Micro credit & Micro finance - Micro credit & micro finance are relatively new terms in the fields of development. In the literature, the term micro-credit & micro finance are after used interchangeably, but it is important to highlight the difference between both the terms.

Micro-credit - as defined by grameen bank, symbolizes small loans extended to the poor for undertaking the self-employment projects that would generate income & enable them to provide employemnt for themselves & their families.

Micro finance - Is a financial service of small quantity provided by entrepreneur from low income house-holds. These financial services may include saving, credit, insurance, leasing, money transfer, equity transfer etc. i.e., & type of financial services provided to customer to meet their financial needs with the requirement that -

1. Transaction value is less.
2. Customers belong to the poor strata of society.

Self Help Groups (SHGs) : In recent years, SHGs have emerged as a major strategy for the promotion of informal credit to the rural poor. In 1992, RBI/NABARD have launched a "pilot project" & issued necessary guidelines to the banking system for lending to the SHGs. After careful thought & study, both the RBI & NABARD, assiting the SHGs become "normal lending programme" under priority sector & service area approach in 1996.

Meaning of SHGs - A self help group is a voluntary association of the poor people (Specially women) who belong to the same socio-economic background. Th SHG promotes small savings among its members, which are then kept with a bank.

Objectives of SHGs -

1. To build mutual trust & confidence between the bankers & the rural poor people.
2. To encourage banking activities, both on the thrift as well as credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.
3. To meet the needs of the poor by combing the flexibility, sensitivity & responsiveness of the informal credit system with the strength of technical & administrative capabilities & financial resources of the formal credit institutions.

SGH Bank Linkage - THe SHG bank linkage programme, initially launched by NABARD with 500 SHGs on a "Pilot Prject" basis in 1992.

- The linkage of SHGs with banks aims at using the intermediations of SHG between bank & rural poor for cutting down the transcation costs for the both banks & their rural clients.

Measures of Money Supply -

- Money supply is the stock of liquid assests held by the public which can be freely exchanged for goods & services. RBI calculates four concepts of money supply. These are known as measures of monetary aggregrates or money stock measures.

  M_1 = currency with the public + Demand deposits with the banking system + other deposits with the RBI

  M_2 = M_1 + saving deposits with post office saving of public.

  M_3 = M_1 + Time deposits of public with banking system.

  M_4 = M_3 + All deposits with post office saving banks (excluding national certificates).

- RBI working group on money supply headed by Y.V. Reddy recommended for dropping of post office saving aggregates vi2, M_1, M_2 and M_3
- The symbol of Indian rupee came into use on 15th july 2010, Indian is the 5th country to accept a unique currency symbol.
- The new symbol designed by dudaya kumar, a post graduate of IIT Bombay was finally selected by the union cabinet on 15th July 2010, the new symbol is an amalgamation of devanagri "Ra' & Roman "R" without the stem.
- Coins are minted at four places viz, mumbai, kolkata, hyderabad & Noida.

Printing of securities & minting in India		
Security press	Station	Related by
♦ Currency notes press (1928)	Nasik	Bank notes from Rs. 1 to 100.
♦ Security paper (Est. 1967 - 68)	Hoshangabad	Bank & currency notes paper
♦ Bank notes press (1974)	Dewas	Bank notes of Rs. 20, 50, 100, & 500.
♦ Security notes printing press (Estd - 1982)	Hyderabad	Union exercise duty stamps
♦ Indian security press (1922)	Nasik	Postal material postal stamps etc.
♦ Modernised currency notes press (1995)	Mysore (Karnataka)	

Reserve Money - Reserve money in the cash held by the public & the banks. In other words, it is the total money issued by the central bank & RBI in India.

- ♦ It is composed of
- ♦ Currency in circulations in public (c)
- ♦ Other deposist with the RBI (OD) & cash reserves of the bank with themselves & with the RBI (CR) thus, reserve money = C + OD + CR

Liquidity Aggregates -

- ♦ $L_1 = M_2$ + All deposits with the post office savings banks (excluding national saving certificates)
- ♦ $L_2 = L_1$ + term deposits with term lending institutions & Refinancing institutions (Fls) + Term borrowing by FIs + certificates of deposits issued by FIs.
- ♦ $L_3 = L_2$ + Public deposits of non - banking finacial.

Inflation - It is a sustained increase in general price level over a particular period of time. It reduces the purchasing power of money.

Causes of Inflation -

- ♦ Rise in demand / fall in supply.
- ♦ Inflation is the result of 2 sets of factors-

Demand Pull   Cost push factor

- ♦ In India demand pull factors are as follow -
  1. Rise in population
  2. Rise in govt. expenditure particulary non- planned.
  3. Rise in black money.
  4. Rise in money supply & deficit financing.
  5. Rise in wage & salary.
  6. Rise in consumerism.
  7. Rise in fore reserves.

Factors on supply & cost side-

1. Speculation hoarding & black money.
2. Rise in administered prices.
3. Rise in indirect taxes.
4. Import cost push factors.
5. Rise in wages & salaries.
6. Uncertainties of weather.

Measure to check rising prices - There are 3 set of measures -

1. Monetary policy.
2. Fiscal policy - government can reduce the rate of indirect taxes.
3. Other measures.

The latter has a limited role to control inflation in a country like India particulary because the govt. may not be able to reduce its non - planned expenditure although it can cut indirect taxes.

- ♦ Monetary policy can play a very important role. For eg. not only through Qualitative & Quantitative measures, but also through a measures like market stabilization scheme.
- ♦ In a country like India other measures has a predominent role in controlling inflation. Throughout 2008, inflation rate was very high govt. adopted the following measures.
  1. Increasing import of essential commodities
  2. Strengthening PDS.
  3. Banning exports of essential commodities.
  4. Invoking ESMA to prevent disruption of essential services.
  5. Preventing hoarding & black marketing like it did against cement production.
  6. Thus a mix of monetary policies & fiscal policy has enabled govt to moderate inflations.

Inflation in India is measured by using 2 indicies -

1. WPI (whole sale price index)
2. CPI (cost price index)

WPI - It is used to measure the rate of inflation in the country on a point to point basis which implies rate of inflation during a certain week ending this year to the corresponding week ending last year. This is done on the basis of wholesale price of 435 commodities collected from major wholesale market in the country on a weekley basis. The base year for WPI is 2000-01.

CPI - It is used to measure the cost of living of a common man on the basis of retail prices collected every month for 260 commodities which also includes some services. Thus CPI (IW) is used to grant clearness Allowance (DA).

- ♦ Significantly WPI has weight of 63% given to manufactured goods, 23% of food primary commodities & 14% to fuel like labricants.
- ♦ On the other hand CPI (IW) gives 57% to food & primary commodities. This divergence in the two indicies is not only due to number of commodities or weight given but also due to wholesale & retail prices difference.

Producers Price Index (PPI) - Most developed countries are using it by not taking 3 things into account.

1. Indirect taxes.
2. Transportation costs.
3. Profit margin.

Thus before a commodity reaches the consumer, rate of inflation is worked out at the producers level so that corrective measures can be taken at that level before inflation.

- ♦ A committee was set up in India to study PPI.

Demand pull inflation - Inflation brought about by an increases in demand is called "Demand pull inflation".

Cost push inflation - Inflation brought about by an increase in the cost of the factors of production is called "cost push inflation."

❑ ❑ ❑