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INDIAN FINANCE SYSTEM AND CREDIT CONTROL POLICY ROLE OF RBI

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ABSTRACT:
The objectives and reasons for bank nationalization are as per Banking Companies (Acquisition and Transfer Transfer) Bill 1969. "The banking system touches the lives of billions of people and is motivated by big social motives and has to provide national services." Priorities and objectives, such as rapid growth of agriculture, small scale industries and exports, raising the level of employment, promoting new entrepreneurs and development of backward sectors. "For this, the government must take direct responsibility for the expansion and diversification of banking services and the functioning of a large part of the banking system." On July 7, 1996, the 14 major Indian commercial banks became nationalized. In 1980, six more banks were nationalized and the number of nationalized banks increased to 20. Seven more banks with more than 200 crore deposits were nationalized.

KEYWORDS : objectives and reasons , banking system touches.

INTRODUCTION:

Credit Control Policy:

Credit control is one of the major tools of the Reserve Bank of India, one of the major weapons of credit used for controlling the demand and supply 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 development". This means that banks will not only control inflationary trends in the economy, but also promote economic growth, which in turn will lead to stability in real national income. Looking at the functions of issuing notes and protecting cash reserve deposits, unregulated RBI credit will lead to social and economic instability in the country.

Need of Credit Control:

One of the important functions of the Reserve Bank of India is to regulate credit in the economy. There are fundamental and important requirements of credit control in the economy-

- Encouraging the overall development of the "priority sector" means those sectors of the economy that the government recognizes as "priority", depending on their economic status or governmental interests. The area numbers about 15 in total.
- Monitor credit channelization so that credit is not distributed for undesirable purposes.
- To control inflation and achieve the objective of deflation.
- To boost the economy by facilitating adequate credit to the bank in various fields.
- To develop the economy.

OBJECTIVES OF CREDIT CONTROL POLICY:

Following are the broad objectives of credit control policy in India.....

- Ensure sufficient liquidity to achieve high economic growth rates, including maximizing resource utilization but without creating high inflationary pressures.
- Find stability in the country's exchange rate and currency markets.
- To meet the financial needs during the declining economy and even in normal times.
- Control the business cycle and address business needs.

METHODS OF CREDIT CONTROL SYSTEM:

Bank rate or discount rate is the rate fixed by the central bank at which it redistributes the first class bills of government exchange and government securities held by the Commerce Bank. Bank rate is the interest rate charged by the central bank through which they provide re-grant to the banks through a discount window. The central bank regulates credit by changing bank rates. If the finance needs to be financed, the central bank will lower the bank rate. Getting a loan from a central bank is cheap and easy. So the commercial banks will borrow more. He is an intern and will lend to consumers at low rates. Interest rates will decrease. It encourages business activity and encourages rate increases after credit increases. The opposite happens when credit is in the economy. The central bank raises the bank's rate, which makes it more expensive to borrow. So banks take less credit. Banks increase lending rates to consumers. The tight money market also raises market interest rates. This discourages new loans and forces lenders to pay off their previous debts. This discourages business activity. There is a credit contraction that reflects the rise in prices. In this way, deflationary tendencies are offset by lowering the bank rate and raising the bank rate controls the inflation.

BANK RATE POLICIES LIMITATIONS:

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 rate policy depends on the existence of eligible bills of exchange. In recent years, the exchange bill as a means of financing commerce and trading has declined. Merchants and banks prefer cash credit and overdraft. This makes the bank's rate policy less effective for credit control in the country.
2. **Not Elastics of Costs, Prices and Wages:** The success of a bank rate policy requires flexibility not only in interest rates but also in salaries, costs and prices. This means that costs and costs should increase automatically when the bank's rate of pay is raised; adjust them to the bottom. But this was only possible by the gold standard. Now days after the emergence of strong labour unions, the deflationary trend has become rigid. And despite inflation, they stay behind.
3. **Non Discrimination:** Bank rate policy is not discriminatory as it does not discriminate between productive and unproductive activities in the country.
4. **Optimism:** The efficiency of a bank rate policy also depends on waves of frustration or optimism among professionals. If the bank rates are raised, they will borrow at higher interest rates if the economy is in a tense situation and prices are expected to rise further. On the other hand, a decline in the bank's rates will not motivate them to borrow during periods of falling prices. In this way, traders are not very sensitive to the changes in interest rates and have a greater impact on business expectations.

5. **Market Rates and Bank Rate Disparity:** The success of a bank rate policy depends on the fact that the interest rates, along with the bank rates, are also rising. The theory of bank rate policy holds that other rates of interest in the money market change in the direction of bank rate changes. If this condition is not met then the bank rate policy as a means of credit control would be completely ineffective.
6. **Balance Payment:** Banks do not succeed in controlling the BOP Disequilibrium: All restrictions on foreign exchange and international capital movements in 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 the central bank. This method refers to the purchase and purchase 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 securities and bonds. There are two main objectives of an open market operation. One is to influence the reserves of commercial banks to control the power of their credit generation and the other is to influence the market rate of interest so that commercial bank credit is controlled.

Open market operations (OMOs) are the actions of a central bank to liquidate (or borrow) a bank or group of banks in its currency. The central bank can either buy or sell government bonds on the free market (hence the name historically), or, in what is now the preferred solution, enter into a repo, or a security bank transaction: the central bank pays for a fixed term deposit. Concurrently acquire eligible property as collateral. The central bank uses OMOs as the primary means of execution of credit. To adjust short-term interest rates and the base money supply in the economy, supply to liquidity commercial banks and occasionally to obtain additional liquidity from commercial banks - the usual target of open market operations is supply, consequently expanding money or contracting money supply. These include meeting the demand for base money at a target interest rate by buying and selling government securities or other financial instruments. Financial goals such as inflation, interest rates or exchange rates are used to guide this implementation.

On the other hand, when the central bank determines the expansion policy during the recession, it buys government securities from commercial banks and entities dealing with such securities. The central bank pays the sellers against the withdrawn checks which are deposited in their accounts with the commercial banks. The central bank has similar reserves to cash reserves.

Another aspect of open market policy is that when the supply of money changes as a result of the open market operation, the interest rate in the market changes. The decline in the bank's money supply from the sale of securities will have the effect of raising market interest rates. On the other hand, an increase in the bank's money supply through the purchase of securities will lower the market interest rate. Thus, open market operations have a direct impact on interest rates.

Variable Reserve Ratio:

The variable reserve ratio (or the required reserve ratio or legal minimum requirement) was previously suggested by Keynes in his Treatise on Money (1930) and accepted by the US Federal Reserve System in 1935. Every commercial bank is required by law to maintain a minimum percentage of deposits with the central bank. The central bank may have a minimum reserve either a percentage of its time and demand deposits, or may have total deposits, at which the minimum reserve space and beyond what the commercial bank holds is known as excess reserves. Based on these additional reserves, Commercial Bank is responsible for generating credit. The larger the size

of the reserves, the more the bank's capacity will be created. Credit and vice versa. It can also be said that the larger the reserve ratio required, the lower the bank's energy to generate credit and vice versa. Ahean Central Bank Increases Reserve Ratio of Commercial Banks; This means that the latter has to put more money on the former. As a result, excess reserves in commercial banks have declined and they can offer less debt than before. This can be explained with the help of a deposit multiplier formula. If a commercial bank has Rs 100 crore as deposit and 10% required reserve ratio, then it has to be kept with the central bank for Rs 10 crore. His extra reservation would be Rs 90 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. Pvt. 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.”

CONCLUSION:

The efficiency of the emerging operating procedures of economic policies has been a topic of discussion. There is little doubt that the Reserve Bank is now able to establish an informal corridor through two-day liquidity management. Credit market passes, however, do not appear for various reasons, such as high value deposit 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 flexibility required in the credit market interest structure. The issuance of ad hoc treasury bills and the implementation of the Financial Responsibility and Budget Management (FRBM) Act are two important steps in protecting monetary policy from the implications of financial expansion and ensuring good monetary-financial coordination. At present, the Reserve Bank's vision documents also need to focus sufficiently on the regulation and maintenance of payment systems.

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