

Quantitative
tool



Money supply

1

CCB - Capital - 2.5%
Conservation +
Buffer 9%

Core capital

11.5%

x 140

RWAs

↳ majorly bank loans

OMOs



Open Market Operations



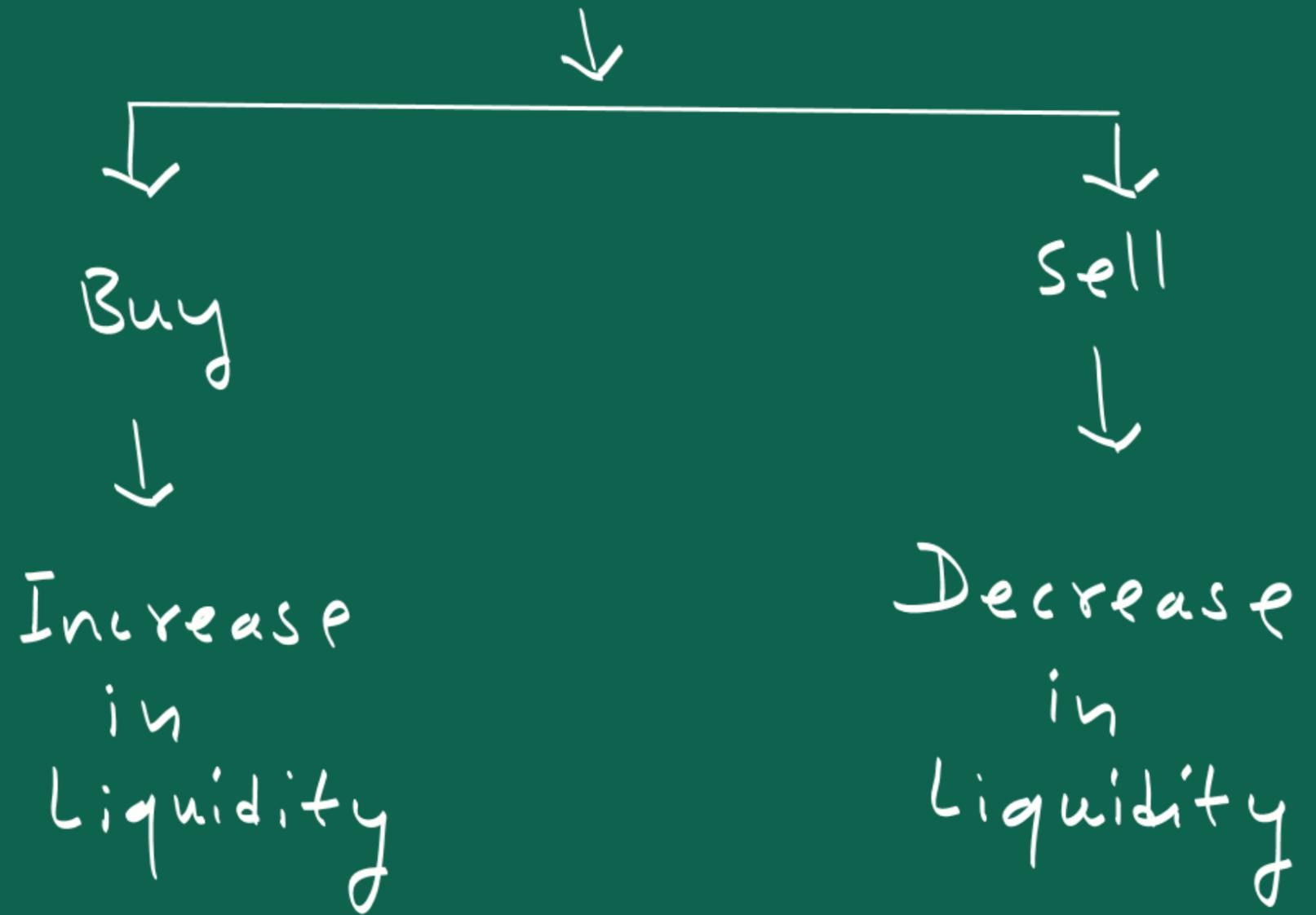
a quantitative tool to change the amount of liquidity in the economy.



The central bank buys/sells



Govt. Securities



Note -

In 2021, the RBI conducted the following ^{famous} programme to boost liquidity in the economy -

(i) GSAP - 1.0

(ii) GSAP - 2.0

GSAP = Govt. Securities Acquisition Programme

L T R O : First used in 2020

↓
Long Term Repo Operation

↓

An innovative monetary tool
of the RBI.

↓

The RBI provided long term money
up to 3 years to the comm. banks
under the Repo Rate.

↓

To boost liquidity in specific sectors

Operation Twist: 2019 ^{→ 1961, USA}

Under it — ↓

(i) The RBI purchased G-SEC of 10-year maturity.

(ii) The RBI sold short-term G-SEC.

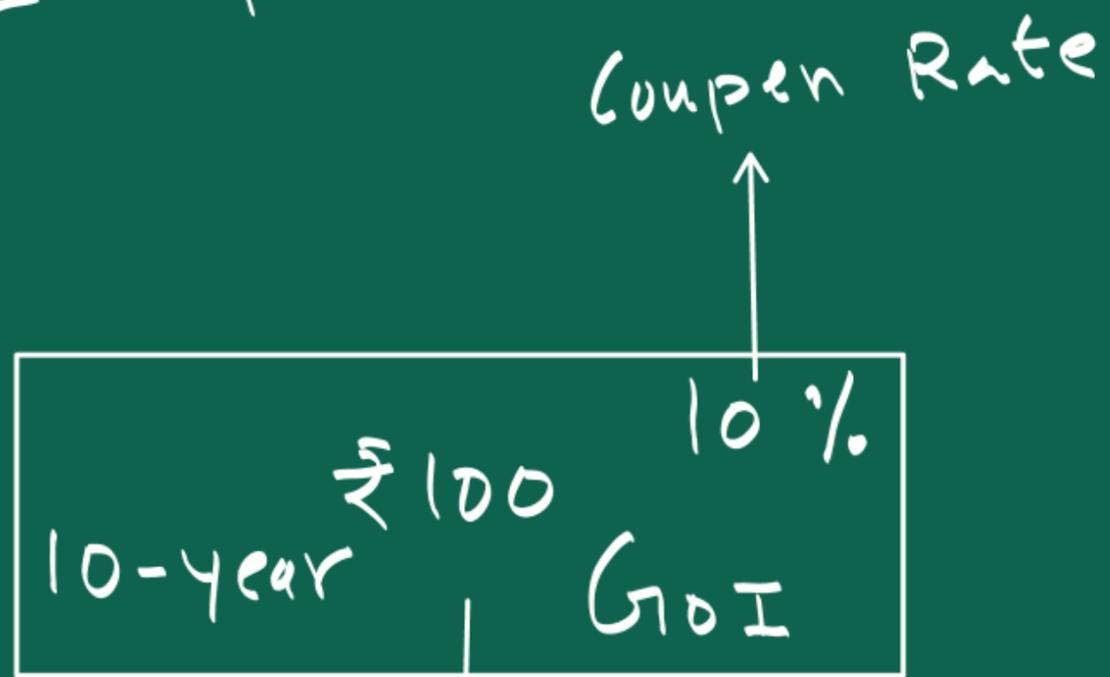
Why? →

Bond = Coupon

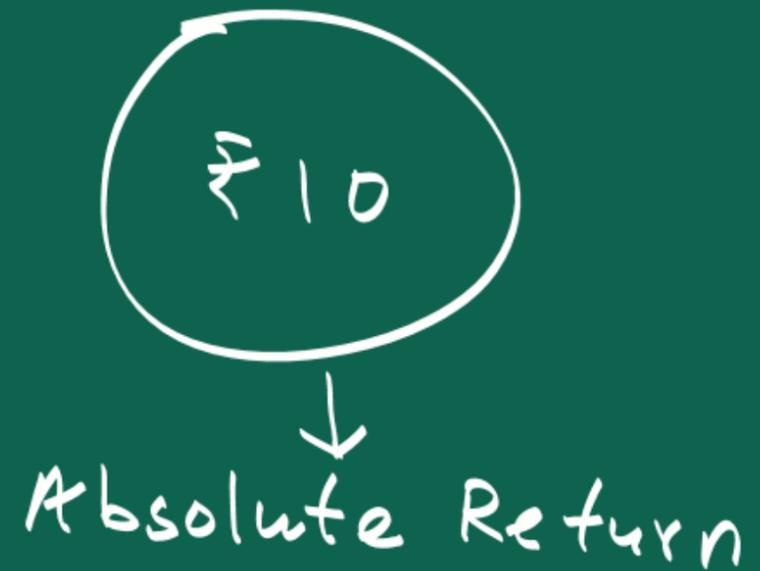
(i) 10% → ₹100

(ii) 5% → ₹200

(iii) 20% → ₹50



Principal Amount



Yield Rate

Absolute Return

$$\frac{\text{Absolute Return}}{\text{Market Price of bond}} \times 100$$

Coupen Rate
↓

10%

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Yield

Rate

10-year ₹ 100 10%
GDI

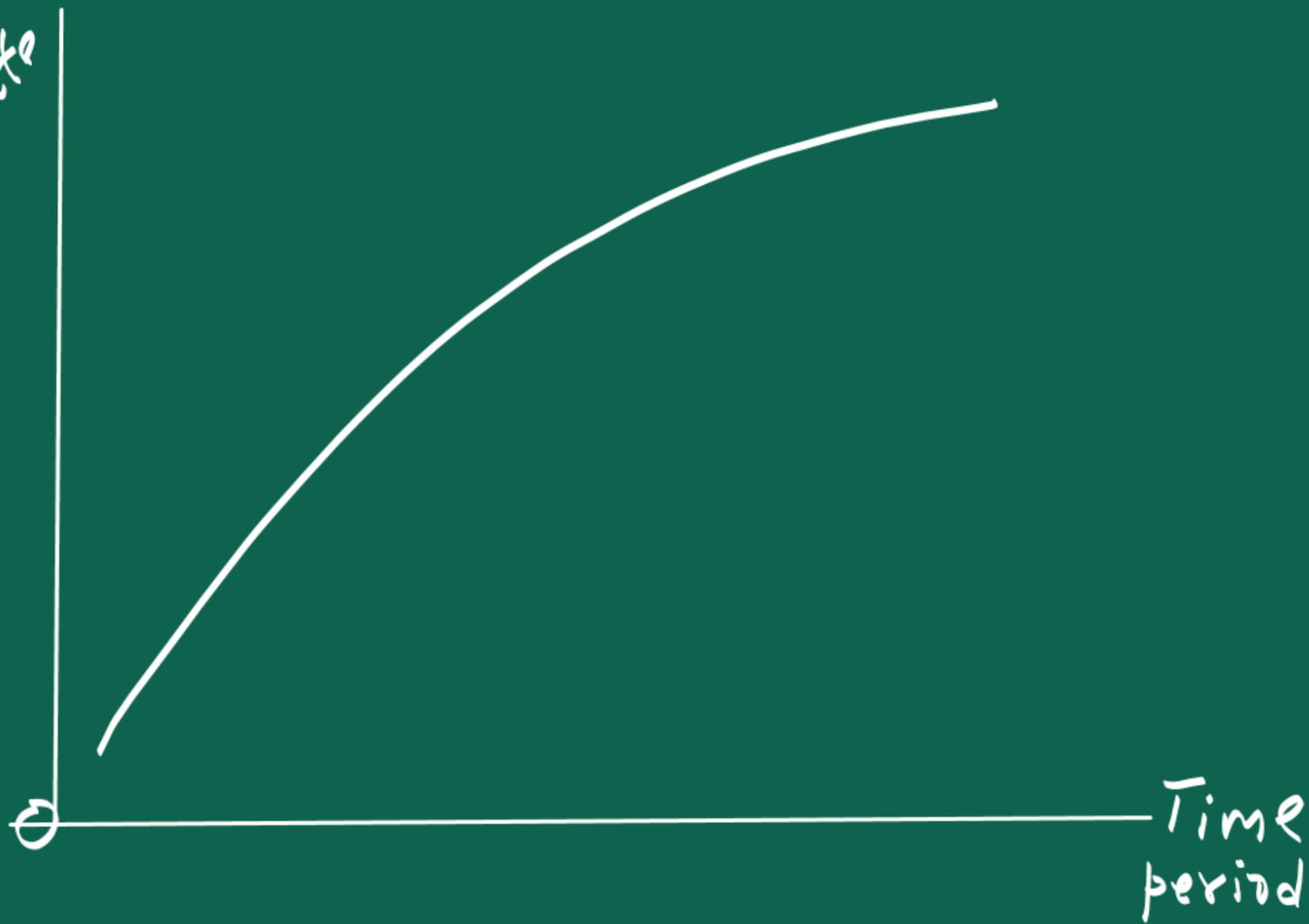
Absolute return

↓

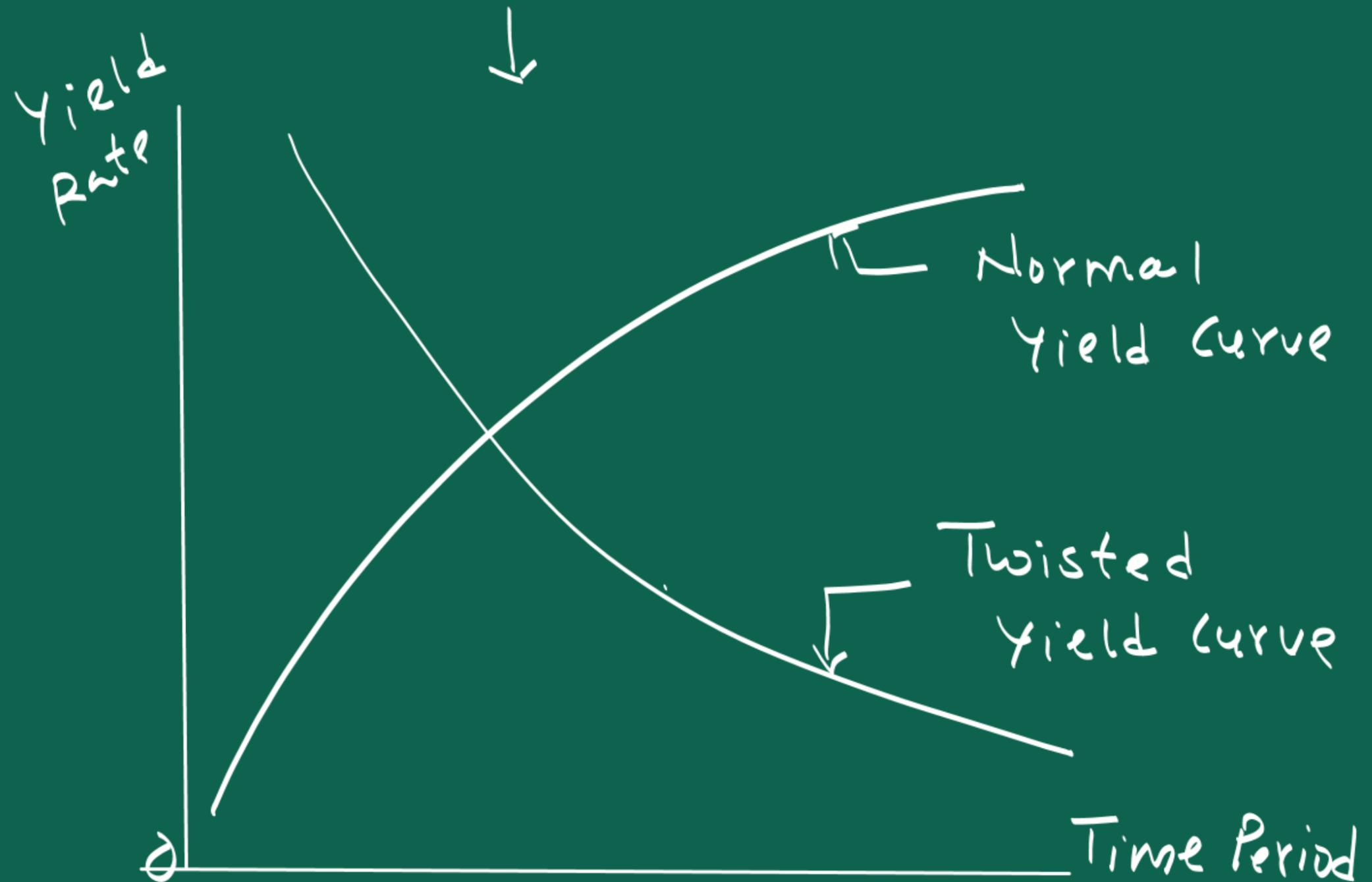
$$\frac{₹ 10}{₹ 120} \times 100 = 8.33\%$$

Yield Curve : Normal

Yield
Rate



Shape of Yield Curve : Operation Twist



The Issue of NPAAs NPLs



Principal

Interest



Timely payment is not there.

(i) Meaning of NPAs



Bank loans for which either principal or interest or both remain overdue for a period more than 90 days.

A bank loan undergoes the following stages before it becomes an NPA.

Stressed
Assets

delay

(i) SMA-0 → 1 to 30 days

(ii) SMA-1 → 31 to 60 days

(iii) SMA-2 → 61 to 90 days

(iv) NPA → More than 90 days

SMA = Specially Mentioned Accounts

Balance - sheet



a statement



showing



Assets & Liabilities
of a business entity.

which is to be given

Liabilities

Assets

Deposits - ₹ 2
crore

Loans to
others - ₹ 2
crore

Market Rate of Interest

&

Bond prices



Inverse Relation



(i) If market interest rate is higher \rightarrow Bond Price \downarrow

(ii) If market interest rate is lower \rightarrow Bond Price \uparrow

So that the yield rate of long-term G-sec could be reduced.



Purpose -

The comm. banks could give more loans to MSMEs, Housing sector, Auto sector etc.