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***REVIEW ARTICLE***

# Effect of Monetary Policy in the Economic Development of India

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## ABSTRACT:
Monetary policy plays a significant role in maintaining economic activities of the countries. Prevailing economic situation is the result of monetary policy strategy and an appropriate monetary policy will be an aid of economic growth it controls the economy situation of the countries with the help of their different control measures to attain the low inflation, price stability and full employment. In monetary economics, control of money supply refers to control of the supply of currency and deposit money.

**KEYWORDS:** Monetary Policy, Money Supply, Financial Condition, Price Stability, Economic Growth, Inflation and Deflation.

## INTRODUCTION:
According to S.L.N, "The Reserve Bank of India responsibilities is not merely one of the credit restrictions. In a growing economy there has to be continuous expansion of money supply and bank credit and the central bank has the duty to see that legitimate credit requirements are met. The expansion of credit and money supply, in such a way as to ensure the legitimate requirement of industry and trade and curb the use of credit for unproductive and speculative purposes. That is why the Bank rightly called its credit policy in recent years as one of controlled expansion."

### Meaning of Monetary policy
Monetary policy is a regulatory policy by which the central authority of the government controls the supply of money, cost and availability of money to achieve the economic goals of the country.

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### Objective of monetary policy
The main objective of the monetary policy is price stability and growth and it is pursued through regulation of money supply and credit control. And the other relevant objectives are as under:

- The Monetary policy is controls money supply and credit.
- Full employment and balanced economic growth.
- Stability in foreign exchange rate.
- Removal of in equilibrium in balance of payments.

### Objectives of the study
- To analyse the effect of the monetary policy in Indian scenario.
- To study the significance of price stability.
- To analyse effect in economic growth of India.

### Analysis of effect in Indian scenario
### Effect in Price stability
Main object of the monetary policy, maintain price at stable level avoiding inflation and deflation.

The main reason which affects the price stability depends on the below situations:-

- If the inflation arise then there is rise in general price level, increased rate of interest will decrease the borrowing and spending due to increased cost of borrowing .
- It will increase the exchange rate result in increase in import and decrease in exports.

- Deposits will be low due to low purchasing power of money, which could be the country's economic resource.

So for the growing economy central bank (RBI) should not be very rigid about the quantity of money but it should follow the controlled expansion of money by judging the prevailing financial condition of the economy to further rise in prices which will be certainly hinder the economic growth.

**Effect in the Economic Development**

Every act of the monetary policy effect the economic development of the country but it varies according to the requirements of the economies a developed economy definitely reached at the level of growth, it require to maintain a price stability or full employment but for the underdeveloped countries and developing country economic growth should be the primary goal of the monetary policy.

- Monetary policy plays a role in maintaining effective currency and credit system by which trade and investment increases.
- Monetary policy creates psychologically impact on population for voluntary saving which can be channelized into productive purposes.
- Through Effective monetary policy economic development can be achieved in which there will be full utilisation of available resources, decrease in unemployment problem, increase in capital formation and per capita income which ultimately raise the standard of living.

**Present Actions by RBI**

In order to ensure RBI's complete control over the supply of money and credit, it has been given exclusive power to issue currency notes. In our country presently both currency notes and cheques are used for payment purposes- coins constitute a very small part of money supply in the country and they are now used for making small payments.

RBI issues guidelines for control black money, in present guideline RBI suggested to people to submit currencies in the bank on or before 31st March 2014 which was printed before 2005.

So here it is clear that effect of monetary policy in the economic development and RBI play big role to maintain them.

## CONCLUSION:

In the above discussion it is clear that monetary policy is regarded as best to sustain increase of price in the market for growth and development. Monetary policies apply their different tools of measurement to keep the general level of price and the low price level is indicators of long term growth. Through the instrument of monetary policy desire goal cannot be achieved immediately, it is the duty of the monetary authority to assess the future expectation of inflation and impact of current policy on the goal of the economy. So there is significant impact of monetary policy on financial condition of the economy, where high inflation will curb the economic welfare of the society affecting the potential of production, consumption and investment decisions.

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