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EFFECTIVENESS OF INDIAN MONETARY POLICY IN CONTROLLING INFLATION

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ABSTRACT

Monetary policy refers to an instrument or a tool, which regulates the overall circulation of money or currency in an economy. With the help of monetary policy price stability, economic growth etc. is maintained by the government. In India whole money market is controlled and regulated by Reserve Bank of India. Various issues concerned with monetary policy are: objectives or goals of the policy, instruments of monetary control, its efficiency, implementation, intermediate target of the policy, price stability etc. Inflation is a situation in which the value of money is decreased or prices of commodities are increased. It states that other things being equal, changes in general price level are to be explained with reference to changes in the quantity of money in circulation so that an increase in the quantity of money leads to a rise in the price level, which shows the situation of inflation.

The objective of this study is to analyze the impact of Indian monetary policy on inflation and to study the effectiveness in controlling inflation. For the study Biviariate (Pearson) Correlation *Statistical Tools have been used for comparison and finding the relationship between them, secondary data has been used for the study. After using all the tools and techniques it has been concluded that monetary policy is one of the important tools of controlling inflation and maintaining price stability through its instruments like CRR (Cash Reserve Ratio), SLR (Statutory Liquidity Ratio), Bank Rate (Re-discount Rate), Repo Rate (Re-Purchase Option Rate) and Reverse Repo rate.*

KEYWORDS: *Inflation, CRR, SLR, Bank Rate, Consumer Price Index (Combined), Reverse Repo Rate.*

Introduction

Since its establishment, Reserve Bank of India has been trying to maintain the optimum level of currency in India. RBI regulates and controls all the money market through a policy which is called monetary policy. Monetary policy is an instrument by which circulation of money in the economy is maintained, economic growth is promoted and price stability is maintained. Monetary policy consists of Bank rate policy, open market operations; Cash reserve ratio, statutory liquidity ratio, Repo rate and reverse repo rate and other rules to regulate the supply of currency in the economy.

The primary objective of central bank is to manage inflation, second is to reduce unemployment; it is possible through only one instrument i.e. monetary policy. The rate at which the general price level of

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