IMPORTANT INSTRUMENTS OF MONETARY CONTROL IN INDIA

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Abstract : In this paper we discuss about important instruments of monetary control in India since 1991. In spite of generalised recognition of price stability as the primary goal of monetary policy, there is little evidence that inflation targeting on an average improves the performance of growth. Thus it is clear that inflation has a non-linear relationship with the economic growth. It has also been pointed out that upto a certain level, inflation is beneficial and works as a tonic for the economic growth and beyond that level it becomes inimical for the economy. If we have to examine the efficacy of the monetary policy by a single criterion, definitely it should be the inflation performance of the economy. Taking into account the need for development finance in a capital scarce economy, monetary policy needs to be evaluated in an integrated framework in terms of the inter-relationship among money supply, output and prices.

Keywords : Monetary Policy, Monetary Control, Economy, Money Supply.

I. INTRODUCTION

The main aim of the quantitative control of monetary policy is basically to affect the cost and availability of bank-credit in general without taking in to accounts its distribution in particular directions. But the essence of credit control in India is not only to regulate the total quantity or the cost of credit but also to have a control over its overflow in particular directions. When the credit is regulated for the specific purposes, it is termed as selective technique of credit control. This technique has two main aspects: positive and negative. On the positive front, technique can be used to channelise more credit into particular sectors. On the negative front, technique is used to prevent the flow of credit to the particular sectors or activities. All demands made for bank credit are not *'legitimate'* in the sense of being essential to the genuine demands of development. Some of them may be unimportant from social point of view or even harmful also. The risk of antisocial use of credit becomes particularly serious when the money supply in the economy is substantially expanding and prices are tending to rise because productions and economic activities are not up to the mark. On such occasions it is profitable for producers or traders to hold on to their stocks in a rising market, and if bank credit is freely available to them for financing such carrying of stocks, hoarding and profiteering are encouraged. The tendency of price rise is aggravated and, moreover, the keen demand for bank-credit for speculative purposes further extends money supply and stimulates its unhealthy pressure on the economy. Under great pressure the banker's efforts can be defeated by the seepage of money from good uses to bad and at most times the channels of credit are sufficiently embanked by market imperfections to make selective techniques worthwhile. In the context of planning and development, selective technique is necessitated to chanalise bank credit to socially desirable and economically useful purposes befitting the broad objectives of the plan. In such circumstances, the Central Bank has to step in and see that bank credit is not abused. It has to discriminate between different types of borrowers and the purposes for which they are borrowing. It has to prevent the credit easily available for the speculative purposes.

In India the need for selective control is realized to a greater extent because of varying degrees of responsiveness of the different sectors of the economy to changes in money supply and the rate of interest. Qualitative Control of credit flow into different channels can work more effectively than quantitative changes. To quote an expert, "restricting money where non-essentials were concerned and releasing money where essentials were concerned is a wise policy of the Central Bank."[1]

II. RBI'S POWERS OF SELECTIVE CREDIT CONTROL:

There has not been any crystal clear provision made in the Reserve Bank of India Act, 1934 regarding the empowerment of the Reserve Bank to exercise the methods of selective credit control. However the provision regarding the purchase and rediscounting of eligible bills might have some qualitative implications on the distribution of bank loans. The basis for inclusion of such provision was strongly inspired by the practices exercised by the Bank of England and also in order to improve the rapo of the banking system. The undue expansion of bank loans to stock market in 1946 made the situation comparatively gloomy which led the Reserve Bank of India to make aware of the perils of granting excess amount of loans against the stock and shares by giving warnings to all banks. On this juncture the governor of the bank also showed his concern in his speech at the Annual General Meeting and repented," This warning does not seem to have been headed In some quarters." Further he added," The bank did not posses the power to look in to the situation.[2] Therefore statutory provision in this direction was made in September 1948when the banking companies' ordinance empowered the Reserve Bank to issue directives to banks regarding their lending policies in general and any transaction in particular. Further with the enactment of banking legislation in 1949, permanent powers were given to the bank to influence selective credit control in the country. Under the section 21 of the banking companies Act, 1949, power has been given to the Reserve Bank to control and direct advances by banking companies. The section gives the guidelines as:

(1) If the Reserve Bank thinks it essential in the public interest, it may determine the policy regarding the advances to be followed by banking companies in general and by any banking company in particular. Once the policy is so determined, all the banking companies or the banking company concerned, as the case may be, will have to be abiding by the policy as so determined.

(2) The Reserve Bank may give directions to banking companies or group of banking companies regarding the purposes for which advances may or may not be made. The directions regarding the margins of advances to be maintained and the rates of Interest to be charged on advances have to be followed by each banking company.

Section 20 (3) of the banking companies act also authorizes the Reserve Bank that *"if any or advances are granted by nay banking company to the detriment of the interests of the depositors, the bankmay, by order in writing, prohibit the banking company from granting any such further loans or advances and may by like order direct the banking company to secure the repayment of any such loans or advance with such time as may be specified in the order '*[3]

Section 36 of the same act further empowers the Reserve Bank to instruct banking companies from entering into any particular transaction. The section reads as: The Reserve Bank may caution or prohibit banking companies from entering in to a particular transaction or class of transactions and can give the suggestions to banking company from time to time. Reserve Bank has also been given the powers to issue directives to banking companies regarding the matters of policy or administration in the national interest or in the interests of the institutions themselves.

The Section 35 A[4] of the Banking companies Act states as: If the Reserve Bank is satisfied that in the national interest; or to prevent the affairs of any banking company being conducted in a manner harmful to the interests of the depositors or in a manner harmful to the interest of the banking company; or to secure the proper management of any banking company generally; it is necessary to issue directions to banking companies generally or to any banking company in particular, it may time to time, issue such directions as it deems fit, and the banking companies have got to abide by the directives issued.

III. METHODS OF SELECTIVE CREDIT CONTROLS:

3.1 Rationing of Credit: The rationing of credit is adopted only in the situation when the country faces an exceptional and serious monetary crisis or when gold reserves start declining. In this method, the Central Bank imposes restrictions on demand for more credits by the Commercial Banks. The Central Bank limits the quantity of credit available to each the commercial banks. Hence this method of credit rationing has also the direct influence on the credit granting capacity of the commercial banks.

3.2 Margin Requirement: The margin is the difference between the *"loan value"* and the *"market value"* of securities offered by borrowers against secured loan. By prescribing the margin requirements or secured loans, the Central Bank does not permit the commercial banks to lend to their customers the full value of securities offered by them but only a part of their market value.

3.3 Publicity: The *'Central Bank* publishes weekly reports, periodicals, reviews, and the statement of assets-liabilities and balancesheets for the guidance and reference of commercial banks. These publications provide latest information for the money market, public finance activities, trader and industries. From these data, the commercial banks can plan and adjust their credit policy and activities.

3.4 Direct Action; The direct action is a discretionary instrument lies in the hands of the central bank. This method is most extensively used by Central Banks to implement their credit patterns. This method can be used to enforce both quantitative as well as qualitative credit control by the Central Bank.

3.5 Moral Suasion: Moral suasion is the policy of the RBI of persuasion and pressures used on commercial banks to do certain things or refrain from doing certain things. This is exercised through discussions, letters, speeches, negotiations and hints thrown to banks.

The RBI sends periodical letters to banks requesting them to reduce their advances against particular commodities or unsecured advances. Frequent discussions are also held for this purpose. The RBI has been able to build a good informal relation with the banks over the years. Moral suasion has been proved quite useful in exercising the control over credit supply in the country.

In India selective controls of credit have been used to prevent the hoardings of essential commodities like food grains and agricultural raw materials for speculative purposes to check the undue rise in their prices. The restriction on the availability of bank credit for financing the purchase and holding of some commodities will restrict the capacity of traders to hold their stocks. This will lead to the improvement in the market supply of commodities and will thereby check the price rise.

At present, the RBI fixes minimum margins to be maintained by commercial banks regarding their advances against food grains, oilseeds, vegetable oils, cotton, sugar, cotton textile, etc. The RBI exercises the selective credit controls in accordance with the powers given to it by the Banking Regulation Act. Following are the techniques of selective credit controls generally used:

(i) The minimum margins requirement for lending againstvsecurities varies from the low of 20% to the high of 75% in 1997. The RBI fixed a minimum margin of 45% on bank advances against stock of wheat as against minimum margins of 10% and 15% for advances against levy and free sugar, respectively.

(ii) The RBI fixes ceilings on maximum advances to individual borrowers against certain stocks of goods. Commercial banks are required to get the permission of the RBI to grant loans to new borrowers. The credit limits in the case of existing borrowers can be increased.

(iii) Minimum discriminatory rates of interest are charged on certain types of advances.

(iv) The RBI prohibits the advances for financing the hoarding ofsensitive commodities for the speculative purposes.

(v) The RBI prohibits the discounting of bill covering sale ofsensitive commodities.

IV. ALLOCATION OF CREDIT IN DIFFERENT SECTORS:

The policy regarding the allocation of credit in different sectors has seen the dramatic changes from time to time. The whole period can be divided into three sub-periods:

- Pre-nationalization spell: 1951-1968
- Post-nationalization spell: July 1969-1991
- Post-Liberalization spell: After 1991

4.1 Pre-nationalization spell:

The economy has been broadly divided into four sectors:

(i) Agriculture
(ii) Industry
(iii) Trade and
(iv) Others.

Whenever needed each sector can be further sub-divided into smaller sub-sectors as large and medium-scale industry and small-scale industry. During the pre-nationalization period (1951-68) the credit for the Industry has increased dramatically and there has been a decline trend of credit in the trade and others. The share of industry in bank credit rose rapidly from 34 percent in 1951 to 51 percent in 1961 and to 67.5 percent in 1968. On the other hand the share of trade declined from 36 percent to 19 percent and that of the miscellaneous category from 28 percent to 11 percent. The factors responsible for shift in advances pattern operated on both the demand and supply sides of bank credit. On the one hand, the state policy, under the framework of a mixed economy and five-year plans initiated in 1951, sought the industrial development of the country largely through the promotion of large industries in the corporate sector. On the other hand, large industry and established business houses, because of their ownership and control of big commercial banks, could claim easily an increasing proportion of the incremental bank credit and banks themselves were perfectly happy to fall in line.

Throughout the period 1951-68 agriculture continued to command a very low proportion of total commercial bank credit, firstly because commercial banks were reluctant to provide such credit and so were not geared to that end and secondly because as a matter of deliberate policy the needs of agricultural credit were supposed to be met by the cooperative credit system. But the severe shortage of food grains production in the country and the consequent need for promoting the High Yield Variety Programme (HYVP) and to support the weaker sections on political considerations, pressures came on the RBI to provide adequate refinance to the cooperative credit system. The RBI as the Central Banking authority considered it inadvisable to stretch its help beyond a reasonable limit and there were inherent organizational and structural limitations on the cooperative banking system in raising its own resources, a multi-agency approach for the provision of agricultural credit which commercial banks as the other source of credit came into existence, and the State Bank of India (SBI) was assigned the role of providing credit to agricultural and processing societies.

4.2 Post-nationalization spell:

The classification was made for the first time in 1968 as: (i) priority sectors and (ii) non-priority sectors. In the beginning three sectors- agriculture, small industries and exports were recognized as priority sectors on the recommendation of the National Credit Council. Later on, road and water transport operators, professional and self employed persons, retail trade and small business, and education were also included into the priority sector. The targets of priority sector credit for public sector banks were set and revised from time to time as a matter of government policy. Thus the increasing emphasis on credit to *'priority sectors'* and emergence of food credit (i.e. credit for the procurement of food grains) as an important item has led to the reallocation of Sectoral credit from what it was In the pre-nationallzation period.

The share of bank credit of scheduled commercial banks to industry as a whole and to large and medium industry in particular has persistently declined. The share of industry decreased from 67.5% in March 1968 to 48.8% in March 1986. The share of large and medium industry declined from 60.6% in March 1968 to 34.7% whereas the share of small industry rose from 6.9% in March 1968 to 14.1% in March 1986. With the expanded diversification in industry, the industry wise allocation of bank credit has also changed drastically. The relative shares of textiles, engineering and sugar have declined and those of newer industry groups have improved.

The rising share of bank credit has taken the form of food advances with the increase in the domestic output of food grains, market surpluses of food, public distribution of food grains, public procurement of food, and the size of buffer stocks of food. In March 1968, the amount of food advances of Rs.109 crores constituted only 3.5% of total advances of scheduled commercial banks, which increased to Rs. 5600 crores constituting about 10% of total advances in June 1979. In order to promote banks to meet the growing demand, the RBI not only issued appropriate guidelines to banks, but also offered them its refinance facilities. Under the RBI policy, food advances enjoy priority over other advances as well as concessional rate of interest. Several measures have been taken in order to promote the exports to earn enough foreign exchange so that it can meet the growing foreign exchange obligations and other large needs. In order to increase the RBI at low concessional rate of interest has provided the banks their credit for exports, with the liberal financing facilities.

The RBI has been fixing credit ceilings from time to time and requiring commercial banks to observe specified incremental net nonfood credit-deposit ratio. The scheduled commercial banks provide the export credit - preshipment as well as post-shipment at very low concessional rates of interest.

Under the Integrated Rural Development Programme (IRDP) banks provided terms loans to identified poor families. This programme was started in 1978-79 as a major poverty alleviation programme and the objective was to take above the poverty line the families in the identified target groups by creating substantial employment opportunities in rural areas and by enabling them to acquire productive assets with the help of government subsidy and term loans from banks.In consonance with this objective during the[6] plan period, term loans of Rs. 31,000 crores were disbursed by banks to about 16.6 million families against the target of 15 million families.

4.3 Post-Liberalization spell:

The period of 1990s has been characterized by a severe balance of payments crisis and high rate of inflation, reflecting the growing internal imbalances of 1980s. The Reserve Bank responded swiftly with monetary and credit measures aimed at import compression and demand containment. With the liberalization of the external sector, the management of capital flows posed a fresh challenge to monetary management. The Reserve Bank absorbed surplus capital flows in its balance sheet in order to maintain the export competitiveness of the economy and at the same time attempted to sterilize the monetary impact. During 1994-95, the evolution of prices and output led to a tightening of selective credit controls on a number of goods from May 16, 1994. Minimum margin on bank advances against pulses, oilseeds and vegetable oils and Cotton and *Kapas* were, raised by 15 percentage points. The credit ceiling on them was reduced from 100 percent to 85 percent of the peak level during the three-year period ending October 1993. The concessional margin of 10 percent for bank advances (with stage guarantee) to state level cooperative institutions was raised from 10 percent to 25 percent. But in the mid year review that expected a bumper *Kharif* crop, the selective credit controls on bank advances against paddy/rice were eliminated. With the sign of improvement in price-output trends in Cotton/Kapas, the minimum margins on bank advances against these commodities were reduced by 15 percentage points and the credit ceiling rose from 85 percent to 100 percent of each borrower's peak level of credit during the three year period ending October 1993. There was no change in the selective credit controls imposed by RBI against price sensitive essential commodities during financial year 1995-96 (Table-4.1).

TABLE-4.1

SELECTIVE CREDIT CONTROLS ON BANK ADVANCES

(ECTIVE APRIL 18,1995)

		Minimum Margins			**(Percent)**
		Mills / processors	**Others**	**Warehouse receipts**	**Credit Ceiling Nov. 1993-Oct. 1994**
	1	2	3	4	5
1.	Pulses	60	75	60	85
2.	Other food grains (other than paddy / rice, wheat and pulses)	45	60	45	100
3.	Oilseeds (viz. groundnut, rapeseed/mustard, cotton seed, linseed, castorseed and all imported oilseeds)	60	75	60	85
4.	Vegetable oils (viz. groundnut oil, rapeseed/ mustard oil, cotton seed oil, linseed oil, caster	60	75	60	85

	oils)				
5.	Sugar				
	(a) Buffer	0	-	-	-
	(b) Unreleased	0	-	-	-
	(c) Released	75	75	60	-
6.	Gur and Khandsari	45	75	60	-
7.	Cotton & Kapas	2	60	45	100
1. Applicable to registered oil mills and vanaspati manufactures- Not applicable					
2. Exempt from the stipulations.					
3. Applicable other than cotton mills including spinning mills.					
4. A concessional minimum margin of 25 percent (effective from May 27 to the end of November 1994) against stocks of sugar imported on cash basis for a period of not exceeding 8 weeks (reduced to 6 weeks from September 3, 1994) after the arrival of sugar stocks in India.					

Source: Economic Survey, 1995-1996, p.54.

At the beginning of the financial year 1996-97, there was an across the broad liberalization of selective credit controls on bank advances against price-sensitive essential commodities. In the context of the favorable price-supply situation, bank advances against a large number of price-sensitive essential commodities, were exempted from selective credit controls from October 21, 1996. These commodities include pulses, other food grains (coarse grains), oilseeds (viz. groundnut, rapeseed/mustard, cottonseed, linseed, castorseed), oils there of including *vanaspati*, all imported oilseeds and oils, sugar, *gur* and *khandsari* and cotton and *kapas* to *'others'* (other than cotton mills including spinning mills). However, selective credit controls were retained for advances against buffer stock and unreleased stocks of sugar-to-sugar mills. In the case of unreleased stocks of sugar, the margin was reduced from 20 percent to 15 percent, effective October 21, 1996, while in the case of buffer stock of sugar, the existing prescription of a zero percent margin continued.[5] The above explanations are summarized in the table-4.2.

TABLE-4.2

SELECTIVE CREDIT CONTROLS ON BANK ADVANCES

		Effective July 2,1996				**Effective October 21,**		
		Minimum Margins			**Level of credit ceiling 1994-95 (Nov-Oct)**	**Minimum Margins**		
		Mills/ processing units	**Others**	**Warehouse receipts**		**Mills/ processing units**	**Others**	**Warehouse receipts**
1	Pulses	45	60	45	100	-	-	Exempt
2.	Other food grains (other than paddy / rice, wheat and pulses)	30	45	30	100	-	-	Exempt
3	Oilseeds (viz. groundnut, rapeseed/mustard, cotton seed, linseed, castorseed and all imported	45	60	45	100	-	-	Exempt

	oilseeds)							
4.	Vegetable oils (viz. groundnut oil, rapeseed/ mustard oil, cotton seed oil, linseed oil, caster oils)	45	60	45	100	-	-	Exempt
5	Sugar							
	(a) Buffer	0	-	-		0	-	Exempt
	(b) Unreleased	20	-	-		15	-	Exempt
	(c) Released	45	45	30		-	-	Exempt
6	Gur and Khandsari	30	45	30		-	-	Exempt
7	Cotton & Kapas	Exempt	30	30	110	-	-	Exempt
- Not applicable								
1. Applicable to registered oil mills and Vanaspati manufactures.								
2. Applicable to other than cotton mills including spinning mills.								

Source: Economic Survey, 1996-1997, p.49.

The selective credit controls were virtually eliminated in October 1996, the only exception being advances against buffer stock of sugar and unreleased stock of sugar-to-sugar mills. In order to counter temporary deterioration in price supply situation, selective credit controls were re-imposed only for a period of three months (April 8-July 7, 1997) on bank advances against stocks of wheat. A minimum margin 45 percent was stipulated on bank advances against (a) stocks of wheat to mills and processing units and (b) warehouse receipts covering wheat stocks and a higher margin of 60 percent was imposed on advances to others, i.e. parties other than mills and processing units. A credit ceiling of 100 percent of the peak level of bank credit maintained by the party in any of the three years commencing 1993-94 (November-October) was also set. Effective from October 22, 1997, differential minimum margin of 10 percent and 15 percent were stipulated for advances against levy and free sale sugar respectively, leaving advances against buffer stock free from margin. During the financial year 1996-97 out of the total increase in gross non-feed credit of Rs. 19742 crore, 35.3 percent (Rs. 6.972 crore) flowed to medium and large industries, 19.4 (Rs. 3830 crore) to agriculture and 11.3 percent (Rs. 2,229 crore) to small scale industries.

During 1997-98, out of the total increase in non-food gross bank credit amounting to Rs. 36404 crore, 41.0 percent (Rs. 14926 crore) flowed to medium and large industries, 9.4 percent (Rs. 3427 crore) to agriculture and 20.8 percent (Rs. 7564 crore) to small scale industries.

The outstanding export credit of scheduled commercial banks as on March 27, 1998 stood at Rs. 34430 crore forming 10.6 percent of total outstanding Net Bank Credit (NBC) as against Rs. 30112 crore forming 10.8 percent of NBC as on March 28, 1997. As on December 4, 1998 aggregate export credit of banks was Rs. 34873 crore (10.3 percent of NBC). Effective form the fortnight beginning January 17, 1998, banks were provided export credit refinance over the level of such credit as on February 16, 1996. After reviewing the monetary and foreign exchange situation, the export credit refinance limits were restored to 100 percent of the incremental export credit eligible for refinance with effect from May 9, 1998. In order to ensure internationally competitive interest cost for exporters, RBI advised banks on June 11, 1998 to limit the spread to 1.5 percentage points over LIBOR on foreign currency loans (as against LIBOR + 2.0/2.5 points earlier).

The proportion of food credit in the flow of gross bank credit increased from 15.1 percent in 1999-2000 to 20.9 percent In 2000-01 whereas the corresponding proportion during April-October 2001 was as much as 37.7 percent compared with 23.6 percent in the corresponding previous period. The non-food gross bank credit flowed to the priority sectors in 2000-01 was 41.8 percent and credit to the industry was 28.7 percent. The corresponding figure for 1999-2000 was lower at 34.5 percent in the case of priority sectors while it was higher at 33.7 percent in respect of the industry sector. The flow of credit to the wholesale trade (excluding food procurement) was lower at 1.9 percent in 2000-01 than that at 5.7 percent in 1999-2000. The share of non-food credit flowing to medium and large industry and wholesale trading during April-October in 2001-02 was lower at 23.0 percent and 0.3 percent than the level of 46.2 percent and 3.6 percent, respectively, in the corresponding period of the previous year, whereas the flow of credit to housing and consumer durables during this period exceeded that in the corresponding previous period. Responding to the implications of international developments ion September 2001, the Reserve Bank effected a reduction in the ceiling rate an export credit by one percentage point for a period of six months ending March 31, 2002. As regards export credit refinance limit, the refinance limit increased from Rs. 7,350 crore in April 2001 to Rs. 9297 crore as on November 30,2001.

The total gross bank credit registered a marginally lower growth of 14.2% during 2003-04 as compared with a growth of 14.9% in the previous year. The decline in food credit witnessed in 2002-03 continued in 2003-04. In 2003-04, the food credit declined by 27.3% on account of lower procurement of food grains and higher off take from the public distribution system. During 2003-04, the non-food credit has registered the growth of 17.5%, the same as in the previous year. Within the non-food credit, the priority sectors have recorded a higher growth of advances. The credit has increased from 17.9% to in 2002-03 to 23.2% in 2003-04. The credit to small-scale sector has Increased from 5.7% in 2002-03 to 9.0% in 2003-04. Growth of credit to the medium and large industries was lower than that recorded in the previous year. The credit for housing increased by 42.1% in 2003-04 on the top of a 55.1% increase during 2002-03. The credit to red estate and housing sectors were the deriving force in the expansion of nonfood credit during 2004-05 upto October 2004.

The strong industrial recovery was accompanied by much higher credit growth of 17.4% to industry (medium and large) in 2004-05 as compared to only 2005-06. Have year-on-year growth of credit to industry further accelerated to 45.7% but the share of industry in gross bank credit was declined from 32.3% in 2003-04 to 29.8% in 2004-05. Again the declining trend was reversed in 2005 with the share increasing to 33.2% from 31.7% in tiie previous year. Rs. 81,793 crore accounting about 39.3% of NBC increased the flow of credit to priority sectors, during 2004-05 as compared to Rs. 52, 225 crores in 2003-04. Further the credit to agriculture and allied sectors increased by Rs. 49,602 crore accounting about 39.9% in 2005-06 as compared to the Rs.33,728 crore accounting about 37.3% in the previous year. There is an expansion of credit to industry (large and medium) by Rs. 110,435 crore (31.6%) in 2005-06 as compared to the increase of Rs.101, 737 crore (41.2%) in 2004-05.

The provisional data on Sectoral deployment of non-food credit for the first half of 2006-07 indicates the continuation of the trend of broadening out reach of much credit across the various sectors witnessed in the earlier year on September 29, 2006, the year on year increase in credit to agriculture and allied activities was Rs. 46,333 crore (33.0%) and to industry (large and medium) was Rs. 98, 274 crore (24.3) on a year on year basis, housing loans as well as loans to real state continued to expand at a faster rate of 37.3% and 97.1% respectively.

V. CONCLUSION

Thus to conclude we can say that in the context of planning and development, the selective credit control is necessary to channelise bank credit to socially desirable and economically useful purposes befitting the broad objectives of the plan. In a country like India where the resources are quite limited so it is the need of the hour to use these resources in the most efficient way. In India the selective credit controls have been exercised mainly to prevent the hoarding of essential commodities like food grains and agricultural raw materials for the speculative purposes to check an undue rise In their prices. The selective credit controls are in operation in India since May 1956.since then there has been an expansion in its coverage, scope and content. But the degree of success of Selective Credit Control (SCCs) depends on the factors like - the extent of effective credit restrictions, because, the SCCs are generally security-oriented and not purpose oriented. The availability of non-bank finance - Traders may not depend upon banks for financing their inventories and have other sources of finances such as black money. The degree of shortage of supply in relation to normal demand- if the shortage is greater, greater will be the speculative fever. All these will definitely jeopardize the basic purpose of selective credit controls.

Hence, if the selective credit controls are aimed to prevent the rise in prices of sensitive commodities, they have got to be combined with general credit controls in order to reduce the capacity of banks to lend money. Further, in order to make the selective credit controls much effective, the banks have to take in to account the purposes of all credit and to make credit advances accordingly. Since the selective credit controls throw the light mainly on credit to traders for financing inventories, the RBI generally ensures that credit for production movement of commodities and exports is not adversely affected by such controls. It has made frequent changes in its sec directives with changing market conditions, but it is very difficult to have definite information about the degree of success or failure of the SCCs. However, there is a general audacity that they do moderate speculative pressures on the prices of sensitive commodities to some extent.

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