CALL MONEY

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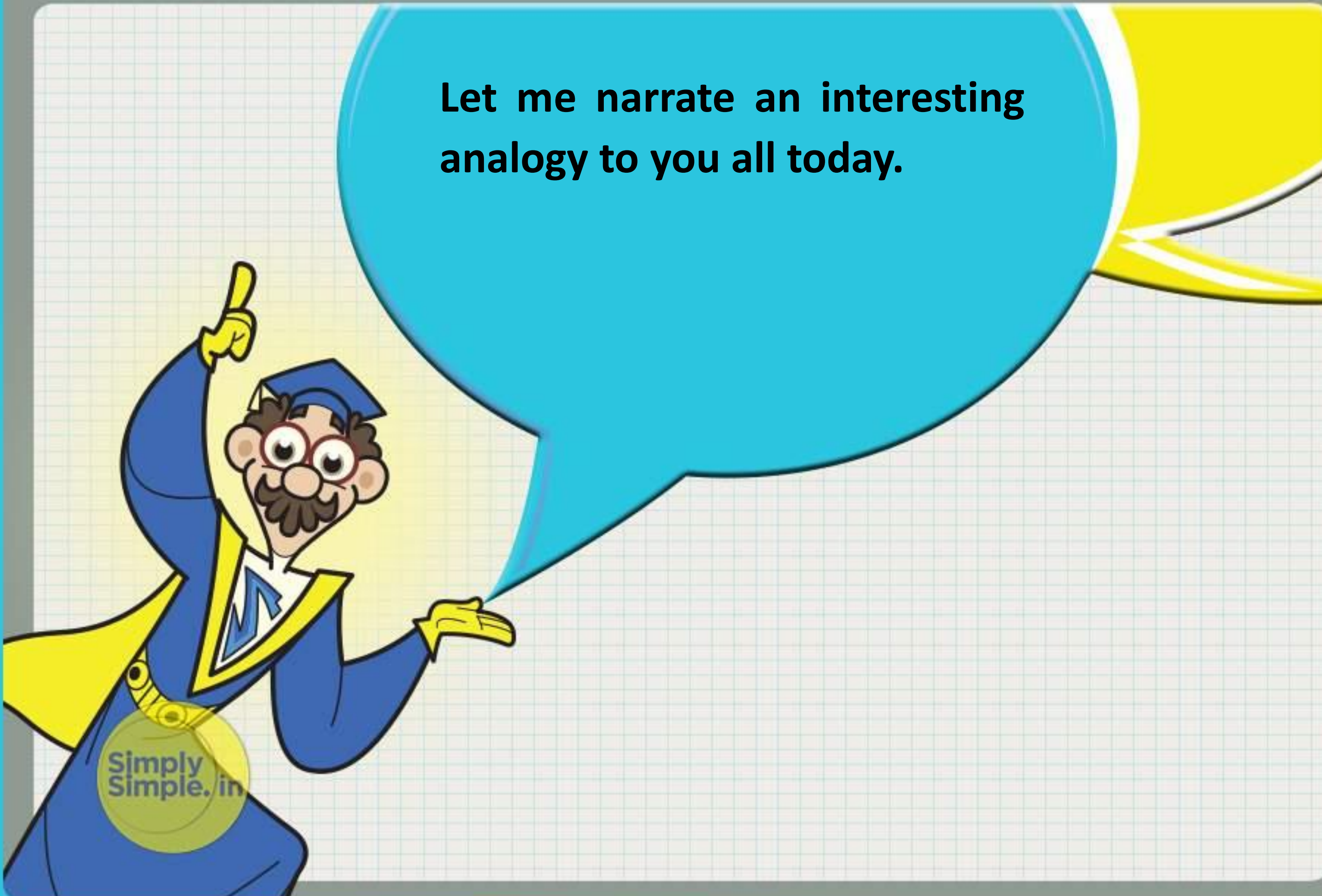
Let me narrate an interesting analogy to you all today.
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On a lazy Sunday night you and your family are relaxing on a couch watching your favorite TV show.

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Suddenly, someone rings your door bell. You open the door and it's your long distance relatives who have made a surprise visit.

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While you can't show your displeasure but you still welcome them and offer a cup of tea or coffee. However, your wife whispers to you that there is no milk at home and all the neighborhood shops would be closed.

So, now you are left with no option but knock your neighbor's door to borrow some milk for your guests with an intention to return it next day once the shop reopens.

At least your friendly neighbor becomes your savior and saves you from embarrassment.

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Likewise, in the money market, call money serves as a savior to banks facing temporary cash crunch and lends them overnight money to ward off the shortage situation.

What is Call Money?

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- **Call money relates to day-to-day funds requirements of banks. When one bank faces a temporary cash crunch, it borrows from another bank that has surplus cash for a period of one to fifteen days. Typically, banks borrow to bridge temporary shortfall in funds. This borrowing and lending is on unsecured basis.**

- **When money is lent for one day or on overnight basis it is known as "Call Money" and, if it exceeds one day, is referred to as "Notice Money". And "Term Money" refers to borrowing/lending of funds for period exceeding 14 days.**

Who can participate?

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The call money market is the most important segment in the Indian money market. In this market, only banks and primary dealers (PDs) are allowed to both borrow and lend.

Why does bank borrow money when they themselves lend money to everyone?

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- Banks have to maintain a mandatory minimum cash balance known as the cash reserve ratio (CRR). They also have to maintain sufficient liquidity for their day-to-day operations.

- Also, banks sometimes need to borrow funds to meet a sudden demand which may arise due to large cash withdrawals during festivals, long bank holidays and cash supply at ATMs etc. Any surplus / shortfall could be met through call money route.

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Simply put, call money serves the purpose of meeting the short-term liquidity requirement of banks.

What is its impact?

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- The interest paid on call money is called call rate. Eligible participants are free to decide on what the interest rates would be. This is very liquid money market and is the main indicator of the day to day interest rates. If the call money rates fall, this means there is a rise in the liquidity and vice versa.

- Also, the call money rates have implications on the monetary policy. If the call rates consistently trade at levels which are not in line with the RBI's policy rates then RBI may conduct Open Market Operations (OMO) to infuse or suck liquidity from the market.

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Hope you have understood the concept of ‘Call Money’.

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Thinking of Investment

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