

MONETARY POLICY

By

Dr. Ram N. Naik

MONETARY POLICY

MEANING

Monetary policy refers to the steps taken by the RBI to regulate the cost & supply of money & credit in order to achieve the socio-economic objectives of the economy. Monetary policy influences the supply of money the cost of money or the rate of interest and the availability of money.

DEFINITION OF MONETARY POLICY

According to D.C. ROWAN , `` Discretionary act undertaken by the authorities designed to influence (a) the supply of money (b) cost of money or rate of interest and (c) the availability of money.”

OBJECTIVES OF MONETARY POLICY

- ▣ To accelerate the process of economic growth.
- ▣ Controlled expansion.

MEASURES OF MONETARY POLICY

(A) Measures for expansion of currency and credit.

(B) Measures for controlling of credit.

(A) Measures for currency and credit expansion

- (1) Revision of open market operation.
- (2) Liberalisation of the bill market scheme.
- (3) Financing facilities to the priority sectors.
- (4) Refinancing and rediscounting facilities.
- (5) Establishment of various financial institutions.
 - (i) ICICI
 - (ii) IDBI
 - (iii) IFCI
 - (iv) IRCI
 - (v) NABARD
 - (vi) ARDC
 - (vii) SFC'S
- (6) Deficit financing.
- (7) Anti - inflationary fiscal policy.
- (8) Allocation of credit.

(B) Measures for controlling of credit

- (i) General or Quantitative measures.
 - a. Bank rate.
 - b. Open market operations.
 - c. Cash reserve requirements.
 - d. Statutory liquidity ratio.
 - e. Refinance policy.
- (i) Selective or Qualitative measures.
 - a. Regulation of marginal requirement on loans.
 - b. Regulation of consumer credit.
 - c. Rationing of credit.
 - d. Credit Authorisation Scheme (CAS).
 - e. Directives.
 - f. Moral persuasion.

EVALUATION OF MONETARY POLICY

- ❑ Minor and restricted role in economic development.
- ❑ Lack of coordination between monetary and fiscal policy.
- ❑ Imbalance in credit allocation.
- ❑ Unsatisfactory role of capital market.
- ❑ Excessive budgetary deficit and government borrowings.
- ❑ Excessive increase in bank credit to the commercial sector.
- ❑ Limited role in curbing the inflationary pressures.
- ❑ Increased liquidity of commercial banks.
- ❑ Existence of BLACK MONEY.
- ❑ Under developed money market.

SUGGESTIONS of the CHAKRAVARTY COMMITTEE

- ▣ Price stability.
- ▣ Non – Inflationary financing of plans.
- ▣ Monetary targeting.
- ▣ Co-ordination of monetary and fiscal policies.
- ▣ Interest rate policy.
- ▣ Credit planning.
- ▣ Restructured money market.
- ▣ Priority sector lending.
- ▣ Role of RESERVE BANK for the conduct of monetary policy.

MONETARY POLICY 2010 - 2011

In the wake of the global economic crisis, the reserve bank pursued an accommodative monetary policy beginning mid – september 2008. This policy instilled financial crises on the economy and ensured that the economy started recovering ahead of most of the other economies.

The monetary policy response in INDIA since October 2009 has been calibrated to India`s specific macroeconomic conditions.

Major conditions on which monetary policy has been formed

- ▣ Consolidating Recovery.
- ▣ Accentuated Inflationary Pressures.
- ▣ Higher Issuance of Securities.