ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

A Study of Change in Policies by the RBI for Controlling Inflation and Promoting Growth

Dr. Ranpreet Kaur[1], Dr. Sonali Khurjekar[2], Dr. Sonali Prasad Dharmadhikari[3], Ms. Hemangi Pramod Borawake[4]

[1]Assistant Professor, Bharati Vidyapeeth (Deemed to be University), Institute of Management & Entrepreneurship Development, Pune, India
[2]Assistant Professor, Deccan Education Society – Institute of Management Development and Research, Pune, DES Campus, Agarkar Road, Deccan Gymkhana, Pune - 411 004, India
[3]Associate Professor, Bharati Vidyapeeth (Deemed to be University), Institute of Management & Entrepreneurship Development, Pune, India
[4]Student –PGDM –I, Deccan Education Society – Institute of Management Development and Research, Pune, DES Campus, Agarkar Road, Deccan Gymkhana, Pune - 411 004, India

Email: [1]ranpreet.kaur18@gmail.com, [2]sonaleek9@gmail.com, [3]sonali.dharmadhikari@bharatividyapeeth.edu, [4]hemaborawake52@gmail.com

Abstract

The central banks across the countries have attached increasing importance in recent decades to both monetary policy transparency and anchoring of private institutions expectations. Also, in the phase of COVID-19 related disruptions the role of RBI in India was swift. RBI is taking lots of efforts to accelerate the economic growth and control inflation. This research work aims at exploring the steps taken by Reserve Bank of India (RBI) in the direction of India's goal of becoming a $5 trillion economy and finding out the change in monetary and fiscal rates to control inflation, promote growth and its impact on GDP and GVA. Research work also focuses on studying the instruments of monetary and fiscal policies used by RBI and understand different policy rates. This research work will attempt to study the various decisions and shift in policies done by RBI in order to normalizing the economic activities post pandemic. This work will also highlight the change in policy instruments and its immediate effect for the study period.

Keywords- Growth rate; GDP**;** Inflation; Monetary Policy, Reserve Bank of India (RBI)

1. INTRODUCTION

In today's times an economy of a developing nation like India is making a remarkable progress towards its goal of being a $5 trillion economy. A major role in this is played by the functioning of Reserve Bank of India (RBI). Inflation and Growth are the two sides of the same coin called economy. Since, during the high inflation period the value of money diminishes, it ultimately reduces the demand in the market, which forces the industry to reduce the production and consequently limiting the growth. To tackle all of these problems in the economy and for smooth functioning of economic activities the RBI plays vital role by maintaining price stability. Another big challenge in front of an economy is inflation. It declines the purchasing power of currency, which impacts every facet of the economy. Inflation also increases interest rate of loans and decreases real returns on savings. There are measures of change in the monetary rates taken by Reserve Bank of India (RBI) to control inflation. This research work focuses on the change in the monetary and fiscal policies in

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

Indian economy done by RBI, in the times of inflation and impact of this on Gross Domestic Product (GDP) and Gross Value Added (GVA).

Objectives of the study:

- To find out the changes in the RBI's monetary and fiscal policies.
- To analyze the measures taken by RBI to control inflation and promote growth.
- To study comparative analysis of policy rates & GDP and interpret the same.
- To compare the trend of change in the monetary rates of RBI.
- To find out the effects of change in policies on Gross Domestic Product (GDP) and Gross Value Added (GVA) during the period of the study.
- To find out the steps taken by RBI enabling normal functioning of financial markets and institutions during the outbreak of COVID-19 pandemic.

Literature Review

Researchers have refereed extensive literature in the form of research papers, book, news articles, PhD theses and RBI bulletins. The topics studied include history of RBI policies, changes in RBI policies every year, quarterly changes in key policy rates, role of RBI during the pandemic phase. Some of the research work that are closely associated with the research subject are quoted below.

(Kaur, 2015) This research paper studies de-regulation of interest rates and finds that with de-regulation of interest rates, the monetary policy operating procedure in India in recent year has evolved towards great reliance on interest rates to signal its policy stance. The findings also indicate that interest rates reform has had a stimulating impact on growth and moderating impact on inflation in India. Onset of interest rates deregulation, the nominal as well as real interest rates both deposit and lending increased continuously. It is through interest rates transmission mechanism that variation in interest rate affects aggregate demand and GDP growth, in turn impacts inflation. The paper also observes that after deregulation both interest rate deposits and lending had negative and significant impact on inflation rate. This means that interest rates due to deregulation had a negative impact on inflation. The study observed that this deregulation resulted in acceleration of economic growth and reduction of inflation and inflationary expectation and maintained price and financial stability in the economy.

(Sharma, 2015) The author states that economic policy making includes two major challenges price stability and managing growth. India has always been a part of such differentiating demands. Reserve Bank of India strengthens the credit policy in order to control inflation and curve inflationary expectations. These steps taken by RBI and Government of India help in slowing down inflation. Money supplies a central bank cannot directly control output and prices so it takes the growth rate of money supply as amid way goal, Friedman suggest that money supply should be allowed to grow regularly at the rate of 3 to 4% per year for smooth development of the economy and avoid inflationary and recessionary trends.

Availability of the credit and interested are the other two goals of credit policy. The central bank and affect the short-term interest rate. It may change credit conditions and affect economy by rationing of credit or use other tools. The RBI impacts economy by following an expansionary credit policy through low and or falling short term interest rates contrary credit through high or rising short term rates. Money supply and interested or intermediate goals of

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

credit policy in fact they are opposite goals. The central bank can go for a certain rate of increase in money supply or certain level of interest rate. It can adopt both the targets at the same time. The money supply goal means loss of control over the interested while the interested target means loss of control over the money supply. It further suggested that, central bank should not rely on any single goal it should select the goal according to ongoing economic and financial conditions. The interest rate is more suitable during the short run and credit availability and money supply in the long run.

(Suri, 2016) This research paper interprets the change in the objectives of monetary policy in India over a period of time. It states that the focus of monetary policy has changed only economic growth to the twin objectives of price stability and provision of adequate credit for economic growth. The success of monetary policy lies not only in effective transmission of policy signals to the operating target, but also it lies in the achievement of the ultimate objectives of sustained growth with price stability.
The analysis of this research paper states that the interest rate channel shows changes in interest rates have a positive impact on inflation and negative impact on industrial production. Whereas, bank lending has a positive impact on industrial output with a negligible impact on inflation. The desired impact of long-term market interest rates on industrial production and inflation appears to be weak. It is also observed that the inflation is being caused by factors of which many are not under the control of Reserve Bank of India. It is also seen that Bank credit and bank investments both responds to changes in the monetary policy. High level of investments in government and other approved securities by banks have an inflationary impact weakening industrial production.

(Harendra Kumar Behera, 2016) This paper states that the appropriateness of monetary policy stands relative to its stated ultimate goals is commonly assist by comparing the nominal policy interest rate. The paper uses three alternative specifications of a model drawing on the Ramsey's growth model and the New Keynesian framework, and applies Kalman filter technique that is suitable for estimating unobservable components. Major finding of this paper suggests that, the estimated natural interest rate in India is time varying, the estimates highly sensitive to the choice of methodology, the time of inflation used for deflating the nominal interest rate, the estimated natural rate has declared after the global crisis and the real interest rate gap remind negative for a major part for the last about one decade. That monitory policies of the RBI were largely accommodative rather than anti-inflationary.
When inflation exists, the inflation targets a monetary policy stand could be viewed as anti-inflationary only when monitory policies do the nominal to ensure that the real interested gaps turn positive and remains so until inflation is broad back to the target.

(Shabbar, 2017) This research paper analyses the impact of monetary policy in India by analyzing risk impact of Cash Reserve Ratio and other policies on inflation and industrial growth. It states that poor fiscal policies of government and subsidy burden are often responsible for increase in inflation. Attempts by RBI to control inflation by tightening the money supply in market is often criticized by industries as its hinters industrial growth. The main analysis of this paper is the identification of risk that the various monetary policy measures pose to growth of industry while attempting to control inflation. The findings give a clear fact that tightening of monetary policy is effective in controlling inflation for only short periods but in long run it is counterproductive since it hurts industrial growth and further fuels

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

inflation. The change in CRR initially helps in controlling inflation in the short run but in the long run it evidently fuels inflation in industrial sector.

(Kumara, 2017) This research paper examined theoretical developments in macroeconomic theories for policies implications through monetary & fiscal policies. It states that fiscal policy was dominant during pre-reform period in India. After economic reforms, monetary authority took responsibility of macroeconomic stability through management of money supply, interest rates, and exchange rate. The study founded out that the global economic slowdown has severely affected the Indian economy, especially fiscal prudence in post crisis period. It is being also found that post reform period the performance of Indian economy is commendable with industry & service sectors emerging as major growth driving forces. It is also being seen that the saving investment gap was negative during 2005 & 2015 due to greater inflow of Foreign Institutional Investment (FII) inflow. The study has found that the bank rate fixed at 6% up to March 26, 2012 & reached high rate of 10.25% in mid-2013 due to persistent inflation rate. This shows the impact of inflation on monetary rates. It concludes by suggesting that interest rates can be used for inflation targeting by monetary authority & both Government of India & RBI should jointly work together to transform large size non-monetized sector into monetized sector for policy effectiveness.

(India, 2017) The article assesses the impact of demonetization on growth and inflation and their Outlook in the context of subsequent re-monetization. The growth of Gross Value Added (GVA) is expected to have been impacted primarily by liquidity shock, i.e., limited access to currency as a medium of exchange for affecting transactions in the economy. This impact is expected to have work through two channels; a) decline in demand due to shortage of cash to make payments mostly on discretionary spending; and b) disruption in production activity due to man or lost as some workers especially those in unorganized sector who get their wages paid in cash, experienced temporary loss of work. The loss of wage income for workers is also expected to have caused the drag on consumption demand. The wealth affect is another channel through which demonetization could have impacted economic activity. How the precise estimate of currency was that return to the banking system is not yet available as the reconciliation process is still on. The overall GVA growth in the sixth Bi-monthly monetary policy statement on February 8, 2017 was packed lower at 6.9%. The impact of demonetization on GVA growth was estimated at about 33 bps for the full year 2016-17. There was 240 base points decline in food inflation during November 2016 to January 2017 was the combined effect of record pulses production, large winter arrivals of vegetable and some fire cells due to decline in demand following cash squeeze. However, inflation excluding vegetables moderated only marginally. Also, inflation excluding food and fuel remains sticky. Overall demonetization has some negative microeconomic impact which however has been transient as re-monetization has moved at accelerated pace in last twelve weeks. It also stated that, demonetization is expected to have a positive impact over the medium to long term.

(Chikermane, 2018) This book 70 policies that shift India, have given a window through which one can look at the 70 landmark economic policies that have been crafted over the 70 years of independent India. Behind these policies lies story of political choices and the ideological slants of thwarted ambitions and rising aspirations of economic directions made to several political once. The policies highlight the transformation of the economy from agriculture to services, from shortages to surplus, from surviving to global goals. The book examines the laws and the rules, the constructions and the freedom that India's entrepreneurs,

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

savers and consumers have negotiated from 1947 to 2017 and which have made India a USD 2.5 trillion economic power house.
The book has divided acts and the policies as per the decade that it has been published in. In the first decade, Controller of Capital Issues, 1947 Act had been passed. Under this act, the government decided which company to raise how much capital. Followed by this the minimum wages act 1948, had been enacted. Under this act it was declared that government both (Central and state) not economic agents would decide number of wages paid. Also, in 1948 the factories act had been passed along with Development Finance Institutions Act. Banking Regulation act, 1949, Planning Commission, 1950, Finance Commission, 1951, State Bank of India Act, 1955 were also the major part of decade one.
In the second decade, the Institution of Technology Act, 1961 have been passed along with Food Corporation of India, 1965, Agricultural Prices Commission, 1965, and Special Economic Zone, 1965.The Foreign Exchange Regulations Act, 1973, Nationalization of Banks and Public Provident Fund, 1968 amongst other are prominent policies that emerged in the third decade. Consumer Protection Act, 1986 along with others in were passed in decade fourth. In the fifth decade Foreign Investment Promotion Board, 1991, Securities Exchange Board of India (SEBI), 1992, National Stock Exchange (NSE), 1994 are prominent ones in Decade Five. One of the important policies that took place in recent decade was Demonetization in 2016 and Goods and Services Tax Act in 2017.The book has in detail mentioned about all of these acts and policies that India adopted that shaped India.

(Mishra, 2019) The article of affirms that, India should opt for further monetary policy is in broad based structural reforms to rivers a cyclical demand slows down, said International Monetary Fund (IMF), while slashing its growth projection for the country to 6.1% for the current fiscal from its July forecast of 7%.
In India, growth softened in 2019 as corporate and environmental regulatory uncertainty, together with concerns about the health for the non-Bank financial sector weighed on demand, IMF said in its biannual World Economic Outlook (WEO). IMF chief economist Geeta Gopinath told reporters that the government has taken appropriate steps but it needs to do a lot more, including cleaning of the balance sheets of commercial banks, to ward off the negative impact on the growth from financial vulnerabilities. On the fiscal side there have been some recent measures including the corporate tax cut. There has been no announcement on how that will be offset through revenues as this point. But it is important for India to keep the fiscal deficit in check, she added.

(Gabriel Chodorow-Reich, 2019) The article states that despite an impressive body of literature on the effects of monetary policy large scale natural experiments remain same. Demonetization occurred in an otherwise table macroeconomic environment and did not affect other hallmarks of monetary policy such as the overall liabilities of the Reserve Bank of India or the target interest rate. The two main findings of this paper say that, we reject monetary neutrality by providing will in identified statistically strong evidence of an effect of money on output in the cross section of Indian district. And secondly, they shade light on white as matters. In the new Keynesian synthesis money serves only as a unit of account and outcomes depend only on the interested by monetary policy with the details of money supply essentials irrelevant. It further concludes that, in modern India cash plays a special role in facilitating transactions, also demonetization had an adverse effect on a really economic activity. Finally, the findings suggest that there may be long term advantages from demonetization that arise from improvement in taxation and in a shift to savings in financial instruments and non-cash

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

payment mechanism.

(Nagarajan, 2019) This research paper discusses about the major instruments of monetary policy that have been used by Reserve Bank of India (RBI) during the period of 1991-2011 to control inflation & promote growth. It studies significant relationship between Repo rates & quarterly GDP growth rate along with the impact of monetary policies like CRR, SLR, Bank rates, etc. on GDP growth rate. The research study states that in order to achieve price stability, there has to be a greater coordination between monetary and fiscal policies. The paper also finds that bank rate remained high during period of 1981-1991 in order to remove excess liquidity from the economy. Post 1981, Cash Reserve Ratio (CRR) was constantly high along with the rise for several times to control expansion of credit. The research paper finds that the monetary policy during the pre-reform period was a policy of "CONTROLLED EXPANSION" of the money supply. This research paper collectively states that CRR is a more significant determinant of quarterly GDP. Both the CRR and the repo rate are capable instruments for managing the price level. However, the repo rate is a more significantly useful tool of monetary policy. For the period 1st Quarter of 1991 to 4th Quarter of 2011, changes in the Repo rate are more significant than CRR. The paper states the use of repo rate to influence the liquidity and improving the national income would be far more effective. Discussing about the inflation it states that, the Consumer Price Index (CPI) is considered to be the most appropriate index for the measurement of inflation all over the world. It's been discussed that since 2001, the Reserve Bank of India has stopped using the Statutory Liquidity Ratio (SLR) as a policy rate, its significance is considerably reduced. It concludes by affirming that there is a considerable lag (the lag is three quarters) in the effects of CRR changes than in the effects of changes in the repo rate (lag of about one quarter). During the post-reform period, the way the RBI operates the monetary policy has gone through a significant transformation. Even though the objectives of monetary policy have remained the same, i.e., price stability and the promotion of economic growth. It also adds that during the present times, the Indian economy has mainly integrated into a global economy. RBI has been undertaken changes in Bank Rate, CRR, SLR, Open Market Operations, Repo Operations, Market Stabilization Scheme, and Marginal Standing Facility (MSF) as a part of its Monetary Policy operations post-economic reforms.

(RBI, 2020) This report was being issued in an environment in which the Indian economy, the RBI and the banking financial system are confronting the most testing challenge of more than 100 years. It states that the Reserve Bank of India responded to the pandemic with aggressive policy rate cuts, massive liquidity infusion both system level and targeted to distress sees institution and instruments. It also states that in order to address the challenges posted by the COVID-19 pandemic. The Monetary Policy Committee (MPC) voted for cumulative policy rate reduction of 150 basis points, bringing the repo rate down to the lowest ever level of 4% in easing cycle that begin in February 2019. In the wake of a severe and unprecedented macroeconomic shock cost by the COVID- 19 pandemic, the RBI actions veered towards providing a stimulus to the economy while insurance stability.

(Bulletin, 2021) The article in the governor statement affirms that, to tie over the disruptions caused by COVID- 19, the CRR of all banks was reduced by 100 basis points to 3% for a period of one year ending on March 26, 2021. On a review of monetary and liquidity conditions it has been decided to gradually restore the CRR in two phases in non-disruptive manner 3.5% effective from March 27, 2021. The normalization of CRR was done as it opens

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

up space for variety of market operations of the RBI to inject additional liquidity into the economy. Similarly, on March 27, 2020 banks were allowed to avail of funds under the Marginal Standing Facility (MSF) by dipping into Statutory Liquidity Ratio (SLR) up to an additional one percent of Net Demand and Time Liabilities (NDTL). This facility was available on extended up to September 13, 2021 to provide comfort to banks on their liquidity requirement. This dispensation provides increased access to funds to extent of Rs.1.53 lakh crore.

(BUlletin, 2021) This journal article affirms that, adhering to its commitment to maintain ample liquidity in the system the RBI conducted one Open Market Operations (OMO) purchase auction on January 21, 2021, there by injecting durable liquidity of Rs. 10,000 crores. it also conducted to special OMOs involving simultaneous purchase and sale of securities. In addition, the RBI under took additional liquidity measures in February 2021, which included lending by banks to Non- Banking Financial Companies (NBFCs) under the Targeted Long Term Repo Operations (TLTRO) on tap scheme for incremental lending to specific stressed sectors; ii) gradual Restoration of CRR in two phases in non-destructive manner; and iii) extinction of facility for a wedding funds under the MSF by dipping into SLR. The RBI also conducted an OMO purchase auction foreign enhancement amount of Rs. 20,000 crores in February along with a special OMO (operation twist) to faster congenial financial conditions.

(Dayal, 2021) The journal article states that about the rise in the inflation, the CPI inflation in December 2020 eased sharply to 4.6% from 6% in last month. This primarily was on account of substantial correction in food inflation. The Indian basket of crude oil prices aged up to US dollar 53 per barrel in January 2021, which resulted in further increase in domestic pump prices. The Reserve Bank of India has been ensuring that congenial financial conditions prevail to nurture the recovery in form of easy monetary and credit conditions. Through December 2020 the average daily net absorption under the Liquidity Adjustment Facility (LSF) surged. The surplus liquidity was mopped up through Reverse Repos in order to enable banks to exploit the synergies between Central Bank liquidity.

It also mentions that broader majors of liquidity mirrored these monetary conditions, reverse money adjusted for first round impact of change in Cash Reserve Ratio (CRR) increased by 18.3% y-o-y as on Jan 08, 2021.

(Desk, 2021) This newspaper article states that RBI Monetary Policy Committee meeting had been held recently regarding the policy dates. It states that the Repo rates is unchanged at 4% for the 9th consecutive time while maintaining an 'accommodative stance' announced by RBI Governor Shashikant Das.

The article states that Reverse Repo rate is also kept unchanged at 3.35%. The RBI had last revised its policy Repo rates or short-term lending rates on May 22, 2020, in an off-policy cycle to peek up demand by cutting the interest rate to a historic low. It also discusses that, announcing about inflation, the RBI Governor said that Consumer Price Index (CPI) inflation target is maintained at 5.3%.

The article also states that there has not been any considerable revision on the inflation forecast by RBI and maintained it at 5.3% for FY22. It is also expected an upward pressure in inflation rates in coming months. Overall, the RBI have kept the key interest rate unchanged in it's after monetary policy review in citing inflationary concern.

(Hindu, 2021) The article mentions that, 'Faced with an economic slowdown driven by weak

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

consumer sentiment and tepid consumption demand, the RBI cuts its policy Repo rates by 25 basis points. The Repo rate reduction stands at 5.15 against 5.40 percent earlier, this aimed at supplementing government measures to revive economic activity. It also mentions RBI Governor, Shaktikanta Das commenting that, 'it takes time for impact to filter through to real economy, so we will have to see impact of all these policy rate cuts.' While the measures announced by government are likely to help strengthen private consumption and spur private investments activity, the continuing slowdown warrants intensified efforts to restore the growth momentum.

(Nayak, 2021) The news article affirms that; the Reserve Bank of India may be forced to raise interested at a faster pace than anticipated earlier as it would be forced to catch up with accelerating price pressure. the central bank may have to raise rates by as much as 100 basis points, up from 75 bps earlier as price arise spread to service and customer good companies see 15 to 21% jump in their input cost.
The impact of policy rate reduction is evident in lower interest cost as indicate in the RBI study of performance of the corporate sector. But this again could be eroded due to the high input prices. Although, there would be some deflationary impact from a catch up in winter food supplies along with a recent correction in the global commodity prices, hike in telecom tariffs and upward adjustment in GST rate for select items of clothing and footwear would add a pressure according to research film Quantico Research.
(TNN, 2021) The news article states that, the RBI output loss is factored into its revised GDP forecast in the last monitory policy estimates, where it's last growth projections from 10.5% to 9.5%. The state of the economy report released said that the projection based on the assumption that real GDP will grow by 18.5% in the first quarter. The RBI has estimated that the second wave of COVID- 19 may result in the Rs.2 lakh crore losses in output during the current fiscal in what is the first such exercise conducted by the central bank or the government. A loss of economic output may not have a direct co-relation with the GDP but points to some loss in the value addition across the economy. Already several agencies including the RBI have lower growth projections for the year.

(DHOOT, 2021) India's gross domestic product GDP contracted by 7.3% in 2020- 21, as per provisional national income estimates released by the national statistical office (NSO), marginally better than the 8% contraction in the economy projected earlier. The GDP growth in 2019-20, prior to COVID- 19 pandemic was 4%. It is also being observe that, the Gross Value Added (GVA) in the economy shrank 6.2% in 2020-21, compare to a 4.1% rise in the previous year. Only two sectors but the trend of negative GVA growth - agriculture, forestry and fishing, which rose 3.6% and electricity, gas, water supply and other utility services (up to 1.9%) It is also being observe that GDP has contracted 24.4% in the April to June 20-20 quarter, followed by 7.4% shrinkage in the second quarter. It had written to positive territory in the September to December quarter with a marginal 0.5% growth. GVA from trade, hotels, transport, communication and broadcasting-related services recorded the sharpest decline of 18.2%, followed by construction (-8.6%), mining and quarrying (-8.5%) and manufacturing (-7.2%). Economist said this numbers will moderate growth prospects for 2021- 22 through the base effect, even as the scourge of the virus is hurting activity again.

(Online, 2022) It states that retail inflation was 5.66 percent in December and 4.91 per cent in November 2021. RBI Governor Shaktikanta Das had noted that Consumer Price Index (CPI) reading for January 2022 is expected to closer to the upper tolerance band, largely due

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

to adverse base effects. India's benchmark inflation rate, measured by CPI rose to 6.01 per cent in January 2022 sourced from data released by Ministry of Statistics and Program Implementation.
The uptick in food basket was due to a sharp rise in prices of oils and fats which climbed 18.70% on a year. Apart from this, the meat and fish prices saw a rise of 5.47 per cent, while that of vegetables gained 5.19 per cent and pulses and products 9.32%, clothing and footwear gained 8.84% and housing segment inched up 3.52%. RBI said inflation based on CPI is expected to come well below its upper tolerance level, at 4.5% in next fiscal year beginning April 22.

2. RESEARCH METHODOLOGY

Research work is based on secondary data and descriptive in nature.
For the Research purpose data is collected from secondary sources. Secondary data collected from news articles, RBI publications, journal articles, websites, published sources and books of economics.
Major time period taken for the purpose of the analysis is 2016-2017,2017-2018, 2018-2019, 2019-2020, 2020-2021, 2021-22 and 2022-23. Major instruments of monitory policy are considered and their data for above mentioned duration is represented in secondary data analysis.

Monetary policy in India:
The Reserve Bank of India (RBI) is vested with responsibility of conducting monetary policy. This responsibility is explicitly mandated under the RBI Act 1934. Monetary policyrefers to the policy of the central bank with regard to the use of money instruments under its control to achieve the goals specified in the Act. The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary condition to the sustainable growth.
Monetary policy could either have a single objective of price stability or multiple objectives.It also refers to the use of monetary instruments under the control of Central Bank to influence variables such as money supply availability of credit and interested with the viewof achieving objectives of the policy. The objectives of monetary policy evolved accordingto the preamble before the amendment of RBI act in May 2016. Monetary policy can be expansionary or contractionary.

- An expansionary monetary policy is focused on expanding the money supply in an economy. It is implemented by lowering key interest rate thus increasing the market liquidity.
- A contractionary monetary policy is focused on contracting the money supply in the economy. It is implemented by increasing the key interest rates thus reducing market liquidity.

In May 2016, the RBI Act 1934 was amended to provide a statutory basis for implementation of the flexible inflation targeting framework. With progressive liberalization and increasing globalization of the economy, maintaining orderly conditions in financial market immersed as an additional policy objective. Thus, overtime the role of monetary policy in India evolved to maintain a judicious balance between price stability economic growth and financial stability in the economy. The amended RBI act also providesfor inflation target to set by the government of India, in consultation with the Reserve Bankonce in every 5 years. Prior to the amendment,

ISSN PRINT 2319 1775 Online 2320 7876

Research paper **© 2012 IJFANS. All Rights Reserved,** **UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022**

the flexible inflation targeting framework was governed by an agreement on monetary policy framework between Government and the Reserve Bank of India of February 20,2015.
The Reserve Bank of India (Amendment) Act, 2006 gives discretion to the Reserve Bank to decide the percentage of scheduled banks' demand and time liabilities to be maintained as Cash Reserve Ratio (CRR) without any ceiling or floor. Consequent to the amendment, no interest will be paid on CRR balances so as to enhance the efficacy of the CRR, as paymentof interest attenuates its effectiveness as an instrument of monetary policy.

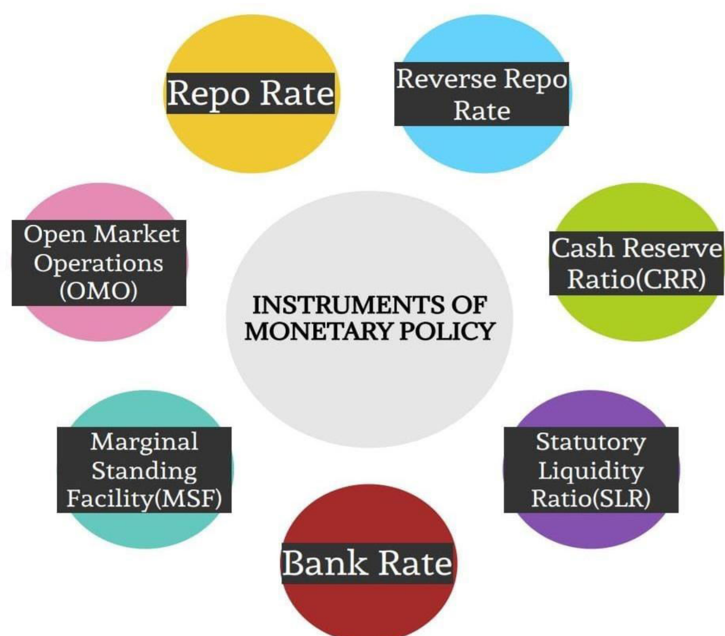
Objectives of Monetary Policy in India:
Primary objective of monetary policy in India is maintaining the price stability in the economy. Other objectives of the monetary policy of India are stated by the RBI are:

- **Price stability:** It focuses on economic growth and development with considerable emphasis on price stability. The center of focus is to facilitate the environment which is favorable to the architecture that enables the development and projects to run swiftly while also maintaining reasonable price stability.
- **Control expansion of bank credit:** One of the important functions of RBI is the controlled expansion of bank credit and money supply with special attention to seasonal requirement of credit without affecting the output.
- **Promotion of fixed investments:** The aim is here to increase the productivity of the investment by retraining non-essential fixed investment.
- **Promoting efficiency:** It tries to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, easing operational constraints in the credit delivery system, introducing new money marketinstruments, etc.
- **Reducing rigidity:** RBI tries to bring about flexibilities in operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

Monetary Policy Framework:
The amended act explicitly provides the legislative mandate to the Reserve Bank to operatethe monetary policy framework of the country. The framework in at sitting the policy (repo) rate based on assessment of the current and evolving microeconomic situation and modulation of liquidity conditions to anchor money market rates at or around repo rate. Repo rate changes transmit through the money market to the entire 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 day-to-day basis through appropriate actions which aim at anchoring the operating target- the Weighted Average Call Rate (WACR) - around the repo rate.
Instruments of Monetary Policy:
There are various direct and indirect instrument used for implementing monetary policy.

ISSN PRINT 2319 1775 Online 2320 7876

Research paper **© 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022**



- **Open market operations (OMO):**

An OMO is an instrument of monetary policy which involves buying or selling of government securities like Government bonds from or to the public and banks. This mechanism influences the reserve position of the banks yield on the government securities and the cost of bank credit. The Reserve Bank of India (RBI) since government securities to control the flow of credit and bise government securities toincrease the credit flow. OMO mix bank rate policy effective and maintenance stability in the government and securities market. This include both three purchase (repo and reverse repo) operations and outright, purchase and sale of government securities for injection and absorption of liquidity, responsibility.

- **Repo rate:**

Repo (repurchase agreement) is the rate at which bank borrows from the RBI on short term against a re purchase agreement. Reduction in the repo rate helps the commercial bank to get the money at the cheaper rate and increase in the repo rate discourage the commercial bank to get money as the rate increases and becomes expensive. Under this policy banks, are required to provide government securities ascollateral and later by them back after predefine time under the Liquidity AdjustmentFacility (LAF).

- **Reverse repo rate:**

It is the reverse of the repo rate i.e. This is the rate RBI pays to bank in order to keepadditional funds in the RBI. It is the rate at which RBI borrows money from commercial bank against the collateral of eligible government securities under the Liquidity Adjustment Facility (LAF). Increase in reverse repo rate is a symbol of tightening of the policy.

- **Cash reserve ratio (CRR):**

The amount that a bank is required to maintain with the Reserve Bank as a specified proportion (per cent) of its Net Demand and Time Liabilities (NDTL) fortnight starting from Saturday till next reporting Friday. The proportion required to be maintained is notified by

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

Reserve Bank from time to time. The maintenance of CRR balances over fortnight is ongoing on average daily basis with a stipulated minimum daily maintenance notified by reserve Bank. The CRR is kept in form of reserves or balances. The higher the CRR with the RBI, the lower will be the liquidity in the system and vice versa.

- **Statutory liquidity ratio (SLR):**

SLR is share of net demand and time deposits that banks must maintain in safe and liquid assets. Every financial institution has to maintain a certain quantity of liquid assets with themselves at any point of time. These assets have to be kept in non-cash form such as government securities, precious metals and approved securities like bonds. The ratio of liquid assets to time and demand liabilities is termed as Statutory Liquidity Ratio. Changes in SLR influence the availability of resources in the banking system for lending to the private sector. The excess of CRR balance is also treated asa liquid asset for the purpose of SLR.

- **Bank rate:**

The bank rate is also known as discount rate, it is the rate of interest charged by the RBI for providing funds or loans to the banking system. This banking system involves commercial and cooperative banks, Industrial Development Bank of India, IFC, EXIM bank and other approve financial institutions. The bank rate is published under Section 49 of the RBI Act, 1934. This rate is aligned to the Marginal Standing Facility (MSF) rate and therefore changes automatically as an when MSF rate changes alongside policy repo rate changes. Funds are provided either through lending directly or discounting or buying money market instruments like commercial bills and treasury bills. Increase in bank rate increases the cost of borrowing by commercial banks which results in reduction in the credit volume to the banks and hence the supply of money declines.

- **Marginal standing facility (MSF):**

The facility under which scheduled commercial bank can borrow additional amount of overnight money from the Reserve Bank against their excess SLR securities and also by dipping into their SLR portfolio up to a specified limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system. Banks availing MSF rates can use maximum of 1 percent SLR securities.

- **Liquidity adjustment facility (LAF):**

The LAF consists of overnight as well as term repo options. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine- tuning variable repo rate options of range of tenor. The aim of term repo is to help developed the interbank term money market which in turn can set market-based benchmark for pricing of loans and deposits and hence improve transmission of monetary policy. The Reserve Bank also conducts variable rate repo /reverse repo options, as necessitated by market conditions. Repo, Reverse repo, and MSF are considered to be part of LAF.

- **Gross Domestic Product (GDP):**

GDP measures the monetary value of final goods and services that is those that are bought by final user- produced in a country in a given period of time (a quarter or a year). It counts all of the output generated within the borders of a country. GDP calculated at current price is

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

called **Nominal GDP**. It is the market value of the final goods and services produced within the domestic territory of a country during an accounting year as estimated using the current year prices. Whereas, GDP calculated at constant pricesis called **Real GDP**. Real GDP is the market value of the final goods and services produced within the domestic territory of a country during an accounting year as estimated using the base year of the prices.
An increase in real GDP is interpreted as a sign that economy is doing well. When real GDPis growing strongly employment is likely to be increasing as companies hire more workers for their factories and people have more money in their pockets. When GDP shrinking as in many countries during the recent global economic crisis employment of a declines.
An indicator which measures the change in the GDP of the country in comparison to an earlier period is known as **GDP growth rate**. GDP growth rate is also known as economic growth rate. the amount of change is measured in percentage which serves as a determinantof economic health in the country and the possible growth in the future. Growth rate measurement is necessary to understand the nature of the economy and the direction it may take in upcoming years.

- **Gross Value Added (GVA):**

Gross Value Added (GVA) is the measure of the value of goods and services produced in an area industry or a sector of an economy. In other words, it gives a picture of the state of economic activity from the producer's side or supply side. It is the value of output minus the value of intermediate consumption. It also is a measure of the contribution to GDP made by individual producer industry or sector. GVA is an important major because it is used to determine GDP. GDP is an indicator of health of national economy and economic growth. While comparing GVA and GDP it can be said that, GVA is a better major for economic welfare of the population because it includes all the primary incomes.
The GVA data is crucial to understand how the various sectors of real economy are performing. The output or domestic product is essentially a measure of GVA a combined with net taxes. GDP can be and is also computed as some of total of various expenditure in occur in the economy including private consumption spending government consumption spending and gross fixed capital formation or investments spending this reflect essential on demand conditions in the economy. For a policy maker it is vital to have GVA data to be able to make policy intervention where needed. At large, the Gross Value-Added measuresrise in value on national wild scale. It only takes into account all the money spent in the economy. However, the Reserve Bank of India uses GVA data to decide the economy's future outlook.

- **Inflation:**

Inflation is the rate of increase in prices over of given period of time. Inflation is typically a broad major such as overall increase in prices or the increasing cost of living in a country. It measures how much more expensive a set of goods and services has become over a certain period, usually a year.
Inflation is sometimes classified into three types; demand pull inflation, cost push inflation and built-in inflation. The most commonly used inflation indexes are **Common Price Index (CPI)** and the **Wholesale Price Index (WPI)**. WPI reflects change in average prices of commodities at the first stage of transactions, while CPI reflects average change in prices at retail level paid by the customer.
The right set of disinflationary policies those aimed at reducing inflation, depends on the

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

causes of inflation. If the economy has over heated, Central banks- if they are committed to ensuring price stability can implement contractionary policies that rein in aggregate demand usually by raising interest rate. Central banks are increasingly relying on their ability to influence inflation expectations as an inflation reduction tool. Policy makers announce their intention to keep economy activity low temporary to bring down inflation hoping to influence expectation and contracts built in inflation component. The more credibility Central Bank have, the greater the influence of their pronouncements on inflation expectations.

In India, the onus to control and take control of the situation of inflation is upon the Reserve Bank of India (RBI). The Reserve Bank of India (RBI) follows a multiple indicator approachto arrive at its goals of growth, price stability and financial stability, rather than targeting inflation alone. It has certain weapons which it wields every time and, in all situations, to counter any form of inflationary situation in the economy. These weapons are generally the mechanisms and the policies through which the Central Bank seeks to control the amount of credit flowing in the market.

The steps generally taken by the RBI to tackle inflation include a rise in repo rates (the ratesat which banks borrow from the RBI), a rise in Cash Reserve Ratio (CRR) and a reduction in rate of interest on cash deposited by banks with RBI.

Secondary Data Analysis- Researchers have considered various monetary policy instruments for research work. Data collected are of duration of 2016-17 to 2022-23 and presented in the form of tables.

Repo Rate:

		REPO RATE					
YEARS	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Q1	6.25	6	6.25	4.4	4	4	4
Q2	6.25	6.25	5.75	4	4	4	5.4
Q3	6	6.25	5.15	4	4	4	6.25
Q4	6	6.25	5.15	4	4	4	-
AVERAGE	6.1	6.2	5.6	4.1	4	4	5.26

Source: RBI Weekly Supplement

Table 1: Repo Rate

Repo rate is used by monetary authorities to control inflation. It is rate at which Central Bank lends money to commercial Bank in the event of shortfall of funds. Increase in repo rate reduces the money supply in the economic system and there by reduces the rate of inflation. Decrease in repo rate reduces the cost of credit for commercial banks allowing them to land money to retail bore hours at lower rate of interest.

In the year 2016-17, the Repo Rate was constant in the first two quarters and then reduced by 25 basis points in the next two quarters. It was got back to 6.25% in the second quarter of 2017-18. The downfall in the Repo rate can be seen in the year 2018-

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

19, whereas it was dropped down to 4.4% in the start of 2019-20. After then the rate was unchanged to be at 4%.
Changes in the Repo rate direct impact big ticket loans. With no change in policy rate there was no immediate impact on the EMIs of home loan. Lenders typically preferred to take some time in call about any possible rate change in future based on their own financial position, and their expectations about interest rate movement. The shows that the RBI has been doing balancing act between economic growth and inflation.
By declining the policy Repo rate the Monetary Policy Committee (MPC) maintained status quo during June 2020 to February 2021. Given the growth inflation dynamics the MPC had decided to continue with accommodative stance as long as it is necessary to revive economy and mitigate the impact of COVID-19 on the economy. Typically, during inflation periods, the central bank increases repo rate to discourage commercial bank from borrowing funds, thus reducing the supply of money in the economy which brings down the inflation rate.
Therefore, the decision of RBI to keep policy repo rate and changed is seen to be justifiable as in the effect of pandemic the primary focus was on growth of the economy. Thus, in this situation it was unlikely that RBI will increase or decrease repo rate. It can further be stated from observation that, inflation continued to rise even when RBI reduced to the repo rate.
Repo rate was kept constant in the year 2021-22 at 4%. In the second quarter of 2022-23, it was increased to 5.40%. This has led to costlier loans, it was done to combat the effects of a surging dollar and rising costs.

Reverse Repo rate:

		REVERSE REPO RATE					
YEARS	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Q1	5.75	5.75	6	4	4	3.35	3.35
Q2	6	6	5.5	3.35	3.35	3.35	3.35
Q3	5.75	6.25	4.9	3.35	3.35	3.35	3.35
Q4	5.75	6	4.9	3.35	3.35	3.35	-
AVERAGE	5.81	6	5.32	3.51	3.51	3.35	3.35

Source: RBI Weekly Supplement

Table 2: Reverse Repo Rate

The Reverse Repo rate is the rate at which RBI borrows money from banks for the short term. It helps the RBI to get money from banks when it needs. It is lower than Repo rate and stimulates commercial bank to invest or store excess funds with the central bank to on higher returns. In return to this the RBI offers attractive interest rates to commercial banks. The reverse repo rate is decided by Monetary Policy Committee (MPC) headed by RBI governor. The reserve repo rate is seen to be fluctuating with 25 basis points in the first two financial years. In the year 2018-19 it reduced from 6% to 4.9% by the last quarter. The year 2019- 20 and 2020 -21 has similar trend of

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

fluctuation, the rate is at 4% in the first quarter and at 3.35% in last three quarters. Reserve repo rate is increased or decreased by RBI depending upon the macroeconomic factors. An increase in the rate provides and incentive to banks to park their surplus funds with the central bank on the short-term basis, thereby reducing liquidity in the banking system and overall economy. When the rate is decreased banks on less on their excess money deposited with RBI. This leads the bank to invest more money in markets which increases over all liquidity in the economy. It can be stated that when RBI decides to reduce the Reserve repo rate banks on less on their access money deposited with it. During high inflation level in the economy the RBI increases the reverse repo rate, but here the downfall trend of reverse repo rate can be seen. Therefore, it depicts that by this decision the RBI have focused on economic growth and aimed at increasing over or liquidity available in the economy at part of the conditions created by COVID-19 disruptions. It was seen to keep constant at 3.35% in the financial years 2021-22 and 2022-23.

Bank rate:

			BANK RATE				
YEARS	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Q1	6.75	6.25	6.5	4.65	4.25	4.25	4.25
Q2	6.5	6.5	6	4.25	4.25	4.25	5.15
Q3	6.25	6.75	5.4	4.25	4.25	4.25	6.5
Q4	6.25	6.5	5.4	4.25	4.25	4.25	-
AVERAGE	6.43	6.5	5.28	4.35	4.25	4.25	5.3

Source: RBI Weekly Supplement

Table 3: Bank Rate

Bank rate is rate at which Central Bank charges for lending funds to commercial Bank. Change in bank rate triggers ripple effect as it impacts every sphere of the country's economy. Managing bank rate is a method by which Central banks affect economic activity. Lower bank rate helps to expand the economy by lowering the cost of funds for the borrowers. This ultimately help to speed up the spending and investments. Similarly, when the bank rate increase, it increases the borrowing cost of the banks which in turn reduces the supply of money in the market.

Bank rate can be observed to be declining since 2016-17. It is seen to be changed by 25 basis points until the last quarter of 2018-19. The bank rate is also seen to be kept constant at 4.5% in the financial year 2019-20 and 2020-21. This decision is taken by the RBI so as to continue with the accommodative stunts to revive the economic sustain growth and continue to mitigate the impact of COVID-19.

When bank rate decreases there is increase in the borrowings. This means people have more money to spend on the economy subsequently causing inflation to rise. This ultimately depicts that the change in bank rate and inflationary rate are inversely proportional to each other. Therefore, the constant bank rate is justifiable as its primary focus is reviving economy along with tackling inflation. The main purpose of decreasing the bank rate was to boost the economic growth while coping up with the

ISSN PRINT 2319 1775 Online 2320 7876

Research paper **© 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022**

effects of pandemic. Bank rate was kept constant until the first quarter of 2022-23. In the second quarter it was increased to 5.15%. Reserve bank of India have done this in order to reduce continuing challenge of inflation.

Statutory Liquid Ratio:

	STATUTORY LIQUIDITY RATIO					
YEARS	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Q1	20.5	19.5	19.25	18.25	18	18	18
Q2	20	19.5	18.75	18	18	18	18
Q3	19.5	19.5	18.5	18	18	18	18
Q4	19.5	19.25	18.25	18	18	18	-
AVERAGE	19.85	19.45	18.65	18.05	18	18	18

Source: RBI Weekly Supplement

Table 4: Statutory Liquidity Ratio

Statutory Liquidity Ratio (SLR) is rate at which banks are required to hold percentage of Net Demand and Time Liabilities (NDTL) in the form of approved securities. It is used as a tool for the monetary control. This reserve becomes supplementary to CRR. SLR ensures that banks have sufficient funds available to pay back to its customers who may have the immediate requirement to withdraw funds from their accounts or encash their deposits.

The increase in the SLR restricts the bank's lending capacity and helps in controlling the inflation, by soaking the liquidity from the market. Consequently, banks will have less money available to lend and they will charge higher interest rates on loans to keep up with their profit margin.

It is being observed that the SLR is reduced by 50 to 25 basis points consecutively from the second quarter of 2016-17 to the first quarter of 2019-20. The SLR in the second quarter of 2019-20 was seen to be at 18%, which remained constant until the last quarter of 2020-21. It can be stated that decrease in SLR during the phrase of COVID-19 pandemic was done so that entrepreneurs can up the loan at lower interest rates and invest it into the business for expansion and tackling the rise of inflation in the pandemic. In the core phase of COVID- 19 disruptions banks were allowed to access overnight funds under the MSF against their excess SLR holdings.

Since the SLR is showing decreasing trend, it indicates that the more money is pumped into the economy i.e., RBI was trying to increase the liquidity with the commercial banks resulting in increasing investment. This causes less upward pressure on inflation. Although, the rise in inflation was seen in the year 2020-21. This can be possibly because the money injected in the economy was used as industrial loans in order to revive the economy from the after math of disruptive pandemic. In the financial years 2021-22 and 2022-23, SLR is kept fixed at 18% throughout.

Cash Reserve Ratio:

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

		CASH RESERVE RATIO					
YEARS	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Q1	4	4	4	4	3	4	4
Q2	4	4	4	3	4	4	4.5
Q3	4	4	4	3	4	4	4.5
Q4	4	4	4	3	4	4	-
AVERAGE	4	4	4	3.25	3.75	4	4.34

Source: RBI Weekly Supplement

Table 5: Cash Reserve Ratio

The Cash Reserve Ratio (CRR) is a direct tool to control the money supply in the economy. Since the part of bank's deposit is with the RBI, it ensures the security of the amount in case of any emergencies. The cash is readily available when customer want their deposits back. If there is a threat of inflation in the economy, RBI increases the CRR, so that banks need to keep more money in reserves, effectively reducing the amount of money that is available with the banks. This curves excess flow of money in the economy.

The CRR is observed to be constant until the first quarter of the financial year 2019-20. The financial year 2020-21 have faced off with the covid-19 disruptions, to help tied over the disruptions caused by it, and the CRR of all banks was reduced by 100 basis points to 3% of Net Demand and Time Liabilities (NDTL). The RBI restored CRR in faced manner to 4% in light of improved liquidity and monetary conditions. The normalization of CRR was done as it opens up space for variety of market operations of the RBI to inject additional liquidity into the economy. During inflation, CRR is raised. A rise in CRR reduces the reserves of high-powered money with commercial banks. This reduces the credit creation capacity. Aggregate demand falls accordingly, as required to correct inflationary gap in the economy. The inflation rate in the year 2019-20 was sent to be at 3.72% i.e., comparatively lower than the previous financial year.

When there is a needed to pump funds into the market, the RBI lowers the CRR which in turn helps the bank provide loans to a large number of businesses and industries for investment purposes. Lower CRR also boost the growth rate of the economy. Therefore, the reduction in the CRR in the considered span is justifiable with respect to the inflation rate. The overall effect will lead to increase in the GDP of the country.

In the financial year 2021- 22, the CRR was kept constant at 4% throughout. In the second quarter of 2022-23, the RBI have increased the rates by point 5 percent. This has taken it above the pre pandemic level. This was done in order to suck out some excess liquidity from the markets.

ISSN PRINT 2319 1775 Online 2320 7876

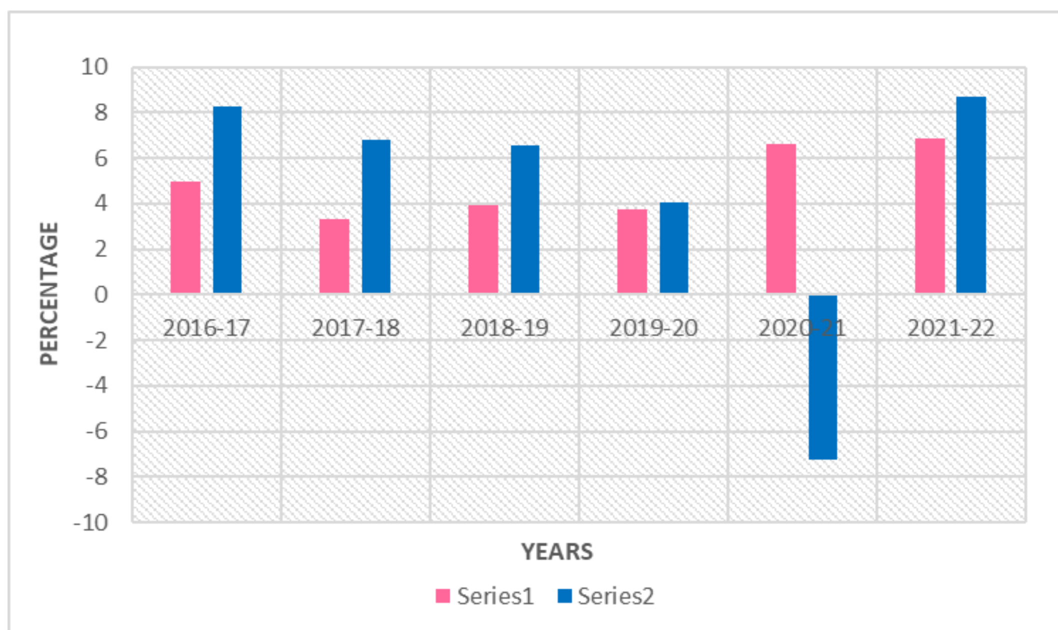
Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

Inflation rate and GDP growth rate:

YEARS	INFLATION RATE	GDP GROWTH RATE
2016-17	4.95	8.26
2017-18	3.33	6.8
2018-19	3.95	6.53
2019-20	3.72	4.04
2020-21	6.62	-7.23
2021-22	6.89	8.7

Source: RBI Weekly Supplement

Table 6: Inflation Rate and GDP Growth Rate



Source: RBI Weekly Supplement

Graph 1: Comparative graph od Inflation rate and GDP Growth Rate

Inflation rate was decline from 4.95% to 3.33% in the year 2017-18. Then it was changed by slight increase at 3.95% in 2018-19, and then it was drop to 3.72% in 2019-20. The inflation rate raised highly and went up to 6.62% in the financial year 2020-21, which depicts the result of wake of COVID-19 pandemic.

Inflation is the supply of access money and credit relative to the goods and services produced resulting in increased price. During the pandemic consumption patterns were affected by social distancing and lockdown mandates, these sudden changes introduced biases in inflation measures. Most of the differences between the official inflation measures and the COVID-19 inflation measures were found in spending on the food and fuel. The COVID- 19 inflation estimate was higher than the official Consumer

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

Price Index (CPI), as the pandemic the difference between two inflation rates also grew. This rising inflation could also be due to the RBI policies that primarily had to focus upon the reviving of the economy in the period of COVID-19 disruptions. And hence tackling the inflation in this period was not an easy task for the Reserve Bank of India.

GDP growth rate heads on poor growth of 4% in the year 2019-20 mainly due to contraction in secondary sectors like manufacturing and construction. This was the possible reason for increase in the inflation rates of the economy. It has been observed, that the GDP growth rate had a downward trend in the specified years, and it went up to negative (-)7.23% in the year 2020-21. The GDP Growth rate was affected massively due to the Corona crisis. This negative territory of GDP growth rate was estimated due to the outbreak of corona virus disruption caused in economic activities. As stated by the RBI governor, the negative GDP growth rate was due to combined impact of demand compression and supply compression in the first half of the financial year 2020-21. Thus, it shows that the economic crunch raised due the pandemic had direct negative impact on GDP which also resulted into the rise in inflation rate. Although, the key policy monetary rates were changed according to the demand of the economy for its revival from the disruptive economic activities caused due to pandemic. There was slight rise in inflation in financial year 2021-22.

GVA Analysis:

SR.NO	PARTICULARS	2016-17	2017-18	2018-19	2019-20	2020-21
1	GVA OF AGRICULTURE & FORESTRY	4,60,426	4,96,510	4,94,437	5,28,119	5,44,503
2	GVA OF MANUFACTURING SECTOR	5,46,193	6,06,490	6,16,444	5,90,586	6,31,503
3	GVA OF CONSTRUCTION SECTOR	2,26,632	2,58,266	2,75,364	2,77,236	3,17,514
4	GVA OF UTILITIES SECTOR	60,763	67,559	71,049	72,898	79,561
5	GVA OF SERVICE SECTOR	15,02,263	15,91,480	17,14,881	18,24,147	18,51,580
6	TOTAL GVA AT BASIC SERVICES	29,10,951	31,16,598	32,69,953	33,89,855	35,15,983

Table 7: Gross Value Added (figures in crore rupees)

Gross Value Added (GVA) pictures the state of economy and its activities from producer's or supply side. It largely measures the value of goods and services produced

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

by different sectors of the economy. It has observed that maximum contribution to the GVA comes from the service sector in Indian economy. Also, it is observed that there is rise in the GVA every year. Although, in financial year 2019-20 there was decline in the contribution of manufacturing sector.

Major Observations:

Data used for the proving of the hypothesis is quarter wise monetary policy rates i.e., CRR, SLR, Repo rate, Reverse repo rate, and bank rates from the year 2016-17 to 2020-21, along with the inflation rate and GDP growth rate for all the 5 years. It also includes comparative graphs and linear graph of total Gross Value Added in crore rupees.

From the data analysis and interpretation, it is understood that in the financial years 2016- 17 to 2019-20 through the changes in key monetary policy rates, the Reserve Bank of India (RBI) was successful in controlling inflation rate as, the data depicts the decline in inflation rates in the consecutive years. Although, the year 2020-21 have seen the rise in Inflation rate as it was the year in which COVID-19 outbreak had taken place, which had affected overall economic activities due to the lockdown followed. And thus, the RBI had to shift its primary focus to recover the conditions in the economy caused by interruptions created by waves of pandemic and the following lockdown.

Thus, it can be stated that RBI polices were successful in controlling inflation rates and it gained partial achievement in the year 2020-21 as per the reasons stated above and from the findings of the research.

The unchanged CRR at 4% was increased to 4.5% in the second quarter of 2022-23; it was done by RBI to suck out excess liquidity in market. Rise in Bank Rate was also seen in second quarter of 2022-23 after second quarter of 2019-20. Similarly, rise in the Repo Rate was taken place in the second quarter of 2022-23. On the other hand, SLR and Reverse Repo Rate have no change in the same time period. All of these measures are taken by RBI after reviving economical condition and forecasting future requirements of the economy

3. CONCLUSION

It can be stated that for Indian economy to run smoothly under any type of circumstances that can occur, the central bank of India i.e., the Reserve Bank of India has a very vital and major role to play. It aims at securing monetary policy and to meet economic challenges by modernizing the monetary policy framework. It is also understood that the decisions pertaining to the functioning of developing economy like India, the RBI have proved to be always successful in achieving its aims and targets. Furthermore, it is understood that monetary policy in India have emerged with respect to the requirements of the economy, and changes in the monetary policies are done by the RBI in accordance with the need of stability and for steps in achieving further economic growth.

4. REFERENCES

1. Bulletin, R. (2021). Restoration of CRR in two phases beginning March 2021. Mumbai:

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022

RBI.

2. BUlletin, R. (2021). State of the Economy. Mumbai: RBI.
3. Chikermane, G. (2018). 70 Policies that shaped India -1947-2017, independence to USD 2.5 trillion. New Delhi: Observer Research Foundation.
4. Dayal, Y. (2021, January 11). Reserve Bank of India. Retrieved from Press Releases - Financial Stability Report, January 2021: https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50949
5. Desk, E. W. (2021, December 8). RBI Monetary Policy: Repo rate unchanged at 4% for the 9th consecutive time. New Delhi, New Delhi, India.
6. DHOOT, V. (2021, June 01). GDP shrinks by 7.3%; Q4 uptick moderates 2020-21 carnage. New Delhi, New Delhi, India.
7. Gabriel Chodorow-Reich, G. G. (2019). Cash and the Economy: Evidence from India's Demonetization. National Bureau of Economic Research, 1-61.
8. Harendra Kumar Behera, S. P. (2016). Natural Interest Rate:Assessing the Stance of India's Monetary Policy under Uncertainty. Mumbai: RBI.
9. Hindu, T. (2021, December 6). RBI cuts policy rate and FY20 growth forecast. Mumbai, Maharashtra, India.
10. India, R. B. (2017). Macroeconomic Impact of DemonetisationA Preliminary Assessment. Mumbai: Reserve Bank of India.
11. Kaur, M. (2015, July 6). IMPACT OF DEREGULATION OF INTEREST RATE POLICY ON GROWTH AND INFLATION IN INDIA. Retrieved from Shodhganga: https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/150894
12. Kumara, S. (2017, July 29). ANALYSIS OF FISCAL AND MONETARY POLICY MIX IN INDIAN ECONOMY. Retrieved from Shodhganga: https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/192571
13. Mishra, A. R. (2019, October 15). Asit Ranjan Mishra. New Delhi, New Delhi, India.
14. Nagarajan, I. M. (2019). Monetary Policy of India in the Post Reforms Period 1991 2011 an Event Analysis of LAF and Repos on Growth and Inflation. Retrieved from Shodhganga: https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/332200
15. Nayak, G. (2021, December 15). RBI may be forced to raise rates faster than anticipated. Mumbai, Maharashtra, India.
16. Online, E. (2022, February 14). Retail inflation rises to 6.01 per cent in January, breaches RBI's comfort mark. Mumbai, Maharashtra, India.
17. RBI. (2020, December 29). Trend and Progress of Banking in India -Policy Environment. Mumbai, Maharashtra, India.
18. Sen, T. (n.d.). RBIs Control of Inflation - Time to look beyond Monetary Measures? Jodhpur, Rajasthan, India. Retrieved from https://www.legalserviceindia.com/article/l177-RBIs-Control-of-Inflation.html
19. Shabbar, S. C. (2017). Influence of the risk factors in monetary policy of industrial growth in India. Retrieved from Shodhganga: https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/195434
20. Sharma, U. (2015). An evaluative study of credit policy of RBI in ensuring liquidity in the economy during 2004 05 to 2009 10. Retrieved from Shodhganga: https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/333066
21. Suri, D. K. (2016). Financial Markets and Transmission Mechanism_ A Case Study of Monetary Policy of RBI. Retrieved from Shodhganga: https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/291681
22. TNN. (2021, June 17). Second Covid wave may leave Rs 2 lakh crore dent on economic

ISSN PRINT 2319 1775 Online 2320 7876

Research paper **© 2012 IJFANS. All Rights Reserved,** **UGC CARE Listed (Group -I) Journal Volume 11, S Iss 3, Dec 2022**

.. Mumbai, Maharashtra, India.