CHAPTER 7

Summary of findings and Conclusions

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Summary

Monetary Policy has undergone a sea-change in the recent past through out the world. With the inception of Economic Reforms in India, the importance of Monetary Policy has become much more and it has undergone metamorphosis. Many studies were conducted at the International and National levels by Apex Banks, International Monetary Fund, World Bank and individuals. Hence, a lot of literature is available to study the implications and the impact of monetary policy changes from time to time at the International and National levels. The select review of literature is reviewed. The objective of study is to review the monetary policy reforms since the recommendations of Chakravarthy Committee and to examine the monetary policy changes since 1991. The study is primarily based on secondary data. Multiple regression technique is used to study the impact of changes in various monetary policy instruments on the economy. Multiple regression results tested using the $R^2$, F Test and Durbin & Watson Statistic. The study pertains to economic reforms undertook in India between 1991 and 2001 covering a period of ten years. Monetary and economic changes during the 10 year period are analysed and inferences are drawn.

Monetary policy is as old as monetary system and money itself. There are evidences showing that monetary management was known even in ancient period. Till 1914, the whole thinking of monetary policy was based upon the automatic gold exchange system. The brake down of the gold exchange system during World War –I compelled the statesmen in the world to think about a new monetary system. The depression of 1930s provided further stimulus to the thinking of reforms in the monetary system. Since then onwards the monetary policy has become an important economic policy world over.

The origin of monetary management in India traced back to time immemorial. The history of monetary management and policy in terms of central banking technique and practice began in January 1773, with the establishment of first presidency bank of Calcutta, followed by Presidency Bank of Bombay in 1806 and Presidency Bank of Madras, 1840. By amalgamating the three presidency banks, an Imperial bank came into being in January 1921. The Central Banking Enquiry
Committee of 1931 recommended for establishment of a Reserve Bank, accordingly per the Reserve Bank of India act, 1934.

With the establishment of the Reserve Bank of India, the management of monetary policy was shifted from the Government to the Reserve Bank of India. An active role by the Reserve Bank of India in terms of regulating the growth in money and credit became evident only from the mid-1950s. With the launching of the First Five Year Plan in 1951, monetary policy has become an important instrument for maintaining the price stability and regulation of investment and business activity. The RBI's monetary policy became an important tool of economic development since the inception of planned economic development in India. The Government was completely dependent on RBI for financing its fiscal deficit. Monetisation of fiscal deficits has become a routine affair and has reached exorbitant levels. The Government exercised full control over the financial system to allocate resources for planned developmental needs of the economy. A distinct shift occurred in the late 1960s, when stronger Central control over credit allocation was imposed, seeking to achieve greater congruence between credit flows and the pattern of production in the five year plans. These trends received further impetus after bank nationalization in 1969. The period from the early 1970s was also characterized by weakening of fiscal discipline leading to a large expansion in the Central Govt's domestic and foreign borrowing requirements. The ratio of the gross fiscal deficit to GDP increased from 3.5 per cent in 1970-71 to 8.4 per cent in 1990-91. Through obligatory reserve ratios, the resources of banks came to be incorporated into the fiscal allocation process, with less emphasis on bank profitability. With a view to keeping the Govt's borrowing costs down, the yields on both treasury bills and longer term paper were kept artificially low. This limited the demand for Govt paper to the captive market of the banks and the other term financial intermediaries, such as insurance companies and provident funds. Residual financing needs of the Govt thereby devolved upon the RBI. This led to strong inflationary pressures during 1970s.

The functioning of the monetary system has not undergone any comprehensive review since its inception. Hence, the RBI felt that there was every need to review the working of monetary system and suggest measures for improving the effectiveness of the monetary policy as an instrument for promoting the basic objective of planned economic development. As such appointed a committee to review the functioning of the monetary management in 1982, under the
The committee undertook an in-depth study of the monetary system and called for several changes in the then existing monetary system for achieving growth with stability. The recommendations of the committee have become the foundation for monetary reforms in India. Since then onwards, the RBI and the Government of India appointed various committees to study the functioning of monetary and financial sectors. The recommendations of all these committees laid foundations for monetary and financial sector reforms in India.

By 1980s many a countries in the world experienced high growth rate of their economies. But these growth rates were achieved at the expense of high inflationary pressures. Hence almost all the countries in the work realized that there was a need to reform their economies to make them viable and efficient. These countries started discarding old economic philosophies, guiding the process of their economic development and started launching ambitious reforms of their economic policies. Economic reforms have been undertaken at such a pace that they are sweeping the entire Eastern Europe and a broad and wide spectrum of developing countries.

India adopted the concept of mixed economy under which respective roles were assigned to public and private sectors. Though India recognized socialistic pattern of society the basic character of the Indian economy remained capitalist in nature. In the early 80s, India started half-hearted opening of its economy. As a result, trapped in serious economic crisis at the end of 80s, India started reforming its economy since 1991 by implementing the new economic policy. The new economic policy aimed at structural reforms and stabilization measures to improve productivity and efficiency of the economy. Accordingly, a large number of government-induced entry restrictions, licensing requirements and other regulations have been simplified and strengthened. The Indian economy has performed well over the past two decades. Average annual real GDP growth accelerated from 5.4 per cent during the twelve-year period ending 1991-92 to 6.4 per cent during 1992-93 through 2000-2001. During this period, it has gone through significant structural change that has been induced by a continuous process of economic reforms. The pace of reform was intensified in the 1990s and the economy has responded well to the new changes that have been introduced in almost all sectors of the economy during this period. As a consequence, the economy has also shown a great degree of resilience even in
the presence of adversities, such as the East-Asian financial crisis of 1997-98 and the abnormal increase in oil prices.

Despite the many achievements of economic reforms, much remains to be done to achieve our full potential. There is every need to further deepen reforms to set the stage for higher growth over the next decade. In view of the many changes that have taken place, it is now quite possible for the Indian economy to attain an even higher growth path. Crucial action is required in a number of key areas in order to obtain the full benefits of the reforms carried out so far.

The process of financial sector reforms, which began in the wake of the economic reforms in early 1990s, has been carried forward through various credit policy announcements. The conduct of monetary management has undergone significant changes in the 1990s in terms of objectives, framework and instruments, reflecting broadly the progressive liberalization of the Indian economy. Monetary policies pursued mark a significant departure from the past and became an essentially market oriented policy. There has been an upsurge of interest in the operational framework of monetary policy. With the growing perception that the explanatory power of intermediate target regimes is getting eroded under the impact of globalization and financial innovations, attention has shifted to the development of simple and flexible rules whereby monetary policy can directly achieve its objectives. The objectives have been re-balanced in terms of the relative importance assigned to the economic liberalization. Several landmark initiatives have been announced during the past 10 years to activate the monetary policy as more effective tool. A major transformation has also taken place in the operating procedures of monetary policy. The reform of monetary and financial sectors has enabled the RBI to expand the array of instruments of indirect monetary control and at the same time reduce reliance on reserve requirements. The liquidity management in the system is carried out through open market operations.

The reserve requirements were reduced substantially. The requirement of CRR was reduced from a peak level of 15 per cent in 1991 to 5.5 per cent at present. The SLR was brought down to 25 per cent, minimum prescribed level by the Banking Regulations Act; from 38.5 per cent at the beginning of the economic liberalization. Bank Rate, which was lost much of its significance before the dawn of reforms, emerged as an effective instrument. The bank rate has become more active during the 10 years of economic reforms. Interest rates were lined to bank rate. Till 1990s restrictive policies were followed in respect of interest rates. The
Economic reforms ended with full liberalization of the interest rates in respect of both deposits and advances.

A new concept of liquidity adjustment facility was developed during the reforms period and it has emerged as an effective and flexible instrument for influencing liquidity on a day-to-day basis. The LAF rendered the necessary flexibility to RBI to operate on liquidity and to some extent to signal interest rates in the short-term money market. The LAF combined with strategic OMO, have evolved into principal operating procedure of monetary policy. It has emerged as an effective mechanism for absorbing and/or injecting liquidity on a day-to-day basis in a flexible manner as well as transmitting short-term interest rate signals and in the process, providing an informal corridor for the call money market.

In addition to the general methods of monetary regulation, RBI used the Selective Credit Controls and moral suasion to direct credit to the sectors required and desirable. Much importance was given for credit delivery mechanism particularly for agricultural and small-scale sectors. Concessionality in lending rates was practically abolished. The definition of priority sector has been widened. Several measures have been taken to ensure timely and adequate flow of credit to the export sector.

As recommended by the Chakravarthy Committee, monetary targeting approach was pursued during the reforms period. During the years of reforms, an active debt management policy was pursued to prudently influence the composition, maturity structure and yield of government securities. The interest rates on Government borrowing instruments were made closely market related with the introduction of auction system. In order to develop an efficient secondary market for government securities, the Securities Trading Corporation of India was set up. A new instrument called 'Zero coupon Bond', an auction system for conversion of Treasury Bills into dated GOI securities and a system of delivery versus payment (DVP) were introduced.

Another major element of financial sector reform has been the introduction of prudential norms and regulations aimed at ensuring the safety and soundness of the financial system, imparting greater transparency and accountability in operations and restoring the creditability of and confidence in the Indian financial system. Monetary policies during the reforms period concentrated much on strengthening the public sector banks. Major component of the restructuring of public sector banks was to inject capital to meet the minimum stipulated Capital Adequacy Ratio. Branch licensing policy was liberalized and banks fulfilled the minimum requirements were given autonomy, facilitating them to open or close.
down their branches, recruit manpower, permitting them to write-off accumulated losses, raise capital from public and reduction of government stake. Entry norms for private sector banks were liberalized and local area banks were set up. Regional Rural Banks were revamped to make them more viable. Various measures were introduced to improve the regulatory and supervisory roles. A separate Board for Supervision (BFS) was set up within the Reserve Bank to ensure implementation of regulations. Two supervisory rating models based on CAMELS and CACS for rating have been worked out. Guidelines were issued on Asset Liability Management, covering management of credit, market and operational risks. Risk-based supervision approach was introduced.

The new economic policy paved a path for inviting more investments in various sectors of the economy. Investment norms were liberalized to attract more investors. Banks were permitted to acquire shares and debentures in the secondary market. And were advised to classify a minimum of 75 per cent of their investment in approved securities as current investments. Valuation norms applicable for bank investment portfolios were modified to reflect market movements. Sweeping changes took place with regard to introduction of technology in the financial sector. Measures were taken to effectively meet the grievances of the customers. The reform process yielded good results and this is reflected in the performance of the public sector banks, which has registered an impressive progress in all spheres of their activity.

An empirical study was done in Chapter - 6, to analyze the significance of the changes in monetary policy instruments. Since the parameters selected for the study are interrelated, there is a possibility of variables being auto correlated, in which case the results may be inefficient. Hence Multiple regression technique is used to test the results using $R^2$ and F Tests and Durbin Watson Statistic to study, whether there is any auto correlation. As per the results, a combination of two or more variables only was influencing the Aggregate Deposits and credit. There is no significant relationship between interest rates and the deposits and advances. Aggregate deposits and advances are interest inelastic. All the parameters are independent and not a singly monetary instrument completely affects changes in aggregate deposits. Collaborating the empirical results with the help of theoretical understanding of the study and also by applying common sense economic arguments, it is found that not a single instrument can influence the deposits and advances. None of the monetary policy instrument individually affect any one of the monetary aggregates. It is statistically proved with
empirical results that a combination of the monetary policy instruments is only influencing the economy.

7.2. Conclusions and Suggestions

The ten years of economic reforms registered an impressive growth in the economy, despite some hitches here and there. India is a vast country with lot of resources and good amount of potential human resources and continuation of further reforms will make the country more prosperous. Monetary policy played a crucial role in transformation of the economy from poverty ridden country to a prosperous country. The process of financial sector reforms, which began in the wee of the economic reforms in early 1990s, has been carried forward through various credit policy announcements. Basing on the study, the following conclusions are drawn:

Several landmark initiatives have been announced during the past 10 years to activate the monetary policy as a more effective tool. A major transformation has also taken place in the operating procedures of monetary policy. The reform of monetary and financial sectors has enabled the RBI to expand the array of instruments of indirect monetary control and at the same time reduce reliance on reserve requirements. The liquidity management in the system is carried out through open market operations. The Liquidity Adjustment Facility operations combined with strategic open market operations have been evolved as the principal operating procedure of monetary policy.

The first decade of reforms came to an end and the financial system has grown not only in size but also in complexity. While the policy environment will remain supportive of healthy growth and development with an accent on greater operational flexibility as well as greater prudent regulation and supervision, the second phase of reforms would have to be on improvement in the organizational effectiveness of banks and other financial entities. As sufficient ground was already laid during the past ten years, the next phase should concentrate more on encouraging credit off take. Banks should move away from excessive concentration on asset management and adopt a more general approach of asset liability management aimed at modifying their liability structure in consonance with the desired asset structure. Management of credit risks would have to be accorded a very high priority. A framework has to be created for carefully assessing the pressures of demand for credit on the one side and the availability of funds through various sources, on the other. Banks need to exercise their freedom judiciously so that there is a balance between bank profitability and...
fulfilling the requirements of credit needs of the society. Special attention should be given to develop the necessary treasury management expertise while managing their investment portfolios. Banks should diversify their finance to various sectors of the economy.

The RBI has done a commendable job of creating enough opportunities for banks to improve their organizational efficiency and profitability. But only well-equipped banks capable of implementing these changes can harness the proposed benefits. Success will depend primarily on the organizational effectiveness of banks and imaginative corporate planning combined with organizational restructuring. If banks do not upgrade their systems, skills, technology and responsiveness to use the operational freedom, the only option will be to exit from the financial market. Any further delay in the recoupment of operational efficiency may prove an irreparable loss and banks may lose the competitive edge in the market.

There is excess of funds with banks now, but not much improvement in non-food credit. The Government should withdraw all subsidies and encourage food for work program, generate employment avenues and spend more money. Eradicate poverty, make people to work and pay them more money. On one hand, we have excess of funds and on the other people are starving for food. There is a lot of scope for improvement in all sectors of the economy, which will generate more employment opportunities. But because of the political pressures and political favors, much importance is being given for subsidies and write-offs, rather than generating more employment opportunities, which are making people more lethargic. Our infrastructure facilities require more attention. Create better infrastructure facilities. The excess of funds released to the system by way of reduction in Reserve Ratios should concentrate on these aspects.

In the present depressed market the average saver is unable to choose the right savings instruments. RBI could consider giving shape to its idea of retailing government securities through bank branches. The newly set up Clearing Corporation of India (CCIL) could be entrusted the task of settling all transactions in government securities up to a specified limit and transactions above that limit could be cleared through SGL. Bankers should be advised to provide prompt credit to CCIL to manage contingencies including defaults.

There was an uncontrolled and unregulated growth of NBFCs till 1995-96. Soon the sector was struck by disaster as millions of investors lost their money because of their mismanagement of their fund, the most notable being that of CRB Capital. Small Investors including pensioners lost their fortunes by investing in mutual funds, particularly in equity based ones. All these episodes and the
current mess in the financial sector point to major inadequacies in the implementation of reforms and in particular, the failure to put in place an efficient regulatory framework. Viewed with the benefit of hindsight, it is apparent that the approach taken to financial sector reform in India has been piece-meal and incoherent. The two Narasimham Committees (1991 and 1998) largely set the reform agenda for this sector. Though most recommendations of these Committees were accepted, not all have been implemented. Only the recommendations concerning the RBI and monetary policy have been implemented in few cases with some modifications. Stringent norms are being introduced only after some financial frauds came to light. In the case of NBFCs, the norms were tightened after the CRB Capital episode. Their capital adequacy requirement was raised to 10 per cent by March 31, 1998 and 12 per cent by March 31, 1999. It was also stipulated that the NBFCs could accept public deposits only if they satisfy the preconditions of possessing captioned funds of at least Rs 25 lakh. But the recent failures and frauds of the NBFCs and co-operative banks prove that there is no proper supervisory mechanism. In case of co-operative banks, however, because of dual control that of the RBI and the State Governments the RBI has not been able to impose the required discipline. There is large-scale interference of politicians and mismanagement of funds by these banks. The RBI has been supervising not only commercial banks but also the term lending and other specialised financial institutions and NBFCs. The emphasis is on putting into effect international best practices and attaining CAMELS (capital adequacy, asset quality management, earnings, liquidity and system) through offsite and onsite monitoring and auditing standards.

The dis-information is the cause and action of the recurring failure of financial market. Be it stock market scam or UTI scam or bank scam. The required information is being collected from the organization concerned, who always try projecting only positive aspects of the organization. Though we talk much about transparency in financial policy and framework, in practice no proper transparency. There should be proper mechanism to assess the pitfalls in the data furnished.

Management of credit risks would have to be accorded a very high priority. Persistence of large non-performing assets is essentially a reflection of a poor credit risk management system. While the ratio of NPAs to total loan assets has come down, yet in absolute terms, the volume of NPAs has remained large. Since a high level of NPAs is symptomatic of poor credit management, banks with
high NPAs would particularly need to put in place an effective credit appraisal and management system.

The RBI has covered a lot of ground in rationalizing and deregulating progressively the interest rate structure, lowering the SLR and CRR and providing the banking sector greater operational freedom including the flexibility in determining the PLR. But there is no much credit off take. Banks would have to equip themselves to operate in an increasingly deregulated interest rate environment. A framework would have to be created for carefully assessing the pressures of demand for credit on the one side and the availability of funds through various sources on the other. Banks need to exercise this freedom judiciously so that there is a balance between bank profitability and the requirements of credit. Risk assessment is an important part of credit analysis. As banks would also be increasingly subject to the interest rate risk with fluctuation in the interest rate, special attention would have to be given to developing the necessary treasury management expertise while managing their investment portfolios.

The increase in the interest payable on eligible cash balances with RBI will improve the profitability of the banks. Though the interest rates have come down substantially, the real rate of interest almost remains same, because of fall in the inflation rate. As advocated by Milton Friedman, the interest rates should protect the inflation rate and it should be at least 2 per cent over the inflation rate. The interest of the depositors should be protected while reducing the interest rates, lest it should increase diversion of more funds to unorganized sectors, where interest rates will be more attractive. Reduction in interest rate on advances, without corresponding reduction in the deposit rates will adversely affect the banks' profitability. When the interest rates come down, it is applicable for all advances uniformly, but the deposits continue to earn the contracted rate of interest till maturity. This adversely affects the banks' profitability. As such the same pattern of reduction in interest rates should be followed for both deposits and advances.

A significant improvement in customer service by banks can no longer be ignored. In an increasingly competitive environment, banks, which provide poor customer service, will find themselves losing their client. In this regard, there is a paramount need for banks to put in place appropriate corporate strategies depending upon the nature of their clientele.

It is empirically proved that no single monetary policy instrument is able to show much impact on the economy. It is only a combination of the instruments that influence more on various segments of the economy. Hence, the RBI should
always use these instruments in a combination, which is more suitable and required judging the necessity of the prevailing economic conditions.

Economy needs deregulation so that it responds to economic forces rather than to bureaucratic and political whims. There are still too many rules and regulations that serve simply to interfere with business activity. In the old days, the justification given for interference was "Socialism" or "Planning." Now it is "Globalisation and modernization." What is needed now is not mere downsizing of the government, but freedom from controls.

As recommended by the Chakravarty Committee, monetary targeting approach was pursued during the reforms period. But it is only on 4 occasions that the monetary targets could actually be achieved since 1985 and only once during the reforms period. Despite fall in inflation, the M3 exceeded the targeted level for many years. Had the inflation was higher, perhaps it would have exceeded the target substantially. The Monetary targeting would be effective only if simultaneously, fiscal deficit, particularly expansion of net RBI credit to the Central government is contained within a reasonable limit. The pressures on monetary expansion were emanated from monetisation of fiscal deficit and later on from capital inflows. The practice of automatic monetisation of the budgetary deficit was done away with effect from April 1997. Since the interest rates are completely liberalized now, to have a control over monetary expansion, lest there will be no mechanism to control inflation and the inflation rate may go beyond control. Hence, in the free liberalized economy, the government and RBI should control the money supply. It should ensure that the actual money supply does not exceed the targeted level.

Another major element of financial sector reform has been the introduction of prudential norms and regulations aimed at ensuring the safety and soundness of the financial system, imparting greater transparency and accountability in operations and restoring the credibility of and confidence in the Indian financial system. These norms provide additional charge on capital for various kinds of risks including credit risk, market risk, operation risk, interest rate risk etc. Debt recovery tribunals were set up for speedy disposal of cases pertains to bad debts of banks. RBI has formulated a new scheme entitled 'One time settlement' of bad debts. Broad guidelines were issued for compromise or negotiated settlement of NPAs. Settlement Advisory Committees were set up in public sector banks to facilitate settlement of NPAs. Powers of the top executives of the banks were enhanced for settlement of NPAs. Though all these measures recorded an impressive performance with regard to recovery of NPAs, the generation of fresh
NPAs, every year is a matter of grave concern. There is no much progress in the cases dealt by the Debt Recovery Tribunals. Though recommended by several committees, the Asset Reconstruction Corporation has not yet been constituted. Unless there is some changes in the legal procedures, there can not be much progress in the recovery of bad debts. The government should think of seizing the properties of all the parties concerned and realize the maximum amount possible, without waiting for settling in the courts or DRTS.

Monetary policies during the reforms period concentrated much on strengthening financial health of the public sector banks. Major component of the restructuring of public sector banks was to inject capital to meet the minimum stipulated Capital Adequacy Ratio. It has been demonstrated that mere infusion of capital has not solved the problem of weak banks. The government should not encourage dumping of public money into sick financial institutions. They should be allowed to mobilize the resources from their own channels and function effectively.

Various measures were introduced to improve the regulatory and supervisory roles. A separate Board for Supervision (BFS) was set up within the Reserve Bank to ensure implementation of regulations. Two supervisory rating models based on CAMELS and CACS for rating have been worked out. Guidelines were issued on Asset Liability Management, covering management of credit, market and operational risks. Risk-based supervision approach was introduced. Despite all these efforts there is some lacuna in the regulatory and supervisory role of the apex bank, which is evident from the recurrence of frauds and failures in financial sector. This may be because of assigning the regulatory and supervisory role with one authority. Hence there is an imperative need to set up an autonomous center for excellence in regulation and supervision, wherein supervisory skills are continuously upgraded. A system has to be evolved under which, if somebody violates the regulatory framework, hurting the depositors there has to be quick redressal. Regulation should be within a limited range and supervision should be stringent. Any violation should invite penalties that should be widely publicized.

The reform process yielded good results and this is reflected in the performance of the public sector banks, which has registered an impressive progress in all spheres of their activity. But the beginning of the new economic policy saw the securities scam and the progress of reforms witnessed a series of scams. This led to a general thinking that more transparent system of financial system should be developed to arrest this trend and recurrence of frauds.
Banks need to exercise their freedom judiciously so that there is a balance between bank profitability and the requirements of credit. Special attention should be given to develop the necessary treasury management expertise while managing their investment portfolios. Banks should diversify their finance to various sectors of the economy.

Many Committees were appointed to study the problems that have been faced by various segments of the financial sector. The Government accepted most of the recommendations but there is a laxity in regard to implementation. To speak in legal terminology “justice delayed is justice denied” holds good in the implementation of the recommendations of the Committees.

Automatic monetisation of fiscal deficit by Reserve Bank of India has been replaced with the ways and means of advances since 1997. Most of the banks feel investments in government bonds are the safest investment. With Increase in interest payable on government bonds, government is borrowing more and banks also get more income. If the interest is reduced on government bonds, it reduces the government debt-servicing ratio and encourages banks to take a commercial judgement for deployment of funds in a more profitable way. The Government should restrict investments by banks as is done in case of automatic monetisation and should not allow banks to invest more than the limit.

Subsidized credit to select sectors and select borrowers undermined the development of those sectors. It has also proved in various studies conducted world over. Therefore, the subsidized credit program of banks should be dispensed with, in a phased manner. India lives in villages. Still more than two thirds of population lives in village and half of the population are depending upon the agricultural sector. The world’s highest populated country China registered much progress in the recent past because of the reforms it introduced in the agricultural sector, which automatically reflected in the performance of other sectors. The second most populous country India could not register the same growth despite its intensified reforms, because of much importance was not given for reforms in agricultural sector. So, the government should intensify its efforts further and concentrate more on reforming the agricultural sector. Except the innovation of Kisan Credit Card, replacing the short-term production loan, there are no innovations in agricultural finance. More innovative ways of financing the agriculture is the need of the hour and banks should be given freehand in extending their finance to this sector and schemes. The coverage under Kisan Credit Card should be widened.
The monetary policy concentrated on improving credit in agricultural sector in the pre-reforms era and not so much of importance was given for agriculture during the reforms period, except widening of the coverage. Despite widening the coverage, most of the banks especially foreign banks and private banks could not reach the target. The stipulation of target for agriculture can be withdrawn and the financing for agriculture can be left for the commercial judgement of banks. Because of their vast net work of branches in rural areas and because of the competitive environment created by liberalization of the economy, banks would definitely go for sustainable agricultural development. It has proved that restrictions and stipulations are always an hindrance for growth and free hand given for any activity is fruitful. Lifting of restrictions leads the agricultural finance to grow faster and lead the economy to prosperity.

The government should constitute the monetary policy committee immediately and it should be allowed to function independently and effectively. As everybody world over looking at the meeting of the Federal Reserve of USA for its periodical announcement, the minutes of the monetary policy committee should become more effective. Instead of waiting for the announcement of half yearly monetary policy, to know the direction in which the monetary policy is directing the economy, the minutes of the monetary policy committee gives the position at very frequent intervals, which reflects the prevailing economic situation and changes required.

The RBI has done a commendable job of creating enough opportunities for banks to improve their organizational efficiency and profitability. But only well equipped banks capable of implementing these changes can harness the proposed benefits. Success will depend primarily on the organizational effectiveness of banks and imaginative corporate planning combined with organizational restructuring. If banks do not upgrade their systems, skills, technology and responsiveness to use the operational freedom, the only option will be to exit from the financial market. Any further delay in the recoupment of operational efficiency may cause an irreparable loss and banks may lose the competitive edge in the market.

The New Economic Policy laid strong foundations for Indian Economy to meet the global challenges. Despite the ideological differences of the parties ruling the country during the past ten years the reforms were continued with the same spirit. This has built sufficient confidence in the world that Indian Economy is committed itself for a strong growth. Even within India the States that have implemented the New Economic Policy boldly achieved good results and returned to power with a positive vote in elections. The States that have not implemented
The reforms lost the power in elections. So it is people's wish that Indian Economy should continue to implement the reforms on an ongoing basis.

7.3 Scope for further Research

The study is confined to the ten-year period of economic reforms. Reform is a continuous process and the monetary policy is going to play a crucial role in the market-oriented free economy. Ten years of the reforms are partly successful and the process of liberalization is still going on. Further research can be done to study the full impact of the reforms and the success of the reforms. Changes made in the monetary policy may not show its influence immediately. It takes some time for the economy and industry to react for the changes. The time lag in implementation of the monetary changes is not taken into account in this study. Further research can be done with taking the time lag into consideration. There is a need to develop a model, thereby the time lag can be quantified for each instrument separately. The study could not take into account the quarter-wise changes in the instruments and the corresponding changes in the economy, as there were changes in some quarters in some instruments and there are no changes in other instruments, to employ statistical tools uniformly. Further research can be done taking this element into account as well.

To sum up, strong foundations were laid for sound and strong financial sector through various monetary policy measures announced under new economic policy. These reforms are to be carried forward for making the monetary policy more effective to render the financial sector, in particular and economy in general, more vibrant and dynamic in bringing about economic stability and sustained growth.