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CASH RESERVES

Cash reserves simply means the cash that is held by bank at any particular moment Cash reserves of a concerned bank includes I. The cash in hand which means all the cash in branches of same bank.2. Cash reserves placed with the central banks.3. Cash reserves kept with other commercial banks and financial institutions.

We know that the cash which is held by bank belongs to many depositors. The bank out of this cash makes advances and investments. Also a bank decides that how much of cash should be advanced, how much to deposit with central bank and how much to hold to meet everyday payments of cheques. To decide these things, bank analyzes certain factors. These factors are also called the factor that governs cash reserves of commercial bank. These are as follows.

1. Legal laws and Rules (Reserve Ratio)

First of all the central bank in every country has made rules in this regard. These rules are framed to ensure the soundness of overall banking system of the whole economy in almost every country banks have to hold certain amount of their liabilities as reserves with control bank. This percentage is called reserves ratio. In peak also I is statutory for all banks to hold 5% of their time liabilities / demand deposits as reserves with central bank. Central bank uses these reserves to assist commercial banks in case they face any shortage of liquidity. Reserve ratio is also used as credit control weapon.

2. Clearing House Availability:

If the clearing house function of central bank is available then commercial banks can work with smaller cash reserves. In clearing house, commercial banks settle claims that they have on cash other and the difference or excess amount is to be paid in cash. This also brings efficiency in the use of cash.

3. Nature and Size of Deposits:

The nature and size of deposits also determine the volume of cash reserves. If majority of deposits are fixed deposits, then smaller cash reserves will be needed as bank is liable to pay back these deposits only after a particular time period. However if there are much time deposits, large cash reserves are needed as any number of depositor can come to collect cash at any time.

4. Nature and Size of Depositors:

If most of the bank depositors are big industrialist businessmen etc. Then there is a need to hold greater reserves as they can make huge withdrawals from their account. If majority is of small depositors then there is less lender of huge withdrawal and smaller cash reserves will serve the purpose.

5. Nature of Advances and Investments:

In case bank has made such advances and investments which can't be liquidated in short span of time, bank will have to hold huge cash reserves the other hand smaller reserves will be needed if investments can be called back and liquidated quickly.

6. Banking Culture:

Banking Culture also determines the cash reserves. If banking culture is developed and people are aware of bank habits, much of the payments will be made and received through cheques and banks will need small amount of cash reserves.

7. Economic Stability:

If the economic and monetary system of the country is stable. Banks will need lower cash reserves. However in case of economic instability banks will need higher cash reserves.