STUDY MATERIAL

Prepared for

II B.Com (III Semester)

Subject

Banking

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Unit I : **Banker and Customer** – Relationship between banker and customer – General & Special relationship – Rights of the banker – Negotiable instruments – Promissory note, Bill of exchange & Cheque (Meaning & Features) – Proper Drawing of the cheque – Crossing (Definition & Types) – Endorsement (Definition & Kinds) – Material alternation.

Unit II : **Banking System** – Indigenous Bankers – Commercial Banks – Co-Operative Banks – Land development Banks – Industrial Development Banks – NABARD – EXIM Banks – Foreign Exchange Banks.

Unit III : **Traditional Banking** – Receiving Deposits – General Precautions – Kinds of deposits – Fixed – Current – Saving – Recurring & Others. Lending Loans & Advances – Principles of sound lending – forms of advances – loan, cash credit, over draft & purchasing and discounting of bills. Mode of charging security – lien, pledge, mortgage, assignment & hypothecation.

Unit IV : **Modernised Banking** – Core banking – Home banking – Retail banking Internet banking – Online banking and Offline banking – Mobile banking Electronic Funds Transfer – ATM and Debit Card – Smart Card – Credit Card – E-Cash – Swift – RTGS.

Unit V : **Reserve Bank of India** – Functions of Reserve Bank of India – Methods of Credit Control.

UNIT - I

BANKER AND CUSTOMER

ORIGIN OF BANKS

The word bank is derived from the French word. "Banque or Bancus" which means a Bench. In olden days, Jews were considered to be the early bankers who transacted their business on benches in the market.

MEANING OF THE TERM BANK

A bank is an institution which deals with money and credit. It’s a commercial institution.

DEFINITION OF BANK

Section 5(b) of the Banking Regulation Act states that a "banking means the accepting, for the purpose of lending or investment of deposit of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

BANKING AFTER INDEPENDENCE

In 1947, there were 648 Commercial banks with 4819 branches in India. Due to the frequent failure of banks in India, the Government of India decided to regulate and reform the banking system. As a result of this, the Reserve Bank of India was nationalized in 1949 and the Banking Companies Act was passed in 1949.

The name Banking Companies Act was later changed to Banking Regulation Act in 1965. In June 1969, 14 major commercial banks were nationalized.

In 1980, another six major commercial banks were nationalized. As result of this nationalization, almost 90% of the banking system in India was brought under the control the Public sector.

Banker

The term banker means a person who is doing the business of banking Following are the business of banking.

1) Traditional services
    a) Accepting deposits
    b) Lending money

2) New services
    a) Deposit mobillsation
    b) Grant of credit to weaker sections of society.

Features

i) Acceptance of deposits from the public
ii) Acceptance of deposit must be for the purpose of lending or investment
iii) Time of repayment is to be specified
iv) Mode of repayment

Customer-Meaning

The term customer means a person who has an account with the bank. In order to constitute a customer, two conditions are b be satisfied

i) Duration of Dealings
ii) Dealings of banking nature

Relationship between banker and customer

The relationship between a banker and a customer may be grouped into 2 categories.

1) General Relationship:

   i) Debtor- customer relationship
      a) Demand for repayment
      b) Proper place and time
      c) Law of limitation act
      d) Demand in proper manner

   ii) Banker as trustee

   iii) Banker as an agent
      a) Collection of Cheques
      b) Collection of Bills of exchange
      c) Purchasing and Selling of Securities

   iv) Banker as a bailee

2) Special relationship:

   i) Obligation to honour cheques
      a) Sufficient Funds
      b) Applicability of Funds
      c) Banker duly required to pay
      d) Payment within a reasonable time
      e) Garnishee order

   ii) Obligation to maintain secrecy

   iii) Right of lien

   iv) Right of set off

Rights of the Banker

A banker enjoys some rights through the special relations between a banker and customer. Following are the rights of the bank

i) Rights of general lien
ii) Right of set off
iii) Right of appropriation
iv) Right to charge incidental charges, interest etc.,

CHEQUE

Cheque is a bill of exchange which is drawn on a specified banker and is always payable on demand. Hence all cheques are bills of exchange but all bills are not cheques.

Definition

According to section 6 of the Indian Negotiable Instruments Act1881, Cheque is defined as “a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand'.

From the above definition, it can be inferred, that a cheque is written unconditional order given to the banker by the depositor to pay to her or to his order a sum of money specified therein.

Features of a cheque

i) A cheque is an instrument in writing
ii) It is drawn on a specified banker
iii) It is an unconditional order
iv) It is payable on demand
v) It is to be signed by the drawer
vi) Cheque must be made payable to certain person or to the order of certain person or to the bearer of the instrument.
vii) An unconditional order must be for payment of money only.

Kinds of Cheques

Cheques may be classified into two basis:

1) On the basis of Nature
    i) Open Cheque
    ii) Crossed Cheque

2) On the basis of date of issue of the cheque
    i) Stale Cheque
    ii) Anti-dated cheque
    iii) Current dated cheque
    iv) Postdated cheque

Draft:

A draft is an order by one branch upon its head office or upon another branch to pay a certain sum of money to the person named in the document. A draft is issued by the bank on receipt of full value received. It is also security paper for the banks. Locally payable drafts are called Banker's cheque.

Definition

According to section 85 (A) of Negotiable Instrument Act, “A Bank Draft is an order by one branch of a bank to another branch of the same bank to pay a certain sum of amount on demand to the person named there in".

Features

i) A draft is drawn by a branch to another branch.
ii) The amount payable is specified on the instrument.
iii) Drawer and Drawee bank are the same but branches are different.
iv) A draft is payable on demand.
v) Name of the payee is stated on the instrument.
vi) It is an unconditional order for payment.
vii) It bears the signature of the authorised officials.
viii) A draft is not a cheque.
ix) Duplicate draft can be obtained if the draft is lost.

Proper Drawing of a Cheque

A cheque may be drawn in printed form only. A cheque must contain the following information:

i) The Date Column
ii) Name of Payee
iii) Amount
iv) Signature

Crossing-Meaning

Two parallel transverse lines are generally drawn on the top corner of the left hand side of the cheque.

Drawing of two parallel transverse lines across the face of negotiable instruments is called crossing. A cheque is said to be crossed when two transverse parallel lines with or without any words are drawn across its face.

Crossing Definition

Crossing is defined under Section 123 of the Indian Negotiable Instruments Act 1881, and is stated as follows:

“Where a cheque bears across its face an addition of the words' and company' or any abbreviation shall be deemed a crossing".

Objectives of Crossing

i) Crossing prevent the payment to a wrongful holder.
ii) Crossing of cheque affords security and protection to the true owner of the cheque.
iii) It helps to avoid loss arising from open cheques falling into the hands of wrong persons.
iv) Crossing of cheques assures safety in circulation.

Types of crossing

i) General Crossing
ii) Special Crossing
iii) Restrictive Crossing
iv) Not Negotiable Crossing
v) Account Payee Crossing
vi) Double Crossing

Endorsement- Definition

Endorsement has been defined in Sec. 15 of the Negotiable Instrument Act 1881 as follows," where the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof, or on a slip of paper annexed thereto he is said to endorse the same, and is called the endorser.

Types or kinds of endorsement

i) General or blank endorsement
ii) Special or Full endorsement
iii) Partial endorsement
iv) Restrictive endorsement
v) Conditional endorsement
vi) Per Pro endorsement

Essentials of an endorsement

i) On the instrument
ii) Maker or holder
iii) Signature of endorser
iv) Mode
v) Delivery

UNIT - II

BANKING SYSTEM

CLASSIFICATION OR TYPES OF BANKS

a) On the basis of functions, banks are classified into the following kinds:

   i) Commercial banks
   ii) Industrial Banks
   iii) Co-operative banks
   iv) Exchange banks
   v) Central banks
   vi) Saving banks

b) On the basis of ownership, banks are classified into three types,

Banks

Public Sector Banks   Private Sector Banks   Cooperative Banks

c) On the basis of domicile, banks are classified into two types.

Banks

Domestic Banks   ForeignBanks

COMMERCIAL BANKS

The Commercial banks mobilise deposit from the public and the deposits are repayable on demand or at short notice. Commercial banks are the oldest, biggest and fastest growing financial intermediaries in India.

Classification of Commercial Banks

Commercial Banks:

1) Public Sector Banks
   a) State Bank of India
   b) Nationalised Banks
      i. Scheduled Banks
         a) India Banks
         b) Foreign Banks
      ii. Non Scheduled Banks
   c) Regional Rural Banks
2) Private Sector Banks

STATE BANK OF INDIA

The State Bank of India Act was passed on May 8, 1955 and the State bank of India was formed. The State Bank of India was established on 1st July 1955. The Imperial Bank of India was established in 1921 by amalgamating the three Presidency banks of Bengal, Bombay and Madras. State Bank of India was formed by taking over the assets and liabilities of the Imperial Bank of India. On the basis of the recommendation of the Rural Credit Survey Committee, the Imperial Bank of India was nationalized and was renamed in 1955 as the State Bank of India.

Function of State Bank of India

i) It performs the general commercial bank's functions.
ii) It acts as an agent of the RBI in places where are no branches of the RBI.
iii) It acts as the agent of the Registered Co-operative Banks.
iv) It purchases and sells gold and silver.
v) It acts as the government's bank.
vi) It acts as the banker's bank.

NATIONALISATION OF COMMERCIAL BANKS

14 major banks, which have deposits of Rs. 50 crore or more, were nationalized on July 19, 1969. In April 15, 1980, six major banks were nationalized.

Objective of Nationalisation

i) To mobilise deposits from the public to a large extent.
ii) To provide credit to the rural poor.
iii) To provide banking services to the rural mass.
iv) To meet the needs of productive sectors of the economy.
v) To eliminate the control over banks by a few people.

REGIONAL RURAL BANKS

Regional Rural Banks (RRBs) were setup in 1975 with a view to provide institutional credit to rural areas. The first five Regional Rural Banks were established on Oct 2, 1975.

Objectives

The main objectives of RRBs are given below:

i) To provide credit and other facilities to small and marginal farmers, agricultural labourers. Artisans and small entrepreneurs in the rural areas.
ii) To inculcate banking habits of the rural people and mobilise savings.
iii) To meet the credit requirements of weaker sections.
iv) To increase the local involvement of the banks.
v) To increase employment opportunities in rural areas.

EXIM BANK (EXPORT AND IMPORT BANK OF INDIA)

This Bank was setup in January 1982 as a statutory corporation and it commenced its operations on March 1, 1982. The Bank has its headquarters in Bombay.

Recourses of EXIM Bank

i) Share capital
ii) Grants and loans from Government
iii) Market borrowings
iv) Long term deposits from the public
v) Short term and long term funds from RBI

Functions

Function of an EXIM Bank is as follow:

Lending Operation:

1. Funded Assistant
    i) Loans to Indian companies
    ii) Loans to foreign government companies and financial institutions.
    iii) Loans to commercial banks in India
2. Non-Funded Assistance
3. Assistance for Export Bids
4. Finance for Deemed Exports

INDIGENOUS BANKERS

The Indigenous bankers from an unorganized sector of the banking structure because they do not follow the banking practices as other bankers in the country. They do not publish their accounts and do not get them audited. Indigenous bankers are not governed by the Reserve Bank of India.

Functions of Indigenous bankers

i) Accepting deposits
ii) Lending advances
iii) Non-banking business
iv) Business in Hundies
v) Acceptance of valuables for safe custody.

Limitations of Indigenous bankers

i) Unorganised Banking System
ii) Insufficient capital
iii) Defective lending
iv) Unproductive loans
v) Higher rate of interest on loans
vi) Exploitation of customers

The Organisation structure of Banks in given below:

Classification of Banks:

1. Organised Banks
    i) RBI
    ii) Commercial Banks
    iii) Development Banks
    iv) EXIM Banks
    v) Co-operative Banks
    vi) RRBs
    vii) NABARD
2. Unorganised Banks
    i) Indigenous Banks
    ii) Money Lenders

Function of a Commercial Bank:

Commercial Banks provide various services to individuals and commerce and Industry. Commercial banks are those banks which accept deposits from the general public and make short term loans to customers and traders.

PRIMARY FUNCTIONS

1) Accepting Deposits

The most important function of a modern banks is borrowing of money or receipt of deposits from the public. It is the primary function of a commercial bank.

Deposit mobilization is made specifically for fulfilling three needs or functions:

i) Creation of saving habit
ii) Creation of banking habit and
iii) Raising of funds for the purpose of investment.

A Banker accepts deposits of the following types:

a) Fixed deposit account
b) Current deposit account
c) Savings deposit account
d) Recurring deposits
e) Deposits at call

a) Fixed Deposit

A fixed deposit is one which is repayable after the expiry of a predetermined period fixed by the customer himself.

b) Current Deposit

Current deposit account can be opened only by businessmen and traders.

c) Saving Deposit

A Saving Bank account is meant for the people of the lower and middle classes who wish to save a part of their current income to meet their future needs.

d) Recurring Deposit

Recurring deposits are those deposits received by the banks in equal monthly installment for a certain number of years the total of which will be paid to the depositor with interest due there on after the expiry of the date of maturity.

e) Deposit at call

These deposits may be withdrawn when asked for by the depositor, deposits at short notice by which depositors are required to give notice before certain number of days for withdrawal of deposits.

2) Advancing loans

i) Demand Loan
ii) Cash Credit
iii) Overdraft
iv) Discounting f Bills
v) Money at Call

3) Investing Duns

4) Promoting Banking Habit

5) Credit Creation

SUBSIDIARY SERVICES

1. Agency Services:

    i) Remittance of Funds
    ii) Funds collection
    iii) Realising dividends on shares
    iv) Buying and selling of securities
    v) Acting as Trustee and Executor
    vi) Dealing in Foreign Exchange

2. General Utility Services:

    i) Safe custody of valuables
    ii) Safe deposit locker
    iii) Travelers cheques
    iv) Accepting telephone and other bills
    v) Gift cheque
    vi) Credit cards

CO-OPERATIVE BANKS

Co-operative bank is an institution which is established on the Co-operative basis and dealing in ordinary banking business. Banks which are formed on the principle of co-operation are known as Co-operative Banks.

Classification of Co-operative banks

Cooperative institutions are classified into two groups.

1. Agricultural credit institutions
2. Non-agricultural credit institutions

Agricultural credit institutions are further divided into two groups.

1. Short term agricultural credit institutions
2. Long term agricultural credit institutions

The short term agricultural credit institutions provide short term loans to agriculturists. The structure these institutions in India are a pyramid type of a three tier structure comprising.

i) Primary Agricultural co-operative credit societies at village level.
ii) District Central Co-operative Bank at district level
iii) State Apex co-operative banks, at the apex.

Land Development Banks:

Land development Banks provide long-term credit for agricultural purposes. These banks are registered as co-operative societies but with limited liability.

These banks have two tier structure:

i) Central Land Development banks

ii) Primary Land Development banks

Land development banks provide long term loans to the agriculturists:

a) for redemption of old debts

b) for improvements of land and method of cultivation

c) for purchasing costly machinery and

d) for purchasing land.

Industrial Development Bank of India (IDBI):

The Industrial Development Bank of India was started on July, 19as a wholly owned subsidiary of the Reserve Bank of India. It is an ap institution for the industrial developrnent banks. It coordinates the operatio of other financial institutions. It provides long term finance to industry, T bank was taken over by the Government of India in 1976.

Functions of IDBI

Functions of IDBI may be classified as follows:

i) Direct Financial Assistance
ii) Indirect Financial Assistance
iii) Development Assistance
iv) Promotional Assistance

Resources of IDBI

i) Share capital
ii) Borrowings from Central Government and Reserve Bank of lndia
iii) Acceptance of deposits
iv) Borrowings from international banks
v) Issue of bonds
vi) Long term loans from industries

National Bank for Agricultural and Rural Development - NABARD

The NABARD was established in July 1982 with a view to expand refinance facilities to agricultural sectors. The NABARD has taken the entire refinancing functions of the RBl. The sphere of agricultural finance has been handed over to the NABARD.

Functions

The functions of NABARD have been grouped into three groups.

i) Credit functions
ii) Regulatory functions
iii) Development functions

Resources:

i) Borrows funds from Government of India, the World Bank
ii) Raises funds from the market
iii) Borrows funds from the RBI
iv) Borrows funds from International Agency for project implementation.

UNIT - III

LOANS AND ADVANCES

Granting of advances is the primary function of a bank. A major portion of its funds is used for this purpose and this is also the major sources of a bank's income.

Banks make loans and advances to traders, businessmen and industrialists against the security of some assets or on the basis of the personal security of the borrower.

Principles of Sound Lending

i) Safety
ii) Liquidity
iii) Profitability
iv) Security
v) Purpose
vi) Sources of Repayment
vii) Diversification of risks
viii) Margin money
ix) National interest
x) Credit worthiness of the Borrower

FORMS OF ADVANCES

A bank may make advances to traders and industrial and others in many ways. But the main forms in which money is advanced by the banks are

1) Loans
    a) Term Loan
    b) Demand Loan
2) Cash credit
3) Overdrafts
4) Purchase and Discounting of Bills

Modes of charging security

1) Lien
    a) Particular Lien
    b) General Lien
2) Pledge
3) Mortgage
4) Hypothecation
5) Assignment
a) Legal Assignment
b) Equitable Assignment

UNIT - IV

MODERNISED BANKING

Core (Centralised Online Real time exchange) Banking

Core Banking is a general term used to describe the services provided by a group of networked bank branches. Bank's customers may access their funds and other simple transactions from any of the member branch offices.

Core Banking is normally defined as the business conducted by a banking institution with its retail and small business customers. Many banks treat the retail customers as their core banking customers, and have a separate line of business to manage small businesses.

Features of Core Banking

1) Core Banking works simultaneously on different issues with increased efficiency.
2) It increases the efficiency and productivity of each operation.
3) It provides opportunity to empower customers.
4) It helps to face management of change, competition. compliance etc.
5) It helps to maintain efficient customer relationships.

Home Banking

To-day more and more customers conduct their operations with their banks by using personal computers at home or in offices. Home Banking is the use of computers at home for conducting their banking operations with their banks.

Home banking makes it possible for the consumers to manage many banking transactions directly from their home via the use of their PC, TV System, Mobile device and the like.

Services of Home banking

1) To get balance of bank account
2) To get a statement of account for any predefined period.
3) To order and to get cheque book
4) To transfer funds through inter-bank or intra bank adjustments
5) To issue instructions to stop the payment of a cheque.

Retail Banking

Retail banking is a banking service focussed mainly on individual customers. “Retail Banking "is a typical mass market banking where individual customers use local branches of large commercial banks" Clifford Gomez.

Internet Banking

Internet Banking is the process in which banking operations can be performed through the personal computers without physically visiting the bank branch. The greatest advantage of internet banking is that it enables a customer to perform basic banking transactions through PC or Laptop, located anywhere in the world.

Internet bank offers

1) High rate of interest on deposits
2) 24 hours access
3) Free checking
4) Credit cards with low rate of interest
5) Innovative banking products
6) Satisfied customers service
7) View accounts statements

Online banking

On line banking allows customer of a financial institution to conduct financial transactions on a secured website operated by the institution which can be a retail or virtual bank, credit union or building society.

Online banking means making banking transactions through the internet. Online banking means a self-service attitude of banking.

Off line banking

Under Off line banking customers have to come to the premises of bank branch to transact their basic banking operations. In other words, it is the traditional banking. Secrecy of customers can be maintained. Personal contact of customers can be possible.

It consumes more time and resources of the bank. Banking operations are to be performed within the banking hours.

Mobile Banking

Mobile banking refers to conduct of banking operations on mobile phones. It means banking operations that are done through mobile phone while a person is on the move.

The main reason why mobile banking scores over internet banking is that it enables “anywhere banking”.

Features

i) Mobile customers	ii)M.Commerces	iii) Technology Based
iv) Types of services	iv) Ellglbllity	vi) Application

National Electronic Fund Transfer (NEFT) system

National Electronic Fund Transfer system is a system inwhich data being transferred from one branch to another in a short interval of time having debit and credit advices. That is, it is a system of transferring money from one bank to another without paper money in a short interval of time.

Objectives

i) To protect resources,
ii) To ensure quick delivery of funds
iii) To ensure efficient, economic and reliable transfer of funds.
iv) To help banks to reduce paper work.

Automated Teller Machine (ATM) Or Cash Dispensers(CD)

An ATM is a computerized machine designed to dispense cash to bank customers without the need to human introduction. ATM is an electronic delivery channel.

ATM means 24 hours money transaction. It is also known as cash machine as it offers a range of services of modern banking. It is also known as Automated Banking Machine (ABM) or cash point or Any time money

Features of ATM

i) Anywhere banking ii) Anytime banking iii) Anything banking

iv) Safety v) User interface vi) Visual messages

Functions of ATM

i) Basic Functions:
   - i) Cash withdrawal
   - ii) Balance enquiry

ii) Additional functions:
   - i) Accepts deposits
   - ii) Mini-statement facilities
   - iii) Pin change facility
   - iv) Pass Book update facility
   - v) Funds Transfer facility
   - vi) Request for a cheque book
   - vii) Sale of stamps.
   - viii) Ticket purchase.
   - ix) Balance checking
   - x) Requesting cheque book .

Debit Card

A debit card is also a payment card. Debit cards are issued to customers having sufficient/particular amount in their bank accounts. It is a plastic card similar to the credit card where the expenditure amount is automatically debited to the corresponding bank account. It is used to obtain cash, goods or services automatically, debiting the payments to the card holders's bank account instantly upto the credit balance available in the customer's account.

Types of Debit Card

i) Direct debit card ii) Deferred debit card iii) Prepaid debit cards

Smart cards

Smart card is a kind of an electronic purse, which is a chip, based card. Smart cards are plastic cards like credit cards just the size of the visiting card with an implanted computer chip on them, which is responsible for storing sensitive data and processing them. Smart card or integrated circuit card is any pocket- sized plastic card with embedded circuits or chip.

Credit Cards

Credit card is a postpaid card where the holder is required to pay the amount spent on the card on purchases, in a stipulated time after the purchase bill is sent by the card issuing bank. It is issued by a bank to its customers of noncustomers in some cases. It is issued to customers of high credit rating. Credit Cards popularly known as Plastic money or Plastic card have become increasingly popular in several countries.

Features of Credit Card

i) Credit card is used as a payment device issued by banks
ii) The bank fix a credit limit for its cardholders
iii) A credit card identifies its owner who is entitled to purchase goods and services without physical money.
iv) It is plastic Money.
v) It is technology dependent.
vi) It is used at home.
vii) It has owner identification.

Types of credit cards:

On the basis of Franchise: i) Proprietary card ii) Master card iii) VISA card

On the basis of Geographical Validity: i) Domestic card ii) International card

On the basis of Issuer category: i) Individual cards ii) Corporate cards

On the basis of credit Recovery: i) Revolving credit card ii) Charge card

On the basis of status of credit card: i) Standard card ii) Business card iii) Gold card

Real Time Gross Settlement (RTGS)

Real Time Gross Settlement system is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank. Under this system fund is transferred on real time basis within the country on gross settlement. It provides fastest possible inter-bank money transfer facility.

Society for Worldwide Interbank Financial Telecommunication (SWIFT)

SWIFT, as a co-operative society, was formed in May 1973 with239 participating banks from 15 countries with its headquarters at Belgium. It commenced its operation from May 1977. It has its offices in the world's major financial centres and developing markets. It is a carrier of message. As a carrier, it transports messages between to financial institutions. But it cannot be used to transfer funds. But it can be used to send payment orders. SWIFT provides rapid, secure, and reliable and cost effective mode of transmitting the financial message worldwide. It provided a centralised store-and-forward mechanism, with some transaction management.

SWIFT was upgraded in 1980s and this version is called SWIFT II. Banks in India are hooked to SWIFT II system.

UNIT - V

CENTRAL BANKING

Definition

Hawtrey holds that Central bank is the lender of last resorts. Shaw defines a Central Bank as “a bank which controls credit.

According to Dekock, a Central Bank is defined as a bank which constitutes the apex of the monetary and banking structure of its country.

Functions of Central Bank

1) Bank of issue: i) Currency Principle ii) Banking Principle

   Different methods of note issue: i) Simple Deposit System
   ii) Fixed Fiduciary System iii) Maximum Fiduciary System
   iv) Proportional Reserve System v) Minimum Reserve System

2) Banker to Government
3) Custody of cash reserves
4) Custody of exchange reserves
5) Lender of last resort
6) Clearing house of banks
7) Controller of credit

CREDIT CONTROL

Credit control means the regulation of the creation and contraction of credit in the economy. Credit control is one of the most important functions of central bank of any country. With the help of credit control the Central Bank can stabilise both the internal prices and foreign exchange rates.

Objectives of credit control

i) Stability of Internal price level ii) Checking of Booms and depressions

iii) Promotion of Economic Development iv) Stability of the Money Market

v) Stability In Exchange Rate vi) To meet Business

Methods of Credit Control

The Central Bank of a country adopts many weapons to control the credit. Following are the different methods of credit control.

1) Quantitative Credit Control:
   a) Bank Rate Policy b) Open Market Operations c) Variation of Reserve Ratio

2) Qualitative Credit Control: a) Rationing of Credit b) Direct Action
   c) Moral Suasion d) Regulation of Consumer Credit e) Publicity

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