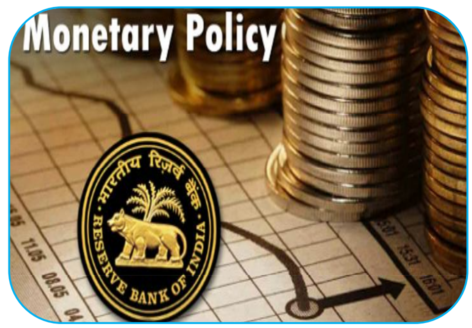
REVIEW OF RESEARCH
ISSN: 2249-894X
IMPACT FACTOR : 5.7631(UIF)
UGC APPROVED JOURNAL NO. 48514
VOLUME - 8 | ISSUE - 9 | JUNE - 2019

PROMOTIONAL INITIATIVES OF MONETARY POLICY IN INDIA DURING PRE-REFORM ERA

Dr. (Smt.) Shalini Saini
Assistant Professor (Adhoc), Economics,
Govt. (P.G.) College, Karanprayag, Chamoli (Uttarakhand).

ABSTRACT



Monetary policy in India during pre-reform period is considered as policy of controlled expansion in money supply. After independence the Indian financial system was in a process of rapid transformation, which brought significant changes in monetary policy of RBI. In the pre-reform period monetary policy adopted regulatory aspect with some promotional initiatives. This paper dealt with the promotional steps of monetary policy in pre-reform period i.e. 1980-81 to 1990-91 in India. During this period although the main concern of monetary policy was to restraint the credit expansion due to the pressure of inflation but simultaneously monetary policy made efforts to provide sufficient credit to needy sectors of the economy. These promotional initiatives created a favourable environment for economic development.

KEY WORDS: - *Monetary Policy, Promotional Initiatives, Adequate Credit.*

INTRODUCTION:

Monetary Policy of central bank is concerned with some specific measures in economy with the help of various tools to regulate money supply, cost and availability of credit in economy. Monetary policy in India designed and pursued to obtained specific objectives which is to accelerate the process of economic growth with stability. As monetary policy of a country plays a very crucial role in molding an economic structure. These roles design as per the objectives set for the monetary policy and emerging economic situations of an economy.

For obtaining its all goals monetary policy has two important role i.e. promotional and restrictive role. Traditionally monetary policy was confined to its restrictive role but gradually role of monetary policy in India become promotional. According to Sid Mittra, "The promotional role of the monetary authorities in India is to extend sound credit where need and to respect flexibly and promptly to changing conditions".[1]

PROMOTIONAL INITIATIVES OF MONETARY POLICY (1980-81 TO 1990-91)

It is well known that since independence the economy of India was in the inflationary pressure so all the financial system of country was highly regulated. There was growing deficit of government and financing by RBI was increasing which brought the Indian economy in the pressure of inflation but RBI also tried to improve the mechanism to meet the genuine requirements of the production, establishment of new institutions and reconstruction of the banking structure. With the changing structure of the Indian economy, monetary policy of RBI also changed, as Suraj B. Gupta writes, "In the discharge of its promotional role, the RBI has several accomplishments to its credit and is continuously engaged in the performance of several non-traditional tasks."[2]

Some selected initiatives[3] of promotional monetary policy in these two decades i.e. 1980-81 to 1990-91 before liberalization are as follows-

- **October, 1980:** Incremental CRR withdrawn.
- **June, 1981:** Interest Rate on export credit refinance was brought down to 9.00 percent from 10.00 percent.
- **January, 1982:** (i) January-March 1982 an important discretionary refinance (Rs. 200 crore by end April) was provided by *RBI* to fulfill the genuine requirements of productive sectors of the economy and also to ensure credit requirements of important seasonal industries on a selective case-to-case basis.

(ii) An important initiative in the development of institutional machinery was the set up of Export-Import Bank of India.

- **March, 1982:** The Agricultural Refinance and Development Corporation (ARDC) provided interim loan to Commercial Banks and State Land Development Banks so that they could provide credit to farmers to purchase tractor.
- **April, 1982:** CRR was reduced from 7.75 percent to 7.25 percent.
- **June, 1982:** CRR was further reduced from 7.25 percent to 7.00 percent of net demand and time liabilities.
- **July, 1982:** The National Bank for Agriculture and Rural Development (NABARD) for agriculture and rural development was set up.
- **November, 1982:** Banks were provided additional refinance facility to fulfill their food and export refinance requirements.
- **April, 1983:** The maximum lending rate was brought down from 19.5 percent to 18 percent.
- **January, 1984:** IDBI and other financial institutions have used softer loan scheme to all industries involved modernization programme.
- **June, 1984:** 162 Regional Rural Banks (RRBs) had been established to fulfill the requirement of money of weaker areas covering 286 districts.
- **October, 1984:** "One-fifth of the additional cash balances maintained under the 10 percent incremental cash reserve ratio as on October 31, 1980 would be released in two equal installments. Furthermore, in order to provide greater discretion to the banks in the case of private sector parties not covered by the Credit Authorization Scheme (CAS), the cut-off point for term loan of over three years which required prior authorization by the Reserve Bank was raised from the earlier level of Rs. 50 lakhs to Rs. 1 crore." [4]
- **April, 1985:** (i) The maximum lending rate was lowered from 18 percent to 17.5 percent.

(ii) The credit limit for food credit refinance was increased to Rs. 4600 crores from Rs. 4300 crores. However, the lending rate for the pre-shipment credit was reduced from 14.5 to 14 percent.
(iii) Scheduled commercial banks allowed the freedom to fix interest rates on deposits of maturities of less than one year within the prescribed ceiling of 8 percent.

- **October, 1985:** (i) Increase in cash balances maintained with the *RBI* from 10 percent to 11.50 percent advanced up to an aggregate limit of Rs.50000 per borrower for all commodities was released. But this was only applicable when the borrower dealt with only one bank.

(ii) The minimum margins were reduced by 15 percent in the case of all advances against paddy, rice and advances to parties other than mills against cotton and kapas.

- **August, 1986:** The interest rates on export credit were lowered by 2.5percent points. The interest rate on reserve bank's export credit refinance to bank reduced from 10 percent to 9 percent.
- **April, 1987:** Interest rate on the discounting of the bill of exchange was lowered to 15.5 percent.
- **October, 1987:** "Banks were advised to charge a rate of interest of 10 percent on short-term loans upto Rs. 5,000 each in case of farmers who have suffered three or more consecutive droughts/ rescheduled."[5]
- **July, 1988:** The National Housing Bank (NHB) was introduced for the development of housing finance in the country.
- **October, 1988:** The lending rates declined from 16.5 percent to a minimum of 16 percent. For retail trade advances of over Rs. 25000 and up to Rs.1 lakh rose from 15 percent and 16 percent per annum. Advances to Central and State government agencies provided on a commercial basis, the rate was fixed at 16 percent from 16.5 percent.
- **February, 1989:** The discretionary refinance facility to draw without prior sanction of the *RBI* was reduced from a limit equivalent to one percent to 0.50 percent of average aggregate deposits.
- **May, 1989:** to promote the growth of the money market, the interest rate ceiling on call/notice money was withdrawn. Interest rate ceiling of 10.5-11.5 percent on interbank term money, 12.5 percent on inter-bank participations without risk were also withdrawn.
- **December, 1989:** Controls against wheat, cotton and Kapas, sugar, gur and khandsari were liberalized.
- **April, 1990:** (i) The minimum margins on all bank advances against wheat were reduced by 15 percentage points.

(ii) All advances of banks against cotton and kapas were also exempted from the selective credit control.

- **August, 1990:** Interest rate structure for industrial finance by term lending institution was liberalized.
- **October, 1990:** Scheduled commercial banks were voluntarily allowed to determine the rates of interest applicable to the categories like (a) loans for purchase of consumer durables (b) loans to individuals against shares and debentures/bonds (c) and other non-priority sector personal loans.

All the participants in the bills, rediscounting market that was not operating in the call/notice money market were granted entry into the call/notice money market as lenders in order to promote the money market in India.

- **April, 1991:** The three-year base period - 1986-87, 1987-88 and 1988-89 (November-October) for determining credit ceilings of banks advances subject to selective credit controls, the level of credit ceilings applicable on oilseeds/vegetable oils has been brought down to 85 percent from 100 percent of the peak level of credit in the base period in view of adverse price-output developments in respect of the commodities.
- **May, 1991:** RBI has brought the minimum margin on advances of bank against the unreleased stocks of sugar from 20 percent to 17.5 percent.

Thus all above initiatives reveals that although during pre-reform period Indian economy was under pressure of inflation and that's why RBI was using tight monetary policy. But at the same time

RBI was also concerned with the effort to provide adequate credit to priority sectors, promote the production and also public distribution of necessary commodities. According to Y.V. Reddy, "Significant changes in policy were initiated in the early 1980s, taking account of oil shocks in the 1970s and early 1980s. These policy measures took India into a higher growth trajectory in the 1980s but in its wake created some macroeconomic imbalance leading to a crisis in 1991 that triggered more comprehensive and sustainable reforms."[7]

To conclude Indian monetary policy during pre-reform period had so many challenges to face. It was very difficult for monetary policy to strengthen the financial system and provide a competitive atmosphere, while control mechanism provides inefficiency, poor quality of production and low profitability, some promotional initiatives tried to ensure an adequate level of liquidity to support the rate of economic growth envisaged and also to expand essential currency and credit to meet the genuine requirements of the productive sectors of the economy.

REFERENCES

1. Sid Mittra (1967), "A New Horizon in Central Banking". Asia Publishing House, Mumbai, P. 164.
2. Suraj B. Gupta (2006), "Monetary Economics". S. Chand and Company Ltd., New Delhi, P. 75.
3. This part has been prepared on the basis of various issues of economic survey of The Government of India and Reserve Bank of India, Bulletin of the RBI.
4. Economy Division, Ministry of Finance (1985). "Economic Survey (1984-85)", Government of India, New Delhi, PP. 64-65.
5. Economic Division, Ministry of Finance (1988) : "Economic Survey (1987-88)", Government of India, New Delhi, P. 77.
6. Economic Division, Ministry of Finance (1991), "Economic Survey (1990-91)", Government of India, New Delhi, P. 147.
7. Y.V. Reddy (2007), "India Development and Reform Experience and Prospects:", RBI Bulletin, Vol. LXI(10), October, PP. 1624-25.