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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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THE IMPACT OF MONETARY POLICY OVER THE INTEREST RATE: AN EMPIRICAL STUDY

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ABSTRACT

Impact of monetary policy on the interest rate is a study done to find out the relation between the monetary policy changes on interest rate with two Indian public and private sector banks the study helps to find out the relationship between the interest and monetary policy the multiple indicator approach is focusing on the change in the single parameter changes the entire indicators the influence might be direct otherwise indirect. The study aims to find out the relevance of monetary policy review on the quarterly basis and how should be the monetary policy impact the general economy of the country. The cash flow among the public can be controlled by the central bank with a change in the any of the parameter that is the controlling authority of the reserve bank of India. The study help the researcher to find out how the change is happening and why the change become necessary to the economy, sometimes it might be inflation or otherwise deflation, any situation which will have a long run impact over the economy forces central bank to come up with new monetary Policy.

KEYWORDS

Monetary Policy, Interest Rate, Economy.

1.1 INTRODUCTION

Monetary policy rests on the relationship between the rates of interest in an economy, that is, the price at which money can be borrowed, and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic Growth, Inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard.

1.2. RESEARCH METHODOLOGY

1.2.1. RESEARCH DESIGN

Research design stands from the advanced planning of the methods to be adopted for collection of relevant data. Moreover it explains about the techniques to be used in the analysis, keeping in view the objective of the research and availability time and money. This research design was selected based on the objective on the study and keeping in mind the time and availability of recourses for the research.

1.2.2. TYPE OF RESEARCH

The type of research design used in this project was the descriptive research. Because, it helps to describe the money supply in a country and it elicit the researcher to find out for what reasons the monetary policy is framed and the working of monetary policy, the detailed analysis is only possible through the descriptive research design.

1.2.3. SOURCES OF INFORMATION

It is necessary for every research to have both primary data and secondary data, without which the research would be inefficient. The secondary data was collected through, journals, websites and other investment related websites and Tex books available for the banking. In this study the primary data collection is not easy hence the researcher meets various Industrial experts and seeks their advice for doing the project. All these data were helpful in carrying out the analysis.

1.2.4. SAMPLING DESIGN

Sample design lays down all the details to be included in a sample. It is a definite plan for obtaining a sample from a given population. The sampling technique used was the convenience sampling (or) deliberate sampling from non probability sampling.

Non probability sampling is that sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the population. Convenience sampling was the method refers to the collection of data from members as population who are conveniently available to provide data. In this research the researcher find the experts who are convenient give data.

1.3. ANALYSIS OF THE MONETARY POLICY

RBI raised the repo rate, at which banks borrow from the central bank, by 50 basis points to 7.25 per cent, thereby making funds costlier for banks. In turn, banks will also rise their base rates which will make loans dearer.

Also, the equated monthly installments in case of loans already taken are set to go up.

Speaking to reporters after an interaction with RBI, bankers said the impact of the policy rate rise on the interest rates could be in the range of 50-100 basis points.

"We should remember that the impacts of earlier policy rate hikes have not been fully transmitted yet and today policy rates have been hiked further.

"This will lead to increase in lending rates. I suppose what most banks will do is maintain their margins and a large part of the increase will have to be passed on to the consumers in the form of rate hikes," said Chanda Kochhar managing director and chief executive officer, ICICI Bank RBI had raised policy rates eight times in the financial year 2010-11, to which banks responded with at least three rounds of base rate increases.

IDBI Bank was the first to respond to the rate hike with an increase of 50 basis points in its base rate as well as benchmark prime lending rate.

"In response to an increase in the cost of funds, where deposit rates have been increased and keeping in view the market conditions, IDBI Bank also reviewed its base rate and BPLR and decided to increase both," said the government-run bank in a statement.

IDBI Bank's base rate will be at 10 per cent and BPLR at 14.50 per cent from May 5, 2011. In addition, the bank has also increased interest rates on retail term deposits in some maturities by 25-50 basis points.

1.4. IMPACT OF THE POLICY ON THE INTEREST RATES

The estimates of GDP growth, the estimates of inflation, all that was in the price, even though 25 basis point price was already in the price, so overall the market is currently just heaving a sigh of relief. Interest rate hikes, inflation, liquidity squeeze are still problems. So going forward, investments may slow down if this continues for anotherx 3-6 months.

Q4 will still not be great for banks because all of us, even all the banks believe that the rate hikes are not over, there are a couple of more hikes on the anvil. But given the robustness of the banking sector, it would not be a huge area of concern but another couple of rate hikes is there in the price.

Ultimately, we are going to need another 50 basis points from RBI on both the repo and the reverse repo.

RBI has a very difficult task ahead of them here. You have got to get arrest inflationary expectations and that feeding into the broader array of prices in the economy and we can see that this is becoming similar to what we see going on in China where the monetary aggregates are growing much faster than nominal GDP. It suggests that the momentum of inflation and price pressure, demand pressures are not likely to slow down with this current policy setting. So you do need to tighten things up a little bit.

Indian equities' performance depend on how overheated the economy gets. Once you get the rates up to high enough level and the economy begins to slow down and perhaps there will be a good monsoon or good agricultural har, a lot of the soft commodity prices globally will begin to ease.

The increase in repo rates by 25 basis points is in line with market expectations and that's a prudent thing to do because in the current money market rates, especially rates at which CDs and CPs are prevailing, are pointing to much higher policy rates. So no reason for policy rates to be hiked in a hurry because anyway money markets are very tight and liquidity is tight. So in terms of cost of funds, it is already tight and to that extent, base rates and BPLRs have increased. It is still wait and watch mode in terms of any increase in lending rates is concerned.

RBI has announced whatever liquidity measures for this quarter in terms of extension of the facilities, which are currently in place for the rest of the quarter. So considering the anti-inflationary stance, further liquidity easing measures would be too optimistic to expect.

The Monetary policy is reviewed only to regulate the interest rate thus to influence money supply in the country and influence economical growth, inflation and various other economical measures.

The study is focused on the change of interest from a private sector bank to a public sector thus the researcher selected the largest private sector bank and largest Public Sector Bank, ICICI Bank and State Bank of India respectively.

The Study reveals that the distribution of the change in the base rate from the public sector to private sector is the same and the public sector banks can levy the lowest interest rate from the customer but that is not applicable for the Private sector Banks.

The private sector is having advantage of charging a little bit more interest rates compared to the public sector banks.

Banks	Previous Interest rate	Current Interest rate	Variance of interest rate
ICICI BANK	7.50	8.0	0.50
State Bank Of India	7.25	7.75	0.50

Parameters	Previous rate	Current rate	Variance in rate
Repo rate	6.75	7.25	.50
Reverse repo rate	5.50	6.25	.75
Marginal Standing facility rate	7.75	8.25	.50
Bank rate	6.0	6.0	-
Cash reserve ratio	6.0	6.0	-

1.5. INTERPRETATION

From the above table it is clearly understood that the proportional change in the repo rate and Marginal standing facility rate changes the proportional change in the interest rate. Thus the research reveals the relevance of the change in the interest rate will bring a same change in the interest rate and the main factor to increase this rate to lower the inflation.

1.6. INFLUENCE OVER ECONOMY

The economy is influenced by the interest rate changes the change in the interest rate brings about the supply of money changes and it regulate the lending power of the banks and thus the circulation of money among the public is regulated by the reserve bank and it thus influence the economy and money supply.

The reversal might increase the money supply and it increase the buying power of the public and it increases the interest rate and GDP, But sometimes the market value of the stock market is influenced by the favourable and unfavorable monetary policy.

Last monetary had such an impact over the banking and secondary market. The reduction of the inflation and wholesale price index was the motive of the monetary policy. The economy is controlled and regulated using the monetary policy by the reserve bank of India.

1.7. CONCLUSION

The Reserve Bank of India is having the highest impact over the economy to regulate and reduce the economical impact over the economy. Public sector and Private sector banks are mainly framing the interest rate because of the monetary policy and its not just because of their own interest, there are lots of measures to reduce the interest rate and lending power of the banks,

Reserve Bank of India is acting as a Police to control the money flow in the country the UID and biometric tracking devices and online fund transfer details giving the RBI much more details to track the financial affairs of the public which give it more power to control over the economy and money flow.

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With sincere regards

Thanking you profoundly

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