Q22

When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen? (a) India's GDP growth rate increases drastically (b) Foreign Institutional Investors may bring more capital into our country (c) Scheduled Commercial Banks may cut their lending rates. (d) It may drastically reduce the liquidity to the banking system Official key: C.

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Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

(a) India's GDP growth rate increases drastically. An SLR cut eases banks' statutory lock-in of funds; any growth effect is indirect and not 'drastic'. (a) overclaims.

(b)

(b) Foreign Institutional Investors may bring more capital into our country. FII flows respond to returns, risk and global liquidity, not mechanically to a 50 bps SLR cut. Not the keyed channel.

(c) Official key

(c) Scheduled Commercial Banks may cut their lending rates. Lower SLR frees a slice of deposits from government-security lock-up, raising lendable resources; banks may then ease lending rates. That is the official key.

(d)

(d) It may drastically reduce the liquidity to the banking system. An SLR cut increases, rather than reduces, bank liquidity. (d) reverses the direction.

Summary

Official key is (c) Scheduled Commercial Banks may cut their lending rates. Statutory Liquidity Ratio is the share of deposits banks must hold in specified liquid assets. Cutting it by 50 basis points releases funds for credit and can pull lending rates down. It does not by itself explode GDP or summon FIIs, and it does not drain liquidity. Only (c) follows.

Related possible facts

These can be asked in a future Prelims paper.

SLR

Statutory Liquidity Ratio, Section 24, BR Act

50 basis points
0.50 percentage point

CRR
Cash Reserve Ratio, cash with RBI

Repo rate
Policy rate; distinct from SLR

SLR securities
Mainly government and specified approved securities