

FOCUS SPOT

What?

Controlling instruments of money supply used by Central bank.

Why?

These instruments under monetary policy involve quantitative and qualitative instruments. These concepts are usually not clear among the students.

Impact

The students are made to understand :

The **quantitative measures** of credit control are :

1. **Bank Rate Policy:** The bank rate is the Official interest rate at which RBI rediscounts the approved bills held by commercial banks.
2. **Open Market Operations:** The Open market Operations refer to direct sales and purchase of securities and bills in the open market by Reserve bank of India. The aim is to control volume of credit.
3. **Cash Reserve Ratio:** Cash reserve ratio refers to that portion of total deposits in commercial Bank which it has to keep with RBI as cash reserves.
4. **Statutory Liquidity Ratio:** It refers to that portion of deposits with the banks which it has to keep with itself as liquid assets(Gold, approved govt. securities etc.) .

Qualitative measures:

1. **Margin requirements:** This refers to difference between the securities offered and amount borrowed by the banks.
2. **Guidelines:** RBI issues oral, written statements, appeals, guidelines, warnings etc. to the banks.
3. **Rationing of credit:** The RBI controls the Credit granted / allocated by commercial banks.
4. **Moral Suasion:** psychological means and informal means of selective credit control.