INSTRUMENTS OF CREDIT CONTROL

Credit control refers to the measures adopted by a central bank to regulate the availability, cost, and direction of credit in an economy. It plays a crucial role in maintaining economic stability, controlling inflation, and ensuring sustainable growth. Credit control instruments are broadly classified into two types:

1. Quantitative Instruments (General Credit Control)

These instruments regulate the overall volume of credit in the economy by influencing money supply and liquidity. The major quantitative instruments include:

- **Bank Rate Policy**: The central bank alters the bank rate (the rate at which it lends to commercial banks). An increase in the bank rate discourages borrowing, while a decrease encourages it.
- **Open Market Operations (OMO)**: The central bank buys or sells government securities in the open market to influence liquidity. Buying securities injects liquidity, while selling absorbs excess liquidity.
- **Cash Reserve Ratio (CRR)**: The proportion of a bank's total deposits that must be maintained as reserves with the central bank. A higher CRR reduces lending capacity, while a lower CRR increases it.
- **Statutory Liquidity Ratio (SLR)**: The percentage of a bank's net demand and time liabilities that must be kept in the form of liquid assets such as cash, gold, or government-approved securities.
- **Repo and Reverse Repo Rates**: The interest rates at which the central bank lends (repo rate) or borrows (reverse repo rate) funds from commercial banks to control liquidity and inflation.

2. Qualitative Instruments (Selective Credit Control)

These instruments regulate the distribution and direction of credit, influencing specific sectors of the economy. The main qualitative instruments include:

- **Margin Requirements**: The central bank sets margins on secured loans to discourage excessive speculation in stocks, commodities, or real estate.
- **Credit Rationing**: The central bank imposes credit limits on banks, ensuring that credit is directed to priority sectors like agriculture and small industries.
- **Moral Suasion**: A non-compulsory method where the central bank persuades commercial banks to align lending practices with national economic goals.
- **Direct Action**: The central bank can take punitive measures, such as restricting credit to banks that do not comply with credit control norms.
- **Regulation of Consumer Credit**: Imposing restrictions on the terms and conditions of consumer loans to control demand in the economy.

Conclusion