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MONETARY POLICY: THE BASE PILLAR OF INDIAN ECONOMY

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ABSTRACT

The financial Sector is majorly impacted by the Banking system, that is to say it is the most dominating sector of the economy or financial Sector. Indian Banks are strongly governed by the bird's eye of regulator RBI (Central bank of India) and regulated regularly. However difficulty in assessing could be a well gauged to the financial health of the economy. This research study basically focuses on the issue whether the monetary policy Methods or Monetary Policy Instruments works or not as important driver to put a regulation on the inflation and recession in upcoming years of economy. This research work also assesses the extent to which it could impact profitability position of Banks. The results of research work show that there found a very material effect of change in Monetary Policy on the profitability, inflation and other aspects of commercial Banks. But simultaneously when the monetary policy is tightened; commercial banks will be having flexible options to adjust the lending rates or deposit rates to cut down the impact on their profitability and financial position due to increase in its monetary policy rates. Banks works in accordance with the monetary policies to obtain the desired results in the economy. Continuous changes in monetary Policy by the RBI (Central bank of India) will supposed to have impact on performances of the Banks including their profitability. The performance at the financial front may be impacted due to regular changes in Monetary Policy such as CRR, SLR, and Bank Rate etc. The objective of this research study is to analysing the qualitative impact of the monetary policy on the efficiency and performance of the Commercial Banks including their profitability.

Keywords: *Monetary, Banking, Financial, Economy, Regulator, Commercial, Financial, Profitability.*

Introduction

The Financial sector reforms play a very vital role in developing the growth of economy and Economic Development of the economy. Simultaneously the banks plays a very vital role in managing and controlling the liquidity position in the price through the accumulation of small deposits of large number of depositors and simultaneously allowing that deposit in providing the credit to the needy persons. The RBI (Central bank of India) of country also known as "RBI (Central bank of India)" is responsible for establishing the mechanism for controlling and regulating the Price inflation, Money Supply in the country and undoubtedly the flexibility of liquidity of the price country. RBI is the apex controller of the whole financial as well as banking structure of the country. This all is done by the RBI (Central bank of India) through the commercial banks working in country. These banks include the public sector bank, private sector banks and Rural Banks. One of the measure through which RBI controls Money Supply, Price Inflation and Price Liquidity is Monetary Policy. Using various Quantitative Tools of Monetary Policy, RBI takes corrective measures. The reason behind is that the major source of finance to industries are Banks. They provide finance in the different forms. However due to the strong control mechanism of RBI (Central bank of India), the banks faces various difficulties in providing the credit facilities because of various rules prevailing. This study is undertaken to find out effect of the Monetary Policy on the Bank's Performance, and this may be helpful as an excellent effort to Government and RBI (Central bank of India) in making of the policies of regulation of the RBI (Central bank of India), and in deciding the Interest rates would achieve the small economical objectives of the Economy of India.

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Monetary Policy and its Impact on Banks

The Commercial banks provides a channel for circulating the money from those having excess money by solicit them to invest, to those having need of it by allowing borrowing to them. This continues the circulation of money in the economy and keeps a balance. Hence in the category of the major activities of the banks includes the acceptance of savings or idle cash by soliciting money from them by offering a rate of interest and lending the money so collected to those who need it at a superior rate of interest. This also creates a kind of awareness among the public and develops a habit of saving and to concentrate of maximisation of profit, to fast up the investment, to create capital using savings, to keep economy stable, to make help of the management1in developing the Trade, or Business and keeping help to government in solving various economic issues. The rates of the monetary policy vary in the different periods of the economy depending upon the financial health of the economy. For this RBI (Central bank of India) frames a Monetary Policy which is modified time to time using the ideas provided by the committee. The Committee on time-to-time basis decides the rates on the basis of monthly which was quarterly earlier. All commercial Banks are required to adopt the rates as suggested by Monetary Policy committee. The rates can be changed i.e. they may be increased or decreased to reduce or expand the liquidity position in terms of price in the economical environment of the country. Hence the role of the RBI (Central bank of India) is very important in making a balance between the Liquidity and money supply (including issue of new currency notes) in the country. Commercial Banks performs a major role in making available the credit facility to industrial and commercial sector in economy. Public sector banks are those which come in the category of scheduled banks of the RBI (Central bank of India). Generally a banks is called public sector bank when Central Government holds 51% or above of the total investment in the bank. After number of various mergers and acquisitions we have only 12 public sector banks. They are also called as nationalised Banks. Private sector banks are those whose control of management is under the hands of Private Sector Banks. However, all the Banks of India are under the supervision and regulation of RBI (Central bank of India). As we discussed earlier, monetary policy is framed and Regulated by RBI (Central bank of India) using the recommendation of Monetary Policy Committee. This Committee meets on monthly Basis and decided the rates of Monetary Policy bi-monthly. Various Quantities tools used under monetary policy are CRR, SLR Bank Rate (BR) inclusive of Repo and Reverse Repo, etc., out of which Bank Rate is generally determined by the credit mechanism of the Committee and Bank concerned. All the commercial banks whether Public Sector Bank, Private Sector Bank of Regional Rural Bank, are under obligation to adopt the rates as decided in India. These Rates helps in controlling the Liquidity and inflationary position in the country. Generally, there are 2 kinds of the circumstances of the monetary policy, which are known as incremental of decremented. Expansionary monetary policy is a mechanism in which supply of money is extended by making a reduction in the interest rates when liquidity is observed to be lower. That's why useful when there is recession in the market. On the other hand, Contractionary monetary policy is used to reduce the increased or excessive quantity of the inflation prevailing in the economy through making an increment in the interest rates so as to reduce the money supply in the market which results in reducing inflation in the market.

Review of Literature

Acharya (2017) have stressed the financial transportation which is very helpful in maintaining the affectation and growth. The study is basically based on the various data of the bank's performance which indicates that with the change in the monetary policy rates, the rates of the lending have also changed substantially. This lack of acceptable financial transmission remains a crucial policy decision for the RBI (Central Bank of India) because it puts an impact on the changes in the policy.

Mathur and Sengupta (2019), conduct a text book- mining analysis of the RBI's financial policy statements and find that relinquishment of IT led to shorter and further readable RBI statements but not any direct substantiation that this led to substantial changes in transmission of RBI conduct.

Rashid etal. (2020) examined the impact of financial policy on credit force opinions for Islamic and conventional banks operating in Malaysia. They set up that the credit force of Islamic banks was less responsive to tight financial policy when compared to their conventional counterparts. Also, lower, less-liquid Islamic and conventional banks were more responsive to increased interest rates in the frugality. The authors concluded that the RBI (Central bank of India) needs to take into account the nature of Islamic banking and the size of a bank and its liquidity position when formulating financial policy.

Vijay Kumar (2020) the study was conducted to make an analysis of the system of today's estimation for the purpose of the understanding of the relationship between the monetary policies and bank's profitability in the country of the New Zealand. The conclusion of the study has shown that bank's profit also observed to be increasing when there is an increase in the short term rates. However, at the same time with an increase in the interest rates for the long term, profitability of the banks also reduces.

Pandit and Vashisht (2011) handed substantiation that the transmission medium of the policy rates is a mongrel of the historical channel of the interest rate and and credit channel operated in India and other EMEs. Khundrakpam (2011) set up the credit channel of financial transmission to be significant and robust in the post-LAF period. Analysing the interest rate channel, Mohanty (2012) handed substantiation that increase in policy rates could have a negative impact on affair growth with a pause of two diggings and a balanced impact on affectation with a pause of three diggings.

Research Design

The methodology used in this research is analytical in nature and descriptive. Descriptive study is very helpful in collection of the information about the present position of the entire aspect to elaborate what is in the selected variables. The main reason for using this kind of the methods for the research is to identify the purpose of the study in making the investigation of core relation as between selected variables of the research. To establish the relationship as between the rates of Monetary Policy and financial position of the commercial Banks, Correlation and regression analysis has also been used.

Statistical Computation of Monetary Policy on Banking Structure

For the purpose of analyzing of performance of Public Sector Banks, Private Sector Banks and Regional Rural Banks, various indicators of performance have been tested in light of changes in monetary variable. These Monetary Variables also called as independent variable are Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate. The variables which have been analysed also called as dependent Variables are Deposits accepted by the Banks, Borrowings made by Banks, Advances/Lending's made by Banks and Investments. This analysis has been made for Public Sector Banks, Public Sector Banks and Regional Rural Banks, separately. The cumulative effect of the entire variable has been taken in evaluation of the impact of monetary policy on the Indian Economy.

Table showing Monetary Policy Impact

Model Summary					
Banks	**Model**	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
Public Sector Banks	1	.701[a]	.611	.566	32.56077
Private Sector Banks	1	.169[a]	.028	-.154	5128.5687
Regional Rural Banks	1	.151[a]	.027	-.161	6987.465
a. Predictors: (Constant), Bank Rate					

Sources: Calculated by Researchers using Statistical Methods

Interpretation

In the table, the "R" column represents the value of R, the Pearson correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable. The "R Square" column represents the R^2 value, which is technically the proportionate variance in the selected dependent variable which can be explained by the independent variables. Hence it can simply summarise that in case of Public Sector banks was able to explain excellent proportion of Bank Rate and bank's value. On the contrary, R^2 of Private Sector banks shows that Bank Rate is insignificantly contributing in explaining various financial parameters of the respective companies.

Conclusion

The overall analysis of Financial Data of Public Sector Banks, Private Sector Banks and Regional rural Banks in comparison with Bank Rate, indicates that the Impact of Bank Rate on Banks performance is not significant for Deposits and Advances. However, it has positive effect for Investment and Borrowings. With change in Bank Rate, Deposits, Advances, are not changing substantially but Investments and Borrowing keep changing. Hence the Conclusion is absolutely clear that the change in Bank Rate would have any impact on the performance of the banks in terms of financially structure in case of Deposits and Borrowings. Based on the observations made in the study, for effective and long term improvements in Indian economy through Banking Sector, it is strongly recommended that an effective and sustained Monetary Policy shall be established for the growth and development of the whole banking industry, and shall be followed. In addition to an attractive rate of interest on deposits, additional rate on various deposits in form of incentives shall be given to public, such as increased rate of interest to women's or senior citizens. This will improve position of mobilisation of the funds. Apart from this a strong mechanism shall be set up to educate the public regarding the benefits of Strong, Strengthen and improved banking system and the essence of banking in the life of public. A consideration shall also be given for ensuring the better administration of the monetary policy and shall make a flexible policy to make the commercial banks able to implement it easily. A Monetary policy adopted should have a stable and stimulating exchange rate for Indian Banks in economy, along with a stipulation of Minimum discounting rate by RBI (Central bank of India) in order to promote development of banking industry of the India.

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