**UNIT: 1**

**Monetary/financial Reforms in India Since 1991**

An efficient banking system and a well-functioning capital market are essential to mobilize savings of the households and channel them to productive uses. The high rate of saving and productive investment is essential for economic growth. Prior to 1991 while the banking system and the capital market had shown impressive growth in the volume of operations, they suffered from many deficiencies with regard to their efficiency and the quality of their operations.

The weakness of the banking system was extensively analyzed by the committee (1991) on financial sector reforms, headed by Narasimham. The committee found that banking system was both over-regulated and under-regulated.

* An important financial reform has been the reduction in Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) so that more bank credit is made available to the industry, trade and agriculture. The statutory liquidity ratio (SLR) which was as high as 39 per cent of deposits with the banks has been reduced in a phased manner to 25 per cent. SLR refers to the minimum reserve requirement that needs to be maintained by commercial banks. CRR is the percentage of money, which a bank has to keep with RBI in the form of cash. Reductions in CRR and SLR also made possible for Reserve Bank of India to use open market operations and changes in bank rate as tools of monetary policy to achieve the objectives of economic growth, price stability and exchange rate stability.
* After nationalization of 14 large banks in 1969, no bank had been allowed to be set up in the private sector. While the importance and role of public sector banks in Indian financial system continued to be emphasised, it was however recognized that there was urgent need for introducing greater competition in the Indian money market which could lead to higher efficiency of the financial system. Accordingly, private sector banks such as HDFC, Corporation Bank, ICICI Bank, UTI Bank, IDBI Bank and some others have been set up. Establishment of these banks has made substantial contribution to housing finance, car loans and retail credit through credit card system. They have made possible the wider use of what is often called plastic money, namely, ITM cards, Debit Cards, and Credit Cards.
* Non-performing assets of banks have been a big problem of commercial banks. Non-performing assets mean bad loans, that is, loans which are difficult to recover. A large quantity of non-performing assets also lowers the profitability of bank. In this regard, a norm of income recognition introduced by RBI is worth mentioning. In order to improve the performance of commercial banks recovery management has been greatly strengthened in recent years. Measures taken to reduce non-performing assets include restructuring at the bank level, recovery of bad debt through Lok Adalats, Civil Courts, setting up of Recovery Tribunals and compromise settlements. The recovery of bad debt got a great boost with the enactment of ‘Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest’ (SARFAESI). Under this Act, Debt Recovery Tribunals have been set up which will facilitate the recovery of bad debts by the banks.
* Another significant financial sector reform is the elimination of direct or selective credit controls. Selective credit controls have been done way with. Under selective credit controls RBI used to control through the system of changes in margin for provision of bank credit to traders against stocks of sensitive commodities and to stock brokers against shares. As a result, there is now greater freedom to both the banks and borrowers in respect of credit. But it is worth mentioning that banks are required to observe the guidelines issued by RBI regarding lending to priority sectors such as small scale industries and agriculture. The advances eligible for priority sectors lending have been increased at deregulated interest rates.