Financial Inclusion
The process which ensures access to financial services to all sections of the society especially vulnerable/weaker sections.

Financial Services include

- Bank Accounts
- Funds Transfer Facility
- Insurance Facility
- Credit Facility
- Pension

Government measures in the pre-reform era
1. Nationalisation of Banks (in 1969, 14 commercial banks were nationalised)
2. Priority Sector Lending Policy
3. Lead Bank scheme
4. Service Area scheme
5. Establishment of Regional Rural Banks
6. NABARD was established in 1982
7. Cooperative Banks
8. SIDBI was established in 1989
9. SHG – bank linkage group

Latest Measures by the Government to achieve financial inclusion
1. No frills account
2. Business Correspondent Scheme (Bank Saathi Yojana) renamed as Swabhimaan scheme
3. Post Offices Bank scheme
4. Micro Finance Institutions
5. Pension Schemes
6. Micro Insurance Schemes
7. Developmental Schemes like MNREGA

Malegam Committee Recommendations
- MFI should give loans to weaker sections only(less than Rs 50,000pa)
- Max loan is Rs 25,000.00
- Ceiling on interest at 24%

Why Should MFI charge high interest?
- Risk in lending to weaker sections is high
- Cost of raising funds for MFI is high
- Cost of operations is also high

New Pension Scheme (NPS)
- Initiated on January 1^{st}, 2004 for Central Govt Employees
- NPS is based on defined contribution rather than defined benefit.
- Contribution: Tier 1 and Tier 2

Tier 1: Employee contributes 10% of basic and DA
Govt also contributes 10% of basic and DA
Tier 2: This is optional and the employee can contribute any amount
Govt will **not** make any contribution

The money so collected will be invested in securities market

<u>Micro Insurance Schemes</u>

- **<u>Aam Admi Bima Yojana</u>**
  - ✓ Initiated in 2007
  - ✓ It is a life insurance scheme

- **<u>Rashtriya Swasthya Bima Yojana</u>**
  - ✓ Launched in 2007
  - ✓ It is a general insurance scheme (health insurance)

<u>Inclusive growth Vs Financial Inclusion</u>

- Inclusive growth is a much broader term. It means that the benefits of growth should percolate down to all.
- Financial Inclusion means bringing all under the Financial services cloud which is required for inclusive growth. That is, in other words nobody is left behind in accessing Financial services.
- Hence Inclusive growth includes within itself financial inclusion.

<u>Inflation</u>

- Inflation means increase in average prices of goods and services in a long period of time.
- It is macro concept, where in the effect of inflation is seen over a large basket of goods.
- Ultimate effect of inflation is that the value of money is reduced i.e., the purchasing power of money is reduced.

<u>Type of Inflation</u>

1. **Demand-Pull Inflation**
   Caused due to increase in aggregate demand in the economy.
   <u>Causes</u>: Increase in money supply, Increase in money supply, Increase in Forex reserves, Deficit financing by government, Increase of Exports, Depreciation of Currency.
2. **Cost-Push Inflation**
   Caused due to reduction in aggregate supply in the economy.
   <u>Causes</u>: Increase in price of inputs, Hoarding and Speculation of commodities, Defective Supply chain, Increase in indirect taxes, Depreciation of Currency.

> **Note**: Cost pull inflation is considered bad among the two types of inflation. Because the National Income is reduced along with the reduction in supply in Cost-push type of inflation.

<u>Causes of Inflation in recent years</u>

Causes for Cost-Push Inflation

- Crude oil price fluctuation
- Defective food supply chain
- Low growth of Agricultural sector
- Food Inflation (growth agriculture sector has been averaging at 3.5%)
- Interest rates was increased by RBI

Causes for Demand-Pull Inflation

- Increase in foreign-exchange reserves
- Increase in government expenditure
  - ✓ Due to fiscal stimulus
  - ✓ Increased borrowing
- Depreciation of rupee

Remedies

1. Monetary Policy (Contractionary policy)
2. Fiscal Policy measure
    - ✓ Also called Budgetary policy
    - ✓ It deals with the Revenue and Expenditure policy of government.
    - ✓ Tools of fiscal policy

      -Direct and Indirect taxes (Direct taxes should be increased and indirect taxes should be reduced).

      -Public Expenditure should be decreased (should borrow less from RBI and more from other financial institutions)

3. Supply Management measures
    - ✓ Import commodities which are in short supply
    - ✓ Decrease exports
    - ✓ Govt may put a check on hoarding and speculation
    - ✓ Distribution through PDS