

Inter-State Inequality in the Distribution of Bank Credit in India

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INTRODUCTION

The literature on the role and importance of commercial banks as part of the financial system has been extensive. Commercial banks have been accorded a special place among the class of financial intermediaries because their liabilities, especially demand deposits, possess the characteristic of 'moneyness' and hence are distinct from the liabilities of other financial intermediaries. From the point of view of formulation and conduct of monetary policy the operation of the banking system, therefore, becomes crucially important.

Another important aspect of the operations of the banking system is the impact of the distributional pattern of bank credit on the economy. Since bank credit provides access to real resources, the pattern of distribution of a given amount of bank credit among regions, sectors, industries or different sections of the society plays an important role in helping to achieve a desired pattern of growth. Many developing countries with planned or market oriented economies have been trying to channelise the flow of bank credit in the desired directions so as to influence the growth pattern.

In India ever since the inception of the First Five Year Plan this has been recognised and efforts have been made through deliberate policy measures to ensure that the flows of bank credit into different regions and/or sectors are in line with the Plan priorities. The First Five Year Plan indicated that, "Central banking in a planned economy can hardly be confined to the regulation of the overall supply of bank credit or to a somewhat negative regulation of the flow of bank credit. It would have to take on direct and active role in ensuring that the finance available flows in the directions intended." (G.O.I.) Similar statements were to be found in the subsequent Five Year Plan Documents highlighting the importance of deployment of credit in relation to Plan objectives. (G.O.I.) The Reserve Bank of India had also taken into account the importance of deployment of bank credit in line with the Plan