Shodhaamrit, Vol.-2; Issue-2 (July-Dec.) 2025 : Page No.-164-169

शोधामृत

(कला, मानविकी और सामाजिक विज्ञान की अर्धवार्षिक, सहकर्मी समीक्षित, मूल्यांकित शोध पत्रिका)

**ISSN : 3048-9296 (Online)**
**3049-2890 (Print)**
**IIFS Impact Factor-2.0**
Vol.-2; issue-2 (July-Dec.) 2025
Page No- 164-169


https://shodhaamrit.gyanvividha.com

**RAUT NILESHKUMAR KAILASHBHAI**
Research Scholar,
Department of Commerce,
Veer Narmad South Gujarat University, Surat, Gujarat, India.

Corresponding Author :

**RAUT NILESHKUMAR KAILASHBHAI**
Research Scholar,
Department of Commerce,
Veer Narmad South Gujarat University, Surat, Gujarat, India.

# A Study on the Impact of Monetary Policy Instruments on India's Economic Growth

**Abstract :** Monetary policy is a key instrument through which the Reserve Bank of India (RBI) controls money supply, credit availability, and interest rates in the economy. The main objective of monetary policy is to maintain price stability, encourage investment, and ensure economic growth. This paper examines the impact of major monetary policy tools—such as the Repo Rate, Reverse Repo Rate, Cash Reserve Ratio (CRR), and Statutory Liquidity Ratio (SLR)—on India's Gross Domestic Product (GDP). Using secondary data and recent trends, the study explores how policy changes influence inflation, investment, and overall growth.

**Keywords :** Monetary Policy, GDP Growth, Repo Rate, Inflation, Indian Economy, RBI.

**Introduction and Rationale :** Monetary policy, led by the Reserve Bank of India (RBI), is a key macroeconomic instrument used to achieve price stability and support sustainable growth. The principal operational tools include the policy repo rate (the rate at which RBI lends to banks), the reverse repo rate, reserve requirements such as CRR and SLR, and liquidity operations. The interaction between these instruments and aggregate demand influences investment, consumption, inflation and, ultimately, GDP growth. The COVID-19 shock, subsequent policy easing, and the later phase of policy normalization globally have renewed interest in understanding how central-bank

rate adjustments translate into real GDP outcomes in India. This study therefore examines the empirical relationship between monetary policy settings and GDP growth in the Indian context, focusing on 2010–2024 (data sources explained below).

**Scope** : The analysis focuses on annual GDP growth and annual/periodic policy-rate levels (repo, reverse repo, CRR, SLR) for India, supported by literature and descriptive analysis. The study intentionally emphasizes short-run linkages and policy narrative rather than an exhaustive structural econometric model, to keep emphasis on actionable insights and a readable synthesis for researchers and policymakers.

**Objectives of the study :**

1. To study the various monetary policy tools used by the Reserve Bank of India.
2. To analyze the impact of changes in monetary policy rates on India's GDP growth.

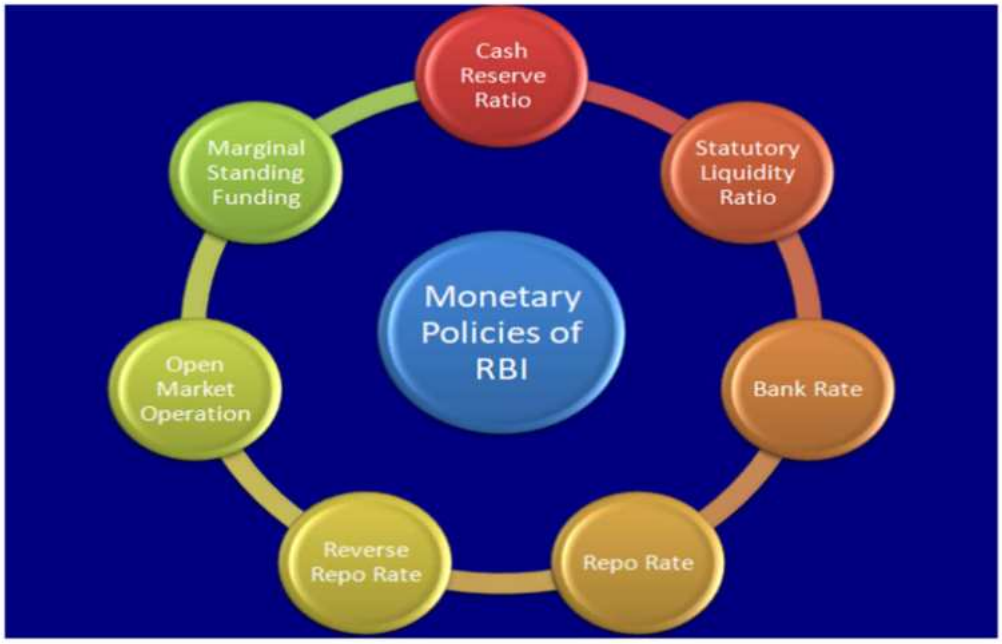
**Literature Review :**

**Table 1:**

| S. No. | Author(s) & Year | Method / Data | Key Focus | Main Findings |
|---|---|---|---|---|
| 1 | Das & Ghosh (2016) | SVAR; India data (multiple years) | Monetary shocks → output | Monetary policy shocks positively affect output in short run; transmission depends on financial depth. |
| 2 | Narayan, Mishra & Narayan (2018) | Structural VAR | Monetary policy and growth | Expansionary monetary policy has a positive and significant effect on GDP; financial development strengthens transmission. |
| 3 | Das (2023) (conference paper) | Time-series 2010–2020 | Monetary variables and GDP | Monetary policy significant in short run; limited long-run effect due to structural factors. |
| 4 | ResearchGate study (Dec 2023) | Panel/time-series | Repo, reverse repo, inflation, GDP | Selected monetary instruments influence GDP via investment, inflation channels; recommended coordinated fiscal stance. |
| 5 | IJCRT (2023) | Descriptive & empirical review | Monetary policy role during shocks | Monetary policy critical for price stability and supporting growth during crisis; exchange rate and external sector channels also important. |
| 6 | Empirical studies (various, 2012–2022) | VAR/ARDL/etc. | Transmission mechanisms | Most studies find stronger short-run transmission; structural reforms and banking sector health affect long-run efficacy. |

**Monetary policy Meaning and Instruments :** Monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth. It involves strategies such as adjusting interest rates and changing bank reserve requirements. In the United States, the Federal Reserve Bank (Fed) implements monetary policy to meet its dual mandate from Congress: to achieve maximum employment while keeping inflation in check. Monetary policy is the control of the quantity of money available in an economy and the channels by which new money is supplied. Economic statistics such as gross domestic product (GDP), the rate of inflation, and industry and sector-specific growth rates influence monetary policy strategy. A central bank may revise the interest rates it charges to loan money to the nation's banks. As these rates rise or fall, financial institutions adjust their rates for their customers, such as businesses or home buyers. This can either slow or encourage borrowing, spending, business activity, hiring, and economic growth. It can also affect the rate of inflation. Additionally, a central bank may buy or sell government bonds, target foreign exchange rates, and revise the amount of cash that the banks are required to maintain as reserves.

**Figure 1: Monetary Policies Instruments**




There are several direct and indirect instruments that are used for implementing monetary policy.

- **Repo Rate:** The interest rate at which the Reserve Bank provides liquidity under the liquidity adjustment facility (LAF) to all LAF participants against the collateral of government and other approved securities.
- **Standing Deposit Facility (SDF) Rate:** The rate at which the Reserve Bank accepts uncollateralised depo-

sits, on an overnight basis, from all LAF participants. The SDF is also a financial stability tool in addition to its role in liquidity management. The SDF rate is placed at 25 basis points below the policy repo rate. With introduction of SDF in April 2022, the SDF rate replaced the fixed reverse repo rate as the floor of the LAF corridor.

- **Marginal Standing Facility (MSF) Rate:** The penal rate at which banks can borrow, on an overnight basis, from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit (2 per cent). This provides a safety valve against unanti-cipated liquidity shocks to the banking system. The MSF rate is placed at 25 basis points above the policy repo rate.
- **Liquidity Adjustment Facility (LAF):** The LAF refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system. It consists of over-night as well as term repo/reverse repos (fixed as well as variable rates), SDF and MSF. Apart from LAF, instru-ments of liquidity management include outright open market opera-tions (OMOs), forex swaps and market stabilisation scheme (MSS).
- **LAF Corridor:** The LAF corridor has the marginal standing facility (MSF) rate as its upper bound (ceiling) and the standing deposit facility (SDF) rate as the lower bound (floor), with the policy repo rate in the middle of the corridor.
- **Main Liquidity Management Tool:** A 14-day term repo/reverse repo auction operation at a variable rate conducted to coincide with the cash reserve ratio (CRR) maintenance cycle is the main liquidity management tool for managing frictional liquidity require-ments.
- **Fine Tuning Operations:** The main liquidity operation is supported by fine-tuning operations, overnight and/or longer tenor, to tide over any unanticipated liquidity changes during the reserve maintenance period. In addition, the Reserve Bank conducts, if needed, longer-term variable rate repo /reverse repo auctions of more than 14 days.
- **Reverse Repo Rate:** The interest rate at which the Reserve Bank absorbs liquidity from banks against the collateral of eligible government securities under the LAF. Following the introduction of SDF, the fixed rate reverse repo operations will be at the discretion of the RBI for purposes specified from time to time.
- **Bank Rate:** The rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is published under Section

49 of the RBI Act, 1934. This rate has been aligned with the MSF rate and, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

- **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a per cent of its net demand and time liabilities (NDTL) as on the last Friday of the second preceding fortnight that the Reserve Bank may notify from time to time in the Official Gazette.
- **Statutory Liquidity Ratio (SLR):** Every bank shall maintain in India assets, the value of which shall not be less than such percentage of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, as the Reserve Bank may, by notification in the Official Gazette, specify from time to time and such assets shall be maintained as may be specified in such notification (typically in unencumbered government securities, cash and gold).
- **Open Market Operations (OMOs):** These include outright purchase/sale of government securities by the Reserve Bank for injection /absorption of durable liquidity in the banking system.

**Data and Methodology :** Data Sources :

1. GDP growth (annual %) — World Bank national accounts (annual GDP growth series).
2. RBI Policy rates — Official RBI releases and compiled historical tables for repo, reverse repo, CRR and SLR (selected dates/levels). Supplementary historical compilations from RBI trackers and financial-data aggregators.
3. Period Covered: Primary descriptive analysis covers 2010–2024 (annual observations and selected intra-year policy-rate levels).

Methodology :

1. Descriptive time-series inspection of annual GDP growth vis-à-vis key policy-rate movements (repo).
2. Tabular presentation of monetary policy instruments for selected benchmark years and policy episodes (to map rate shifts to growth changes).
3. Synthesis of literature to triangulate empirical findings with observed data movements.

**Findings :**

1. Repo Rate is the most influential tool among monetary policy instruments in affecting GDP growth.
2. A reduction in repo rate stimulates borrowing, investment, and production, leading to higher GDP.
3. CRR and SLR changes affect liquidity but have a moderate impact on growth compared to interest rate policy.
4. Post-2016, the Monetary Policy Committee (MPC) made decision-making more transparent and inflation-focused.

5. RBI's COVID-19 monetary easing successfully revived the economy in 2021–22.
6. Tightening policy in 2022–25 helped contain inflation but slightly slowed GDP growth—showing the growth–stability trade-off.

**Conclusion:** Monetary policy remains a powerful tool for maintaining economic stability and promoting growth in India. The study concludes that interest rate adjustments, particularly the repo rate, play a crucial role in determining the pace of GDP growth. However, the effect is not immediate—it takes several quarters for policy changes to influence the real economy.

The RBI must maintain a balanced approach to ensure that growth is not sacrificed for inflation control. As India moves toward a $5 trillion economy, effective coordination between monetary and fiscal policy will be essential to achieve sustainable and inclusive growth.

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