

MONITORY POLICY AND ITS EFFECT ON ECONOMIC SUSTAINABILITY OF INDIA.

Prof. Sushil G. Bhale

Research Scholar

Deogiri Institute of Engineering and Management Studies, Aurangabad

Abstract : economic sustainability is very much influenced by monetary and fiscal policy. Strategic role is played by monetary policy for economic growth of nation. Efficient use of measures of monetary policy results in economic sustainability of developing nation like India. In this paper focus is on efficient use of measures of monetary policy.

OBJECTIVE

- To study effect of Monetary policy on economy of nation
- To understand effects of monetary policy on economic sustainability

RESEARCH METHODOLOGY

This research is mainly based on secondary data which is collected from various sources like financial journals, newspapers, books, websites, annual reports etc. comparative analysis and analysis of effect has been done in this research.

INTRODUCTION

Monetary policy is directly concerned with supply of money in country and is framed by central bank of nation. In India it is Reserve Bank of India. While fiscal policy is nothing but budget of country which is concerned with sources and application of funds within nation. As both are interconnected strategies decided in fiscal policy will affect on monetary policy. And concerned changes in monetary policy will take place. To affect coordination between fiscal and monetary policy it is necessary to reach yearly agreement on the extent of sustainability of economy. Main foundation for tax structure should be mobilization of economic surplus and channelization of surplus in to investment.

MONITORY POLICY IN INDIA: To facilitate economic growth with reasonable price levels in country is primary work of monetary policy. In practice very few countries are able to manage moderate inflation For achieving stability, it is generally considered necessary to keep the growth of money supply in step with the demand for it, which is assumed to be uniquely related to national income. Stabilization programs are initiated under IMF which played important role for stability

In 1953, an IMF mission to India had recommended such a practice which has later found support also from the Chakrabarty Committee set up to review the working of monetary policy in India. It can be easily state that the velocity of circulation of money or the income elasticity of demand for money is not constant over relatively short periods of time. But there is some relationship which can be calculated as being reasonably stable over a period and it can be assumed as what is likely to prevail in the near future.

No one recommends a strict monetary target. in practical politics Most such targets are set as a range, and there is always the caution that monetary targets must be kept under review. The Chakrabarty Committee thus speaks of monetary targets with a feedback.

It is difficult to prescribe a precise boundary for money when there are so many near substitutes for money. It is also true that money which is easy to control such as reserve money may not be in the most stable relationship with national money income. But the point is that as long as monetary targeting is used only as a significant indicator and not as a rigid framework, there is nothing wrong in watching trends in money supply as variously defined and interpreting the trends in the light of all the facts currently available.

Undoubtedly, it is useful to remind ourselves that the starting point should be the final goals of price stability and B.O.P stability and not some intermediate and approximate indicators such as money supply which may be relevant as a part of the analysis as well as of the cure but are never the full story. There is another valid criticism of monetary targeting which is of an analytical character, viz; that for an indication of inflationary

pressures and their cure, it is better to think in terms of the familiar Keynesian categories of budget deficits, current account deficits, and the difference between private savings and investments. In other words, the significant question is not the allocation of the permissible increase in money supply between the public and the private sector but the allocation of available savings, or who crowds out whose investment and how. Merely talking of money creation or money supply obscures this fact.

The easing of liquidity conditions got reflected in the under-utilisation of limits by the banks under the overnight LAF repo and export credit refinance, a steady decline in access to the MSF and the parking of excess liquidity with the Reserve Bank through reverse repos. Though the liquidity situation tightened temporarily from the third week of December 2013, reflecting advance tax outflows from the banking system and some restraint on government spending, it reverted to normal level in the first week of January 2014. However, the liquidity situation tightened again thereafter, primarily on account of build-up of government's cash balances and a rise in currency in circulation.

CHANGES IN MONITORY POLICY OPERATING FRAMEWORK

Monetary policy through a single short-term interest rate as a policy rate that it controls through open market operations (OMOs). RBI used LAF as a principal instrument for object of single signaling policy rate. RBI wants to keep liquidity in a small deficit. from 2013-14chnages have been made in the operating procedures from time to time in conjunction with other measures.

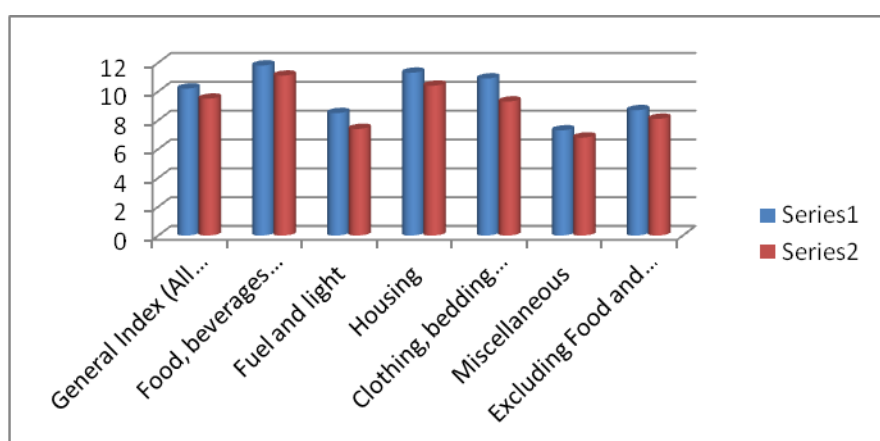
Major Monetary Measures by the Reserve Bank of India

- July 2013 The MSF rate (and the Bank Rate) was re-calibrated to 300 bps above the repo rate to 10.25 per cent. The overall allocation of funds under the LAF limited to 1.0 per cent of the NDTL of the banking system with effect from July 17, 2013. The allocation to individual banks to be made in proportion to their bids, subject to the overall ceiling.
- September 2013 The MSF rate was reduced by 75 bps from 10.25 per cent to 9.5 per cent. The minimum daily maintenance of the CRR was reduced from 99 per cent of the requirement to 95 per cent effective from the fortnight beginning September 21, 2013.
- November 2013 To ease the liquidity stress to Micro and Small Enterprises (MSE) sector, refinance of an amount of 50 billion made available to the Small Industries Development Bank of India (SIDBI) under the provisions of Section 17(4H) of the RBI Act, 1934. The refinance is available against receivables, including export receivables, outstanding as on November 14, 2013 onwards. The facility is available at the prevailing 14-day term repo rate for a period of 90 days.
- April 2014 Liquidity provided under 7-day and 14-day term repos was increased from 0.5 per cent of NDTL of the banking system to 0.75 per cent of NDTL, and liquidity provided under overnight repos under the LAF was reduced from 0.5 per cent of bank-wise NDTL to 0.25 per cent.

1) COMPARISION OF INFLATION 2012-13 AND 2013-14

(Per cent)									
Inflation									
Consumer Price Index (2010=100) (All India)	Rural			Urban			Combined		
	Weight	2012-13	2013-14	Weight	2012-13	2013-14	Weight	2012-13	2013-14
General Index (All Groups)	100	10.1	9.6	100	10.4	9.4	100	10.2	9.5
Food, beverages and tobacco	59.3	11.7	11.1	37.2	12.1	11	49.7	11.8	11.1
Fuel and light	10.4	7.9	7.4	8.4	9.7	7.3	9.5	8.5	7.4
Housing	22.5	11.3	10.4	9.8	11.3	10.4

Clothing, bedding and footwear	5.4	10.9	9.5	3.9	10.9	8.9	4.7	10.9	9.3
Miscellaneous	24.9	7.2	6.7	28	7.5	7	26.3	7.3	6.8
Excluding Food and Fuel	33	8	7.3	55.8	9.4	8.6	42.9	8.7	8.1
Other Price Indices	Weight	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1. Wholesale Price Index (2004-05=100)									
All Commodities	100	6.6	4.7	8.1	3.8	9.6	8.9	7.4	6
Primary Articles	20.1	9.6	8.3	11	12.7	17.7	9.8	9.8	9.8
of which : Food Articles	14.3	9.6	7	9.1	15.3	15.6	7.3	9.9	12.8
Fuel and Power	14.9	6.5	0	11.6	-2.1	12.3	14	10.3	10.2
Manufactured Products	65	5.7	4.8	6.2	2.2	5.7	7.3	5.4	3
Non-Food Manufactured Products	55	5.7	5	5.7	0.2	6.1	7.3	4.9	2.9
2. CPI- Industrial Workers (IW)	100	6.7	6.2	9.1	12.4	10.4	8.4	10.4	9.7
of which : CPI- IW Food	46.2	9.2	8.4	12.3	15.2	9.9	6.3	11.9	12.3
3. CPI- Agricultural Labourers	100	7.8	7.5	10.2	13.9	10	8.2	10	11.6
4. CPI- Rural Labourers	100	7.5	7.2	10.2	13.8	10	8.3	10.2	11.5



CONCLUSION

In the year 2013-14 Like most emerging market and developing economies, India faced capital outflows and exchange rate pressures. Short supply of money that is tightening of supply resulted in reducing pricing power of the corporates twin deficit risks were reduced.

- Macroeconomic weaknesses
- persistence in inflation,

- falling growth,
- weaker corporate balance sheet,
- deteriorating asset quality of the banks,
- fiscal imbalances
- external sector vulnerabilities.
- All shows the economy seemed to be mending.

Decline of financial conditions across emerging markets, including India. The rupee exchange rate depreciated. There were net FII disinvestments over this period. Large capital outflows and sliding currency brought to front the underlying macroeconomic weaknesses. Stabilization of the economy by restoring exchange rate stability became the superseding task. Hiking the Marginal Standing Facility (MSF) rate by 200 bps and draw off excess liquidity with a view to defending the rupee exchange rate. Short-term interest rates were raised. Forward-looking blueprint for further financial market reforms laid down by the Reserve Bank helped turn the tide and stabilize financial market conditions. Rupee has appreciated 6.7 per cent till January, 2014 against the US dollar and the reserve loss has been more than fully recouped. Though there were large disinvestments in the debt segment from May 22 to end-November 2013, debt flows have turned positive thereafter with net investments of US\$ 3.8 billion. With the resultant improved stability in the foreign exchange market, the Reserve Bank quickly moved to normalize exceptional liquidity and monetary measures and recalibrate monetary policy, taking into account, the prevailing inflation and growth conditions. The Reserve Bank has maintained a tight monetary policy. It has been evolving its policy action with rapidly changing financial and macroeconomic conditions.

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