Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, Impact Factor: 5.647, Volume 10, No. 03, July, 2020, pp. 60-62

MONETARY SYSTEM MANAGEMENT ROLE OF CENTRAL BANK (RBI)

Dr. Babu Sarvajeet Akela*

ABSTRACT

Monetary system is developed along side with development of Money. Perhaps credit creation and Maintaing the same is the one core essential element of the whole economic system of any country. The whole business Transaction system and monetary system perhaps works around it. Regulation of credit (i.e. its creation and maintenance) is probably the main function of central Bank (in case of India it is RBI). Through the Central Economic policy (which Includes Monetary and Fiscal Policy) through which central banks control the entire economy and fulfills three broad aspect and purposes which are Economic, Price and exchange stabilization.

KEYWORDS: *Monetary System, Central Bank, Credit Control, Credit Creation and Maintenance.*

Introduction

Monetary System implies a policy created deliberately which aims to regulation of currency and credit in the country with consideration to current economic situation. The basic aim is to maintain stable exchange rate, stable Pricing levels, maintain or increase volume of employment and trade. Various time countries faces certain issues such as increase in interest rates, credit crunch or credit curtailment, reduction in purchasing power of public, temporary suspension of public expenditure or some external factors such as war. Monetary management implies or works a positive effort or attempt to regulate the volume as well as value of the currency in such a way that it is in public interest and the welfare of the entire country. The role of the central bank undoubtedly play a significant role in developing the whole monetary system and more important in to maintain it. At the very early stages of establishment of central bank, it was definitely not the main task assumed by central bank however after the second world war when the whole world was restructuring and rebuilding its economy, the need to set up monetary management as one of the important and essential task came into the light and from then it became the part of Central Bank to develop and implement the Monetary and fiscal policies.

Objectives of Monetary System Management

There are various reasons for having monetary system management. This could range from cyclical factors control to economic stability, Optimum utilisation of resources. The first factor which works majorly in this system is cyclical factors, which enters into economy of any country without any control. These cyclical factors includes variations in prices which is due to booms and depression in the market, the monetary policy here works in the way that it intends to remove the causes of inflation or recession in the market. For this control the Central Bank has to increase or decrease the level of money investment and for the same it controls the interest rates which are a vital link to Investments.

The Second factor which is Economic Stability is another pillar to the foundation of development of monetary system management. With suitably developed monetary system management. Supply of money can be made available for exploring the increase in production without affecting the level of consumption. How does it happen? The monetary authorities bring development of resources for production by channelizing the money into the market and thus with the increase in production the idle money get utilised and no increase in demand takes place. By this both purpose has achieved i.e. production that is supply has increased as well as demand remains constant. This would have an effect of decrease in market Price and thus result in decrease of inflation.

---

* Manager, DRCC, Munger, Bihar, India.

The third and the last objective of any monetary system management is to ensure that all the resources of the country are utilised at their optimum level with permanent stability. How this can be achieved? The one great rule of economics works here. An effective demand is a stimulation of consumption demand and Investment demand. The government works through monetary policy and other policies for stimulating the demand and investments. The flow of the money needs to be increased in the country, hence the rates of interest have to get down lower and increase the sources by which the purchasing power of people increases.

What are the Factors of Monetary System Mangement or how it Works?

Credit is an important factor that controls the entire monetary system management. It plays an important role in settlement of all kind of monetary and business transactions. This credit need to be controlled by the central government as it is the only authority of the country which has access to all finance hybrids. As we said in the beginning the central banks by this monetary system management achieves three broad objectives which are Economic, Price and exchange stabilization. Hence credit controls plays a vital role in it. Central bank may control credit in many ways. Few of them includes

- Increasing or decreasing the bank rate and thus money rates gets either down or inflate and which in turn results expansion or contraction of credit.
- Operations I open market for sale or purchase of securities or bill of exchange. By this the flow of money in the market increases or decreases.
- Variation in CRR (the portion of deposits kept by commercial banks with central Bank) and SLR (the portion of the deposits kept the commercial Banks kept with themselves). This helps to control the credit in the market.
- Rediscounting facility of bills and other instruments of Commercial banks also provides a measure by which most of the commercial banks may convert their assets into cash and thus may come out from their liquidity crunch. It also indicates the dependence of commercial banks on Central Bank.
- Credit Rationing: in the very exceptional circumstances this method is used. In this the central bank fixes a limit or restricts the demand of accommodation for more credits by commercial Banks.
- Powers of Reserve Bank of India which helps in establishing the monetary system management
    - If Reserve Bank of India found it reasonable and prudent in public interest, it may make policy for advances to be made by commercial banks, such as to whom loan is to be given, security to be kept etc.
    - Reserve Bank of India may also give directions to specific bank or class of banks in regard to advances to be made.
    - Reserve Bank of India may prohibit any banking company from entering into any specific kind of transaction or class of transaction.
    - Reserve Bank of India may issue directions in any particular matter relating to the policy, to the banking company for any matter.

Transformation Factor of Monetary Policy

The design and patter of monetary policy has important affect on economic activities of the country as well as the cyclical fluctuations are the part of the economy of almost all the countries. It is undoubtedly a well known fact that monetary policy is being utilized for the stabilizing the economy worldwide, either through credit control or money flow control. This is a question of study that how monetary policy affect output and inflation/deflation. This is the final outcome result of any monetary policy. The monetary policy works on 2 pairs of economic shoes i.e. financial prices such as interest rates or exchange rates or market prices etc. and financial quantities such as credit aggregation, government securities available for sale etc. these two are mutually inclusive but however they behave differently in different circumstances, according to financial market developments, degree of purchasing power etc. for now a days Short term interest rate is the main operating instrument. Central bank whenever found necessary, proactively moves the interest rate in favour of financial stability conditions. Thus the interest Rate is termed as one of the principle instrument for the monetary policy where interest rates are adjusted in accordance of economic development. In this way some times the interest rate becomes an overall performance meter of financial conditions and all financial prices move in stable manner.

If we talk about India, there was a considerable hike in the inflation due to hikes in oil prices and agriculture supply breakdown, but at that time there was a lack of consensus about inflations. The first inflation are taken in India was about between 5 to 7 percent. However there was no defined impact of the inflation or tradeoff between the anticipated inflation rate and output growth. However with the long term price stability at the world level as well as India level the threshold rates are expected to move downwards.

Due to financial globalisation the relationship between price and output of money has turned unpredictable as well as volatile. Due to this many central Banks has started using Interest rates and exchange rates as fix on inflation. Up to late eighties, the monetary policy was found to be developed on the basis few considerable economic indicators or single monetary aggregator. However it was realised soon that the monetary policy should be developed based on number of macroeconomic factors. Hence the government started using multiple factors such as interest rates of different financial markets such as money markets, capital markets, or government securities etc are considered along with the other data relating to currency, financial position. Fiscal stability, inflation rates foreign exchange rates, refinancing rates and transactions etc. However the exclusive use of single factor which is money aggregator has been discontinued but it remained one of the important factor of the whole monetary policy and it will continue to be important because of two reasons, first is it (money – demand) function remains more stable so predictions can be made easily and the second one is the public understands easily the concept of money, it flows, hence its effect is easy to incorporate in the policy and people understands it very easily.

Conclusion

After going through the whole above discussion, it will not be improper to say that Monetary policy of any country is the essence of the economy and without having an approached, targeted and staged monetary policy, it is difficult to develop any of the portion of the economy. Any country especially developing countries like ours where employment and interest rates, which are the two basic pillar of economy, are unstable need a kind of policy which is oriented to these two basic stimulations. Since independence we have never achieved even the basic need per capita income of more than 5000 Rs. And still more than 50 percent of the Population lives in rural areas, depending on agriculture or allied activities for their survival, with an unlimited plan of increase in population, it is not only a difficult task rather it is a challenging task to compile a policy which is looking forward to all these problems and finding out a solution which is reasonable and simultaneously maintaining the present growth rate with due recognition of the efforts made since independence.

However making a policy with all above citied object if completed, still one more task which is again not only difficult but seems to be impossible, is to implement the policy with its core object through all commercial banks. As we mentioned earlier that in India most of the population lives in rural area and sometimes it is harder for them to find out even brad butter, they will be reluctant to accept or cope up with the policy. Reason behind is they all need immediate benefit or policy that gives benefit in short term and there is no need to define that no monetary policy can give benefit in the short run. We spend around 7 decades to reach at our current policy since independence, but now it will not take that much of time, because the start is not be make from the zero as we did at our independence.

References

- Deshmukh, CD.: Central Banking in India: A Retrospect.
- Einzig, Paul (1936): Monetary Reform in Theory and Practice.
- Goldenweiser E.A. (1949): Monetary Management, McGraw Hill, New York, 175 p.
- Goldfeld, Stephen, M. and Chandler, L.V. (1986): Economics of Money and Banking (9"^ Edn), Harper and Row, New York, 660 p.
- Gupta, S.B. (1994): Monetary Economics (Institutions, Theory and Policy), S. Chand and Company Ltd., New Delhi.

♦❒♦