Indian Economy · GS - III

How does flexibility in Cash Reserve Ratio maintenance help banks manage liquidity? Explain its significance for monetary policy transmission in India.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 27/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

CRR, NDTL, banking liquidity, RBI, monetary policy transmission, reserve management, credit availability, financial stability

Model Answer

Cash Reserve Ratio (CRR) is the proportion of a bank's Net Demand and Time Liabilities (NDTL) that must be maintained as cash balances with the Reserve Bank of India.

The RBI's decision to reduce the minimum daily CRR maintenance requirement from 99% to 90%, while retaining the overall CRR at 3%, introduces greater operational flexibility.

Significance of the change

1. **Daily liquidity management:** Banks can manage fluctuations in deposits and withdrawals more efficiently.
2. **Operational flexibility:** Lower daily maintenance requirements reduce pressure to maintain nearly the entire prescribed average reserve every day.
3. **Credit management:** Greater flexibility in liquidity management can help banks manage short-term funding requirements.

4. **Monetary policy transmission:** It supports smoother functioning of the banking system, facilitating the transmission of monetary policy signals.
5. **Financial stability:** Better liquidity management can help banks handle temporary fluctuations in cash requirements.

Important distinction

The change does not reduce the overall CRR requirement. Banks must still fulfil the prescribed average reserve maintenance obligation over the reporting fortnight.

Conclusion

The reform represents an adjustment in reserve maintenance rather than a reduction in the overall monetary reserve requirement. Such operational flexibility can improve banking efficiency while preserving RBI's control over systemic liquidity.

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