



- **Inflation Targeting:** A central bank has an explicit target inflation rate range. Government and RBI agree on convergence between fiscal and monetary policies.

Urjit Patel committee 2014: inflation targeting

- Inflation target: 4% +/- 2%
- Nominal anchor should be defined in terms of headline inflation.
- Setting up Monetary Policy Committee (covered in Inflation)

- **Twin Balance Sheet (TBS) challenge** deals with balance sheet of Indian companies and Indian Banks.

1. **Overleveraged companies:** Debt accumulation on companies is very high and thus they are unable to pay interest payments on loans.
2. **Bad-loan-encumbered-banks:** Non-Performing Assets (NPA) of the banks is 9% for the total banking system of India. It is as high as 12.1% for Public Sector Banks. As companies fail to pay back principal or interest, banks are also in trouble.

- **Public Sector Asset Rehabilitation Agency (PARA)**
- The Public Sector Asset Rehabilitation Agency (PARA) colloquially called **“Bad Bank”** is a proposed agency to assume the **Non-Performing Assets (NPA)** of public sector banks in India and to deal with the recovery of the bad loans.
- **Helicopter Money:** A helicopter drop, or helicopter money, is a hypothetical, unconventional tool of monetary policy that involves printing large sums of money and distributing it to the public in order to stimulate the economy.
- **Liquidity Trap:** it happens when monetary policy becomes ineffective due to very low interest rates and consumers preferring to save rather than invest in higher-yielding bonds/investments.

Reserve Bank of India:

It was set up in 1935 (by the RBI Act, 1934). Nationalized in 1949, governed by Central board of directors. It is the central bank of India and is regulator and controller of banking system.

Its functions are as follows,

1. **Bank of issue:** It has sole right to issue bank notes of all denominations. Distribution of coin and 1rs notes is done by RBI on behalf of GOI.
2. **Banker to Government:** Will transact government business, receive and make payments on behalf of government.
3. **Bankers bank and lender of last resort:** scheduled banks can borrow from RBI by rediscounting bills of