GENERAL STUDIES III

RBI Daily CRR Maintenance Cut to 90% – UPSC 2027

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The Reserve Bank of India (RBI) has reportedly reduced the minimum daily Cash Reserve Ratio (CRR) maintenance requirement to 90%, providing banks greater flexibility in managing short-term liquidity and payment obligations. The development highlights the distinction between the statutory CRR rate and daily reserve maintenance requirements. This article examines the implications for banking liquidity, monetary policy transmission, credit creation, financial stability and the Indian economy, along with UPSC Prelims MCQs and Mains model answers.

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UPSC CURRENT AFFAIRS | INDIAN ECONOMY | GS PAPER III

Why in the news?

The Reserve Bank of India (RBI) has reportedly reduced the minimum daily Cash Reserve Ratio (CRR) maintenance requirement for banks to 90%.

The reported measure is intended to provide greater operational flexibility in managing daily cash balances, payment settlements and short-term liquidity requirements.

However, a reduction in the minimum daily maintenance requirement should not be confused with a reduction in the statutory CRR rate itself.

The precise scope, effective date and applicable conditions must be confirmed from the operative RBI circular.

90%

RBI

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GS Paper III

UPSC Syllabus Relevance

Examination	Relevant Topics
UPSC Prelims	CRR, SLR, Repo Rate, RBI, Monetary Policy and Banking System.
GS Paper II	Regulatory institutions, accountability and institutional governance.
GS Paper III	Indian economy, monetary policy, banking liquidity, financial stability and economic growth.
Essay Paper	Financial stability, economic development and institutional reforms.
UPSC Interview	Central banking, inflation management and contemporary monetary policy.

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1. What Is Cash Reserve Ratio (CRR)?

Cash Reserve Ratio is a monetary and regulatory instrument through which the Reserve Bank of India requires banks to maintain a prescribed proportion of their Net Demand and Time Liabilities (NDTL) as cash balances with the RBI.

These reserve balances form an important component of the central bank's liquidity management framework.

Objectives of Cash Reserve Ratio

- Regulate liquidity in the banking system.
- Influence the availability of funds for lending and investment.
- Support monetary policy implementation.
- Assist in maintaining financial and monetary stability.
- Influence credit expansion and monetary conditions.
- Support the functioning of the banking and payment systems.

Required CRR Balance = NDTL × Applicable CRR Rate

UPSC Prelims Fact:
CRR is maintained as prescribed cash balances with the Reserve Bank of India. Banks do not earn interest on statutory CRR balances maintained with the RBI.

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2. Understanding Net Demand and Time Liabilities (NDTL)

Net Demand and Time Liabilities represent a regulatory measure of specified banking liabilities after applicable adjustments under RBI directions.

NDTL serves as an important base for determining statutory reserve requirements.

Demand Liabilities

Demand liabilities are obligations that are payable on demand, subject to applicable banking classifications.

Examples include:

- Current account deposits.
- Demand liability portions of savings bank deposits.
- Other qualifying liabilities payable on demand.

Time Liabilities

Time liabilities generally refer to obligations payable after a specified period or according to agreed maturity conditions.

Examples include:

- Fixed deposits.
- Recurring deposits.
- Time liability portions of savings bank deposits.
- Other qualifying term liabilities.

Conceptual Note:
NDTL should not be treated as merely the total deposits of a bank. Its regulatory computation includes prescribed classifications, exclusions and inter-bank liability adjustments.

3. What Is Daily CRR Maintenance?

Banks are required to maintain their prescribed reserve balances according to the applicable maintenance framework.

In addition to the average reserve requirement over the prescribed maintenance period, the RBI may specify a minimum proportion of the required reserve balance that must be maintained on each individual day.

This proportion is known as the minimum daily CRR maintenance requirement.

Understanding the Reported 90% Requirement

A daily maintenance floor of 90% means that a bank may maintain a minimum daily balance equivalent to 90% of its applicable required CRR balance, subject to the prescribed average maintenance requirement and other regulatory conditions.

The remaining reserve obligation cannot automatically be ignored. Banks may need to maintain higher balances on other days to satisfy the average requirement.

Minimum Daily Balance = Required CRR Balance × 90%

Most Important Examination Concept:
A 90% daily CRR maintenance requirement does not mean that banks must deposit 90% of their NDTL with the RBI.

It also does not mean that the statutory CRR rate has been reduced to 90%.

4. Difference Between CRR Rate and Daily Maintenance Requirement

Parameter	Statutory CRR Rate	Daily CRR Maintenance
Meaning	Prescribed reserve ratio applied to NDTL.	Minimum proportion of required reserves maintained daily.
Calculation Base	Applicable NDTL.	Required CRR balance.

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Parameter	Statutory CRR Rate	Daily CRR Maintenance
Primary Objective	Determine overall reserve obligations.	Regulate daily reserve maintenance flexibility.
Effect of Reduction	May release reserve balances into the banking system.	May provide short-term operational flexibility.
Average Reserve Requirement	Determines the prescribed reserve obligation.	Does not necessarily change the average obligation.
Liquidity Impact	May have a more durable liquidity effect.	Primarily affects intra-period liquidity management.
Monetary Policy Significance	Influences aggregate banking liquidity.	Influences daily reserve management and settlement flexibility.

Memory Trick:

CRR Rate = How much reserve is required.

Daily Maintenance = How much of that reserve must be held today.

5. Numerical Example: How the 90% Daily Maintenance Requirement Works

Consider a hypothetical commercial bank with the following financial information.

Particulars	Amount
Net Demand and Time Liabilities	?10,000 Crore
Assumed CRR Rate	4%
Required CRR Balance	?400 Crore
Illustrative Earlier Daily Floor	95%
Minimum Balance at 95%	?380 Crore
Daily Maintenance Floor at 90%	90%
Minimum Balance at 90%	?360 Crore
Additional Daily Flexibility	**?20 Crore**

Step-by-Step Calculation

?10,000 Crore × 4% = ?400 Crore

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Required average reserve balance: ?400 crore.

?400 Crore × 90% = ?360 Crore

Minimum daily reserve balance: ?360 crore.

The bank may temporarily maintain a lower balance on an individual day, subject to compliance with the average reserve obligation and other applicable directions.

Important:
The assumed 4% CRR rate, 95% comparison floor and bank liability figures are hypothetical educational assumptions. They are not assertions about the prevailing statutory CRR rate or the previous regulatory threshold.

6. Understanding Average Reserve Maintenance

The distinction between daily and average reserve maintenance is essential for understanding the reported RBI measure.

Suppose a hypothetical bank has an average reserve requirement of ?400 crore and a minimum daily requirement of ?360 crore.

Consider the following simplified five-day illustration.

Day	CRR Balance	Daily Floor Compliance
Day 1	?360 Crore	Compliant
Day 2	?380 Crore	Compliant
Day 3	?400 Crore	Compliant
Day 4	?420 Crore	Compliant
Day 5	?440 Crore	Compliant
Average Balance	**?400 Crore**	**Average Requirement Met**

(360 + 380 + 400 + 420 + 440) ÷ 5 = ?400 Crore

This example demonstrates that a bank may maintain different balances on individual days while satisfying its average reserve obligation.

The five-day period is used solely for illustration. Actual compliance must be calculated over the maintenance period prescribed by the RBI.

UPSC Examination Trap:

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Reducing the daily minimum requirement does not necessarily reduce the average reserve requirement.

7. Legal and Institutional Framework of CRR

The Reserve Bank of India derives its regulatory authority over statutory reserve requirements from the applicable banking legislation and regulatory framework.

Legal Provision or Institution	Significance
Reserve Bank of India Act, 1934	Provides the statutory framework for the RBI and relevant central banking functions.
Section 42 of RBI Act, 1934	Provides for cash reserve requirements of scheduled banks.
Section 18 of Banking Regulation Act, 1949	Deals with cash reserve requirements applicable to banking companies covered by that provision.
Section 24 of Banking Regulation Act, 1949	Provides the statutory framework for maintaining specified liquid assets.
Reserve Bank of India	Regulates reserve requirements and banking liquidity through applicable directions.
Monetary Policy Committee	Determines the policy rate required to achieve the inflation target under the statutory monetary policy framework.

Prelims Fact:
The Monetary Policy Committee determines the policy repo rate. It should not be confused with the RBI's wider regulatory authority over reserve maintenance requirements.

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8. Important Monetary Policy Instruments of RBI

The RBI uses multiple instruments to influence banking liquidity, short-term interest rates and monetary conditions.

Instrument	Meaning	Primary Function
Cash Reserve Ratio (CRR)	Prescribed cash reserve balance with RBI.	Influences banking liquidity and reserve obligations.
Statutory Liquidity Ratio (SLR)	Prescribed holdings of eligible liquid assets.	Supports liquidity and statutory asset maintenance.
Repo Rate	Policy rate associated with RBI liquidity provision against eligible collateral.	Influences short-term interest rates and monetary transmission.
Reverse Repo	Liquidity absorption through reverse repurchase transactions.	Absorbs liquidity from the banking system.

Instrument	Meaning	Primary Function
Standing Deposit Facility (SDF)	Collateral-free liquidity absorption facility.	Provides a standing liquidity absorption mechanism.
Marginal Standing Facility (MSF)	Standing overnight borrowing facility for eligible banks against eligible securities.	Provides access to short-term emergency liquidity within prescribed conditions.
Open Market Operations (OMO)	Outright purchase or sale of government securities.	Injects or absorbs liquidity.
Variable Rate Repo	Liquidity provision through variable-rate auctions.	Manages temporary liquidity requirements.
Variable Rate Reverse Repo	Liquidity absorption through variable-rate auctions.	Manages temporary surplus liquidity.

CRR vs SLR

Parameter	CRR	SLR
Full Form	Cash Reserve Ratio	Statutory Liquidity Ratio
Nature	Prescribed cash reserves.	Prescribed eligible liquid assets.
Maintenance	With the RBI.	Maintained by banks in prescribed eligible assets.
Return	Statutory CRR balances do not earn interest.	Eligible interest-bearing securities may generate income.
Purpose	Reserve and monetary liquidity management.	Statutory liquidity and financial prudence.

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9. Impact on Banking Liquidity

Banking liquidity refers to the ability of banks to meet their financial obligations, including withdrawals, payment settlements and other short-term commitments.

Daily cash flows may fluctuate because of customer transactions, inter-bank settlements, government payments, securities transactions and other financial activities.

A lower daily CRR maintenance floor may help banks manage these temporary fluctuations more efficiently.

Potential Liquidity Management Channel

Lower Daily CRR Maintenance Floor

?

Greater Short-Term Reserve Flexibility

?

Improved Management of Payment Outflows

?

Potential Reduction in Temporary Funding Pressure

?

More Efficient Treasury and Liquidity Management

However, the actual effect depends on prevailing liquidity conditions, reserve averaging requirements, funding costs and other RBI operations.

10. Impact on Monetary Policy Transmission

Monetary policy transmission refers to the process through which central bank policy decisions influence financial markets, lending rates, consumption, investment, inflation and economic activity.

Major Channels of Monetary Policy Transmission

- Interest rate channel.
- Bank lending and credit channel.
- Exchange rate channel.
- Asset price channel.
- Expectations channel.

Daily reserve maintenance flexibility primarily influences the short-term banking liquidity and operational funding channel.

By reducing temporary reserve-management pressures, it may support more efficient money-market operations and improve the implementation of monetary policy.

RBI Liquidity Management

?

Banking System Liquidity Conditions

?

Money Market and Funding Costs

?

Potential Influence on Lending Conditions

?

Consumption, Investment and Economic Activity

Important Analytical Distinction:

Improved daily reserve flexibility does not guarantee a reduction in lending rates or an increase in bank credit. Monetary transmission depends on several interconnected economic and regulatory factors.

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11. Potential Benefits of Reducing Daily CRR Maintenance Requirements

Greater Operational Flexibility

Banks may manage daily reserve balances more efficiently without being constrained by an excessively rigid minimum balance requirement.

Improved Payment Settlement Management

Additional flexibility may help banks respond to temporary payment and settlement obligations.

Reduced Short-Term Funding Pressure

Banks facing temporary cash outflows may have less immediate dependence on short-term borrowing, subject to overall liquidity conditions.

Efficient Treasury Operations

Bank treasury departments may gain greater flexibility in managing reserve positions across the prescribed maintenance period.

Support for Financial Market Efficiency

Improved reserve management may reduce unnecessary operational frictions in the overnight money market.

Potential Improvement in Monetary Transmission

More efficient liquidity management may support the transmission of monetary policy decisions, although the impact is not automatic.

Payment System Resilience

Greater operational flexibility may assist banks in responding to temporary and unexpected settlement-related cash requirements.

12. Challenges and Potential Risks

While reserve maintenance flexibility may provide operational benefits, appropriate safeguards remain necessary.

Potential Risk	Explanation
Reserve Compliance Risk	Banks may face difficulties meeting average reserve requirements if lower balances are not adequately compensated.
Money Market Volatility	Changes in daily reserve demand may influence overnight liquidity conditions.
Liquidity Concentration Risk	Benefits may differ across banks depending on their funding structure and liquidity position.
Excessive Risk-Taking	Weak treasury controls could encourage inappropriate use of temporary reserve flexibility.
Asset-Liability Mismatch	Short-term flexibility cannot resolve structural mismatches between assets and liabilities.
Misinterpretation of Policy	Market participants may incorrectly treat a daily maintenance change as a statutory CRR rate reduction.

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Potential Risk	Explanation
Uncertain Credit Impact	Additional operational flexibility may not translate into increased lending.

GS Paper III Analytical Point:
Reserve maintenance flexibility should complement, rather than replace, sound liquidity risk management, prudential supervision and capital adequacy requirements.

13. Potential Impact on the Indian Economy

Commercial Banks

Commercial banks may benefit from improved management of daily reserve balances and temporary funding requirements.

Businesses and MSMEs

Improved banking liquidity conditions may indirectly support business financing. However, lending decisions continue to depend on creditworthiness, funding costs, capital requirements and demand for credit.

Households and Consumers

Any effect on household borrowing costs would depend on broader monetary transmission and bank lending decisions.

Financial Markets

Changes in daily reserve management may influence overnight money-market demand and short-term funding conditions.

Inflation

The inflationary impact cannot be inferred solely from a reduction in the daily reserve maintenance floor. Aggregate liquidity, credit expansion, demand conditions and monetary policy remain important determinants.

Economic Growth

Efficient banking operations can support financial intermediation and economic activity. Nevertheless, a daily reserve maintenance adjustment does not guarantee higher economic growth.

UPSC Analytical Alert:
Temporary reserve flexibility is not equivalent to a permanent liquidity injection, automatic credit creation or a reduction in the policy repo rate.

14. Way Forward

Clear Regulatory Communication

The RBI should clearly distinguish the statutory CRR rate, daily maintenance floor, average reserve requirement and applicable maintenance period.

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Strengthen Treasury Risk Management

Banks should improve cash-flow forecasting, liquidity monitoring and reserve management systems.

Monitor Intra-Period Compliance

Banks should ensure that daily flexibility does not compromise compliance with average reserve obligations.

Conduct Liquidity Stress Testing

Financial institutions should evaluate their ability to meet reserve and payment obligations under adverse market conditions.

Strengthen Asset-Liability Management

Reserve flexibility should be supported by effective management of maturity mismatches and funding concentration risks.

Monitor Money Market Conditions

The central bank should assess changes in overnight interest rates, reserve demand and liquidity distribution across banks.

Evaluate Monetary Transmission

Policymakers should examine whether improved operational flexibility contributes to more efficient financial intermediation without compromising stability.

Clear RBI Directions

?

Effective Bank Treasury Management

?

Continuous Reserve Compliance

?

Efficient Liquidity Management

?

Financial Stability

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15. UPSC Prelims Quick Revision Notes

Concept	Important Examination Fact
CRR	Cash Reserve Ratio.
NDTL	Net Demand and Time Liabilities.
CRR Maintenance	Prescribed cash balances with RBI.
90% Daily Maintenance	Reported minimum proportion of the required reserve balance maintained daily.
Average CRR Requirement	Separate obligation maintained over the prescribed period.
Section 42	RBI Act, 1934 — cash reserves of scheduled banks.
Section 24	Banking Regulation Act, 1949 — specified liquid asset maintenance.
SLR	Statutory Liquidity Ratio.

Concept	Important Examination Fact
Repo Rate	Policy rate associated with collateralised liquidity provision.
SDF	Collateral-free standing liquidity absorption facility.
MSF	Standing overnight borrowing facility for eligible banks.
OMO Purchase	Generally injects liquidity.
OMO Sale	Generally absorbs liquidity.
CRR Rate Reduction	May reduce overall reserve obligations.
Daily CRR Floor Reduction	Provides intra-period reserve management flexibility.
Monetary Policy Transmission	Transmission of central bank policy to financial markets and the wider economy.

16. UPSC Prelims Practice MCQs

Attempt these original examination-oriented questions before revealing the answers.

Question 1

With reference to Cash Reserve Ratio, consider the following statements:

1. CRR is calculated with reference to applicable Net Demand and Time Liabilities.
2. Statutory CRR balances are maintained with the Reserve Bank of India.
3. Statutory CRR balances necessarily earn interest from the RBI.

Which of the statements given above are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Reveal Answer and Explanation

Correct Answer: A. 1 and 2 only

Statements 1 and 2 are correct. Statement 3 is incorrect because statutory CRR balances maintained with the RBI do not earn interest.

Question 2

A reduction in the minimum daily CRR maintenance requirement primarily provides:

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A. Abolition of statutory reserve requirements

B. Greater intra-period reserve management flexibility

C. Automatic reduction in the repo rate

D. Automatic elimination of liquidity risk

Reveal Answer and Explanation

Correct Answer: B.

A lower daily reserve maintenance floor provides greater flexibility in managing daily balances, subject to compliance with average reserve obligations.

Question 3

A hypothetical bank has NDTL of ?5,000 crore and an assumed CRR rate of 4%. If the daily maintenance floor is 90%, what is its minimum daily CRR balance?

A. ?160 Crore

B. ?180 Crore

C. ?200 Crore

D. ?220 Crore

Reveal Answer and Explanation

Correct Answer: B. ?180 Crore

Required CRR balance = ?5,000 crore × 4% = ?200 crore.

Minimum daily balance = ?200 crore × 90% = ?180 crore.

Question 4

Consider the following statements regarding CRR and SLR:

1. CRR involves prescribed cash balances with the RBI.
2. SLR involves maintaining specified eligible liquid assets.
3. CRR and SLR are identical monetary and regulatory requirements.

Which of the statements given above are correct?

A. 1 only

B. 1 and 2 only

C. 2 and 3 only

D. 1, 2 and 3

Reveal Answer and Explanation

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Correct Answer: B. 1 and 2 only

CRR and SLR are distinct statutory requirements. CRR concerns cash balances with RBI, while SLR concerns specified eligible liquid assets.

Question 5

Which of the following RBI instruments provides a standing mechanism for absorbing liquidity without requiring collateral?

A. Marginal Standing Facility

B. Standing Deposit Facility

C. Cash Reserve Ratio

D. Variable Rate Repo

Reveal Answer and Explanation

Correct Answer: B. Standing Deposit Facility

The Standing Deposit Facility enables the RBI to absorb liquidity without providing collateral against the deposited funds.

Question 6

Consider the following statements regarding Open Market Operations:

1. Purchase of government securities by RBI generally injects liquidity.
2. Sale of government securities by RBI generally absorbs liquidity.
3. Open Market Operations necessarily change the statutory CRR rate.

Which of the statements given above are correct?

A. 1 and 2 only

B. 2 and 3 only

C. 1 and 3 only

D. 1, 2 and 3

Reveal Answer and Explanation

Correct Answer: A. 1 and 2 only

Open Market Operations influence liquidity through securities transactions. They do not necessarily change the statutory CRR rate.

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Question 7

Section 42 of the Reserve Bank of India Act, 1934 primarily deals with which of the following?

A. Fiscal deficit targets

B. Cash reserve requirements of scheduled banks

C. Corporate income tax rates

D. Foreign trade policy

Reveal Answer and Explanation

Correct Answer: B.

Section 42 provides the statutory framework for cash reserve requirements of scheduled banks.

Question 8

With reference to the reduction of daily CRR maintenance requirements, consider the following statements:

1. It necessarily results in a permanent liquidity injection.
2. It may improve the management of temporary payment outflows.
3. It automatically eliminates average reserve requirements.

Which of the statements given above is correct?

A. 1 only

B. 2 only

C. 1 and 3 only

D. 1, 2 and 3

Reveal Answer and Explanation

Correct Answer: B. 2 only

Daily reserve flexibility may improve temporary liquidity management. It does not necessarily inject permanent liquidity or eliminate average reserve obligations.

Question 9

Which of the following factors can influence the transmission of improved banking liquidity into additional credit?

1. Demand for credit.
2. Capital adequacy requirements.
3. Credit risk assessment.

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4. Bank funding costs.

Select the correct answer:

A. 1 and 2 only

B. 2 and 3 only

C. 1, 3 and 4 only

D. 1, 2, 3 and 4

Reveal Answer and Explanation

Correct Answer: D. 1, 2, 3 and 4

All four factors influence lending decisions and monetary transmission. Liquidity availability alone does not guarantee additional bank credit.

Question 10

Which of the following best describes the distinction between the statutory CRR rate and the daily CRR maintenance floor?

A. Both are calculated directly on NDTL in the same manner.

B. The daily floor determines the statutory CRR rate.

C. The statutory CRR rate determines required reserves, while the daily floor determines the minimum daily proportion of those reserves.

D. Both automatically determine the policy repo rate.

Reveal Answer and Explanation

Correct Answer: C.

The statutory CRR rate determines the required reserve balance. The daily maintenance floor determines the minimum portion of that balance to be maintained on an individual day.

17. UPSC Mains Practice Questions and Model Answer

Mains Question 1 — GS Paper III

Differentiate between a reduction in the statutory Cash Reserve Ratio and a reduction in the minimum daily CRR maintenance requirement. Examine their implications for banking liquidity and monetary policy transmission.

15 Marks | 250 Words

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Model Answer

Introduction:

Cash Reserve Ratio is an important monetary and regulatory instrument through which the Reserve Bank of India requires banks to maintain prescribed cash balances based on their Net Demand and Time Liabilities. The reported reduction in daily CRR maintenance requirements highlights the distinction between overall reserve obligations and daily liquidity flexibility.

Body:

A reduction in the statutory CRR rate lowers the prescribed reserve obligation and may release liquidity into the banking system. In contrast, a reduction in the minimum daily maintenance requirement provides banks greater flexibility in managing individual daily balances without necessarily changing their average reserve obligation.

Daily reserve flexibility can improve treasury management, facilitate payment settlements and reduce temporary funding pressures. It may also support efficient money-market operations and monetary policy transmission.

However, the measure does not automatically generate permanent liquidity or additional bank credit. Its effectiveness depends on credit demand, capital adequacy, funding costs, liquidity conditions and prudential regulations.

Excessive reliance on temporary reserve flexibility may also create reserve compliance challenges and liquidity management risks.

Therefore, banks should strengthen cash-flow forecasting, asset-liability management, liquidity stress testing and intra-period reserve monitoring. The RBI should communicate reserve requirements clearly and assess their implications for overnight money-market conditions.

Conclusion:

Daily CRR maintenance flexibility can improve operational efficiency without necessarily altering the overall monetary policy stance. A balanced approach combining regulatory flexibility, effective supervision and prudent liquidity management can strengthen banking resilience and monetary policy transmission.

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Mains Question 2 — GS Paper III

Discuss the role of the Reserve Bank of India in managing banking system liquidity. Examine the significance of CRR, SLR, repo operations and the Standing Deposit Facility.

15 Marks | 250 Words

Suggested Answer Structure

- Introduction: Importance of central bank liquidity management.
- Explain statutory reserve requirements.
- Discuss repo and liquidity absorption instruments.
- Explain monetary policy transmission.
- Discuss financial stability and regulatory safeguards.
- Conclusion: Balanced and effective liquidity management.

Mains Question 3 — GS Paper III

Greater flexibility in bank reserve maintenance does not necessarily result in greater credit creation. Critically examine.

10 Marks | 150 Words

Mains Question 4 — GS Paper III

Explain the importance of liquidity risk management and asset-liability management in maintaining the stability of India's banking system.

10 Marks | 150 Words

18. Civil Service Gurukul: Key Takeaways

- CRR stands for Cash Reserve Ratio.
- CRR is calculated with reference to applicable NDTL.
- Statutory CRR balances are maintained with the RBI.
- The reported 90% requirement concerns daily reserve maintenance.
- The daily maintenance floor is different from the statutory CRR rate.
- A lower daily floor does not necessarily change average reserve obligations.
- Daily reserve flexibility may improve treasury and settlement management.
- Temporary reserve flexibility is not equivalent to permanent liquidity injection.
- Credit creation depends on liquidity, capital, demand and risk assessment.
- Effective monetary transmission requires sound financial institutions and prudent regulatory management.

19. Frequently Asked Questions

What is Cash Reserve Ratio?

Cash Reserve Ratio is the prescribed proportion of a bank's net demand and time liabilities that must be maintained as cash balances with the Reserve Bank of India.

What does 90 percent daily CRR maintenance mean?

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It means maintaining at least 90 percent of the applicable required CRR balance on an individual day, subject to the prescribed average maintenance requirements and applicable RBI directions.

Is daily CRR maintenance the same as the statutory CRR rate?

No. The statutory CRR rate determines the required reserve balance, while the daily maintenance requirement determines the minimum portion of that balance to be maintained each day.

Does a lower daily CRR maintenance requirement permanently increase liquidity?

Not necessarily. It provides short-term reserve management flexibility, but average reserve obligations and other regulatory requirements may remain unchanged.

What is the difference between CRR and SLR?

CRR involves maintaining prescribed cash balances with the RBI, whereas SLR involves maintaining prescribed eligible liquid assets.

What is NDTL?

NDTL stands for Net Demand and Time Liabilities. It is a regulatory measure of specified banking liabilities after applicable adjustments.

Does RBI pay interest on statutory CRR balances?

No. Statutory CRR balances maintained with the RBI do not earn interest.

Which section of the RBI Act deals with CRR for scheduled banks?

Section 42 of the Reserve Bank of India Act, 1934 provides the statutory framework for cash reserve requirements of scheduled banks.

Does a reduction in daily CRR maintenance automatically reduce loan interest rates?

No. Lending rates depend on multiple factors, including monetary policy, funding costs, credit risk, competition and broader liquidity conditions.

Why is daily CRR maintenance important for UPSC 2027?

The topic connects banking regulation, monetary policy instruments, liquidity management, financial stability and monetary policy transmission under the Indian Economy syllabus.

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20. Conclusion

The reported reduction in the minimum daily CRR maintenance requirement to 90% represents an important development in the discussion surrounding banking liquidity and reserve management.

By allowing greater flexibility in managing daily reserve balances, such a measure may help banks respond more efficiently to temporary cash-flow fluctuations and payment settlement obligations.

However, it is essential to distinguish operational reserve flexibility from a reduction in the statutory CRR rate or a permanent injection of liquidity.

The broader economic impact depends on monetary policy conditions, average reserve requirements, prudential regulations, bank funding structures and demand for credit.

For UPSC aspirants, the development provides an excellent opportunity to understand the practical relationship between central banking, monetary policy transmission, liquidity management and financial stability.

A well-regulated banking system that combines operational efficiency with prudent risk management remains essential for sustainable economic development.

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