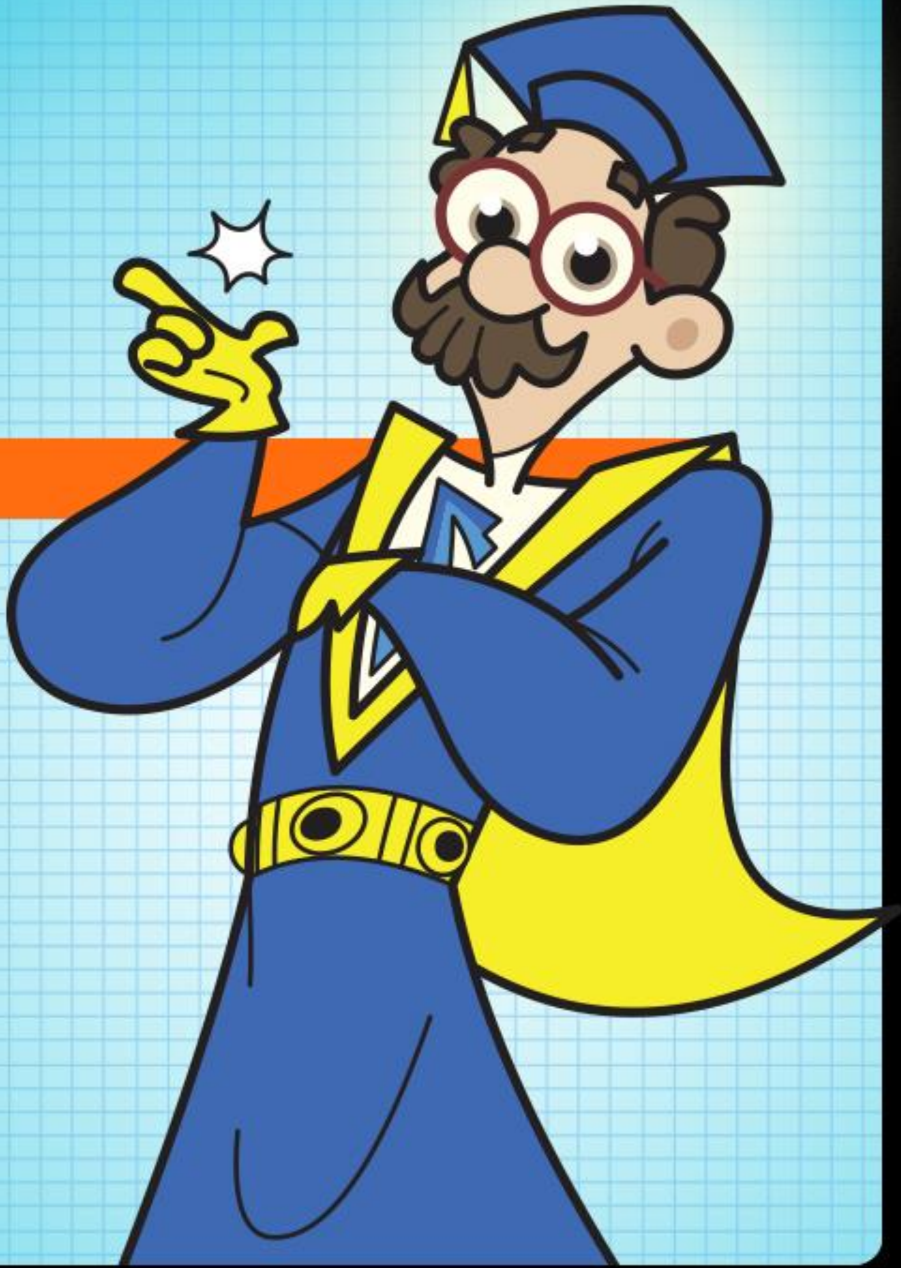
MONETARY POLICY



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Understanding Monetary Policy

– By Prof. *Simply* Simple

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MONETARY POLICY

- The Monetary Policy is the policy statement, announced annually in April, but reviewed four times a year at the end of each quarter, through which the Reserve Bank of India seeks to ensure price stability for the economy.

- Its constituents include - money supply, interest rates and the inflation. In banking and economic terms, money supply is referred to as M3 - which indicates the level (stock) of legal currency in the economy.

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Besides…

- **The RBI also announces norms for the banking and financial sector and the institutions which are governed by it.**

- **These financial institutions include:**
  - **Banks,**
  - **Financial institutions,**
  - **Non-banking financial institutions,**
  - **Nidhis and primary dealers (money markets)**
  - **Dealers in the foreign exchange (forex) market.**

MONETARY POLICY

How is the Monetary Policy different from the Fiscal Policy?

- **The Monetary Policy is different from Fiscal Policy as the former brings about a change in the economy by changing money supply and interest rates, whereas the latter is a broader tool with the Government.**

- **The Fiscal Policy can be used to overcome recession and control inflation. It may be defined as a deliberate change in Government revenue and expenditure to influence the level of national output and prices.**

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- For instance, the Government can reduce its expenditures or raise taxes during inflationary times.
- Fiscal policy aims at changing aggregate demand by suitable changes in government spending and taxes.
- The annual Union Budget showcases the Government's Fiscal Policy.

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What are the objectives of the Monetary Policy?

- **The objectives are to maintain price stability and ensure adequate flow of credit to the productive sectors of the economy.**
- **Stability for the national currency (after looking at prevailing economic conditions), growth in employment and income are also looked into.**
- **The monetary policy affects the financial markets through short-term quarterly implications as it is reviewed four times a year.**

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OK…but how does the Monetary Policy impact me?

- **In recent years, the policy has gained in importance due to announcements of the interest rates, which impact our lives.**

- **Over the past few years, the RBI Governor has preferred not to wait for the Monetary Policy (which is annual) to announce a revision in interest rates and these revisions have been made (in the quarterly reviews) as & when the situation arises.**

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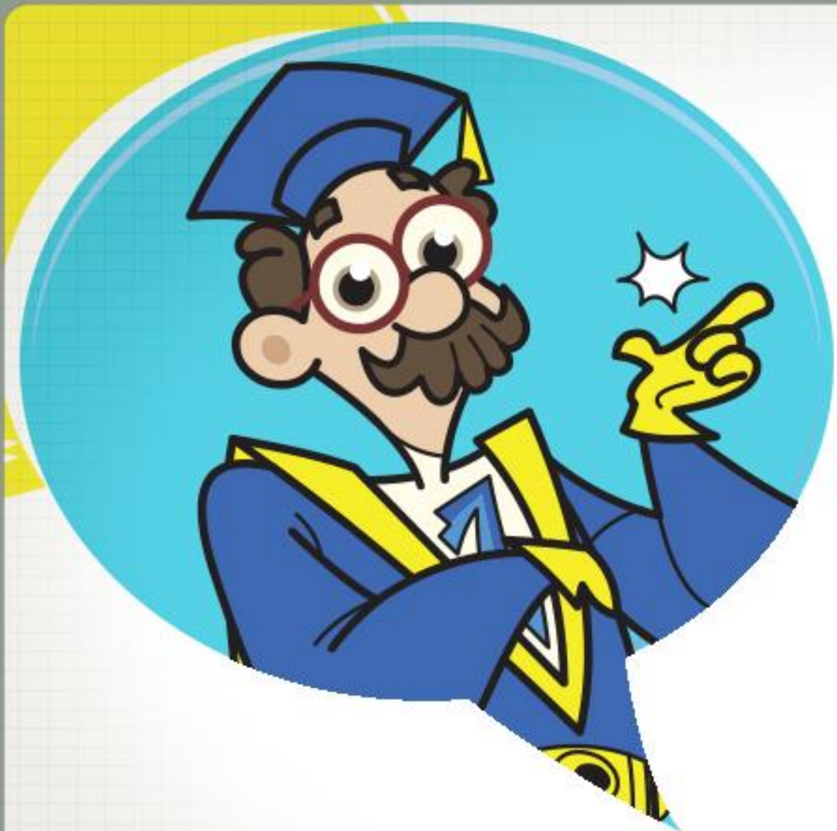

Hope you have now understood the concept of Monetary Policy

Thinking of Investment

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