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TOPIC :- OBJECTIVES OF MONETARY POLICY IN INDIA

During the course of planning, the monetary policy of India aimed at the following objectives:-

(I) To promote savings and capital formation and tap potential savings.

(II) To mobilise savings for capital formation and for growth investment projects.

(III) To provide incentive to investment, and thus, to prepare an investment climate conducive to the fulfilment of plan objectives.

(IV) To provide extensive credit to cater to the growing needs of agriculture, industry, trade, commerce and other productive activities, thereby promoting overall economic growth.

(V) To curb the inflationary spiral. To maintain an appropriate structure of relative prices and general price stability.

(VI) To permit growth without any

financial impediments.

For monetary Policy, however, the Chakravarti Committee stresses the following macroeconomic goals :-

(a) Price stability.

(b) Promotion of savings.

(c) Mobilisation of resources in a non-inflationary manner.

(d) Allocation of resources to the priority sectors and for more productive purposes.

(e) Promotion of an efficient Payment system.

Besides above objectives, following are the key objectives of the monetary policy as mentioned in "Reserve Bank of India: Functions and Working, 2005" :-

(i) Regulation of monetary growth consistent with expected growth in output and a desirable rate on inflation.

(ii) Ensuring adequate expansion of

credit for the purpose of meeting genuine credit requirements of productive sectors of the economy.

It may be seen that these objectives are interrelated. There is, however, some conflict between the two broad objectives of the monetary policy in India, namely economic growth and price stabilisation. A reconciliation between the two is, thus, essential. To some extent, price increase is inevitable and should be tolerated as an inevitable concomitant of economic growth. Of course, severe inflation must be checked immediately.

In developing economy like India, the monetary policy has to be, therefore, both promotional and regulatory. It should smoothen the process of economic growth and accelerate it through adequate credit expansion, but at the same time, the inflationary impact of extensive credit generation should be checked. Monetary policy should initiate the process of monetisation of the economy by creating additional flow of money.

In an expanding economy, the additional money supply may prove helpful for activising unutilised resources and unemployed labour into productive activity. Monetary Policy can significantly assist in the institutionalisation of savings and investment in a developing economy. The Reserve Bank of India, as such, assumes an important role in initiating, promoting and regulating banking and financial intermediaries in the country. Again, it has a vital role to play in checking inflationary forces that are released through the methods of financing involved in the process of develop-ment.