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A STUDY OF SIGNIFICANCE OF ECONOMIC & MONETARY STRATEGY PLAN IN INDIA

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ABSTRACT

The direction of monetary policy affects growth both immediately and in the future. The purpose of this research was to assess the effect of monetary policy on the Indian economy. The central bank's goal is to maintain price stability, and one way it does this is through controlling the money supply. Gross domestic product, repo rate, reverse repo rate, unemployment, foreign direct investment, and inflation are all used in the analysis. The economy of a country was shown to be entirely reliant on these characteristics. GDP was calculated using a new set of parameters. The study's overarching goal is to examine the efficiency of India's monetary policy and the effects of a few different monetary tools on the Indian economy.

Keywords: Monetary Policy, Gross Domestic Product, Foreign Direct Investment, Inflation, Indian Economy.

INTRODUCTION

The word "economic development" has become ubiquitous in the current day, and its meaning is widely understood even by people who are unfamiliar with the technical definition. Since poverty in any location is a threat to prosperity elsewhere, the issue of economic growth in the world's poorest nations has garnered the attention of people all across the globe. Simply put, economic development refers to the mechanisms that lead to a growth in a country's total GDP and per capita income. These may be reduced to three main factors: the accumulation of capital, the creation and dissemination of new methods, and the enhancement of the effectiveness of both the existing techniques and the human element.

When seen in this light, the issue of how to help developing nations grow transcends just economic considerations. By its very nature, the issue of improving living conditions in such places involves much more than just economic issues; it encompasses a wide range of other elements and activities as well.

Almost two-thirds of the world's population resides in regions that are considered "underdeveloped," despite their considerable variations in natural resources, infrastructure, economy, culture, society, and government. Therefore, making broad assumptions about impoverished regions is not only challenging but also risky. For this reason, we will focus on India and provide a concise analysis of the causes of the country's economic stagnation.

Naturally, the issue of what really constitutes "underdevelopment" arises. The level of industrialization and the share of the labor force that is employed in manufacturing might serve as such an indicator. Problems arise in adopting this metric due to the fact that highly developed nations like Australia, New Zealand, and Denmark owe much of their economic success to a flourishing agricultural industry. Japan and Israel, in contrast, have somewhat lower living standards but a more advanced industrial sector. To sum up, "although the occupational distribution of the labor force may give some insight as to the route via which an economy has been developing, it is not adequate to identify a country's degree of economic development,

LITERATURE REVIEW

Dua, Pami. (2020). The policy rate is determined by a Monetary Policy Committee (MPC) of six members, and the framework for monetary policy changed in 2016 to provide for more leeway in how it targets inflation. As a result of this development, India is now included in the group of nations whose monetary policy framework is based on inflation targeting. For the time period between August 5, 2016, and March 31, 2021, the Indian government has set a target inflation rate of 4%, with a tolerance zone of 2%. In this context, this article examines the development of India's monetary policy frameworks since the 1980s. It also details the delays and rigidities inherent in the monetary policy transmission mechanism. It emphasizes the need for further unconventional instruments of monetary policy, particularly during the easing cycle. The MPC voting pattern in India is also analyzed and compared to that of other established and developing nations. Policy rate cuts by MPCs throughout the world during the global downturn in 2019 and the COVID-19 pandemic in the early 2020s are also analyzed, as is the degree to which they were coordinated.

Ozili, Peterson & Ademiju, Adekemi & Rachid, Semia. (2021). Researchers and practitioners alike are interested in the effects of financial inclusion on economic development. The authors of this study conduct a literature assessment in order to both shed light on the current status of the field and point the way toward promising new avenues of investigation. Design/methodology/approach The authors used a technique known as thematic literature review, which includes categorizing the review into sections based on common topics. Findings The authors conclude that substantial new research on the issue appeared after 2016. Most of the research that has been done so far has come out of Asia and Africa, both of which are considered developing areas. The effect of financial inclusion on GDP has been studied before, but no applicable theories have been applied to the data. There are hardly any studies that find a detrimental effect of financial inclusion on economic development. Increasing financial intermediation and hence economic development is the most prevalent effect of financial inclusion. Causality tests, cointegration, and regression techniques are typical examples of the empirical approach found in the literature. The mixed findings across the current research may be attributed in part to the fact that several proxies for financial inclusion and economic development were utilized in the literature. In the latter section of the review article, the authors point out several potential avenues for more study. Originality/value with the first comprehensive thematic analysis of the research on the effect of financial inclusion on economic development, this study fills a significant gap in our understanding of this topic. It summarizes the most common method used in studies of this issue and suggests new avenues of inquiry.

Pal, Rajesh. (2021). Since the Nehruvian economic model prioritized central planning, licenses, quotas, and permits, it inevitably resulted in widespread corruption and cumbersome regulations. P. V. Narsimha Rao shifted the economy from Jawaharlal Nehru's industrializing, mixed economic model to a market-based one. This study analyzes the government's reform strategies undertaken so far to address economic issues and boost economic development. Specific emphasis is placed in this paper on economic policies that seek to speed up economic expansion, create new jobs, expand access to financial services, and encourage citizens to take part in their nation's economic development. Over time, changes in both the economic and financial sectors have become mutually reinforcing, with a shared emphasis on empowering the public to share in the benefits of rising living standards.

Kumar, Ritu. (2021). Following the recommendations of the Chakravarty Committee, India's monetary policy framework from the mid-1980s to 1997–1998 was a monetary targeting framework (1985). Some of the most developed nations base their economic policies on the overnight interbank rate, including the US, UK, Japan, Canada, and Australia. For the short-term interest rate market, the European Central Bank (ECB) employs a corridor approach, with the deposit facility as a floor and the marginal lending facility as a ceiling.

Zenchenko, Svetlana & Strielkowski, (2021) Key findings include a comparison of how different economies have developed in response to monetary factors, an examination of successful strategies for increasing the monetization of national economies, and suggestions for how to maximize the positive effects of monetary policy on economic growth. Mainstream government regulation now adheres to monetarist beliefs on the crucial role of fiat money in the growth of the real sector of the economy, capital markets, payment and settlement systems, and the general quality of living of the people. Somehow, if we could only figure out how interest rates, GDP, and inflation were all connected, we could fix the economy. To boost GDP development through monetary investments and credit, more money was issued than the value created by the products and services, i.e., the money supply was increased at a higher rate than the rate of economic growth. Thus, value has to be created for new money that didn't exist before. We contend that the primary determinant in delivering such incentives is the

monetarization of the activity in question. We hope that our findings will be helpful to those who create policy for and work in the banking and finance industries. Studies employing methodologies including content analysis, logical analysis, and statistical analysis provide the basis for the authors' findings and suggestions.

RESEARCH METHODOLOGY

To examine the results of monetary policy, secondary data is used. The research process makes use of a wide range of RBI website content and scholarly periodicals. Studying these factors allowed us to ascertain the importance of monetary policy in maintaining price stability. The increase of a country's gross domestic product (GDP) is the most important component, although the rates of inflation, unemployment, FDI, and monetary policy all have a role as well.

We evaluated five factors in our study on the effects of India's monetary policy on the country's economy; one of them was a dependent variable, while the other four were independent.

Dependent variables	Independent variables
	Inflation
	Foreign Direct Investment
	Unemployment Rate
GDP (gross domestic product)	Policy Rates

Data analysis is conducted through empirical research. The influence of several factors on the Indian economy is studied using data gathered over a 10-year period. Methodology relies on secondary sources and sampling convenience. Statistics have been compiled from a wide variety of sources, including the RBI Bulletin, RBI Occasional Articles, RBI Annual Reports, Currency and Finance Report, Economic Survey, Economic and Political Weekly (EPW), Finance and Growth, Economic Diary, The Hindu, ICSSR, Economic Times, IMF Report, Indian Economic Journal, Financial Express, World Bank Reports, the Internet, and more.

ANALYSIS OF EFFECTIVENESS OF MONETARY POLICY IN INDIA

Gross domestic product

Due to the worldwide financial crisis, GDP growth slowed to 6.72 percent in 2008–09, but rebounded to 8.59 percent in 2009–10 and 8.91 percent in 2010–11. However, owing to internal policy paralysis and tax conflicts, it fell to 6.69% in 2011–12, 4.47% in 2012–13, and 4.74% in 2013–14. The Index of Industrial Production (IIP) in India has dropped from 5.6% YoY in June 2014 to 2.95 in the most recent quarter ending in June 2019. The rate of increase in final consumption (IIP) has fallen by 1.54 percentage points after demonetization. As a result of declining income projections, India's budget deficit for the current fiscal year has increased to 3.6% of GDP from 3.4%.

Inflation

While wholesale prices for all goods increased by almost 38% between 2005 and 2010, the cost of food increased by more than 77% over that time. Vegetables, for example, have increased in price by 101%, whereas milk, eggs, meat, and fish have increased by just 80%. The food price crisis that hit the nation hard in 2009 and 2010 was a key factor in the country's overall inflation rate. For the week ending in December 2015, food inflation in India fell precipitously to 4.3% from 8% in the previous months as the price of onions, potatoes, and wheat fell and the price increase of other products slowed due to the favorable impact of the monsoon. The rate of inflation has declined dramatically during the last four weeks. For the week ending in November 2012, it dropped from 12.21% to the single digits. According to the wholesale pricing index, annualized headline inflation was found to be 9.73%. Since the beginning of 2010, the Reserve Bank of India (RBI) has raised key policy rates 13 times in an attempt to curb the country's rapidly increasing inflation rate.

FDI

The decline in FDI was 35.6% in 2009 and 6.75 % in 2010. The Indian economy had its weakest growth (GDP drop down to 5.5) and also faced with issues associated to high inflation in 2012, which led to a major reduction in FDI inflows to India. In 2011, FDI inflows to India increased by 31.56%. The MAKE IN INDIA campaign was largely responsible for the sustained uptick in FDI from 2013 forward. Foreign direct investment in India rose by 91% between 2013 and 2016.

Unemployment Rate

There was a financial crisis in 2008, but things began to look up in the economy and the job market by 2009. After that, in 2010 and 2011, the employment rate dropped to 3.54 because of the weak monsoon. Job opportunities with set schedules will become available in 2012. After that, foreign direct investment (FDI) is launched in India, which generates more job openings and brings the employment rate to 6.1% in 2018.

Policy Rates

Rate of Repurchase and Reverse In 2008, the Indian government sets the Repo Rate at 8 and the Reverse Repo Rate at 14, but when a recession strikes the economy, they decide to take control by lowering the rates to 5.8 and 9.8 in 2009. From then, the prices went to 6 and 10.2, and they stayed there until 2012, when they went up to 8.2 and 16, and then to 7.1 and 13.8 in 2013. The rates dropped to 6 and 11 percent in 2017, but they didn't change at all that year since the government decided to raise them to combat the effects of Demonetization and the implementation of the goods and services tax.

IMPACT OF SELECTED MONETARY INSTRUMENTS ON INDIAN ECONOMY

Model Summary

Model	R square	Adjusted R Square
1	0.88	0.76

The analysis shows that the variables are substantially positively linked, as R (Karl Pearson's coefficient of correlation) equals 93%, which is close to 1. As the independent variables rise, so does the dependent one (G.D.P.). A staggering 88% of the GDP's variability may be accounted for by external factors.

Model	F	Sig.
Regression	7.350	0.24a

The crucial value with 95% confidence is determined to be F (0.05,5,5) = 5.05, which is derived from the F table. In this case, the estimated value of F is 7.350, which is higher than the tabular value and so falls into the rejection range. So, we accept the alternative hypothesis and reject the null. Therefore, there is sufficient evidence to assume, with 95% confidence, that independent factors have a substantial influence on GDP.

Model (Constant)	Standardized Coefficients Beta	Sig. Inter
unemployment	-0.763	0.132
fdi	0.13	0.722
reporate	-4.985	0.009
revreporate	4.097	0.018
inflation	0.142	0.796

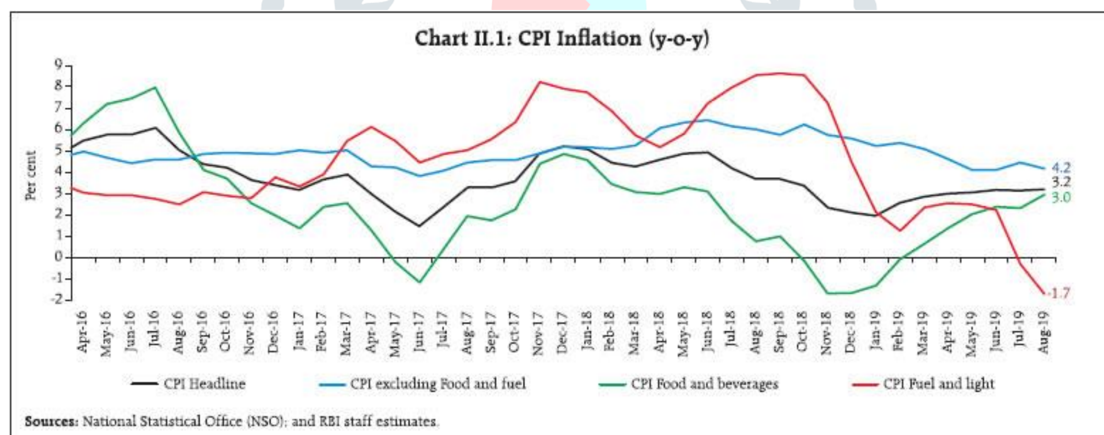
Interpretation:

The rate of unemployment in India has little bearing on the nation's economic output. Unlike the critical value, the calculated value is higher. i.e., 0.132>.05. As a result, we accept the null hypothesis that unemployment has no significant impact on the expansion of the Indian economy. The GDP of India is unaffected by foreign direct investment. Our calculated value is more than our crucial value. i.e., 0.722>.05. Therefore, the null hypothesis is accepted, and there is no relationship between foreign direct investment and the expansion of the Indian economy. That country's GDP is immune to inflation. Value calculated is larger than the threshold value. i.e., 0.796>.05. We accept the null hypothesis that inflation has no influence on the expansion of the Indian economy. In India, the GDP is affected by the repo rate. The calculated value falls short of the required threshold. i.e., 0.009<.05. This supports the alternate notion that the repo rate affects the expansion of the Indian economy. The Indian economy feels the impact of the reverse repo rate on GDP. A lower critical value than the calculated value is present. That the repo rate affects economic expansion in India (i.e., 0.018.05) supports the alternative theory.

Price Fluctuation

CPI headline inflation results managed to exceed inflation estimates as a whole due to these varying trends. From March 2019 through August 2019, inflation was measured at the consumer level. backed by rising costs of fruits, vegetables, and proteins. Since March, core inflation (inflation less the cost of food and energy) has decreased, but wage growth in the private and public sectors has diverged. For the industrial sectors, they were on the rise, while the service sectors saw no change. CPI Inflation lagged below the objective of 4.0% for the previous six months, from March to August of 2019. In the range of 3.1 percent annually. The Consumer Price Index (CPI) inflation rate forecast in the Monetary Policy Report (MPR) for April 2019 was 2.9%.

Despite the fact that food prices have emerged from deflation as expected, vegetable costs have risen this summer. Unpredictably, during 2019 and 2020, the average price of the Indian basket of crude oil dropped from US$67 per barrel to only US$62.



Consumer Prices

The median inflation rate throughout CPI has dropped significantly from 4.8% in 2018 to 201% in 2019; also, the negative tilt in inflation seen in 2017 and 2018 due to food prices has disappeared in 2019. Monthly variations in the difficulty index CPI item price fluctuations will moderate on a seasonally adjusted basis from June through August of 2019.

Figure 5 (a): CPI inflation rate of cereals

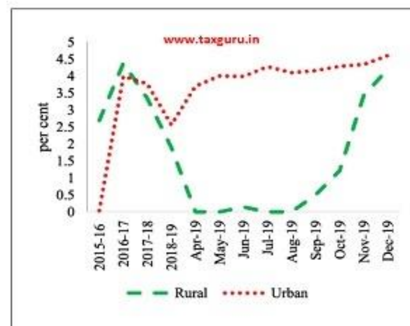


Figure 5 (b): CPI inflation rate of vegetables

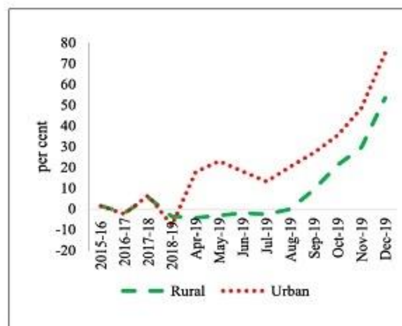


Figure 5 (c): CPI inflation rate of fruits

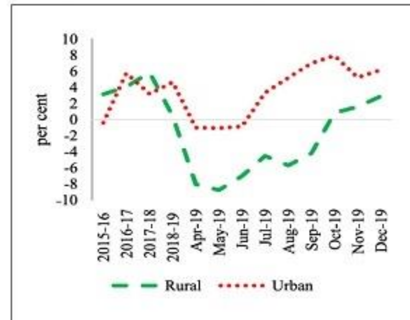
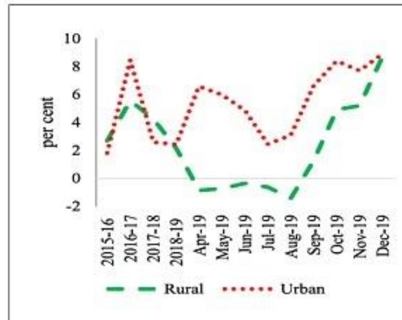


Figure 5 (d): CPI inflation rate of eggs



Source: NSO.

CONCLUSION

The Gross Domestic Product (GDP) of India is a conglomeration of all the many factors that improve the country's economy. The gross domestic product of India gives us a complete picture of the state of the Indian economy. In order to calculate India's GDP, economists may use either the "Cost Factor" or "Real Price" method. India's GDP grew rapidly after the 1990s due in large part to the country's more open economic climate. Access to markets was granted, and the government provided a boost to private sector investment. Consequently, more investment has been made in the markets. The monetary policy laws may either be active or passive. Like Milton Friedman's "money growth rule," the passive rule stipulates a constant capital supply. The second is to respond to changes in aggregate supply and demand by adjusting the money supply as needed to keep prices constant. Active regulation refers to a method of controlling prices and, by extension, inflation. Indian monetary policy is predicated on this principle. Consistent improvement is the hallmark of growth.

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