Abstract
ABSTRACT

Introduction:

The thesis entitled "Role of Central Bank in Monetary Management of a country with special reference to Reserve Bank of India" is an attempt to analyse the role of Central banks of different countries especially the Reserve Bank of India in their monetary management in the changed environment. The methods of monetary management vary in degree and kind between one Central bank and another depending upon the particular stage of economic development of a country, volume and variety of its material resources, the make up of its banking and credit structure, the nature of its International financial relationship, the state of development of its capital market, the degree of organization and activity of its money market and in the trend of political thought and action. But despite all these variations the Central bankers all over the world are found with more or less the same outlook on monetary and banking matters. The interdependence of one country to another country has made the monetary management more complex. In this study, efforts have been made to critically examine the methodology adopted and
objectives pursued by different central banks for the effective
monetary management especially the Reserve Bank of India.

There is no doubt that the conduct of monetary policy in India
has transformed over the past 54 years, but the transition from a
planned economy to a market economy in the 1990, sharpened the
Reserve Bank’s monetary management dilemma of providing credit to
both the Government and the commercial sector at a reasonable cost,
while at the same time containing inflationary pressures. The sudden
external shocks requires a hardening of monetary conditions in order
to ensure orderly conditions in the financial markets, while the
growth objective presage a softer interest rate regime. These
increasing complexities of monetary management forced the Reserve
Bank of India to adopt a multiple indicator approach in which a cost
of macroeconomic variables are monitored for the process of
monetary policy formulation. In fact, the relative efficacy of the
different instruments and the environment in which they have been
applied have undergone a sea-change. Therefore, in this study efforts
have been made to analyse —

(i) How the emphasis on various monetary management instruments
   have evolved from essentially one of direct and administered
instruments to that of relatively indirect and market based instruments.

(ii) How far the Reserve Bank of India is successful in monetary management and able to achieve the objectives of price stability, growth and financial stability.

The data has been collected from the publication department of the Reserve Bank of India and the Economic Surveys of the Government of India. The data consists of the Bank rate changes, changes in the Cash Reserve Ratio (CRR), changes in the selective methods, interest rate changes, change in the money supply, inflation and the GDP growth. Efforts have been made to find the interdependence of different variables like inflation, GDP growth and money supply with the help of correlation coefficient and moving averages. This work is divided into five chapters covering almost every aspect of monetary management.

The chapter first is introductory in nature. It deals about the genesis of monetary management and the evolution of central banking as a technique of monetary management. The basic objectives of monetary management like control of cyclical phenomenon, continuity of values, economic stability and full employment of resources have been dealt in this chapter. An effort have been made to have a
comparative analysis of the operating procedures and the objectives pursued by different central banks in the changed environment where the choice of monetary arrangement depends more on the choices that other countries make.

Evolution of Central Banking technique of monetary management in India and the birth of the Reserve bank have been dealt substantially in this chapter. The reform measures which are essential for effective monetary management and to keep the financial structure of the country 'on an even keel' have been also dealt in this chapter.

Chapter second deals with the general instruments of monetary management. In the chapter efforts have been made to analyse the relative efficacy of different instrument especially in the changed environment. In order to analyse the relative efficacy of various instruments, the whole period is divided into pre-liberalisation period and post-liberalisation period.

The analysis shows that there is remarkable change in the use of different instruments. In the pre-liberalisation period the Bank rate was actively used upto the 70s and acted as a signaling rate. But gradually the bank rate was downgraded and the Cash reserve ratio became an active instrument of monetary management. Though the
open market operations were in use but not actively. But in the post-liberalisation period, which sharpened the Reserve Bank's monetary management dilemma, the bank rate and the open market operations reactivated and the role of bank rate as a 'reference rate', revived whereas, the liquidity adjustment facility (LAF) provides an interest rate corridor.

Thus the analysis concludes that in the changed environment, the reforms in the monetary policy-operating framework in terms of instruments, procedures and institutional architecture are essential for efficient monetary management. Further, it concludes that though all the three instrument have their own merits but no single instrument is adequate to task, so. all the three must be employed in proper combination to achieve the policy objectives.

Chapter third deals with the selective methods of monetary management. As we know that in the context of planning and development, selective credit control is necessary because it channelise bank credit to socially desirable and economically useful purposes. In India the selective credit controls are in operation since 1956 and have expanded in coverage, scope and content over the period. In order to have an effective analysis the whole period is divided into three phases, namely, pre-nationalisation period (1956-
In the pre-nationalisation period (1956-68), the selective methods were not very much effective, the share of bank credit to agriculture and allied activities were very low because the banks were reluctant in providing credit.

In the post-nationalisation period (1969-90) the economy was broadly divided into two categories, namely priority sector and non-priority sector. Various sectors like, agriculture, small industries, exports, roads and water transport operators, retail trade and small business and education and various others were included into the priority sector and the targets of priority sector credit for public sector banks were set and revised from time to time as a matter of government policy and to achieve the desired objectives. Thus during this period there was a persistent decline in the share of bank credit from scheduled commercial banks to industry as a whole and to large and medium industry in particular.

The post liberalisation period (1991 onwards) started with a severe balance of payment crisis and a high rate of inflation, reflecting the growing internal imbalances of 1980s. With the liberalization of the external sector, the management of capital flows
posed a fresh challenge to monetary management. During 1994-95, the evolution of prices and output led to a tightening of selective credit controls on a number of goods but with the expectations of bumper *Kharif* crop and the improvements in the price–output trend selective credit controls were reduced and eliminated in some cases. In 1996-97, with the liberalization of selective credit controls on bank advances against price-sensitive essential commodities, various commodities were exempted from selective credit controls from October 21, 1996. And therefore, we can say that the selective credit controls were virtually eliminated in October 1996. In fact, the degree of success of selective credit controls are very much dependent upon the factors like – the extent of effective credit restrictions, because, the selective credit controls are generally security oriented and purpose oriented.

*Chapter four* deals with the impact of monetary policy on macroeconomic variables. There is widespread acceptance that the design and conduct of monetary policy has an important bearing on aggregate economic activity and it is being actively considered as an instrument of stabilization working through aggregate demand to smoothen oscillations of economic activity around the desired path. Therefore, in this chapter analysis have been made to know, how the
monetary policy affects output and inflation and for this correlation coefficient between money supply and the inflation and between inflation and output have been determined. Three years moving average graphs have been also depicted to show the interdependence to these variables. In this chapter an effort have been also made to get the transmission channel especially in the changed environment in order to achieve the desired objectives. Here an attempt has been also made to find the trade-off between inflation and growth, and it has been found that there is a non-linear relationship between inflation and growth.

Fifth and the final chapter devoted to the conclusion and suggestions. After going through the extensive study, we can say that in the contemporary macroeconomic thinking, there is no clear winner once enjoyed by Classicals, Keynesians or Monetarist. There is no doubt that the conduct of monetary policy shaped the process of financial sector reforms, but financial liberalization itself posed fresh challenges to the conduct of monetary management. The evolution of interlinked money, government securities and foreign exchange markets, posed challenges to monetary management in terms of heightened risks of contagion.
Though, price stability is generally recognised as the primary goal of monetary policy, but there is little evidence that inflation targeting on an average improves performances of output. Thus, it is important that Central Banks must, at any time, simultaneously pursue three objectives of price stability, growth and financial stability.

Lastly, this chapter concludes that the record of the Reserve Bank in monetary management has been, on balance, satisfactory. In fact, it will be good to say that the degree of credibility that the Reserve Bank of India has earned overtime, is in itself an effective instrument of monetary management in meeting the future challenges.