International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Inflation Falls. Growth Rises. Rbi Decides.

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Abstract:

The Reserve Bank of India is the main bank of the country and it is important for controlling credit and keeping the money system safe. Just like companies say on their websites that they want to give the RBI also try to make sure money and credit is used in the right way. If there is too much credit, prices go up and inflation happens, and if there is very less credit then growth becomes slow. To handle this, RBI uses tools like Albin repo rate, cash reserve ratio, statutory liquidity ratio and open market operations. Also have other methods like giving more loans to priority sectors and setting margins.This paper talks about how RBI uses effective tools like repo rate, CRR, and SLR, it faces challenges from the global factors and informal markets.The RBI's control of credit is essential to balance inflation and economic growth ensuring stability.

Thesis question:

Q.How does the Reserve bank of India control credit to maintain a balance between inflation and growth and how effective has the RBI been in ensuring financial stability through credit control?

Q.what are the challenges they face while they implement their credit control?

Introduction:

The Reserve Bank of India was established in 1935 and it works as the central bank of India. It is the main authority which guide and control all other banks in the country. Credit is very important for the economy because it provide money for business, industries, farming and also for people to buy houses and etc. Without proper flow of credit the economy cannot run smooth. At the same time, if there is too much credit then prices rise and inflation happen, but if there is very less credit then growth becomes weak. So the purpose of controlling credit is to keep a balance between growth and inflation. This paper studies the role of RBI in controlling credit through quantitative and qualitative measures, and its impact on the Indian. This paper studies the role of RBI in controlling credit through quantitative and qualitative measures, and its impact on the Indian economy.

Role of RBI in credit control

Guardian of monetary policies : The RBI designs and applies India's monetary policy with the goal of balancing two things: controlling inflation and supporting economic growth. By adjusting tools such as repo rate, reverse repo, CRR, and SLR, it tries to manage the flow of money in the economy. Too much money supply can push up prices, while too little can slow down industries and jobs. The RBI therefore acts as a guide that keeps money supply under check but also ensures there is enough credit for development.

Regulator of commercial banks: All commercial banks in India work under the guidelines of the RBI. It decides how much banks should keep in reserve, what lending practices they can follow, and how interest rates are to be applied. RBI also inspects banks from time to time to make sure they are working safely and protecting the interest of depositors. In this way, it maintains trust in the banking system and prevents misuse of public funds.

Issuer of currency: The Reserve Bank has the sole right to issue currency notes in India, except one-rupee notes and coins which are issued by the government. Having a single authority ensures uniformity and reliability in the currency system. It also helps in reducing the circulation of fake currency. People trust the money because it carries the RBI's guarantee, which strengthens the stability of the financial system.

Maintain financial stability: Another key role of the RBI is to maintain stability in the financial and banking sector. It steps in during economic stress, like sudden inflation, fall in currency value, or global financial disturbances, to avoid panic. The RBI also manages the country's foreign exchange under FEMA to keep external trade and payments stable. By doing so, it safeguards both the domestic economy and India's position in the global market.

Methods of credit control

The Reserve Bank of India uses a set of tools to manage how much credit is available in the country. These tools are broadly divided into quantitative methods and qualitative methods.

Quantitative General Tools: Repo Rate and Reverse Repo Rate: The repo rate is the interest rate at which commercial banks borrow funds from RBI for short periods, using government securities as collateral. When RBI raises the repo rate, borrowing becomes more expensive for banks and they lend less, which slows down credit growth. The reverse repo rate is the rate at which RBI takes deposits from banks. When RBI raises the reverse repo rate, it absorbs excess funds from banks and reduces liquidity.

Cash Reserve Ratio (CRR): CRR is the percentage of a bank's deposits that must be kept with RBI in cash. This amount cannot be used by the banks for lending or investments. If RBI increases the CRR, banks have less money to lend, which reduces credit flow in the economy. If RBI lowers CRR, banks get more funds to lend, increasing credit.

Statutory Liquidity Ratio (SLR): Alongside CRR, banks must maintain a certain portion of their deposits in liquid assets such as government bonds, gold, or approved securities. This is called the SLR. By changing the SLR, RBI can adjust how much money banks have available for lending. A higher SLR means more funds tied up and less money for loans, while a lower SLR frees funds for lending.

Open Market Operations (OMO): RBI buys or sells government securities in the open market. If RBI sells securities, it takes money out of the banking system, reducing liquidity and credit. If it buys securities, it injects money into the system, increasing liquidity and enabling more lending.

Bank Rate, Marginal Standing Facility, Standing Deposit Facility: These are additional interest rate tools RBI uses. The bank rate is the rate for long-term lending by RBI to banks. The Marginal Standing Facility allows bank is to borrow overnight from RBI at a penal rate if they have exhausted other sources. The Standing Deposit Facility lets RBI absorb excess funds from banks. Changes in these rates influence short-term interest rates and the way banks lend.

Qualitative Selective Tools:

Credit Rationing: RBI may restrict how much credit can go to particular industries or for certain purposes, such as limiting lending to speculative activities.

Margin Requirements: RBI sets the minimum margin for loans against securities. If the margin is raised, borrowers must provide more of their own funds and banks lend less.

Priority Sector Lending: RBI requires banks to give a fixed portion of their loans to priority sectors like agriculture, small industries, and weaker sections. This ensures credit is available for areas that might otherwise be ignored.

Moral Suasion and Directives: Sometimes RBI uses persuasion, public appeals, or official guidelines to influence banks. These methods are not strict laws but they help in shaping bank behaviour and reducing risky lending.

A recent example is when RBI reduced the policy repo rate and adjusted CRR to push more liquidity into the banking system in order to encourage growth while keeping inflation under control.

Impact and challenges

Impact:

- Helps keep inflation under control by restricting excess money supply.
- Supports growth by ensuring enough credit flows to productive sectors.
- Promotes balanced development by directing loans to priority areas.
- Maintains trust and stability in the banking system.

Challenges:

- **Informal lending market:** Many people still borrow from moneylenders outside banks, where RBI has no direct control.
- **Global factors:** Oil prices, foreign exchange rates, and global crises affect India's money supply, limiting RBI's control.
- **Political and economic pressures:** Sometimes policies need to favor growth even if inflation is rising.
- **New challenges:** Rise of fintech, digital currencies, and fast-changing markets make traditional credit control methods less effective.

Conclusion

After doing a thorough research, I found that the Reserve Bank of India has a very big role in the country's economy. Credit is needed for growth, but when it is not managed properly it can make inflation rise or slow down progress. When there is too much money going around, prices keep increasing and the value of money drops, which is inflation. When there is less money or fewer loans, people and businesses spend less, and this leads to deflation. The RBI tries to keep a balance between both by using things like repo rate, CRR, SLR, and open market operations, along with other ways such as priority lending and credit control measures. These steps help in making sure that the economy grows without prices going out of control. Even though RBI's decisions sometimes take time to show effect, they still have a big impact on people's lives, from loan rates to business growth. With the rise of digital banking and global market changes, RBI's work has become more difficult but also more important than ever. It plays the role of both a guardian and a guide, keeping the financial system safe while supporting progress. In my opinion, the RBI is one of the strongest pillars of our economy because it protects the value of money and keeps the country's growth steady, even in difficult times.

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