Monetary Policy. 1992

The monetary policy of the Reserve Bank of India announced in July/October 91 was intended to contain inflation and moderate the growth of high powered money (M3). At that time the economy was still experiencing a two digit inflation in addition to limited progress in exports and a recession emerging on the industrial horizon. Several recommendations were made were made in favour of exploring, to start with as an experimentation, a cheap money policy as a complimentary paraphernalia of devaluation, de-regulation and decontrols. The end purpose of the said recommendations was to disenthrall the economy from the grips of a juxtaposed recession and double digit inflation. It was gratifying to note that that the RBI slack season credit policy, announced on 21st April 1992 had attempted to address itself to the burning issue of stagnation and inflation rather than inflation in isolation. The policy measures initiated then represent a carefully thought out integrated package to tie up the loose ends that otherwise wilt well intentioned policies. The revised package of April 1992 measures included :

a) a cap rate of 13 per cent on term deposits ;

b) rationalisation and simplification of the lending rates structure - number of categories reduced from six to four though lending rates have not been reduced ;

c) a series of unconventional measures viz. dismantling incremental CRR, relaxation of issue conditions governing commercial paper, launching of new money market instrument - 364 days treasury bill and other relaxations.

Again as part of further improvisation and responses to the needs of the busy season the RBI have ventured into, this time, a 'less dear' money policy. The salient features of the recent policy measures of October 1992 include ;

a) a one per cent cut in the floor lending rate on advance above Rs.2 lacs ;

b) a one per cent reduction in the maximum interest rates on term deposits above '46 days to three years' to 12 per cent per annum ;

c) export credit rates reduction by one per cent per annum ; AND

d) other measures which include hike in the limits pertaining to certificate of deposits from 7 to 10 per cent and activating the Government Securities market.

An analysis of the impact of the above policy measures on the key parameters affecting economic management is presented in the following paragraphs.

INTEREST ON TERM DEPOSITS

Over the years multiple tier interest rate structure had evolved as shown in Table One. In October 91 when a change was effected the interest payable by banks on deposits of different tenure ranged between 11 per cent (46 days to 1 years) and 13 per cent (3 years and above). The October 91 rates represented an improvisation of the rates revised in July 1991. As part of the rationalisation and simplification of the interest rate structure and decentralisation of interest rate determination process, a