BANKING TERMINOLOGY

Qualitative Methods

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Qualitative Methods of Monetary Tools

Margin requirement.
Credit regulation.
Credit rationing.
Moral suasion.
Direct action.
Control by directives

Marginal Requirement

Margin is referred to the certain proportion of the loan amount that is not offered or financed by the bank. Change in marginal can lead to change in the loan size. This instrument is used to encourage the credit supply for the necessary sectors and avoid it for the unnecessary sectors. That can be done by increasing the marginal of unnecessary sectors and reducing the marginal of other needy sectors.

Credit Regulation

In this instrument, consumers' credit supply is regulated through the instalment of sale and hire purchase of consumer goods. Here, features like instalment amount, down payment, loan duration, etc., are all fixed in advance, which helps to check the credit and inflation in the country.

Suppose, RBI feels that more credit supply should be allotted to the agricultural sector, then RBI will reduce the margin, and even 80-90% of the loan can be allotted.

Rationing of Credit

RBI fixes a credit amount to be granted for commercial banks. Credit is given by limiting the amount available for each commercial bank. For certain purposes, the upper credit limit can be fixed, and banks have to stick to that limit. This helps in lowering the bank's credit exposure to unwanted sectors. This instrument also controls the bill rediscounting.

Moral Suasion

Moral suasion refers to the suggestions to commercial banks from the RBI that helps in restraining credits in the inflationary period. RBI implies pressure on the Indian banking system without taking any strict action for compliance with rules.

Through monetary policy, commercial banks get informed of the expectations of RBI. The RBI can issue directives, guidelines, and suggestions for commercial banks regarding reducing credit supply for speculative purposes under the moral suasion.

Direct action

Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by Reserve Bank of India. There can be a restriction on advancing of loans imposed by Reserve Bank of India on such banks.

Control by directives

Issue circular time to time of required filed and gives direction to Bank and FI accordingly.

Thanks

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