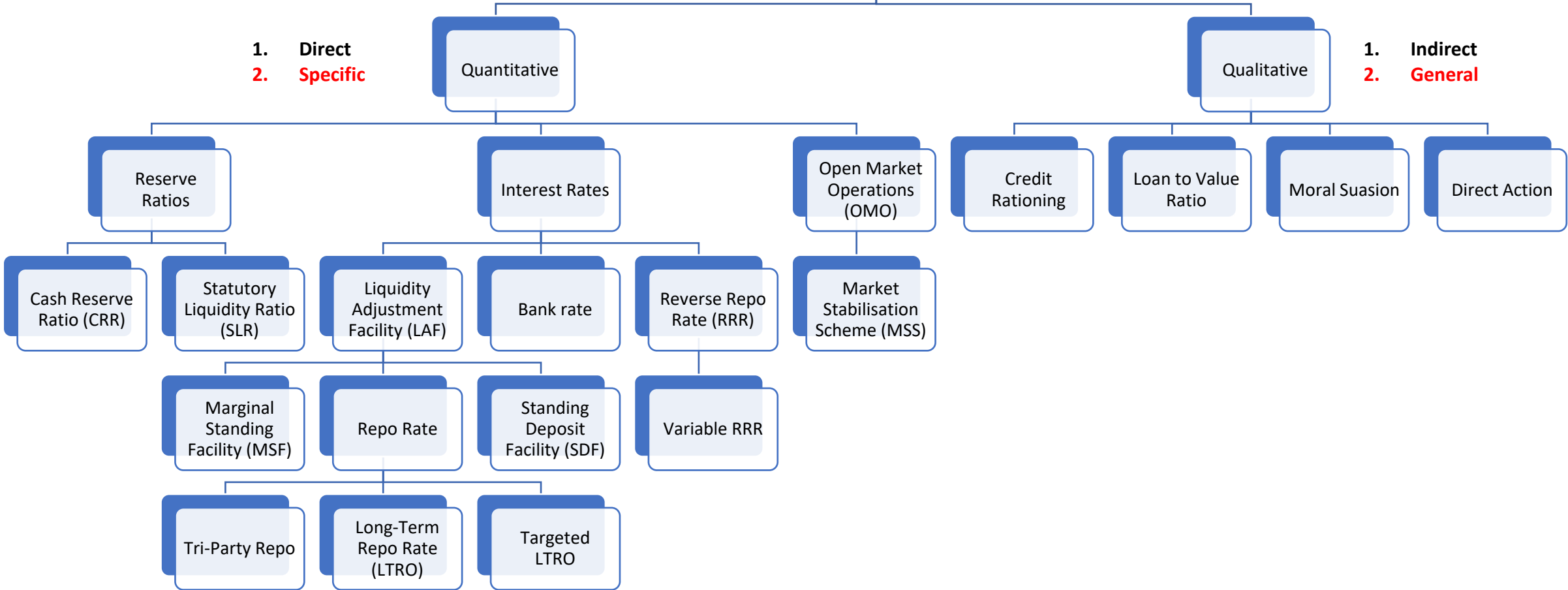


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MONETARY POLICY & INFLATION



Tools of Monetary Policy



Monetary policy tools

	Marginal standing facility	Repo rate	Standing deposit facility
MEANING	Additional borrowing, to fulfil urgent needs, using SLR G-Secs (up to a certain % of NDTL)	Repurchase = Collateralised lending, inject liquidity	RBI absorbs excess cash by Sucking liquidity
WHO BORROWS?	Banks borrow from RBI at penal rate . Acts as a Safety valve	Banks and Primary Dealers borrow from RBI	Banks park excess money at RBI, for small interest
PURPOSE	Last resort to borrow ON	Short-term borrowing ON	Short-term borrowing ON



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Monetary policy tools

Marginal standing facility

Repo rate

Standing deposit facility

	Marginal standing facility	Repo rate	Standing deposit facility
PART OF LAF	Upper limit of LAF	Centre of LAF	Floor of LAF
COLLATERAL	Yes. Govt. Securities	Yes. All bank Securities <ul style="list-style-type: none">• Tri Party Repo• Term Repo – 7/14/28 days• Long Term – Up to 3 years SLTRO	No <ul style="list-style-type: none">• Can be an eligible asset for maintenance of SLR but not CRR



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Q. Which among the following is/are the components of the Liquidity Adjustment Facility (LAF)?

1. Repo Rate
 2. Bank Rate
 3. Marginal Standing Facility
- a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Answer: Option C



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Which among the following is/are correct statement(s) with respect to MSF Rate?

1. It is meant for overnight lending.
 2. The loan is given against security within the limits of SLR.
 3. It is the penal rate at which the commercial banks borrow funds from the RBI
- a) 1 and 2 only
 - b) 2 and 3 only
 - c) 1 and 3 only
 - d) 1, 2 and 3

Answer: Option D



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