- The government of India has the sole right to mint coins.
- However, these are issued for circulation only through the Reserve Bank in lieu of the RBI Act.

○ **RBI**

- It is the only authority that has the sole right to issue currency notes, except one rupee notes which are issued by the Ministry of Finance.
- However, the RBI follows a minimum reserve system in the note issue. It has to maintain only `200 crores of gold and foreign exchange reserves, of which gold reserves should be of the value of `115 crores.

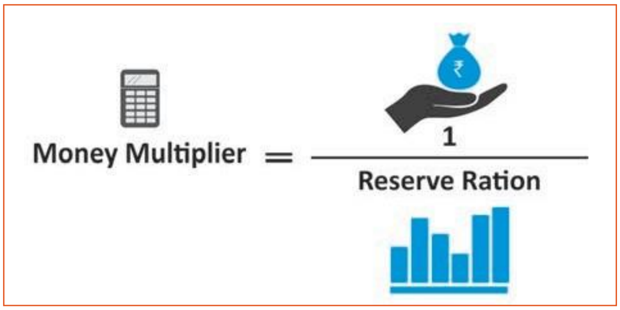
○ **Commercial Banks:** These create the credit as per the demand deposits.

- **Components of Money**
  - ○ Currency component which consists of all coins and notes in circulation.
  - ○ Deposit component which includes money of the general public held with the banks, which can be withdrawn by cheque or through ATM's.
- The RBI categorises money into four broad categories which are also known as the monetary aggregates.
- Through these monetary aggregates, it computes and measures the total supply of money in the market.

Monetary Aggregates	
M0	❒ It is known as the monetary base or reserve money. ❒ It is sometimes referred to as High-powered money or primary money. ❒ It includes all physical money like coins and currency along with demand deposits and other liquid assets held by the central bank.
M1	❒ It is also known as narrow money. ❒ Narrow money only contains the most liquid financial assets which are accessible on demand. ❒ It includes all the currency notes being held by the public on any given day, demand deposits with the commercial banks (both savings as well as current account deposits) and other deposits of the banks kept with the RBI. ❒ Narrow money is the most liquid part of the money supply because the demand deposits can be withdrawn anytime during the banking hours.
M2 and M3	❒ When Post office Savings Deposits are also added to M1, it becomes M2. ○ M2= M1 + Savings Deposits of Post Office Savings account ❒ When we add time deposits in the narrow money (M1), we get broad money, which can be denoted by M3. ○ M3 = M1 + Time deposits of public with the banks ❒ Broad money does not include the interbank deposits. At the same time, time deposits of the public with the banks, including the cooperative banks are also included in Broad money. ❒ M1, M2 and M3 are also called fortnight money as these three aggregates are computed or compiled fortnightly.
M4	❒ When we add total savings deposits with post offices with M3 we get M4 Money. ○ M4 = M3 + Total Saving deposits with Post offices ❒ The most common measure used for money supply is M3 Money or the Broad money. ❒ Currently M1 and M3 are extensively used for policy purposes and are the relevant indicators of money supply in India.

Money Multiplier

- It is the amount of Broad money that banks generate with each rupee of reserves or base money available with them.
- However, Reserves are the amount of deposits that the RBI requires banks to hold and not to lend.
- It tells how fast the money supply from the bank lending will grow.
- The higher the reserve ratio is, the less deposits will be available for lending, resulting in a smaller money multiplier and vice versa.
- Thus, higher the value money multiplier, higher will be liquidity in the market and vice versa.



- **Tier 2 Capital**
  - It is also known as supplementary capital.
  - It includes undisclosed reserves, revaluation reserves, hybrid (debt/equity) capital and subordinated debt.
  - It is considered riskier as it is more difficult to calculate if liquidation is required.

- **Leverage Ratio:** It is calculated by dividing Tier 1 capital by the bank's average total consolidated assets (sum of the exposures of all assets and non-balance sheet items). This ratio must be at least 3% under Basel III.
- **Capital Adequacy Ratio (CAR):** It is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It set standards for banks by looking at a bank's ability to pay liabilities, and respond to credit risks and operational risks.

Financial Inclusion

- It is the process of including the excluded sections and people in the financial system.
- **Goals of Financial Inclusion according to United Nations**
  - Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.
  - Sound and safe institutions governed by clear regulation and industry performance standards.
  - Financial and institutional sustainability to ensure continuity and certainty of investment.
  - Competition to ensure choice and affordability for clients.

Major Initiatives towards Financial Inclusion	
MUDRA Bank	❒ It stands for Micro Units Development and Refinance Agency. ❒ It provides loans at low rate to microfinance agencies and NBFCs, which then provide credit to Micro, Small & Medium Enterprises (MSMEs). ❒ The bank will initially function as a non-banking financial company and a subsidiary of the Small Industries Development Bank of India (SIDBI). ❒ **Classification of Borrowers under MUDRA scheme** ❍ Under the Shishu scheme, loans upto ` 50,000 are sanctioned. This is the first stage when the business has just started. ❍ Under the 'Kishor' scheme, loans above ` 50,000 and upto ` 5 Lakh are provided. ❍ Under the 'Tarun' scheme, loans above ` 5 Lakh and upto ` 10 Lakh are provided. ❒ Small manufacturing units, shopkeepers, fruit and vegetable vendors, artisans, etc., are eligible to borrow under this scheme.
Pradhan Mantri Jan Dhan Yojana (PMJDY)	❒ It aimed at ensuring access to various financial services like availability of basic savings bank accounts, access to need based credit, remittance facility, insurance and pension to the excluded sections, i.e., weaker sections & low income groups. ❒ **Important Features** ❍ All households across the country - both rural and urban are to be covered under the scheme. ❍ All bank accounts opened under the scheme, to have an overdraft facility of `5,000 for Aadhar-linked accounts after satisfactory operation in the account for 6 months. ❍ Issuance of RuPay Debit Card with inbuilt `1 lakh personal accident insurance cover provided by HDFC Ergo and a life cover of ` 30,000 provided by LIC Financial services.
Priority Sector Lending	❒ The Priority sector list is provided by RBI and updated regularly. ❒ Currently, priority sector lending includes Agriculture, Micro, small and medium enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy, etc. ❒ Shortfalls in the priority sector have to be deposited in NABARD's Rural Infrastructure Development Fund and other funds with NABARD, SIDBI and NHB. ❒ NABARD lends this amount for rural development, SIDBI for small industries, NHB for housing; to state governments.