A PROJECT REPORT ON

"A Study of Impact of Monitory Policy on Economic Growth"

SUBMITTED TO

SAVITRIBAI PHULE PUNE UNIVERSITY

IN PARTIAL FULFILMENT OF MASTER OF ARTS

GUIDANCE BY

DR. ASHALATA SONAWANE

PRESENTED BY

Mr. ANAND ARUNKUMAR DWIVEDI

K.S.K.W. ARTS, SCIENCE, COMMERCE COLLEGE, CIDCO, NASHIK.

Academic Year
2020- 2021

ACKNOWLEDGEMENT

It is a great pleasure to me in acknowledging my deep sense of gratitude to all those who have helped me in completing this project successfully.

First of all I would like to thank **Savitribai Phule Pune University** for providing me an opportunity to undertake a project as a partial fulfillment of MA degree.

Special thanks to **Ms. Sonal Hinde (Librarian),** for providing me an opportunity to work with **RBI Mumbai**, and providing me necessary information about their organization, their operations and providing guidance in developing my project.

Finally, I would like to express my sincere thanks to my family members, all the faculties, office staff, and library staff of **KSKW COLLEGE, Nashik** and friends who helped me in some or other way in making this project.

Place: Nasik — **Anand Arunkumar Dwivedi**

Date: 29/07/2021 — M.A

DECLARATION

This is to declare that I, **Mr. Anand Arunkumar Dwivedi**, student of M.A. (2020-2021), Nashik have given original data and information to the best of my knowledge in the project report title "**A Study Of Impact of Monitory Policy On Economic Growth**" under the guidance of my friends and that, no part of this information has been used for any other assignment but for the partial fulfillment of the requirement towards the completion of the said course.

I have prepared this report independently and I have gathered all the relevant information personally. I have prepared this project of **M.A.** for the year **2020-2021.**

I also agree in principle not to share the vital information with any other person outside the organization and will not submit the project report to any other university.

INDEX

INTRODUCTION

By monetary policy, we mean policy concerned with changes in the supply of money. Issues connected with monetary policy are: objectives or goals of the policy, instruments of monetary control, its efficacy, implementation, intermediate target of the policy etc. India‘s monetary policy since the first plan period was one of 'controlled expansion‘- that is, a policy of adequate financing of economic growth ensuring reasonable price stability. Thus, RBI helped the economy to expand via expansion of money and credit and attempted to check rise in prices through monetary and other control measures. A mild version of the liberalization process in the Indian economy was initiated in the mid 1980s. But, it lacked depth, coverage and self sustaining character. During the fag end of the 1980‘s the economy suffered a big jolt with the eruption of a major macro-economic crisis. It manifested initially in the form of foreign exchange crisis, and then debt and interest payment problems. To meet the crisis India approached the World Bank and the International Monetary Fund (IMF) for a big loan. For granting the loan, World Bank and the IMF stipulated certain conditions. Since India was in a critical situation, she accepted the conditions of the World Bank and the IMF and then provided an immediate context for the realignment of the macro-economic fundamentals, through a programme of economic stabilization. With this end in view, India initiated the new economic policy in July 1991. The package of economic reforms, which are expected to have long-term impact on the economy, includes fiscal, monetary, financial, and industrial and export-import (EXIM) sector reforms. The reforms in monetary and credit policies aimed at slowing down monetary expansion and thereby controlling inflation. The financial sector reforms were initiated on the recommendations of Narasimham Committee Report. The first phase of reform started with a reduction of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) and permitted a degree of flexibility to the banks in the matter of deposit interest rates.

Money markets facilitate the conduct of monetary policy in a country. The development of money market in India in the last few years has been facilitated by some major factors. Firstly, it permitted a gradual de-emphasis on cash reserve ratio as a monetary policy instrument. Secondly, the development of an array of instruments of indirect monetary control, such as, the Bank Rate and the Liquidity Adjustment Facility (LAF). Thirdly, monetary policy is often, shaped by developments in the money and the foreign exchange markets. Thus, in the post-reform period, the economy is dealing with a set of new programs and policies for its own re-construction.

A process of openness was initiated by Governor Rangarajan and has been widened, deepened and intensified by his successors Bimal Jalan, Y.V. Reddy and D. Subbarao. Now, the goals of monetary policy, in India, are not set out in specific terms and there is greater freedom in the use of instruments. Greater transparency in the setting of objectives of monetary policy and instrument freedom are expected to bring about greater rigor in the formulation of strategies and the choice of instruments. In India, Money supply has been regarded as an appropriate intermediate target between the variables and objectives. Hence, it is also important to measure the structure of different economic variables that varies with respect to monetary policy decisions. To study the changing stages (transmission periods) of monetary policy is also considered, relevant. Monetary policy is known to have both short and long term effects. While it generally affects the real sector with long and variable lags, monetary policy actions on financial markets, on the other hand, usually have important short-run implications. It is necessary to recognize the existence of a large informal sector, the limited reach of financial markets relative to the growing sectors, especially services. This tends to constrain the effectiveness of monetary policy in India. It is well recognized that monetary policy is conducted within a particular framework. The relationship among different segments of the market and sectors of the economy is also involved in this framework. As part of the ongoing process of reforms, it is necessary to improve standards, codes and practices in matters relating to financial system and bring them on par with international ones. These are some items of significance for further research in the realm of monetary policy in India.

Statement of the research

The study is organized under seven chapters. The first chapter provides an introduction to this study. It includes the statement of the research problem, significance of the study, objectives, data source & methodology, scope and the scheme of the study. Along that a brief report on monetary policy and global financial crisis is given in this chapter. It also includes a detailed literature review. The second chapter titled as ‗Monetary Theory and Policy' includes role of money in economic activity, theoretical understanding of monetary phenomena, definition of monetary policy, objectives of monetary policy, targets of monetary policy, indicators of monetary policy and monetary policy and economic activity- an overview. The third chapter, viz; ‗Significance of Monetary Policy' discusses the role of monetary policy in developed countries, importance of monetary policy in developing economies, some monetary constraints, monetary policy and banking soundness and monetary policy implementation. The fourth chapter makes a Review of Monetary Policy Measures Since 1991 till 2010. The fifth chapter deals with Money Market Instruments and Interest Rates. The issues discussed in this chapter are: lending rate, deposit rate, liquidity adjustment facility, call money market, certificate of deposits, commercial papers, money market mutual funds, changes in the refinance facility, export credit and other money market developments. The sixth chapter is devoted for a discussion on ‗Monetary Policy in India'. This chapter is divided in to two parts. Part A focuses on instruments of monetary policy in India such as bank rate, cash reserve ratio, statutory liquidity ratio, open market operation, repo rate, reverse repo rate and selective credit control measures. Part B is on money prices and output. The major points discussed in this part are: reserve money, money multiplier, money supply in India, the price level and real output, inflation and economic growth, monetary policy and price stability and monetary policy and economic growth.

REASON OF CHOOSING THE TOPIC

I chose this topic because it is one of the happenings now here in country. It is timely and I know that we can get a lot of knowledge about it.

Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.

The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.

RESEARCH PROBLEM AND SIGNIFICANCE OF THE STUDY

The monetary policy strategy of a Central bank depends on a number of factors that are unique to the country and the context. Given the policy objectives, any good strategy depends on the macroeconomic and the institutional structure of the economy. An important factor in this context is the degree of openness in the economy. The second factor is the stage of development of markets, institutions and technological development. In such a set up, where these conditions are satisfactory, it is possible for the Central bank to signal its intention with one single instrument or a combination of instruments. It is important to recognize that all the objectives cannot be effectively pursued by any single arm of economic policy. Hence, there is always the problem of assigning to each instrument the most appropriate target or objective. It is clear from both the theoretical literature and the empirical findings that, among various policy objectives, monetary policy is best suited to achieve the goal of price stability in the economy. In today‘s altered economic context, a low and stable price environment is being increasingly regarded as an essential condition for bringing down the nominal interest rate and for improving the growth and productive potential of the economy. In India, the emphasis of monetary policy shifted towards control of inflation in 1995-96. Ensuring price stability requires the pursuit of a consistent policy over a period of time.

IMPORTANCE OF TOPIC

Role of monetary policy in developed countries and its activities in developing economies, especially in an emerging market economy like India, is of immense importance. Along that, some monetary constraints affecting the policy implementations, policy formulation and its correlation with the banking system are taken into account in the present chapter, for a detailed discussion. There has been much talk of the revival of monetary policy at present, especially in the climate of some fundamental changes in the economies of both developed and developing countries. The faith in monetary policy was already beginning to wane to some extent. However, the changes in economic policy in the general economic climate seem to have changed the context in which monetary policy has to operate. Whether some consensus on the role of monetary policy likely to emerge from the dust and din of recent crisis? To what extent, does the recent experience of industrial countries have an impact on developing countries? This is a relevant question simply because there are obvious differences between industrial and developing countries and there is, the tendency to follow the trend in the rich almost always. Distressingly, and often enough, such imitation begins when the trend among the more successful is already beginning to bend. There has also been of late far reaching monetary development at least in some of the developing countries, particularly in the debt-ridden countries. It might be interesting, therefore, at the present juncture to look at the evolution of monetary policy in recent years with one eye so to speak on the developed countries and the other on developing ones.

SCOPE OF RESERCH TOPIC

Study is exclusively on the impact of monetary policy on the Indian Economy in the post-reform period. The excise is the Indian Monitory Policy System. This project covers all points about rules and conditions...

This project also comprises central bank Monitory procedure, process of Impact of Monitory Policy

The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth. In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.

The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years. Accordingly, the Central Government has notified in the Official Gazette 4 per cent Consumer Price Index (CPI) inflation as the target for the period from August 5, 2016 to March 31, 2021 with the upper tolerance limit of 6 per cent and the lower tolerance limit of 2 per cent.

The Central Government notified the following as factors that constitute failure to achieve the inflation target :(a) the average inflation is more than the upper tolerance level of the inflation target for any three consecutive quarters; or (b) the average inflation is less than the lower tolerance level for any three consecutive quarters.

Prior to the amendment in the RBI Act in May 2016, the flexible inflation targeting framework was governed by an Agreement on Monetary Policy Framework between the Government and the Reserve Bank of India of February 20, 2015.

Objective of Research

Monetary policies have varied as a result of changing economic priorities and views about the economic stability of the Indian economy. So the issue of objectives has become important because of the need to provide clear guidance to monetary policy makers. Indeed, this aspect has assumed added significance in the context of the increasing stress on autonomy of central banks. While autonomy has to go with accountability, accountability itself requires a clear specification of goals. In a broader framework, the objectives of monetary policy in India continue to be price stability and growth. These are pursued, by ensuring credit availability, with stability in the external value of the rupee as well as overall financial stability. In the transitional phase, however, given the exchange market imperfections, the exchange rate objective may occasionally predominate due to emphasis on the avoidance of undue volatility. In fact, sometimes, it could be the most dominant reason for short-term monetary policy adjustments. Thus, the main objectives or goals of monetary policy are: - (1) Price stability (2) Economic growth (3) Full employment and (4) Maintenance of balance of payments equilibrium However, the relative emphasis on any one of the objectives is governed by the prevailing circumstances. Price Stability One of the policy objectives of monetary authority is to stabilize the price level. Both economists and laymen favor this policy because fluctuations in prices bring about uncertainty and instability in the economy. Rising and falling prices are both bad because they bring unnecessary loss to some and undue advantage to others. Again they are associated with business cycles. So a policy of price stability keeps the value of money stable, eliminates cyclical fluctuations, brings economic stability, helps in reducing inequalities of income and wealth, secures social justice and promotes economic welfare. However, there are certain difficulties in pursuing a policy of stable price level. The first problem relates to the type of price level to be stabilized. Should the relative or general price level be stabilized, the wholesale or retail, of consumer goods or producer goods? There is no specific criterion with regard to the choice of a price level. Second, innovations may reduce the cost of production but a policy of stable prices may bring larger profits to producers at the cost of consumers and wage earners. Again, in an open economy which imports raw materials and other intermediate products at high prices, the cost of production of domestic goods will be high. But a policy of stable prices will reduce profits and retard further investment. Under these circumstances a policy of stable price is not only inequitable but also conflicts with economic progress. Despite these drawbacks, the majority of economists favor a policy of stable prices. But the problem is one of defining price stability. Price stability does not mean that prices remain unchanged indefinitely. Price changes are essential for allocating

Resources in the market economy. So price stability means stability of some appropriate price index in the sense that we can detect no definite upward trend in the index after making proper allowance for the upward bias inherent in all price indexes. Price stability can be maintained by following a counter- cyclical monetary policy, that is easy monetary policy during a recession and dear monetary policy during a boom.

LIMITATIONS OF THE STUDY

- Generally bank does not allow outsiders to conduct any study or research work in the bank. Therefore, get the project done in bank itself was very difficult.

- Due to confidentiality some important information, which are important for the project, could not be collected.

- Some of the information lack in accuracy, due to which approximate values were used for the analysis. Hence, the results also reveal approximate values.

- The project is based on theoretical guidelines and as per situations prevalent at the time of practical training. Hence, it may not be apply to different situations.

- The time span for the project was very short which was of 2 months, which itself acts as a major constraint. Moreover, studying the guidelines and applied it practically within such short time span was a task of great pressure.

Statement of Hypothesis

Under the amended RBI Act, the monetary policy making is as under:

The MPC is required to meet at least four times in a year.

The quorum for the meeting of the MPC is four members.

Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.

The resolution adopted by the MPC is published after conclusion of every meeting of the MPC in accordance with the provisions of Chapter III F of the Reserve Bank of India Act, 1934.

On the 14th day, the minutes of the proceedings of the MPC are published which include:

A. the resolution adopted by the MPC;

B. the vote of each member on the resolution, ascribed to such member; and

C. the statement of each member on the resolution adopted.

Once in every six months, the Reserve Bank is required to publish a document called the Monetary Policy Report to explain:

A. the sources of inflation; and

B. the forecast of inflation for 6-18 months ahead.

RESEARCH METHODOLOGY

Introduction:

In order to complete this project the Research Methodology used was very vital. For this project study Research Methodology is used. Research in common parlance refers to the search for knowledge. One can also define research as a scientific and systematic search for pertinent information on specific topics. In fact research is an investigation. According to Redman and Mary "Research effort to gain new knowledge" Research Methodology explains the methods by which you may proceed with your research.

Meaning:

Research is the activity on the basis of which investigation can be done & problems can be solved & decisions can be made.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying now research is done systematically. In that various steps, those are generally adopted by a researcher in studying his problem along with the logic behind them.

Definition:

Research Methodology is beginning .Research is a systematic controlled commercial and investigation of hypothetical plan of actions about the presumed relation among natural subjects or phenomenon.

Purpose of Business Research:

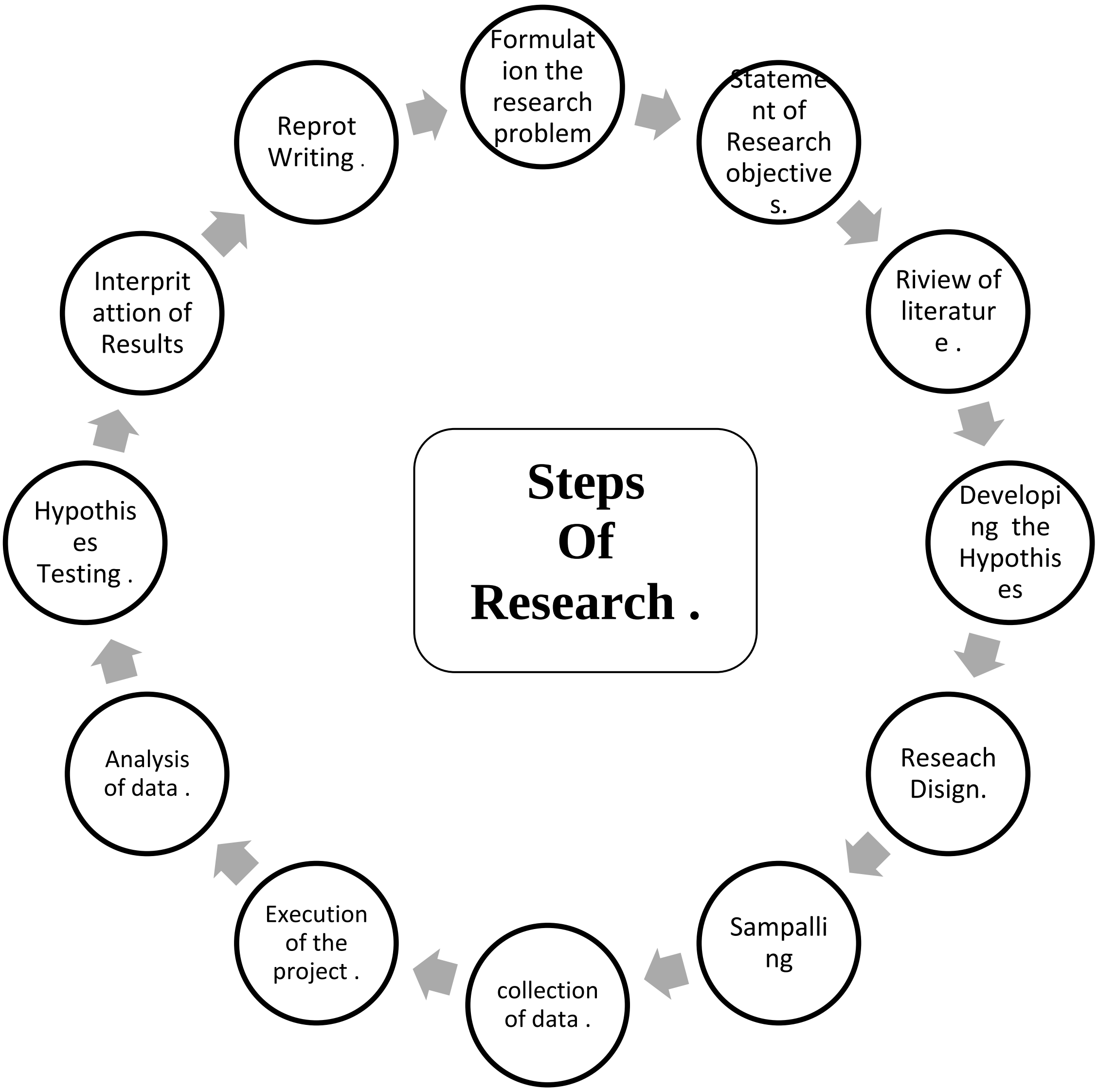
1) To identify and define opportunities and problems.

2) To define, monitor and refine tactics.

3) To define, monitor and refine strategies.

4) To improve our understanding of the various fields of management.

Steps of Research:-



I also use the step Collection of Data for research

Collection Of Data & Data Sources .

Introduction:

Data collection is important step in any project and success of any project will be largely depend upon now much accurate you will be able to collect and how much time, money and effort will be required to collect that necessary data, this is also important step.

Data collection plays an important role in research work. Without proper data available for analysis you cannot do the research work accurately. There are two types of data collection methods available.

1) Primary Data.

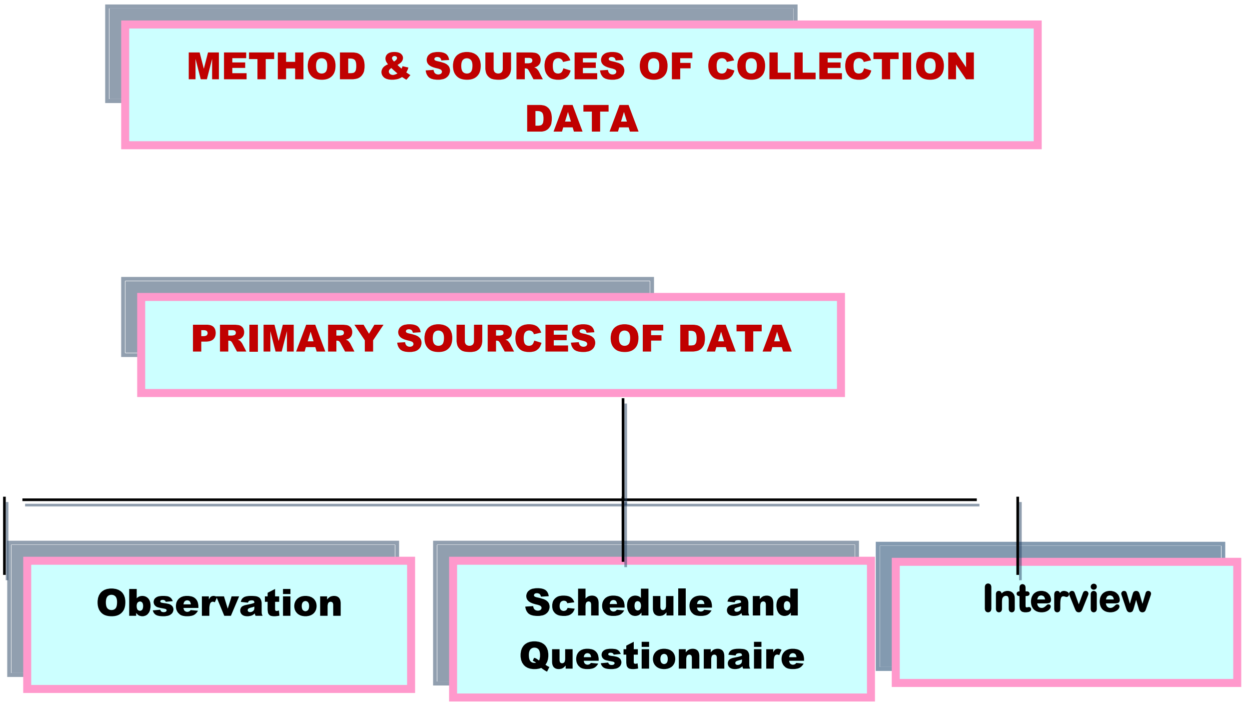
2) Secondary Data.

1) <u>Primary data: -</u>

The information about the Company is gathered from the discussion with the employees/staff.

Primary data are information collected or generated by the researcher for the purposes of the project immediately at hand. For example, an investigator wants to know about the level of job satisfaction enjoyed by the workers industry. He can prepare a schedule and meet a sample number of workers and ask for their opinions. This is going to be the information collected for the object of this study and therefore becomes primary in nature. When the data are collected for the first time, the responsibility for the processing of data also rests with the original investigators. Ordinarily, experiments and surveys constitute the main sources of primary data. For better understanding of the nature of primary sources of data advantages and disadvantages will have to be studied.

PRIMARY DATA



2) ***<u>Secondary data</u>*:-**

The methodology of this study has been adopted on the following basis:

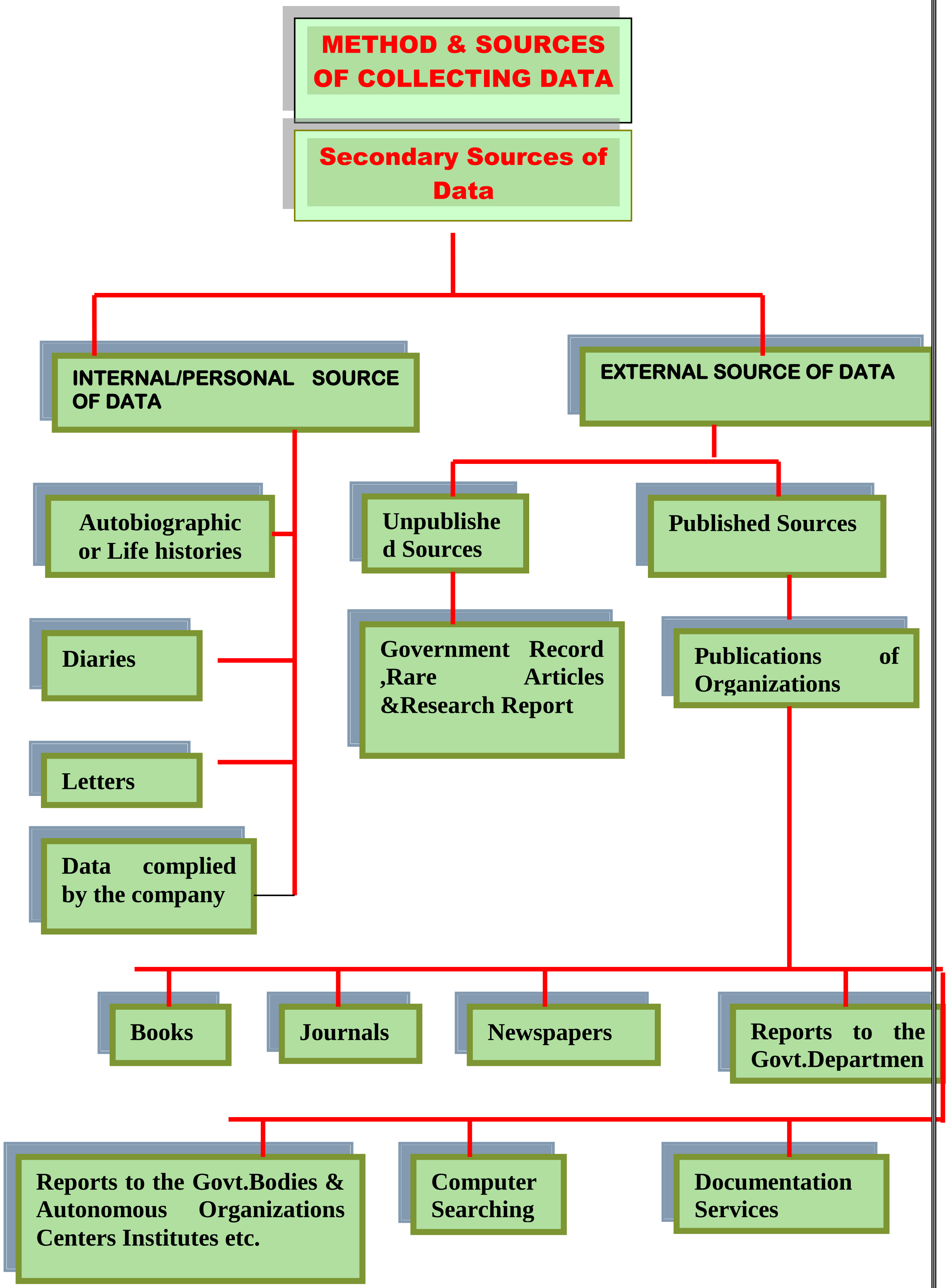
- Study of various Journals, Notes & Books.
- Collection of Primary & Secondary data records of the organization.

Analysis of the collected data for its application.

Secondary Data is the data that have been already collected by and is readily available from other sources .Secondary data refer to the information that have been collected by someone other than a researcher for purposes other than those involved in the research project at hand. Data which are primary in the hands of one, becomes secondary in the hands of the other.

There are various factors such as the nature of the study,availability of financial resources, time and degree of accuracy of the results desired, that decided the choice of the sources of data that enriches the utility of the study.

➢ SECONDARY DATA CHART



Method of data analysis:

Monetary policy refers to the use of monetary instruments within the control of the central Bank, to influence the level of aggregate demand for goods and services, by regulations the total money supply and credit in the economy. The expansion of money supply depends on the creation of high powered money (H) and the multiplier rate (M0) in the economy. Hence, we will have to discuss about the Reserve Money, money multiplier and money supply in general and then the relationship between inflation and economic growth and prices and output in particular, before entering into the core of the study with data analysis.

Collection Of Data & Data Sources .

Introduction :

Data collection is important step in any project and success of any project will be largely depend upon now much accurate you will be able to collect and how much time, money and effort will be required to collect that necessary data, this is also important step.

Data collection plays an important role in research work. Without proper data available for analysis you cannot do the research work accurately. There are two types of data collection methods available.

1) Primary Data .

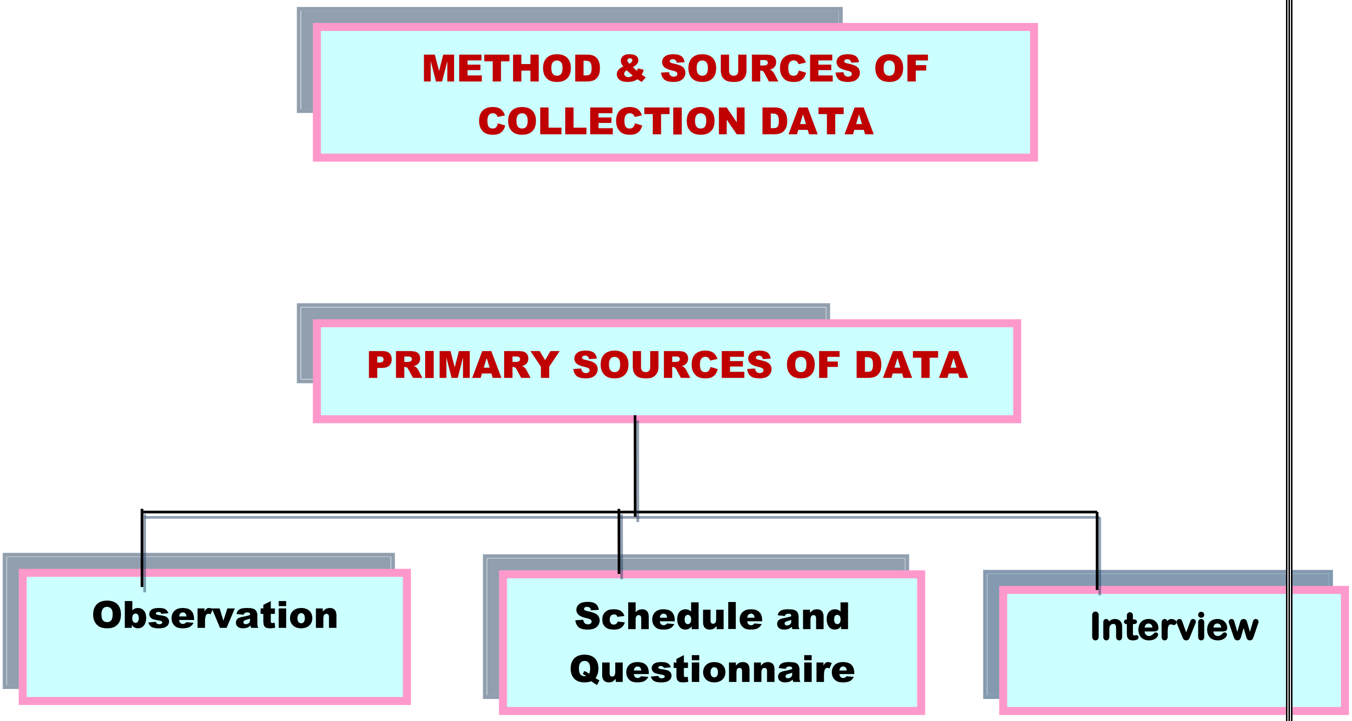
2) Secondary Data .

1) <u>Primary data: -</u>

The information about the Company is gathered from the discussion with the employees/staff .

Primary data are information collected or generated by the researcher for the purposes of the project immediately at hand. For example, an investigator wants to know about the level of job satisfaction enjoyed by the workers industry. He can prepare a schedule and meet a sample number of workers and ask for their opinions. This is going to be the information collected for the object of this study and therefore becomes primary in nature. When the data are collected for the first time, the responsibility for the processing of data also rests with the original investigators. Ordinarily, experiments and surveys constitute the main sources of primary data. For better understanding of the nature of primary sources of data advantages and disadvantages will have to be studied.

PRIMARY DATA



- Asking questions and personal visits to Hextech engineers pvt.ltd and customer interaction and feedback report is collect primary data. The information about the company is gathered from the discussion with the head of Accounts Department .I also use in Questionnaire Method in research for Excise Duty and collected the various data / information about Excise Duty Payment

The Monetary Policy Framework

- The amended RBI Act explicitly provides the legislative mandate to the Reserve Bank to operate the monetary policy framework of the country.
- The framework aims at setting the policy (repo) rate based on an assessment of the current and evolving macroeconomic situation; and modulation of liquidity conditions to anchor money market rates at or around the repo rate. Repo rate changes transmit through the money market to the entire the financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth.
- Once the repo rate is announced, the operating framework designed by the Reserve Bank envisages liquidity management on a day-to-day basis through appropriate actions, which aim at anchoring the operating target – the weighted average call rate (WACR) – around the repo rate.
- The operating framework is fine-tuned and revised depending on the evolving financial market and monetary conditions, while ensuring consistency with the monetary policy stance. The liquidity management framework was last revised significantly in April 2016.

The Monetary Policy Process

- Section 45ZB of the amended RBI Act, 1934 also provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government by notification in the Official Gazette. The first such MPC was constituted on September 29, 2016. The present MPC members, as notified by the Central Government in the Official Gazette of October 5, 2020, are as under:

1. 1. Governor of the Reserve Bank of India—Chairperson, ex officio;
2. 2. Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy—Member, ex officio;
3. 3. One officer of the Reserve Bank of India to be nominated by the Central Board—Member, ex officio;
4. 4. Prof. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research —Member;
5. 5. Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad—Member; and
6. 6. Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi— Member.

   (Members referred to at 4 to 6 above, will hold office for a period of four years or until further orders, whichever is earlier.)

- The MPC determines the policy interest rate required to achieve the inflation target. The first meeting of the MPC was held on October 3 and 4, 2016 in the run up to the Fourth Bi-monthly Monetary Policy Statement, 2016-17.
- The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. Views of key stakeholders in the economy, and analytical work of the Reserve Bank contribute to the process for arriving at the decision on the policy repo rate.
- The Financial Markets Operations Department (FMOD) operationalises the monetary policy, mainly through day-to-day liquidity management operations. The Financial Markets Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of the weighted average call money rate (WACR) is aligned with the repo rate.
- Before the constitution of the MPC, a Technical Advisory Committee (TAC) on monetary policy with experts from monetary economics, central banking, financial markets and public finance advised the Reserve Bank on the stance of monetary policy. However, its role was only advisory in nature. With the formation of MPC, the TAC on Monetary Policy ceased to exist.

Instruments of Monetary Policy

There are several direct and indirect instruments that are used for implementing monetary policy.

- Repo Rate: The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).
- Reverse Repo Rate: The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.
- Liquidity Adjustment Facility (LAF): The LAF consists of overnight as well as term repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine-tuning variable rate repo auctions of range of tenors. The aim of term repo is to help develop the inter-bank term money market, which in turn can set market based benchmarks for pricing of loans and deposits, and hence improve transmission of monetary policy. The Reserve Bank also conducts variable interest rate reverse repo auctions, as necessitated under the market conditions.
- Marginal Standing Facility (MSF): A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
- Corridor: The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
- Bank Rate: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- Cash Reserve Ratio (CRR): The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
- Statutory Liquidity Ratio (SLR): The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.
- Open Market Operations (OMOs): These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.

- Market Stabilization Scheme (MSS): This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The cash so mobilized is held in a separate government account with the Reserve Bank.

Open and Transparent Monetary Policy Making

- Under the amended RBI Act, the monetary policy making is as under:
- The MPC is required to meet at least four times in a year.
- The quorum for the meeting of the MPC is four members.
- Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.
- The resolution adopted by the MPC is published after conclusion of every meeting of the MPC in accordance with the provisions of Chapter III F of the Reserve Bank of India Act, 1934.
- On the 14th day, the minutes of the proceedings of the MPC are published which include:

a. a. the resolution adopted by the MPC;

b. b. the vote of each member on the resolution, ascribed to such member; and

c. C. the statement of each member on the resolution adopted.

- Once in every six months, the Reserve Bank is required to publish a document called the Monetary Policy Report to explain:

a. a. the sources of inflation; and

b. B. the forecast of inflation for 6-18 months ahead.

DEFINITION OF MONETARY POLICY

Monetary policy may either be defined in a broad or in a narrow sense. Defined in a broader sense, monetary policy not only includes monetary measures but also nonmonetary measures which have monetary effects. In this sense, monetary policy covers a wide range of policies and measures. It includes not only monetary measures which influence the cost and availability of money but also those non-monetary measures which influence monetary situations. Thus, non-monetary measures such as control of prices or wages, physical control, budgetary measures, income policy measures, etc. would be included within the scope of monetary policy defined in broader sense in so far as their primary aim is to influence the monetary situation. 97 But, defined in a narrow sense, monetary policy comprises only those decisions and measures of the state and of the monetary authority which affect the volume of money and the level of interest rates. Thus, monetary policy is defined as comprising of such measures which lead to influencing the cost, volume and availability of money and credit so as to achieve certain set objectives. Monetary policy refers to the credit control measures adopted by the central bank of a country. This is a very narrow definition. But, besides the policies of the central bank, the Government policies relating to the monetary standard and the statutory reserves for the issue of currency as also operations and policies regarding exchange rates and foreign transactions also constitute important aspects of monetary policy. Hence, monetary policy is the name given to the principles whereby the Government and the central bank of a country fulfill the general objectives of the country‘s economic policy. This is as it should be since all the various policies that are normally thought of viz, fiscal policy, commercial policy and monetary policy are different aspects of the same single entity called the economic policy. Johnson defines monetary policy ―as policy employing central bank‘s control of the supply of money as an instrument for achieving the objectives of general economic policy‖.

OBJECTIVES OF MONETARY POLICY

Monetary policies have varied as a result of changing economic priorities and views about the economic stability of the Indian economy. So the issue of objectives has become important because of the need to provide clear guidance to monetary policy makers. Indeed, this aspect has assumed added significance in the context of the increasing stress on autonomy of central banks. While autonomy has to go with accountability, accountability itself requires a clear specification of goals. In a broader framework, the objectives of monetary policy in India continue to be price stability and growth. These are pursued, by ensuring credit availability, with stability in the external value of the rupee as well as overall financial stability. In the transitional phase, however, given the exchange market imperfections, the exchange rate objective may occasionally predominate due to emphasis on the avoidance of undue volatility. In fact, sometimes, it could be the most dominant reason for short-term monetary policy adjustments. Thus, the main objectives or goals of monetary policy are:-

(1) Price stability

(2) Economic growth

(3) Full employment and

(4) Maintenance of balance of payments equilibrium

However, the relative emphasis on any one of the objectives is governed by the prevailing circumstances.

TARGETS OF MONETARY POLICY

The choice of a target for monetary policy is determined by the mechanism through which money affects growth, employment and prices. Since none of the monetary authority‘s policy tools works directly on these policy variables, the policy makers rely on intermediate targets that they feel they can control tolerably well with the instruments at their disposal, and that are closely linked through transmission mechanism to the ultimate targets of production, employment and price level. There are three target variables for monetary policy. They are the money supply, availability of credit and interest rates.

1. Money Supply - So far as money supply is concerned, the central bank cannot directly control output and prices. So it selects the growth rate of money supply as an intermediate target. Friedman suggests that the money supply should be allowed to grow steadily at the rate of 3 to 4 % per year for a smooth growth of the economy and to avoid inflationary and recessionary tendencies.

2. Availability of Credit and Interest Rates – Availability of credit and interest rates are the other two target variables of monetary policy. Economists call them as ―money market conditions‖ which refer to short-term interest rates and the banking systems‘―free reserves‖ (i.e. excess reserves minus borrowed reserves). The monetary authority can influence the short-term interest rates. It can change credit conditions and affect economic activity by rationing of credit or other means. The monetary authority influences economic activity by following an easy or expansionary monetary policy through low and / or falling short- term interest 108 rates and a tight or contractionary monetary policy through high and/or rising short-term rates.

Limitations

(1) No doubt interest rates and the supply of credit influence spending, but it cannot be predicted with definiteness about the size and timing of the effects of any change in them.

(2) So far as interest rates are concerned, it is the real interest rate that matters and not the nominal interest rate. It is possible to control and observe the movements in the nominal interest rate and not in the real interest rate because it is difficult to measure the expected rate of price inflation. Thus, the nominal interest rate is not a good target of monetary policy.

(3) The use of credit availability as a monetary target is not helpful in monetary policy. Suppose there is a reduction in the availability of credit, it may be offset by credit flows through NBFIs. Moreover, it is difficult to predict the amount of reduction or increase in the availability of credit.

SUMMARY, FINDINGS, CONCLUSION AND RECOMMENDATIONS

The comparative study of the selected monetary methods of credit control and money supply shows that each method has its own merits and demerits. No method, taken as alone, can produce effective results. The correct approach is that, instead of selecting this method or that method, all the methods should be judiciously combined in right proportions to achieve the objectives of monetary policy effectively. A comparative picture of the distinctive features of our monetary policy weapons, i.e. bank rate, OMO, CRR, SLR, Repo Rate and Reverse Repo Rate are presented below: Bank Rate Policy

1. It is an indirect method of influencing the volume of credit in the economy. It first influences the cost and availability of credit to the commercial banks and thereby, influences the willingness of the businesspersons to borrow and invest.

2. It does not produce immediate effect on the cash reserves of the commercial banks.

3. It is suitable only when marginal changes are desired in the cash reserves of the commercial banks.

4. It is flexible. It is applicable to a narrower sector of the banking system and therefore can be varied according to the requirement of local situation.

5. It is objective and not discriminatory in nature, it aims at controlling the total volume of credit in the economy without any regard for the uses for which the credit is put.

6. It attempts to control credit by influencing the cash reserves of the commercial banks.

7. In India, it is used as the reference rate to set other related rates.

CRR and SLR

1. It is the most direct method because it controls the volume of credit by directly influencing the cash reserves of the commercial banks.

2. It produces immediate effect on the cash reserves of the commercial banks.

3. It is suitable when large changes in the cash reserves of the commercial banks are required.

4. It is not as flexible as the open market operations policy. Since it is applicable to the entire banking system, therefore, it cannot be varied in accordance with the requirements of the local situation.
5. It is in discriminatory and objective in nature. It aims at controlling the total volume of credit in the economy without any regard for the uses for which the credit is put.

6. It attempts to control credit by influencing the cash reserves of the commercial banks.

7. CRR is one of the most frequently used monetary weapons in India, while SLR is also active nowadays.

Open-Market Operations

1. It is more direct method because it controls the volume of credit by influencing the cash reserves of the commercial banks.

2. It affects the cash reserves of the commercial banks through the purchase and sale of securities. Therefore, the success of this policy depends on the existence of a well-developed securities market in the economy.

3. It is suitable when marginal adjustments are needed in the cash reserves of the commercial banks.

4. It is not flexible. It can be applicable to a narrower sector or the banking system and therefore cannot be changed easily and quickly.

5. It attempts to control credit by influencing the cash reserves of the commercial banks.

6. It is objective and in discriminatory in nature, it aims at controlling the total volume of credit in the economy without any regard for the uses for which the credit is put.

Repo Rate and Reverse Repo Rate

1. Repo and Reverse repo rates under the LAF allow the Reserve Bank to manage market liquidity on a daily basis and also transmit interest rate signals to the market.

2. It combines the various sources of liquidity available from the Reserve Bank into a single comprehensive window, with a common price.

3. The repo and reverse repo rates under the LAF have now emerged as the principal operating instrument of monetary policy.

4. Analytically, the LAF stabilizes regular liquidity cycles, by allowing banks to tune their liquidity requirements to the averaging requirements over the reporting fortnight and smoothening liquidity positions between beginning-of-the-month and end-of-the month accounts.

5. The LAF irons out seasonal fluctuations.

6. It modulates sudden liquidity shocks, by injecting liquidity on account of say, temporary mismatches arising out of timing differences between outflows on account of Government auctions and inflows on account of redemptions.

7. The LAF has emerged as an effective instrument for maintaining orderly conditions in the financial markets in the face of sudden capital outflows to ward off the possibility of speculative attacks in the foreign exchange market.

8. By funding the Government through private placements and mopping up the liquidity by aggressive reverse repo operations at attractive rates, the LAF helps to minimize the impact of market volatility on the cost of public debt.

9. The LAF bore much of the burden of sterilization in the face of sustained capital flows, especially since November 2000, by mopping up bank liquidity through reverse repos 405 and at the same time, gradually reducing reverse repo rates to enable a softening of the interest rate structure.

10. The Reserve Bank tailors monetary policy action through both quantum and rate channels of transmission. The LAF accords the Reserve Bank the operational flexibility to alter the liquidity in the system (by rejecting bids) as well as adjusting the structure of interest rates (through fixed rate operations) in response to evolving market circumstances.

11. In view of large capital flows, the LAF emerged as the key instrument of managing capital flows through sterilization. This was reflected in the outstanding reverse repo amount which increased over the years.

Conclusion and Recommendations

The previous decade can be described as the decade of reforms for the Indian economy. While the early years of the decade witnessed the first phase of structural reforms in industrial, financial and external sectors, the final years saw the beginning of the second phase of economic restructuring. The decade of reform was successful in eliciting supply responses as evidenced in the higher growth of GDP, comfortable foreign exchange reserves, improving short term debt profile, moderate inflation and buoyant exports. India‘s GDP is a combination of all the differential factors, contributing to the welfare of the Indian economy. India‘s GDP gives us a combined report of the performance of the Indian economy. 'Cost factor' or 'Actual price' method - these are the two methods to calculate Indian Gross Domestic Product. The main factor that contributed to the growth of India GDP post 1990s was the opening-up of the Indian economy. The markets were opened up; the Government leveraged the entry of private investments. As a result of this, more investments flowed into the markets. The present study was an attempt to analyze systematically the techniques of monetary control measures with its relevance and changing importance and to find out their effectiveness in the Indian context especially to achieve the thriving objectives of price stability and economic growth. 415 There is definite and remarkable economic impact of monetary policy on Indian economy in the post-reform period. The importance of monetary policy has been increasing year after year. Its role is very relevant in attaining monetary objectives, especially in managing price stability and achieving economic growth. Along that, the use and importance of monetary weapons like Bank rate, CRR, SLR, Repo rate and Reverse Rate have increased over the years. Repo and Reverse Repo rates are the most frequently used monetary techniques in recent years. The rates are varied mainly for curtailing inflation and absorb the excess liquidity and hence to maintain price stability in the economy. Thus, this short-time objective of price stability is more successful on Indian economy rather than other long-term objectives of development. Monetary policy rules can be active or passive. The passive rule is to keep the money supply constant, which is reminiscent of Milton Friedman‘s money growth rule. The second, called a price stabilization rule, is to change the money supply in response to changes in aggregate supply or demand to keep the price level constant. The idea of an active rule is to keep the price level and hence inflation in check. In India, this rule dominates our monetary policy. A stable growth is healthy growth.

BIBLIOGRAPHY

Base, S.K and Ghosh, A. 1974. A Review of Current Banking Theory and Practice, Macmillan India, New Delhi, 460p.

Impact of Monetary Policy, Himalaya Publishing House, Mumbai

Articles

‗Monetary Policy and Commercial Banks: A survey‘. Indian Journal of Economics,

Lectures, Reports and Websites ‗

Efficacious Cheaper Money policy‘, The Hindu, ‗

Investment in India-Monetary Policy - Introduction, Monetary Growth, Credit Policy‘. http://finance.indiamart.com/investment_in_india/monetary_policy.html

https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR390MPC7FA57E119D64473AA201098BE139DF4F.PDF

https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51754

Speech Mohanty sir ‗Implementation of Monetary Policy in India‘.