Role of Monetary Policy in Combating Inflation

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Abstract: *In every country government takes some actions in Economic field that cover the systems for setting Interest Rates & Government Budget as well as labor market, National ownership & many other areas of government interventions into the Economy. Such policies are often influenced by International Institutions like IMF or World Bank as well as political beliefs & consequent policies of parties. There are many types of Economic policy. A few examples of the kind of economic policies that exist include: Macro Economic Stabilization Policy, Individual Policy, Fiscal Policy and Monetary Policy.*
In this paper we will study whether the monetary policy really a helpful technique in combating Inflation in country like India or not?

I. Introduction

Monetary Policy is the process by which the monetary authority of a country controls the Supply of money, often targeting a rate of interest for the purpose of promoting economic growth & stability. The official goals usually include relatively stable prices & low unemployment. It is referred to as either being expansionary or contractionary, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, & the contractionary policy expands the money supply more slowly than usual or even shrinks it. Expansionary policy is traditionally used to try to combat unemployment in a recession by lowering interest rates in the hope that ease credit will entice businesses into expanding. Contractionary policy is intended to slow inflation in order to avoid the resulting distortions & deterioration of assets values. In short, monetary policy, to a great extent, is the management of expectations. It rests on the relationship between the rate of interest in an economy i.e. the price at which money can be borrowed or & total supply of money. The beginning of monetary policy as such comes from the late 19th century, where it was first used to maintain the gold standard. Within almost all modern nations, special institutions like RBI, exist which have the task of executing the monetary policy & other independently of executive. In general, these institutions are called Central Bank & often have other responsibilities such as supervising the smooth operation of the financial system.

Objectives of the Study
➢   To study the changing role & importance of selected Monetary instruments in India
➢   To examine the effectiveness of Monetary policy in ensuring price stability in India

II.   Data Source & Methodology

This Study is exclusively based on Secondary data which are collected from   RBI Bulletin, RBI Occasional Papers, RBI Annual Report, Report on Currency & Finance, Economic Survey, Economic & Political Weekly, Asia Economic Review, Indian Economic Journal, World Bank Report, Internet etc.

Scope of the Study
The study covers for a period of 20 financial years starting from 1991. Thus the study examines the impact of monetary policy on the Indian economy in the post reform period. To find out the impact of Monetary Policy on Price stability, we will examine different monetary targets & their impact on the real economic variables.

Objectives of Monetary Policy
Monetary Policy is the process by which the monetary authority of a country, generally a Central Bank controls the Supply of money in the Economy by exercising its control over interest rates in order to maintain-
➢   Growth with Stability
➢   Regulation, Supervision & Development of Financial Stability
➢   Promoting Priority Sector
➢   Generation of Employment
➢   External Stability
➢   Encouraging Saving & Investment
➢   Redistribution of income & wealth

> ➢ Regulation of NBFI

Monetary Policy of RBI

The monetary policy of RBI is not merely one of credit restriction, but it has also the duty to see that legitimate credit requirements are met & at the same time credit is not used for unproductive & speculative purposes. RBI has various weapons of monetary control & by using them it hopes to achieve its monetary policy. These are:

A. Quantitative Credit Control Methods

In India the legal framework of RBI's control over the credit structure has been provided under RBI act 1934 & Banking regulation Act 1949. Quantitative Credit Control is used to maintain proper quantity of credit or money supply in market. Some of the important credit control methods are-
➢ Bank Rate Policy
➢ Open Market Operations
➢ Cash Reserve Ratio
➢ Statutory Liquidity Ratio
➢ Repo & Reverse Repo Rate

B. Qualitative Credit Control Methods

Under Selective Credit Control Credit is provided to selected borrowers for selected purposes. These ares-
➢ Ceiling on Credit
➢ Margin Requirements
➢ Discriminatory Interest Rate(DIR)
➢ Directives
➢ Direct Action
➢ Moral Suasion

Review of Monetary Policy Since 1991

Table I Movements in Bank Rate during 1991-2010

Year	Effective since	Bank Rate	Change	Remarks
1992-97		12		
1997-98	April 16,1997	11	(-1.00)	To reflect the stance of monetary policy, being a signal rate
	June 26, 1997	10	(-1.00)	,,
	Oct 22, 1997	9	(-1.00)	,,
	Jan 17, 1998	11.00	(+2.00)	To control broad money expansion
	March 19, 1998	10.50	(-0.50)	
1998-99	April 3, 1998	10	(-0.50)	
	April 29, 1998	9	(-1.00)	
	March 2, 1999	8	(-1.00)	To reduce liquidity support to banks & PDs
1999-2000		8	No Change	,,
2000-01	April 2, 2000	7	(-1.00)	,,
	July 22, 2000	8	(+1.00)	To be align with international developments
	February 17, 2001	7.5	(-0.50)	
	March 2, 2001	7.0	(-0.50)	
2001-02	October 23, 2001	6.5	(-0.50)	
2002-03	October 30, 2002	6.25	(-0.25)	
2003-04	April 29, 2003	6	(-0.25)	To keep the rate stable, being a reference rate
2004-10		6	No Change	

Source: RBI Publications (various years)

Table II Movements in CRR during 1991-2010

Year	Effective since	CRR (%)	Change	Remarks
1992-93	April 17, 1992	15.00		
	Oct 17, 1992	15.00	No change	
1993-94	April 17, 1993	14.50	(-0.50)	To reflect the stance of monetary policy
	May 15, 1993	14.00	(-0.50)	,,
1994-95	June 11,1994	14.50	(+0.50)	To mop up excess liquidity and curtail inflation
	July 9, 1994	14.75	(+0.25)	,,
	Aug 6, 1994	15.00	(+0.25)	,,
1995-96	Nov 11, 1995	14.50	(-0.50)	For facing disinflation
	Dec 9, 1995	14.00	(-0.50)	,,
1996-97	April 27, 1996	13.50	(-0.50)	To augment the lendable resources of banks
	May 11, 1996	13.00	(-0.50)	,,
	July 6, 1996	12.00	(-1.00)	,,
	Oct 26, 1996	11.50	(-0.50)	,,
	Nov 9, 1996	11.00	(-0.50)	,,
	January 4, 1997	10.50	(-0.50)	,,
	January 18, 1997	10.00	(-0.50)	,,

Source: RBI Publications (various years)

Year	Effective since	CRR (%)	Change	Remarks
1997-98	Oct 25,1997	9.75	(-0.25)	On contingent basis(subject to chance)
	Nov, 22,1997	9.50	(-0.25)	,,
	Dec 6, 1997	10.00	(+0.50)	To maintain financial stability
	Jan 17, 1998	10.50	(+0.50)	,,
	Mar 28, 1998	10.25	(-0.25)	To modulate credit availability
1998-99	April 11, 1998	10.00	(-0.25)	,,
	Aug 29, 1998	11.00	(+1.00)	To absorb excess liquidity temporarily for preventing speculative measures
	March 13, 1999	10.50	(-0.50)	To modulate liquidity
1999-2000	May 8, 1999	10.00	(-0.50)	,,
	Nov 6, 1999	9.50	(-0.50)	
	Nov 20, 1999	9.00	(-0.50)	

2000-01	April 8, 2000	8.50	(-0.50)	
	April 22, 2000	8.00	(-0.50)	
	July 29, 2000	8.25	(+0.25)	For stabilizing broad money expansion
	Aug 12, 2000	8.50	(+0.25)	,,
	Feb 24, 2001	8.25	(-0.25)	To release more money
	March 10, 2001	8.00	(-0.25)	,,
2001-02	May 19, 2001	7.50	(-0.50)	
	Nov 3, 2001	5.75	(-1.75)	For getting the rate rationalized
	Dec 29, 2001	5.50	(-0.25)	,,
2002-03	June 1, 2002	5.00	(-0.50)	To expand credit
	Nov 16, 2002	4.75	(-0.25)	,,
2003-04	June 14, 2003	4.50	(-0.25)	
2004-05	Sept 18, 2004	4.75	(+0.25)	To rein inflation
	Oct 2, 2004	5.00	(+0.25)	,,
2005-06		5.00	No Change	
2006-07	Dec 23, 2006	5.25	(+0.25)	
	January 6, 2007	5.50	(+0.25)	
	Feb 17, 2007	5.75	(+0.25)	
	March 3, 2007	6.00	(+0.25)	
2007-08	April 14, 2007	6.25	(+0.25)	
	April 28, 2007	6.50	(+0.25)	
	August 4, 2007	7.00	(+0.50)	
	Nov 10, 2007	7.50	(+0.50)	To absorb excess liquidity

2008-09	April 26, 2008	7.75	(+0.25)	,,
	May 10, 2008	8.00	(+0.25)	
	May 24, 2008	8.25	(+0.25)	
	July 5, 2008	8.50	(+0.25)	
	July 19, 2008	8.75	(+0.25)	
	Aug 30, 2008	9.00	(+0.25)	
	Oct 11, 2008	6.50	(-2.50)	For expanding credit to deal with global financial crisis
	Oct 25, 2008	6.00	(-0.50)	,,
	Nov 8, 2008	5.50	(-0.50)	,,
	Jan 17, 2009	5.00	(-0.50)	
2009-10	Feb 13, 2010	5.50	(+0.50)	To control inflation
	Feb 27, 2010	5.75	(+0.25)	,,
	April 24, 2010	6.00	(+0.25)	For financial stability

Source: RBI Publications (various years)

Table III Movements in SLR during 1991-2010

Year	Effective since	SLR (%)	Change	Remarks
1992-93	April 3, 1992	38.50		
	Jan 9, 1993	38.25	(-0.25)	For getting access to liquidity
	Feb 6, 1993	38.00	(-0.25)	,,
	Mar 6, 1993	37.75	(-0.25)	,,
1993-94	Aug 21, 1993	37.50	(-0.25)	,,
	Sept 18, 1993	37.25	(-0.25)	,,
	Oct 10, 1993	34.75	(-2.50)	,,
1994-95	Aug 20,1994	34.25	(-0.50)	,,
	Sept 17, 1994	33.75	(-0.50)	,,
	Oct 29, 1994	31.50	(-2.25)	,,
1995-97		31.50	No change	,,
1997-98	Oct 22,1997	25.00	(-6.50)	As a part of executing the Narasimham Committee Recommendation
1998-2008		25.00	No change	,,
2008-09	Nov 8, 2008	24.00	(-1.00)	For withstanding global crisis
2009-10	Nov 7, 2009	25.00	(+1.00)	For curtailing inflation and keeping the ratio stable

Source: RBI Publications (various years)

Table IV Movements in Repo Rate during 2000-2010

Year	Effective since	Repo Rate (%)	Change	Remarks
2000-01	June 5, 2000	9.05		
	June 7, 2000	9.00	(-0.05)	As a part of LAF to reflect monetary policy
	June 9, 2000	9.05	(+0.05)	,,
	June 12, 2000	9.25	(+0.20)	
	June 13, 2000	9.55	(+0.30)	
	June 14, 2000	10.85	(+1.30)	To maintain economic stability
	June 19, 2000	13.50	(+2.65)	,,
	June 20, 2000	14.00	(+0.50)	
	June 21, 2000	13.50	(-0.50)	
	June 22, 2000	13.00	(-0.50)	
	June 23, 2000	13.05	(+0.05)	
	June 27, 2000	12.60	(-0.45)	
	June 28, 2000	12.25	(-0.35)	
	July 13, 2000	9.00	(-3.25)	To deal with deceleration of growth
	July 21, 2000	10.00	(+1.00)	
	Aug 09, 2000	16.00	(+6.00)	As a part of liquidity management
	Aug 30, 2000	15.00	(-1.00)	
	Sept 06, 2000	13.50	(-1.50)	For meeting economic slowdown
	Oct 13, 2000	10.25	(-3.25)	,,
	Nov 06, 2000	10.00	(-0.25)	,,
	March 09, 2001	9.00	(-1.00)	

Source: RBI Publications (various years)

Year	Effective Date	Reverse Repo Rate (%)	Change	Remarks
2002-03	June 06, 2002	5.75	(-0.25)	
	Oct 30, 2002	5.50	(-0.25)	
	March 03, 2003	5.00	(-0.50)	
2003-04	Aug 25, 2003	4.50	(-0.50)	
2004-05	Oct 27, 2004	4.75	(+0.25)	To check liquidity overhang
2005-06	April 29, 2005	5.00	(+0.25)	As a precaution to inflationary expectations
	Oct 26, 2005	5.25	(+0.25)	,,
	Jan 24, 2006	5.50	(+0.25)	,,
2006-07	June 9, 2006	5.75	(+0.25)	Comfortable liquidity position
	July 25, 2006	6.00	(+0.25)	,,
2007-08		6.00	No Change	
2008-09	Dec 8, 2008	5.00	(-1.00)	To deal with liquidity crunch & adverse foreign exchange
	Jan 03, 2009	4.00	(-1.00)	,,
	March 05, 2009	3.50	(-0.50)	,,
2009-10	April 21, 2009	3.25	(-0.25)	,,
	March 19, 2010	3.50	(+0.25)	For absorption of liquidity
2010-11	April 20, 2010	3.75	(+0.25)	,,
	July 02, 2010	4.00	(+0.25)	,,
	July 27, 2010	4.50	(+0.50)	,,

Source: RBI Publications (various years)

2000-01	July 10, 2000	7.00		
	July 24, 2000	8.00	(+1.00)	As a part of LAF to stance monetary policy
	Aug 03, 2000	8.25	(+0.25)	,,
	Aug 04, 2000	11.50	(+3.25)	As a part of liquidity management
	Aug 07, 2000	12.50	(+1.00)	,,
	Aug 08, 2000	14.00	(+1.50)	,,
	Aug 09, 2000	15.50	(+1.50)	,,
	Aug 10, 2000	15.00	(-0.50)	To deal with deceleration of growth
	Aug 14, 2000	14.50	(-0.50)	,,
	Aug 30, 2000	14.25	(-0.25)	
	Aug 31, 2000	13.50	(-0.75)	
	Sept 04, 2000	12.00	(-1.50)	For meeting economic slowdown
	Sept 07, 2000	11.00	(-1.00)	,,
	Sept 08, 2000	10.50	(-0.50)	,,
	Sept 11, 2000	10.00	(-0.50)	,,
	Sept 15, 2000	10.00	No change	
	Oct 03, 2000	9.75	(-0.25)	
	Oct 04, 2000	9.50	(-0.25)	
	Oct 05, 2000	9.25	(-0.25)	
	Oct 06, 2000	9.00	(-0.25)	
	Oct 09, 2000	8.75	(-0.25)	
	Oct 10, 2000	8.50	(-0.25)	
	Oct 24, 2000	8.25	(-0.25)	
	Oct 25, 2000	8.00	(-0.25)	
	Feb 20, 2001	7.50	(-0.50)	
	March 02, 2001	7.00	(-0.50)	
2001-02	April 27, 2001	6.75	(-0.25)	
	May 28, 2001	6.50	(-0.25)	
	March 05, 2002	6.00	(-0.50)	

Source: RBI Publications (various years)

Year	Effective Date	Reverse Repo Rate (%)	Change	Remarks
2002-03	June 06, 2002	5.75	(-0.25)	
	Oct 30, 2002	5.50	(-0.25)	
	March 03, 2003	5.00	(-0.50)	
2003-04	Aug 25, 2003	4.50	(-0.50)	
2004-05	Oct 27, 2004	4.75	(+0.25)	To check liquidity overhang
2005-06	April 29, 2005	5.00	(+0.25)	As a precaution to inflationary expectations
	Oct 26, 2005	5.25	(+0.25)	,,
	Jan 24, 2006	5.50	(+0.25)	,,
2006-07	June 9, 2006	5.75	(+0.25)	Comfortable liquidity position
	July 25, 2006	6.00	(+0.25)	,,
2007-08		6.00	No Change	
2008-09	Dec 8, 2008	5.00	(-1.00)	To deal with liquidity crunch & adverse foreign exchange
	Jan 03, 2009	4.00	(-1.00)	,,
	March 05, 2009	3.50	(-0.50)	,,
2009-10	April 21, 2009	3.25	(-0.25)	,,
	March 19, 2010	3.50	(+0.25)	For absorption of liquidity
2010-11	April 20, 2010	3.75	(+0.25)	,,
	July 02, 2010	4.00	(+0.25)	,,
	July 27, 2010	4.50	(+0.50)	,,

Source: RBI Publications (various years)

The Price Level and Real Output

The price level is a measure of the average prices of goods and services in the economy. It serves as a gauge of the general purchasing power of money. The Consumer Price Index (CPI) and the Wholesale Price Index (WPI) are the measures of price level most familiar to us in India and these rates are published regularly in newspapers. In addition to these, economists use several other measures of the price level to track price changes. The primary difference between these alternative measures of the price level is the composition of the basket of goods and services used to measure price changes.

The inflation rate is the rate of change in the price level. Inflation rates are stated as a percentage change on an annual basis. For instance, if the price level is Pt in the year t and Pt-1 in the year t-1, the inflation rate (π) between years, t and t-1 is defined as

$$\Pi = Pt-Pt\text{-}1/ Pt\text{-}1$$

We know that inflation is a persistent, general rise in the average prices of all goods. Literally millions of goods can be purchased in our economy. If the price of only one good increases by 5 percent, that increase does not reflect inflation; rather, it is an increase in the price of that single commodity. But if the average prices of all goods in the economy increase each year by, say 5 percent then we say the inflation rate is 5 percent.

Table V
Annual Rate of Inflation of Whole Sale Price Index (WPI) during 1991 to 2010

Year	WPI Base 1993-94	Annual rate of inflation (%)
1991-92	83.86	13.7
1992-93	92.29	10.1
1993-94	100.0	8.4
1994-95	112.6	12.6
1995-96	121.6	8.0
1996-97	127.2	4.6
1997-98	132.8	4.4
1998-99	140.7	5.9
1999-00	145.3	3.3
2000-01	155.7	7.2
2001-02	161.3	3.6
2002-03	166.8	3.4
2003-04	175.9	5.5
2004-05	187.3	6.5
2005-06	195.5	4.4
2006-07	206.1	5.4
2007-08	215.9	4.8
2008-09	233.9	8.3
2009-10[P]	242.9	3.8

Source: Reserve Bank of India, various publications

Table VI Annual Rate of Inflation of Consumer Price Index (CPI) during 1991 to 2010

Year	For industrial workers Base: 2001		For urban non manual employee Base: 1984-85		For Agricultural workers Base: 1986-87	
Base Year	CPI	Inflation rate (%)	CPI	Inflation rate (%)	CPI	Inflation rate (%)
1991-92	47	13.5	183	13.7	167	19.3
1992-93	52	9.6	202	10.4	188	12.3
1993-94	56	7.5	216	6.9	195	3.5
1994-95	61	10.1	237	9.7	218	11.9
1995-96	68	10.1	259	9.3	241	10.7
1996-97	74	9.3	283	9.3	256	6.0
1997-98	79	7.0	302	6.7	264	3.1
1998-99	89	13.1	337	11.6	293	11.0
1999-2000	92	3.4	352	4.5	306	4.4
2000-01	96	3.7	371	5.4	305	-0.3
2001-02	100	4.3	390	5.1	309	1.3
2002-03	104	4.1	405	3.8	319	3.2
2003-04	108	3.7	420	3.7	331	3.8

2004-05	112	4.0	436	3.8	340	2.7
2005-06	117	4.2	456	4.6	353	3.8
2006-07	125	6.8	486	6.6	380	7.6
2007-08	133	6.4	515	6.0	409	7.6
2008-09	145	9.0	561	8.9	450	10.0
2009-10	163	12.4%	634	13.0%	513	13.9%

Source: Reserve Bank of India, various publications

Monetary Policy and Price Stability

The monetary policy has undergone far-reaching changes all over the world in the 1990s. There is, first of all, a clearer focus on price stability as a principal - though not necessarily the sole - objective of monetary policy. Besides, with the deregulation of financial markets and globalization, the process of monetary policy formulation has acquired a much greater market orientation than ever before, inducing a shift from direct to indirect instruments of monetary control. This has been accompanied by several institutional changes in the monetary-fiscal interface to ensure that central banks possess the autonomy to anchor inflation expectations.

To analyze the effectiveness of monetary policy in ensuring price stability in India, we have to take into account the changes in the credit, money and inflation during the period of our study. Now, we can have a look into the variations in the values of these variables over the period for finding out the reasons behind them. Whether monetary policy is effective in implementing price and financial stability or not, will be clear from such a comparative analysis. The values of all the three items have increased over the years Percentage changes in these values also show a positive picture, but with frequent ups and downs in variations. Whenever there were price hikes during the years, monetary authorities successfully has made use of all the weapons effectively and prudently, to rein the inflationary pressures and to maintain financial stability in the economy. Maintenance of low and stable inflation has thus emerged as a key objective of monetary policy

Table VII
Movements in Key Policy Rates (in percentage), WPI and CPI in India

Effective since	WPI	CPI	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio
March 2008	121.4	137	6.00	7.75	7.50
April 26, 2008	123.5	138	6.00	7.75	7.75 (+0.25)
May 10, 2008	124.0	139	6.00	7.75	8.00 (+0.25)
May 24, 2008	124.0	139	6.00	7.75	8.25 (+0.25)
June 12, 2008	127.3	140	6.00	8.00 (+0.25)	8.25
June 25, 2008	127.3	140	6.00	8.50 (+0.50)	8.25
July 5, 2008	128.6	143	6.00	8.50	8.50 (+0.25)
July 19, 2008	128.6	143	6.00	8.50	8.75 (+0.25)
July 30, 2008	128.6	143	6.00	9.00 (+0.50)	8.75
August 30, 2008	128.9	145	6.00	9.00	9.00 (+0.25)
October 11, 2008	128.6	148	6.00	9.00	6.50 (−2.50)
October 20, 2008	128.6	148	6.00	8.00 (−1.00)	6.50
October 25, 2008	128.6	148	6.00	8.00	6.00 (−0.50)
November 3, 2008	126.7	148	6.00	7.50 (−0.50)	6.00
November 8, 2008	126.7	148	6.00	7.50	5.50 (−0.50)
December 8, 2008	124.3	147	5.00 (-1.00)	6.50 (−1.00)	5.50
January 5, 2009	124.2	148	4.00 (-1.00)	5.50 (−1.00)	5.50
January 17, 2009	124.2	148	4.00	5.50	5.00 (−0.50)
March 4, 2009	123.2	148	3.50 (-0.50)	5.00 (-0.50)	5.00
April 21, 2009	124.6	150	3.25 (-0.25)	4.75 (-0.25)	5.00
February 13, 2010	134.8	170	3.25	4.75	5.50 (+0.50)
February 27, 2010	134.8	170	3.25	4.75	5.75 (+0.25)
March 19, 2010	135.8	170	3.50 (+0.25)	5.00(+0.25)	5.75
April 20, 2010	138.3	170	3.75 (+0.25)	5.25 (+0.25)	5.75
April 24, 2010	138.3	170	3.75	5.25	6.00 (+0.25)
July 2, 2010	140.3	178	4.0 (+0.25)	5.50 (+0.25)	6.00

Note: Figures in parentheses indicate change in policy rates in per cent
Source: RBI Annual Report 2010

Movements in key policy rates in percentage value, WPI and CPI in India are shown in table. It exhibits the rate of changes in monetary measures and the corresponding responses in WPI and CPI in India from 2008-10, i.e. during the global financial crisis. There are frequent changes in CRR, Repo and Reverse repo rates along that of changes in the price level.

III. Conclusion

The present study was an attempt to analyze systematically the techniques of monetary control measures with its relevance and changing importance and to find out their effectiveness in the Indian context especially to achieve the thriving objectives of price stability. There is definite and remarkable economic impact of monetary policy on Indian economy in the post-reform period. The importance of monetary policy has been increasing year after year. Its role is very relevant in attaining monetary objectives, especially in managing price stability There is definite and remarkable economic impact of monetary policy on Indian economy in the post-reform period. The importance of monetary policy has been increasing year after year. Its role is very relevant in attaining monetary objectives, especially in managing price stability. The use and importance of monetary weapons like Bank rate, CRR, SLR, Repo rate and Reverse Rate have increased over the years. Repo and Reverse Repo rates are the most frequently used monetary techniques in recent years. The rates are varied mainly for curtailing inflation and absorb the excess liquidity and hence to maintain price stability in the economy. Thus, this short-time objective of price stability is more successful on Indian economy rather than other long-term objectives of development.

The RBI is now more able and more responsible for controlling the overall growth of money and credit in a manner best suited for moderating inflation, while meeting the genuine credit needs of the economy. Its capacity for effective monetary management or any inflation control needs to be further strengthened through rapid deepening and broadening of primary and secondary markets for Government securities.

In India, the opening up of the economy in the early 1990s had a significant impact upon the conduct of monetary policy. Price stability remains the key objective of monetary policy and there is virtually a national consensus that high inflation is not good. Inflation expectations and inflation tolerance have come down. It even affects the spending decisions and saving pattern of the people.

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