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Incremental Cash Reserve Ratio

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Why is in news? RBI decides to discontinue Incremental Cash Reserve Ratio in a phased manner

RBI has decided to **discontinue Incremental Cash Reserve Ratio** which **was put in place to absorb surplus liquidity** following the withdrawal of 2,000 rupees currency notes, in a phased manner.

On August 10, the RBI mandated banks to maintain an incremental cash reserve ratio (I-CRR) of 10 percent on the increase in their net demand and time liabilities (NDTL) between May 19, 2023 and July 28, 2023.

The measure was intended **to absorb the surplus liquidity generated by various factors**, including the return of 2,000 rupee notes to the banking system.

About ICRR:

The Incremental Cash Reserve Ratio (CRR) is a monetary policy tool used by central banks, including the Reserve Bank of India (RBI), to **manage liquidity in the banking system**.

CRR is the **portion of a bank's deposits that it is required to hold with the central bank**. The Incremental CRR is an additional requirement imposed on banks for a specific period to absorb excess liquidity from the banking system.

Features:

The Incremental CRR is **not a permanent measure**; it's implemented **for a short duration** to address a particular liquidity issue or economic circumstance. It's not a long-term policy but rather a tool used when needed.

This refers to the fact that the Incremental CRR is not a continuous or ongoing requirement. It's **applied over a defined period** that is linked to a specific event, policy change, or economic situation. Once the situation is resolved or the designated period ends, the requirement may be lifted.

The purpose of the Incremental CRR is to **absorb excess liquidity** in the banking system that might arise due to particular events, policies, or economic conditions. By mandating banks to hold a higher reserve, the central bank aims to control the flow of money and manage the liquidity situation more effectively.

The central bank typically **specifies a certain percentage of additional CRR** that banks need to maintain on the incremental deposits they receive during the specified period. This additional percentage might be higher than the regular CRR. The graduated approach ensures that the impact on banks' liquidity and lending activities is proportional and manageable.