Monetary Policy Goals for Economic Stability in India

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Abstract

This paper focused on the goals of monetary policy on how to take action to reduce the inflation rate and achieve economic stability in India. The monetary policy the arm of public policy the usual goals of monetary policy are to achieve full employment, to achieve high rate of economic growth, and to stabilize prices and wages, to maintain equilibrium the balance of payment, influencing the cost and availability of credit and increasing the repo rate by central bank and Government of India. Every country needs to achieve price stability in economic development. The inflation rate below close to 2% is low enough to allow the economy to benefit fully from price stability and avoid deflation risk and, beyond the level of inflation above 3 to 10% in any economy of the country, it's harmful to the economy. Present India's consumer price inflation rate was (CPI) 3.9% and the whole sale inflation rate of (WPI) 1.8% in the Financial Year of 2019. According to Econometric models estimated in 2020, India's inflation rate is projected around 4.5%.

In this study, we study whether inflation is an effective tool for controlling inflation and achieving economic stability in India?

Keywords: Monetary Policy, Inflation Rate, Economic Stability, Economic Growth, Repo Rate, Central Bank and Deflation Risk.

Introduction

Monetary policy in India is an adjunct to economic policy. As such, the objective of monetary policy is not different from the objectives of economic policy. The three major objectives of economic policy in India has been growth, social justice, and price stability. The Government of India tries to manipulate its monetary policy through the Reserve Bank of India, which the monetary authority in the country. The monetary policy of the Reserve Bank has been characterized as one of controlled monetary expansion. Its money to meet the requirements of different sectors of the economy to accelerate the pace of economic growth.

Meaning of Monetary Policy

Monetary Policy refers to "the credit control measures adopted by the central bank of a country".

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."

G.K. Show defines it is "any conscious action undertaken by the monetary authorities to change the quantity, availability or cost of money."

The History of Monetary Policy

Monetary Policy is as old as the monetary system or as money itself. It has a long and chequered history since days of mercantilism. Evidence proves the existence of management in Greece.

But before 1914, the whole thinking about monetary policy was based upon the idea of an automatic gold exchange system. After World War I, the Gold exchange standard collapsed, and it is then the modern genesis of monetary policy took pace of economic growth.

The origin of monetary management in India can be traced back to time immemorial. The reference about the *Panis, the Moneylenders of Southern India, in Rig* Veda is an evidence of the developed state of Banking or credit system in the Vedic Age, although the date of the coins and credit instruments is lost amid antiquity. In the Mauryan era, the system of currency, credit, and coinage was fully developed. Kautilya devotes a chapter classical the Arthashastra on rules for mining and credit.

History of money management and policy based on central banking practices in India can be traced to as far back as January 1773, when Lord Hastings, the then Governor, and later on, the first Governor-general of British of India, placed before the Board of Revenue his plan for General Bank in Bengal and Bihar. The Royal Commission on Indian Financial and are currency, also known as the Chamberlain Commission, was set in 1913 with J M Keynes as one of the members who prepared a blueprint for the establishment of an Imperial Bank of India.

The Bank came into existence in January 1921 by amalgamating the three presidency banks as a commercial bank with some of the functions of the central banks also. In August 1925, the Royal Commission on Indian Currency and Finance was appointed to represent the Hilton Young Commission.

The Commission observed that India was the only big trading country in which the currency and note issue were under direct government. It suggested a number of measures to reform the monetary system. The Reserve Bank of India was established by the Reserve Bank of India Act of 1934, with the recommendations of the Young Commission and the Central Bank Inquiry Committee (1931).

Objective of the Study
- To study the Role of Monetary Policy Goals for Economic stability in India.
- To know the study of Is Monetary Policy's really helpful instrument of controlling Inflation and achieve economic stability in India?
- To know the study of the Current situation of Inflation Rate in India.

Data Source & Methodology
This study is merely based on Secondary data, which are collected from RBI Bulletin, RBI occasional papers, RBI Annual Report, Economic Survey, Google scholars, website, www.statista.com, etc.

Scope of the Study
Thus the study examines the role of monetary policy goal for Economic stability in India. To find out the monetary policy is a helpful instrument to controlling price fluctuation and achieve Economic growth and stability in India.

Objectives or Goals of Monetary Policy
The main objectives of monetary policy are:

Full Employment: Full employment is standardized in the main objectives of monetary policy. This is an essential goal, not only because unemployment leads to waste of production, but also because of loss of social standing and self-esteem.

Price Stability: One of the policy objectives of monetary policy is to ensure price levels. Both economists and downtrodden support this policy, as price fluctuations bring uncertainty and uncertainty to the economy.

Economic Growth: One of the most important objectives of monetary policy in recent years has been the rapid economic growth of an economy. Economic growth is defined is "the process whereby the real per capita income of a country increases over a long period".

Balance of Payment: Another goal of monetary policy since the 1950s is to maintain a balance in payments.

Targets and Instruments of Monetary Policy
The tools of monetary policy are of two types
A. Quantitative Credit Control Methods (General or Indirect method) and
B. Qualitative Credit Control Methods (Selective or Direct)

They affect the level of aggregate demand through the supply of money, the cost of money, and availability of credit.

A. Quantitative Credit Control Methods

In India, the legal framework on the credit structure of the Reserve Bank is provided under the Reserve Bank Act 1934 and the Bank Regulation Act 1949. Quantitative credit Control is used to maintain a proper quantity of Credit or money supply in the market. Some Important Credit Control Systems

The first category includes bank rate variation, open market operations and balance requirements.

- Bank Rate Policy
- Open Market Operations
- Cash Reserve Ratio
- Statutory Liquidity Ration
- Cash Reserve Ratio
- Repo Rate
- Reserve Ratio Rate

B. Qualitative Credit Control Methods

Under selective Credit Control is provided to a selected borrowers for selected purposes.

- Ceiling on Credit
- Margin Requirements
- Discriminatory Interest Rate (DIR)
- Directives
- Direct Action

Review of Monetary Policy since 2011

Table 1: Movements in Bank Rate during 2011- 2020

Year	Effective Since	Bank Rate (in %)
2011-2012	2011 July	6.00
	2011 Aug	6.00
	2011 Sep	6.00
2012-2013	2012 Jun	9.00
	2012 July	9.00
2013-2014	2013 Jun	8.25
	2013 July	10.25
	2014 Sep	9.00
2014-2015	2014 Oct	9.00
	2015 Sep	8.25
	2015 Oct	7.75
2015-2016	2016 Sep	7.00
	2016 Oct	6.25
2016-2017	2017 Sep	6.25
	2017 Oct	6.25
2017-2018	2018 Sep	6.75
	2018 Oct	6.75
2018-2019	2019 Sep	5.40
	2019 Nov	5.40

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 2: Movements in Cash Reserve Ratio (CRR) during 2011- 2020

Year	Effective Since	CRR (in %)
2011-2012	2011 July	6.00
	2011 Aug	6.00
	2011 Sep	6.00
2012-2013	2012 Jun	4.75
	2012 July	4.75
2013-2014	2013 Jun	4.00
	2013 July	4.00
	2014 Sep	4.00
2014-2015	2014 Oct	4.00
	2015 Sep	4.00
	2015 Oct	4.00
2015-2016	2016 Sep	4.00
	2016 Oct	4.00
2016-2017	2017 Sep	4.00
	2017 Oct	4.00
2017-2018	2018 Sep	4.00
	2018 Oct	4.00
2018-2019	2019 Sep	4.00
	2019 Nov	4.00

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 3: Movements in Reserve Repo Rate (RRR) during 2011- 2020

Year	Effective Since	RRR (in %)
2011-2012	2011 July	**7.5**
	2011 Aug	**7.5**
	2011 Sep	**7.5**
2012-2013	2012 Jun	7.00
	2012 July	7.00
2013-2014	2013 Jun	6.25
	2013 July	6.25
	2014 Sep	7.00

2014-2015	2014 Oct	7.00
	2015 Sep	6.25
	2015 Oct	5.75
2015-2016	2016 Sep	6.25
	2016 Oct	5.75
2016-2017	2017 Sep	5.75
	2017 Oct	5.75
2017-2018	2018 Sep	6.25
	2018 Oct	6.25
2018-2019	2019 Sep	4.90
	2019 Nov	4.90

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 4: Movements in Statutory Liquidity Rate (SLR) during 2011- 2020

Year	Effective Since	SLR (in %)
2011-2012	2011 July	24.00
	2011 Aug	24.00
	2011 Sep	24.00
2012-2013	2012 Jun	24.00
	2012 July	23.00
2013-2014	2013 Jun	23.00
	2013 July	22.00
	2014 Sep	22.00
2014-2015	2014 Oct	21.50
	2015 Sep	21.50
	2015 Oct	21.00
2015-2016	2016 Sep	20.75
	2016 Oct	20.00
2016-2017	2017 Sep	19.50
	2017 Oct	19.50
2017-2018	2018 Sep	19.50
	2018 Oct	19.50
2018-2019	2019 Sep	18.50
	2019 Nov	18.50

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 5: Movements in Repo Rate (RR) during 2011- 2020

Year	Effective Since	SLR (in %)
2011-2012	2011 July	8.00
	2011 Aug	8.00
	2011 Sep	8.00

2012-2013	2012 Jun	8.00
	2012 July	8.00
2013-2014	2013 Jun	7.25
	2013 July	7.25
	2014 Sep	8.00
2014-2015	2014 Oct	8.00
	2015 Sep	7.25
	2015 Oct	6.75
2015-2016	2016 Sep	6.50
	2016 Oct	6.25
2016-2017	2017 Sep	6.00
	2017 Oct	6.00
2017-2018	2018 Sep	6.50
	2018 Oct	6.50
2018-2019	2019 Sep	5.15
	2019 Nov	5.15

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 6: Annual Rate of Inflation of Consumer Price Index (CPI) during 2011- 2020

Year	Effective Since	CPI (in %)
2011-2012	2011	8.3
	2012 Jun	9.9
	2012 July	9.9
2012-2013	2013 June	9.9
	2013 July	9.6
2013-2014	2013 Sep	9.8
	2013 Oct	10.2
	2014 Sep	6.5
2014-2015	2014 Oct	5.5
	2015 Sep	4.4
	2015 Oct	5.0
2015-2016	2016 Sep	4.4
	2016 Oct	4.2
2016-2017	2017 Sep	3.3
	2017 Oct	3.6
2017-2018	2018 Oct	3.4
	2018 Nov	2.3
2018-2019	2019 Oct	4.6
2019	2019 Nov	5.5

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 7: Annual Rate of Inflation of Wholesale Price Index (WPI) during 2011- 2020

Year	Effective Since	WPI (in %)
2011-2012	2011	9.0
	2012 Jun	7.5
	2012 July	7.5
2012-2013	2013 June	4.9
	2013 July	5.8
2013-2014	2013 Sep	7.1
	2013 Oct	7.2
	2014 Sep	2.4
2014-2015	2014 Oct	1.8
	2015 Sep	5.1
	2015 Oct	6.3
2015-2016	2016 Sep	3.6
	2016 Oct	3.4
2016-2017	2017 Sep	2.6
	2017 Oct	3.6
2017-2018	2018 Oct	5.5
	2018 Nov	4.5
2018-2019	2019 Oct	0.2
2019	2019 Nov	0.6

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011 -19)

Table 8: Annual Rate of Inflation of Consumer Price Index (CPI) from 2011 to 2020

Year	For Industrial Workers Base: 2011-2020	For Rural Employees Base: 2011 to 2020	For Agricultural Workers Base: 2011-2020
Base Year	CPI	CPI	CPI
2011 May	592	592	592
2011 June	598	597	598
2011 July	604	604	604
2011 Aug	610	610	610
2011 Sep	615	614	615
2011 Oct	619	620	619
2012 May	638	640	638
2012 Jun	646	648	646
2012 Jul	656	658	656
2012 Aug	666	667	666
2012 Sep	673	681	680
2012 Oct	680	686	685

2013 Sep	238	759	759
2013 Oct	241	766	766
2014 Aug	253	810	808
2014 Sep	253	813	811
2015 Aug	264	836	832
2015 Sep	266	843	839
2016 Sep	277	877	873
2016 Oct	278	881	876
2017 Sep	284	985	893
2017 Oct	287	907	901
2018 Sep	300	917	910
2018 Oct	301	920	913
2019 Aug	320	972	965
2019 Sep	322	983	976

(**Source:** Labour Bureau, Govt. of India, Ministry of Labour and Employment & RBI Annual Report 2011-19)

Table 9: Movements in Key Policy Rates (in %), WPI and CPI in India during 2011- 2020

Year	Effective Since	CPI	WPI	Reserve Repo Rate	Repo Rate	CRR
2011-2012	2011 July	8.3	9.0	7.5	8.00	6.00
	2011 Aug	9.9	7.5	7.5	8.00	6.00
	2011 Sep	9.9	7.5	7.5	8.00	6.00
2012-2013	2012 Jun	9.9	4.9	7.0	8.00	4.75
	2012 July	9.6	5.8	7.0	8.00	4.75
2013-2014	2013 Jun	9.8	7.1	6.25	7.25	4.00
	2013 July	10.2	7.2	6.25	7.25	4.00
	2014 Sep	6.5	2.4	7.0	8.00	4.00
2014-2015	2014 Oct	5.5	1.8	7.0	8.00	4.00
	2015 Sep	4.4	5.1	6.25	7.25	4.00
	2015 Oct	5.0	6.3	5.75	6.75	4.00
2015-2016	2016 Sep	4.4	3.6	6.25	6.50	4.00
	2016 Oct	4.2	3.4	5.75	6.25	4.00
2016-2017	2017 Sep	3.3	2.6	5.75	6.00	4.00
	2017 Oct	3.6	3.6	5.75	6.00	4.00
2017-2018	2018 Sep	3.4	5.5	6.25	6.50	4.00
	2018 Oct	2.3	4.5	6.25	6.50	4.00
2018-2019	2019 Sep	4.6	0.2	4.90	5.15	4.00
	2019 Nov	5.5	0.6	4.90	5.15	4.00

(**Source:** National Statistical Office, Ministry of Statistics and Programme Implementation, Government of India & RBI Annual Report 2011 to 2020)
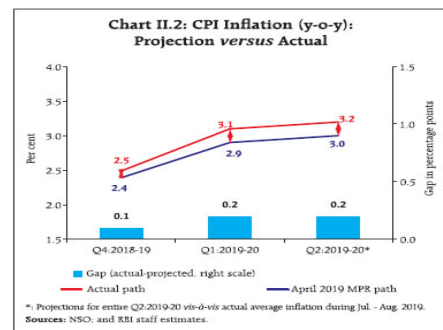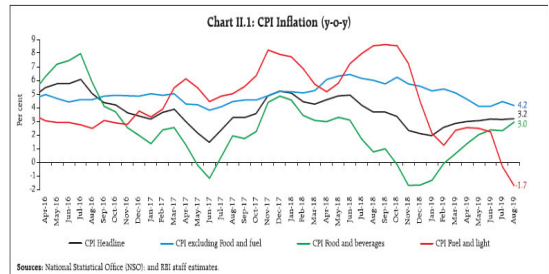
The movements in key policy rates in percentage value, WPI and CPI in India are shown in the table. It reveals the rate of changes in monetary activity and the corresponding response in WPI and CPI in India from 2011 to 2019. There are frequent changes in CRR, Repo rate, and Reserve Repo rates along with that of changes in the price level.
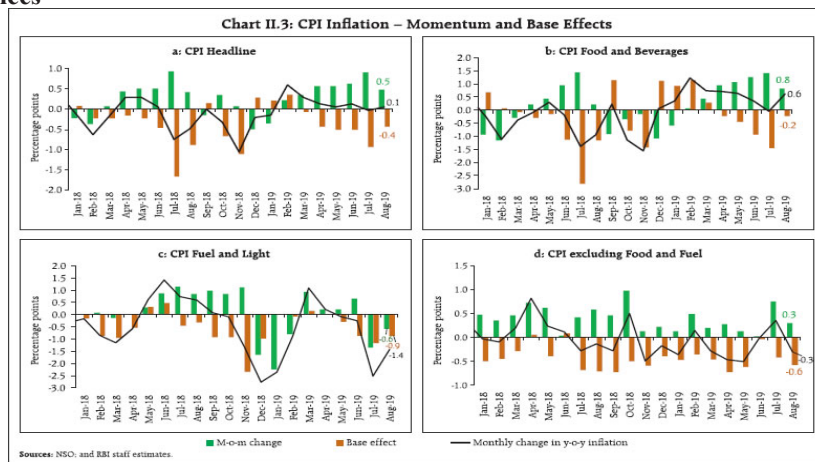
Price Fluctuation

On the whole, these divergent movements caused CPI headline Inflation outcomes to manage overshoot inflation projections.

Consumer price Inflation registered from March to August 2019. Underpinned by a pickup in food inflation, particularly in Vegetables and protein-based items. Inflation excluding food and fuel has softened since March growth in organized sectors staff cots showed divergent movement. They were rising for the manufacturing sectors and remaining range-bound for the service sectors. Over the last six months, March to August 2019, CPI Inflation trailed below the target of 4.0% Averaging 3.1% over this period. The Monetary Policy Report (MPR) of April 2019 had projected CPI inflation at 2.9A%.

While food Prices moved out of deflation as anticipated, the summer rise in prices of vegetables this year. The Indian basket of crude oil prices eased unexpectedly from averaging of US $67 % barrel from 2019 to 2020.

Chart II.1: CPI Inflation (y-o-y)

Sources: National Statistical Office (NSO) and RBI staff estimates.

Chart II.2: CPI Inflation (y-o-y): Projection *versus* Actual

*: Projections for entire Q2:2019-20 *vis-à-vis* actual average inflation during Jul. - Aug. 2019.
Sources: NSO and RBI staff estimates.

Consumer Prices

Chart II.3: CPI Inflation – Momentum and Base Effects

a: CPI Headline

b: CPI Food and Beverages

c: CPI Fuel and Light

d: CPI excluding Food and Fuel

Sources: NSO and RBI staff estimates.

The distribution of inflation across CPI shows a considerable drop in the median inflation rate from 4.8% in 2018 to 201% in 2019; moreover, the negative skew in inflation in 2017 and 2018 resulting from food prices was absent in 2019.

Difficulties indices of month-on-month Price changes in CPI items on a seasonally adjusted basis

moderation during June to August 2019 across both goods and services categories.

Conclusion

The study was an attempt to analyze the role of the Monetary Policy goal for Economic stability in India. To find out their effectiveness in the Indian

context, especially to achieve Economic stability and managing price stability through control Instrument of Monetary Policy. The use and Importance of Monetary weapons like Bank Rate, CRR, SLR, Repo Rate & Reserve Rate have increased over the year. Repo and Reverse Repo rate the most frequently used monetary techniques in recent years. The rates are varied mainly for control inflation and absorb the excess liquidity and hence to maintain price stability in the economy.

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