



TRANSMISSION MECHANISM AND ROLE OF BANKS

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Monetary Transmission Mechanism

- Instruments
- Liquidity Adjustment Facility
- Reverse Repo, Repo and MSF
- Policy Rate
- Operating Target
- Interest Rate Corridor
- Term Repo

Other instruments of Liquidity

- OMO
- CRR
- Forex intervention

Factors Affecting Liquidity

- Currency drain
- Gov balances with RBI – Revenue and Expenditure streams
- Advance tax collections
- Auction of Government Balances
- Forex Intervention

Money Markets

- Call Money
- CBLO
- Market Repo

Open Market Operations

- Impact – Intended and Unintended
- Announcement Impact
- Permanent liquidity vs Temporary liquidity
- Impact on yields – Yield differential between India and US
- OMO vs CRR

Recent Policy Measures and Normalization

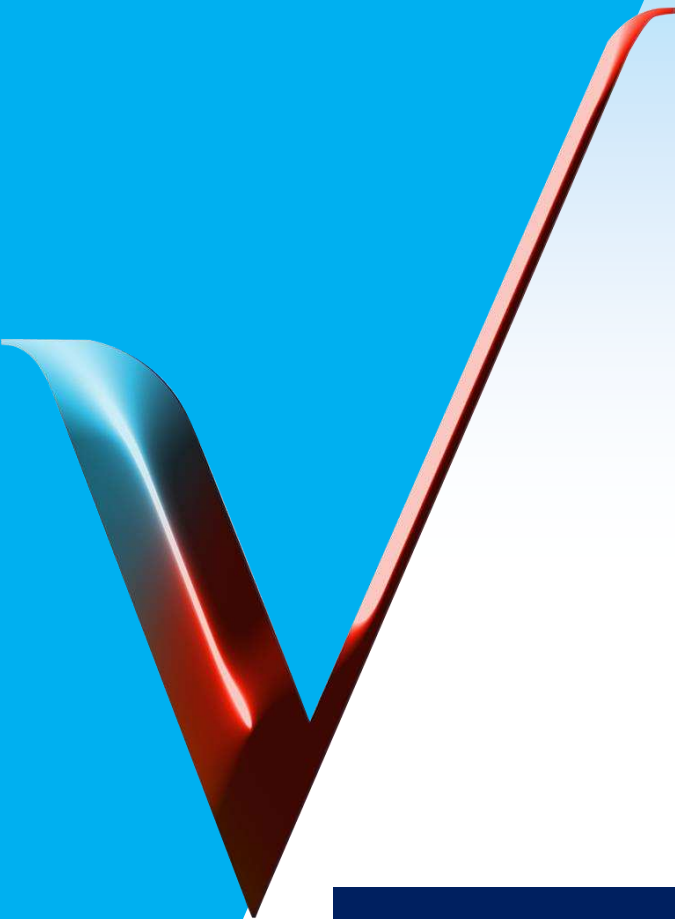
- July Measures
- Cap on LAF Window
- Hike in MSF Rates
- Daily Average CRR balances

The road to Normalization

- Daily CRR reduction
- MSF rate reduction
- Shifting of MSF timings
- Increase in Repo rates
- Cap on LAF – Reset
- Introduction of Term Repo
- Objectives

G Sec Market/ Debt Market

- Secondary Market liquidity
- SLR and HTM
- Interest Rate Futures



Thank You