ABSTRACT

Changes in monetary policy instruments like repo and reverse repo rates are made by the RBI to influence the demand for and supply of bank credit to achieve the goals of price level control and economic development. Indian banks are responding positively to the changes initiated by the RBI and hence policy instruments are effective in influencing the supply of credit. But direct as well as indirect policy instruments do not have any significant impact on the credit supplied by the foreign banks operating in India. Liquidity Adjustment Facility and Market Stabilization Scheme are highly effective in controlling the day-to-day money supply in the economy. Reduction in the weighted average lending rate to agriculture and industries positively influenced the demand for credit and in turn the contribution by these sectors to the GDP of India improved considerably. Household customers who have no access to formal credit are not bothered about the changes in interest rates. But those who have access to different sources of credit are cautious about the interest rate changes and hence the demand for retail credit may be influenced by policy changes.

Keywords:- Monetary Policy, Bank Credit, Cash Reserve Ratio, Repo rate, Reverse repo rate, Demand for Credit, Supply of Credit.