IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 14, Issue 2 Ser. II (Mar. – Apr. 2023), PP 57-60
www.iosrjournals.org

Credit Control Measures by RBI

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Abstract:
Credit control measures are actions taken by central banks and other financial institutions to regulate the amount of credit available in an economy. These measures are implemented to control inflation, stabilize the economy, and promote financial stability. Some common credit control measures include setting interest rates, changing reserve requirements for banks, and using open market operations to buy or sell government securities. These measures can be used to increase or decrease the money supply in an economy, which in turn can impact the availability of credit and the cost of borrowing. Overall, credit control measures are tools used by policymakers to manage the economy and maintain financial stability.

Date of Submission: 17-03-2023 Date of Acceptance: 01-04-2023

Objectives:

1. To control inflation: By regulating the amount of credit available in the economy, credit control measures aim to keep inflation in check.
2. To stabilize the economy: Credit control measures can be used to prevent the economy from overheating during periods of strong growth, or to stimulate growth during periods of recession.
3. To promote financial stability: Credit control measures can be used to prevent financial bubbles, reduce the risk of bank failures and ensure stability of the financial system.

What is the meaning of credit control measures by RBI
Credit control measures are tools used by the Reserve Bank of India (RBI) to regulate the amount of credit available in the economy, with the aim of maintaining financial stability and controlling inflation. These measures can include setting interest rates, setting reserve requirements for banks, and controlling the money supply. The RBI uses these tools to influence the demand for credit, and in turn, the overall level of economic activity.

What is quantitative measures
Quantitative measures are tools used by central banks, such as the Reserve Bank of India (RBI), to control the money supply and interest rates in the economy. These measures are also known as quantitative easing (QE) or monetary policy tools. They are used to influence the overall level of economic activity and maintain financial stability.
Overall, credit control measures are used by the RBI to manage the money supply, interest rates, and overall level of economic activity in the country, in order to maintain financial stability and control inflation.

1. Bank Rate

The bank rate, also known as the discount rate, is the interest rate at which a central bank, such as the Reserve Bank of India (RBI), lends money to commercial banks. It is a key tool used by the central bank to control the overall level of interest rates in the economy.

When the bank rate is high, commercial banks will have to pay more to borrow money from the central bank, which will in turn increase the interest rates they charge to their customers for loans. This tends to reduce the demand for credit and slow down economic activity. On the other hand, when the bank rate is low, commercial banks will have to pay less to borrow money from the central bank, which will in turn decrease the interest rates they charge to their customers for loans. This tends to increase the demand for credit and speed up economic activity.

By adjusting the bank rate, the central bank can influence the overall level of interest rates in the economy, and in turn, control inflation and maintain financial stability.

2. Cash reserve ratio:

The Cash Reserve Ratio (CRR) is a percentage of deposits that commercial banks are required to hold as reserves with the central bank, such as the Reserve Bank of India (RBI). It is a tool used by the central bank to control the amount of money that banks have available to lend, and in turn, the overall level of credit in the economy.

When the CRR is increased, banks have to hold a larger percentage of their deposits as reserves, which reduces the amount of money they have available to lend. This tends to reduce the overall level of credit in the economy and slow down economic activity. On the other hand, when the CRR is decreased, banks have to hold a smaller percentage of their deposits as reserves, which increases the amount of money they have available to lend. This tends to increase the overall level of credit in the economy and speed up economic activity.

By adjusting the CRR, the central bank can influence the overall level of credit in the economy, and in turn, control inflation and maintain financial stability.

3. Statutory Liquidity Ratio :

Statutory Liquidity Ratio (SLR) is the percentage of deposits that commercial banks are required to maintain in the form of liquid assets, such as cash, gold, or government securities, as a proportion of their total deposits. It is a tool used by the central bank, such as the Reserve Bank of India (RBI), to control the amount of money that banks have available to lend, and in turn, the overall level of credit in the economy.

When the SLR is increased, banks have to maintain a larger percentage of their deposits as liquid assets, which reduces the amount of money they have available to lend. This tends to reduce the overall level of credit in the economy and slow down economic activity. On the other hand, when the SLR is decreased, banks have to maintain a smaller percentage of their deposits as liquid assets, which increases the amount of money they have available to lend. This tends to increase the overall level of credit in the economy and speed up economic activity.

By adjusting the SLR, the central bank can influence the overall level of credit in the economy, and in turn, control inflation and maintain financial stability. The SLR is generally set higher than CRR, as SLR is a measure of the bank's liquidity position, while CRR is a measure of the bank's solvency position.

4. Repo rate and Reverse repo rate :

Repo rate, also known as the repurchase rate, is the rate at which commercial banks can borrow money from the central bank, such as the Reserve Bank of India (RBI), by selling their securities to the central bank with an agreement to repurchase them at a later date. It is a key policy rate used by the central bank to control the overall level of interest rates in the economy.

When the repo rate is increased, it becomes more expensive for commercial banks to borrow money from the central bank, which
will in turn increase the interest rates they charge to their customers for loans. This tends to reduce the demand for credit and slow down economic activity. On the other hand, when the repo rate is decreased, it becomes cheaper for commercial banks to borrow money from the central bank, which will in turn decrease the interest rates they charge to their customers for loans. This tends to increase the demand for credit and speed up economic activity.

By adjusting the repo rate, the central bank can influence the overall level of interest rates in the economy, and in turn, control inflation and maintain financial stability.

Reverse Repo-rate:

Reverse Repo rate is the rate at which commercial banks can lend money to the central bank, such as the Reserve Bank of India (RBI), by purchasing securities from the central bank with an agreement to resell them at a later date. It is a key policy rate used by the central bank to control the overall level of interest rates in the economy.

When the reverse repo rate is increased, it becomes more attractive for commercial banks to lend money to the central bank, as they can earn a higher interest rate. This tends to decrease the overall level of credit in the economy and slow down economic activity. On the other hand, when the reverse repo rate is decreased, it becomes less attractive for commercial banks to lend money to the central bank, as they can earn a lower interest rate. This tends to increase the overall level of credit in the economy and speed up economic activity.

By adjusting the reverse repo rate, the central bank can influence the overall level of credit in the economy, and in turn, control inflation and maintain financial stability. The reverse repo rate acts as a floor for the interest rate

corridor, as the difference between the repo rate and the reverse repo rate forms the corridor within which the short-term money market rates fluctuate.

5. Open market operations :
OMD stands for Open Market Operations. It is a monetary policy tool used by the central bank, such as the Reserve Bank of India (RBI), to control the money supply and interest rates in the economy.

Open Market Operations involve the purchase or sale of government securities by the central bank in the open market. When the central bank buys government securities, it injects money into the economy, which increases the money supply and tends to decrease interest rates. This tends to increase the overall level of credit in the economy and speed up economic activity. On the other hand, when the central bank sells government securities, it withdraws money from the economy, which decreases the money supply and tends to increase interest rates. This tends to reduce the overall level of credit in the economy and slow down economic activity.

By using Open Market Operations, the central bank can influence the overall level of interest rates and credit in the economy, and in turn, control inflation and maintain financial stability.

What is Qualitative Measures:

Qualitative data are measures of 'types' and may be represented by a name, symbol, or a number code. Qualitative data are data about categorical variables (e.g. what type).

1. Margin requirement :
A margin requirement is the minimum amount of collateral that must be set aside by an investor or borrower in order to open or maintain a leveraged position. It is a form of risk management used by financial institutions to ensure that they are protected against losses in the event that the value of the assets used as collateral decreases.

In the context of trading, margin requirement refers to the minimum amount of cash or eligible securities an investor must deposit in their margin account with a broker to open a position, and maintain it, in a marginable securities. It is the percentage of the total value of a security or securities that an investor must pay for and it is typically set by the broker or the exchange.

In the context of borrowing, a margin requirement is the percentage of the total value of the loan that the borrower must pay as collateral. The margin requirement is used to reduce the risk of the lender by ensuring that the borrower has a vested interest in the loan and will be more likely to repay the loan.

In summary, margin requirements are set by financial institutions as a way to manage risk and ensure that there is enough collateral to cover potential losses.

2. Moral Suasion :
Moral suasion is a non-binding method of persuasion used by central banks, such as the Reserve Bank of India (RBI), to influence the behavior of commercial banks and other financial institutions.

It refers to the use of persuasion and persuasion techniques, such as verbal advice, public statements and suggestions, rather than formal regulations or financial incentives, to encourage banks and other financial institutions to adopt certain policies or procedures. For example, the central bank may use moral suasion to encourage banks to lend to certain sectors of the economy or to maintain a certain level of reserves.

The main advantage of moral suasion is that it allows the central bank to influence the behavior of financial institutions without imposing formal regulations, which can be costly and time-consuming to implement. However, it can be less effective than other methods of credit control as it relies on the voluntary cooperation of the banks and other financial institutions, which may not always be forthcoming.

Moral suasion is considered a less powerful tool than quantitative measures such as open market operations, setting interest rates, setting reserve requirements for banks, and controlling the money supply, but it can be used as a complement to them.

3. Credit Rationing:
Credit rationing refers to the situation in which the demand for credit exceeds the supply of credit available. It occurs when there is a scarcity of credit and lenders are forced to limit the amount of credit they are willing to provide to borrowers.

Credit rationing can happen for a variety of reasons, such as economic downturns, financial crises, or when regulatory authorities limit the amount of credit that banks and other financial institutions can lend. It can also happen due to the lender's own financial constraints. For example, if a bank's capital is low, it may be forced to ration credit in order to maintain a certain level of solvency.

When credit rationing occurs, lenders may have to choose which borrowers to lend to and at what terms, based on factors such as creditworthiness, collateral, or the purpose of the loan. This can result in some borrowers being denied credit or being offered credit on less favorable terms than others.

Credit rationing can have negative effects on the economy, as it can limit the availability of credit to businesses and individuals, which can slow down economic growth and increase the cost of borrowing.

Conclusion :

In summary, credit control measures by Reserve Bank of India (RBI) are tools used to regulate the amount of credit available in the economy, with the aim of maintaining financial stability and controlling inflation. These measures include quantitative tools such as bank rate, cash reserve ratio (CRR) and statutory liquidity ratio (SLR) which are used to control the money supply and interest rates in the economy. By adjusting these measures, the RBI can influence the overall level of interest rates, credit and economic activity in the country, and in turn, control inflation and maintain financial stability.

Ashutosh Thakare. "Credit Control Measures by RBI." *IOSR Journal of Economics and Finance (IOSR-JEF),* 14(2), 2023, pp. 57-60.