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STUDY OF CREDIT CONTROL SYSTEM IN INDIA

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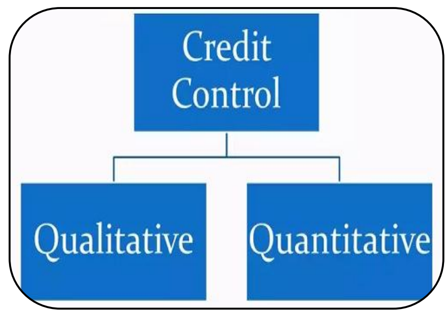

ABSTRACT:

The liquidity control is an important tool used by the Reserve Bank of India, which is a major monetary policy tool used to control the demand and supply of cash (liquidity) in the economy. The credit offered by commercial banks is controlled by the Central Bank. The strategy RBI is using to bring about "economic growth with stability" means that banks can not only monitor inflationary economic patterns, but also stimulate economic growth, thereby increasing the stability of real national income. Given its functions like issuance of notes and maintenance of cash reserves, unregulated credit by RBI will lead to social and economic instability in the country. To promote financial stability and economic growth, the banking system is regulated. While the increasing public sector ownership of banks and the combination of joint stock firms, branches, cooperatives and corporations has emerged in the post-independence period, this does not guarantee the optimal banking structure required for economic reforms since 1991. An important area in the study of macroeconomics is the banking system and money management. The economic policies of the government and the RBI will influence our defense budget in many ways, so we as defense planners should be fully aware of this important area of the macroeconomic system.

KEYWORDS : *Fusarium head blight (FHB) , Characteristics, requirements , image analysis.*

INTRODUCTION:

It seems almost universal in the economic literature that monetary policy is a powerful tool for improving the socio-economic status of a country. Monetary policy has been considered as an important economic policy component. Therefore, monetary policy priorities are broadly aligned with overall economic policy objectives. Development, social justice and price stability are the three major objectives of economic policy in India. Although it is generally accepted that monetary policy can most effectively pursue the objective of price stability, monetary policy has, in practice, often contributed significantly to the achievement of other objectives. Effective formulation and implementation of monetary policy, however, depends on prevailing economic conditions and systemic factors such as volume of money supply, size of government debt, size of non-monetary sector of the economy, etc. Because monetary policy, through its instruments, affects ultimate goals, the issue of defining goals is considered important.

Credit Control Policy:

A defining feature of a central bank is that monetary policy is generally agreed upon. The Reserve Bank of India undertook a number of developmental initiatives in independent India, unusually for a central bank, although monetary policy remained its central concern. Monetary policy is implemented, commonly referred to as the monetary policy system, which includes monetary policy objectives, monetary policy goals and objectives, and monetary policy instruments aimed at controlling the money supply and credit supply and spending and availability in the economy. The Reserve Bank of India was therefore more likely than more traditional central banks to take a broader view of its monetary policy with institutional responsibility to bring the financial sector of the economy deeper into its framework.

Credit control is one of the main tools of the Reserve Bank of India, which is one of the main weapons of credit used to control the supply and demand of money in the economy. The Central Bank controls the credit provided by commercial banks. This type of approach is used by the RBI to bring "stability with economic growth". This means that banks will not only control the inflationary trend in the economy, but also promote economic growth, thereby stabilizing real national income. Given the functions of issuing notes and protecting cash reserves, unregulated RBI credit will create social and economic instability in the country. In the hands of the Reserve Bank of India, selective credit control is a mechanism to restrict banks to finance-sensitive items. In general, these sensitive items include:

- Food grains, namely cereals and pulses.
- Cotton yarn, man-made fibers and fabrics made of yarn and man-made fibres, fabrics made of cotton partly with cotton yarn and partly with man-made fibres.
- Selected major indigenously grown oilseeds, viz. Groundnut, rapeseed/mustard, cotton seed, linseed, castor seed, vegetable oils, vegetable and all imported vegetable oils and oils.
- Sugar, Khandsari and Gur.
- Cotton and raw cotton

It is to be noted that all these commodities are of mass consumption and the government tries its best to ensure that these commodities are adequately supplied in the open market. Hence the policy is to restrict development as much as possible against these items and this objective is achieved through 'selective credit control'.

Essential of Credit Control:

One of the important functions of the Reserve Bank is to control credit in the economy. The basic and important requirements of credit control in an economy are-

- Promoting holistic development of "priority sectors" means those sectors of the economy which the government recognizes as "priority" based on their economic status or government interests. The total area is about 15
- Monitor credit channelization so that credit is not disbursed for undesirable reasons.
- Controlling Inflation and Achieving Inflation Targeting.
- To stimulate the economy by providing adequate credit to the bank in various sectors.
- To develop the economy.

Procedures of Credit Control System:

Bank rate or discount rate is the rate fixed by the central bank at which it redistributes first class bills of government exchange and government securities held by commercial banks. Bank rate is the interest rate charged by the central bank at which it subsidizes banks through the discount window. The central bank controls credit by changing bank rates. If financing is needed, the central bank will lower bank rates. Getting a loan from a central bank is cheap and easy. Therefore, commercial banks will take more loans. He is an intern and will lend to customers at a low rate. Interest rates will decrease. This encourages business activity and encourages rates to rise after credit increases. The opposite happens when credit is in the economy. The central bank raises bank rates, making borrowing more expensive. So banks borrow less. Banks increase loan rates to customers. A tight money market also raises market interest rates. This discourages new loans and forces lenders to pay off their previous loans. This discourages commercial activities. There is a credit contraction reflecting the rise in prices. Thus, inflationary tendency is reduced by reducing bank rate and inflation is controlled by increasing bank rate.

Bank Rate Policies Restrictions:

The efficiency of bank rate policy as a means of controlling credit is limited by the following factors:

1. **Bill Exchange Uses Less:** The effectiveness of a bank's rate policy depends on the existence of eligible bills of exchange. In recent years, bills of exchange have declined as a means of financing commerce and trade. Merchants and banks prefer cash credit and overdraft. This makes the rate policy of the bank less effective for credit control in the country.
2. **No Flexibility of Costs, Prices and Wages:** Success of bank rate policy requires flexibility not only in interest rates but also in salaries, costs and prices. This means that when the bank's wage rates are increased, costs and expenses must automatically increase; Adjust them to the bottom. But this was possible only because of the gold standard. Now with the emergence of strong trade unions, the inflationary trend has hardened. And they stay behind despite inflation.
3. **Non-discriminatory:** Bank rate policy is non-discriminatory as it does not discriminate between productive and unproductive activities in the country.
4. **Optimism:** The effectiveness of bank rate policy also depends on waves of pessimism or optimism among businessmen. If banks are raising rates, they will borrow at higher interest rates if the economy is stressed and prices are expected to rise further. On the other hand, a fall in bank rates will not induce them to borrow during periods of falling prices. Thus, traders are less sensitive to changes in interest rates and are more affected by business expectations.
5. **Market rate and bank rate disparity:** The success of the bank rate policy depends on interest rates rising along with bank rates. The theory of bank rate policy assumes that other rates of interest in the money market change in the same direction as the bank rate. If this condition is not met, the bank rate policy will be completely ineffective as a tool of credit control.
6. **Balance of Payments:** Banks are not successful in controlling BOP imbalances: All restrictions on foreign exchange and international capital movement within the country must be removed, as bank rate policy is payable in one country.

Open Market Operation:

Open market operations are another method of quantitative credit control used by central banks. This method refers to the buying and selling of securities, bills and bonds of government and private financial institutions by the central bank. But in its narrow sense; This means dealing only in government bonds and securities. Open market operation has two main objectives. One is to influence the reserves of commercial banks to control their credit creation power and the other is to influence the market interest rate so as to control the credit of commercial banks.

Open market operations (OMO) are actions by a central bank to liquidate (or borrow) its currency from a bank or group of banks. A central bank can either buy or sell government bonds on the open market (hence the name historically), or, as the now preferred solution, enter into a repo or security bank transaction: the central bank pays a deposit for a fixed term and simultaneously obtains qualifying assets as collateral. . The central bank uses OMOs as the primary means of credit enforcement. To adjust short-term interest rates and the underlying money supply in the economy, to supply liquidity to commercial banks and sometimes to obtain additional liquidity from commercial banks – the usual goal of open market operations is to supply, resulting in money expansion or money supply contracts. It involves buying and selling government securities or other financial instruments to meet the demand for principal money at a target interest rate. Economic targets such as inflation, interest rates or exchange rates are used to guide this implementation.

On the other hand, when the central bank adopts an expansionary policy during a recession, it buys government bonds from commercial banks and institutions that deal in such bonds. The central bank pays sellers for drawn checks deposited in their accounts with commercial banks. A central bank holds cash reserves.

Another aspect of open market policy is that market interest rates change when the money supply changes due to open market operations. A reduction in the bank's money supply from the sale of bonds will result in an increase in market interest rates. On the other hand, an increase in the bank's money supply through the purchase of bonds will lower market interest rates. Therefore, open market operations have a direct impact on interest rates.

Variable Reserve Ratio:

The variable reserve ratio (or required reserve ratio or legal minimum requirement) was first suggested by Keynes in his Treatise on Money (1930) and adopted by the US Federal Reserve System in 1935. Every commercial bank is required by law to maintain a minimum. Percentage of deposits in the Central Bank. A central bank's minimum reserves may be either a percentage of its time and demand deposits or total deposits, including minimum reserves and excess reserves beyond what a commercial bank holds. Based on these additional reserves, the commercial bank is responsible for credit creation. The larger the size of the reserve, the greater the capacity of the bank. credit and vice versa. It can also be said that the higher the reserve ratio, the lower the bank's power to generate credit and vice versa. Ahen the central bank increased the reserve ratio of commercial banks; That means the latter has to invest more money than the former. As a result, excess reserves in commercial banks have decreased and they can lend less than before. This can be explained with the help of deposit multiplier formula. If a commercial bank has a deposit of Rs 100 crore and a required reserve ratio of 15%, it has to keep Rs 15 crore with the Central Bank. Its additional reservation will be Rs 85 crore.

Selective Credit Control:

Selective or qualitative methods of credit control are to regulate and regulate credit supply among potential users and utilities. They are different from quantitative or general methods that control the cost and quantity of debt, as in common instruments, selective instruments do not affect the total amount of debt but the amount used to use it in a particular area of the economy. The purpose of selective credit control is to increase the bank's creditworthiness for socially desirable and financially viable uses of speculators and other undesirable purposes. They restrict the demand for money by imposing certain conditions for the borrower. Therefore, he embodied the notion that the monopoly of debt should become a truly discriminatory monopoly. Chandler defined selective controls as a measure that "affects creditworthiness, at least until credit is used for selected purposes, without reducing supply and reducing credit."

This approach is used by the RBI to control the flow of credit to certain branches of financial activity, thus preventing misuse of borrowing facilities. Commercial banks are prohibited from extending credit to traders for betting on certain commodities. The main thrust of selective controls is as part of the RBI's 'Managed Growth' programme, the SCC was first implemented in early 1956. Generally, SCC includes the following commodities: food grains, major oilseeds and vegetable oils, cotton and cotton, sugar, gur and khandsari, cotton textiles, cotton yarn, man-made fibers and yarn, and textiles (including stock-in-process) from man-made fibers. Manufactured cloth.

CONCLUSION:

The efficiency of the emerging system of economic policies is a matter of debate. There is no doubt that the Reserve Bank is now able to establish informal corridors through two-day liquidity management. Credit market pass, however, is not visible due to various reasons such as high value deposits overhang, large non-performing assets and high non-operating costs in the banking system. As a result, real interest rates are still intact. This underscores the need to strengthen structural measures to provide the necessary flexibility in the credit market interest structure.

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