Monetary policy of India

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Reserve Bank Of India

- The **Reserve Bank Of India (RBI)** is the central banking system of India and control the monetary policy of the rupee.
- The institution was established on **1st April, 1935** and plays an important part in the development strategy of the government.
- The inaugural officeholder was the British banker Osborne Smith, while **C. D. Deshmukh** was the first Indian governor. The position is currently held by **Urjit Patel**, who took over from **Raghuram Rajan** on 4 September 2016.

Introduction

MONETARY POLICY is the process by which monetary authority of a country, generally central bank controls the supply of money in the economy by its control over interest rates in order to maintain price stability and achieve high economic growth.

RBI is the central bank of India

Role of RBI

- India's monetary authority
- Supervisor of financial system
- Issuer of currency
- Manager of foreign exchange reserves
- Banker and debt manager to Government
- Banker to bank
- Developmental functions
- Research, data and knowledge sharing since 75 years:

Tools of Monetary Policy

- **Quantitative tools:**
  - Open market Operations
  - Bank rate
  - Cash Reserve Requirement
  - Liquidity ratio
  - Special deposit
- **Qualitative tools:**
  - Credit rationing
  - Credit ceiling
  - Moral Persuasion
  - Direct action

Target for Monetary Policy

Used to control

<u>Tools for Monetary Policy</u>

Open Market Operations

Discount Loans

Changes in Reserve Requirement

<u>Target for Monetary Policy</u>

Money supply

Interest Rates

Set to Achieve

<u>Goals for Monetary Policy</u>

High Employment and Growth

Price Stability or low Inflation

Financial Market and Interest Rate stability

Types of monetary policy

There are two types of monetary policies :

- Expansionary monetary policy
- Contractionary monetary policy

Expansionary monetary policy

Expansionary monetary policy is when a central bank uses its tools to expand the economy by increasing the money supply and lowering interest rates which increases aggregate demand. That boosts economic growth as measured by Gross Domestic Product (GDP).

It is used during recession.

Recession is a temporary period of economic decline during which trade and industrial activity are reduced.

Contractionary monetary policy

Contractionary monetary policy are set of tools that slow down the growth rate of the economy to prevent it from overheating , these tools includes the credit flow in the economy, interest rate and currency exchange.

Here monetary policy are being used during **Inflation.**

Inflation is continuous increase in the price level of goods and services. And increase in supply of money as compared to some benchmark.