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WITH ASHISH SIR

# BANK PROMOTION EXAM NOTES

VOLUME 4 | 2026 EDITION

Risk, Capital, Treasury, ALM and Payment Systems

## RBI REGULATIONS • PUBLIC-SECTOR BANKING

### REGIONAL RURAL BANKS (RRBs)

State Bank of India  
Canara Bank  
Indian Bank  
Indian Overseas Bank

Bank of Baroda  
Union Bank of India  
Central Bank of India  
UCO Bank

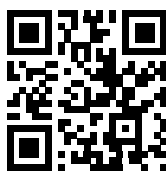
Punjab National Bank  
Bank of India  
Bank of Maharashtra  
Punjab & Sind Bank

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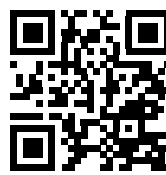
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## Chapter 1 — Monetary Policy and Liquidity Management

### Topics covered

1. What monetary policy is and who decides it — the Monetary Policy Committee (RBI Act, section 45ZB)
2. The inflation target (RBI Act, section 45ZA)
3. Net Demand and Time Liabilities — the shared base for CRR, SLR and MSF
4. The Liquidity Adjustment Facility corridor (RBI Act, section 17)
5. Cash Reserve Ratio (RBI Act, section 42)
6. Statutory Liquidity Ratio (Banking Regulation Act, section 24)
7. Marginal Standing Facility
8. Bank Rate, Open Market Operations and the Market Stabilisation Scheme
9. Revised Liquidity Management Framework and monetary transmission (MCLR and EBLR)

### Basic background

**What monetary policy is. Monetary policy is the action the Reserve Bank of India (RBI) takes to control the supply of**

money in the economy. RBI changes interest rates and manages liquidity (the cash available in the banking system) to keep inflation (a rise in prices) near a fixed target, while also supporting growth.

**Who runs it. RBI runs monetary policy through the Monetary Policy Committee (MPC), a 6-member body. The Central**

Government fixes the inflation target once every five years and nominates three outside members to the MPC. RBI's Governor, a Deputy Governor and one RBI officer fill the other three seats.

**Who it covers. Monetary policy tools apply directly to banks that keep deposits with RBI and borrow from it. Through**

banks, these tools shape loan and deposit rates for every borrower and depositor in the economy.

### Its history in short.

- The MPC started functioning in September 2016, after a 2016 amendment to the RBI Act created it.
- The Standing Deposit Facility (SDF) was added to the RBI Act in 2018 and became the corridor floor from 8 April 2022.
- RBI revised its Liquidity Management Framework in September 2025.

### Who does what.

| Body                            | Role                                                                                             |
|---------------------------------|--------------------------------------------------------------------------------------------------|
| Monetary Policy Committee (MPC) | Fixes the policy repo rate to meet the inflation target                                          |
| Reserve Bank of India (RBI)     | Runs day-to-day liquidity tools (LAF, CRR, SLR, MSF, OMO, MSS) that carry out the MPC's decision |
| Central Government              | Fixes the inflation target every five years; nominates three outside MPC members                 |

## Topic 1 — What monetary policy is and who decides it — the Monetary Policy

### Committee

#### Meaning

Monetary policy means using interest rates and liquidity tools to control money supply and inflation. The Monetary Policy Committee (MPC) is the body that decides the key interest rate.

#### Main rules

**Composition. The MPC has 6 members: 3 from RBI (the Governor, a Deputy Governor in charge of monetary policy, and**

one RBI officer) and 3 outside members nominated by the Central Government.

**Quorum. At least 4 of the 6 members must be present for a valid meeting. This is the statutory minimum.**

Meetings. The RBI Act requires at least 4 meetings a year. In practice, RBI holds 6 meetings a year, once every two months (bi-monthly).

**Voting. Each member has one vote. A decision is by majority of the members present and voting. If votes are equal, the**

RBI Governor gets a second, casting vote to break the tie.

**Reporting. The MPC publishes a Monetary Policy Report every 6 months. The report explains the sources of inflation and**

RBI's forecast.

**Simple example**

At a scheduled meeting, only 3 of the 6 MPC members can attend because of travel delays. The meeting cannot take a valid decision. The quorum of 4 is not met, and the meeting must be rescheduled.

**Important difference**

| Question                          | Answer                        |
|-----------------------------------|-------------------------------|
| Statutory minimum meetings a year | 4                             |
| RBI's actual practice             | 6 meetings a year, bi-monthly |
| Members needed for quorum         | 4 out of 6                    |
| Tie-break vote                    | RBI Governor's casting vote   |

**Remember this**

- MPC: 6 members, 3 from RBI and 3 Central Government nominees; quorum 4; statutory minimum 4 meetings a year; RBI actually holds 6.
- Equal votes are broken by the RBI Governor's casting vote.

**Topic 2 — The inflation target****Meaning**

The inflation target is the price-rise rate the MPC must aim for. It is measured by the Consumer Price Index (CPI, a basket of goods and services prices tracked every month).

**Main rules**

**Current target. 4% CPI inflation, with a tolerance band of 2% to 6% (2 percentage points below and above the 4% mid-**

point).

**Who fixes it. The Central Government fixes the target once every five years, after consulting RBI, through an official**

notification.

Current notified period. From 1 April 2026 to 31 March 2031. This is the third five-year cycle. The first cycle ran from 2016 to 2021, and the second from 2021 to 2026.

Failure trigger. If inflation stays outside the 2%–6% band for 3 consecutive quarters, RBI must send a report to the Central Government. The report must explain why the target was missed, the steps RBI proposes, and a time estimate for bringing inflation back within the band.

**Simple example**

CPI inflation prints at 6.5%, 6.8% and 6.2% in three back-to-back quarters. All three readings are above the 6% upper band. RBI must report to the Central Government, explaining the failure and its planned steps.

**Practical banking application**

The MPC review of 5 August 2026 projected CPI inflation of 5.0% and GDP growth of 6.7% for the financial year 2026–27. Bank treasury desks track such forecasts to plan their bond holdings and loan pricing.

**Remember this**

- Target: 4% CPI, band 2%–6%; notified from 1 April 2026 to 31 March 2031 (third 5-year cycle).
- Miss the band for 3 straight quarters → RBI reports to the Central Government.
- FY2026–27 MPC projection: GDP growth 6.7%, CPI inflation 5.0%.

**Topic 3 — Net Demand and Time Liabilities (NDTL) — the shared base****Meaning**

Net Demand and Time Liabilities (NDTL) is a bank's total deposits and similar amounts owed to the public, after removing certain items. It is the base figure used to work out CRR, SLR and the MSF limit.

**Main rules**

What counts. All demand deposits (savings, current accounts) and time deposits (fixed, recurring deposits) of the public. It also includes Certificate of Deposit (CD) balances and margin money kept against letters of credit and guarantees.

**What is excluded. Money owed to other banks (inter-bank liabilities), and certain funds parked with refinancing institutions such as NABARD, SIDBI, NHB and EXIM Bank for shortfalls in priority-sector lending.**