

An Analysis of Selective Credit Controls in India : 1955-56 to 1985-86

G. Bhujanga Rao

This paper attempts to analyse the impact of selective credit controls (SCCs) on outstanding bank credit for selected agricultural commodities rice, wheat, sugar, cotton, jute and groundnut. The period covered for the analysis is from 1955-56 to 1985-86. The operation of SCCs are analysed with the help of frequency and regression analysis using the available monthly data. The observations are consistent with the objectives of SCCs. The tendencies for bank credit under SCC to be expansionary in busy season and contractionary in lean season are supported. The regression results, suggest that there is in general one to two months lag in registering the impact of price movement on the changes in bank credit. The analysis also reveals that past growth of bank credit has a positive bearing on current growth of bank credit.

Introduction

The objectives of selective credit controls by the Reserve Bank of India has been to regulate institutional credit to control traders' holding of commodity stock and discourage speculative activity. This is likely to stabilize both short and medium-term price variations. In order to assess how far these objectives have been fulfilled, an attempt is made in this paper to examine the effects of tightening or loosening of the above controls on bank advances for selected agricultural commodities - rice, wheat, sugar, cotton, jute and groundnut. The period covered for the analysis is from 1955-56 to 1985-86.

The paper is organised in five sections. Section 1 traces the historical evolution of selective credit controls in India. In Section 2 the instruments of selective credit controls are presented. In Section 3 the problems in quantification of the