

# **Impact of Operational Decisions of RBI on Indian Economy – An Evaluation of Select Instruments**

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## **Abstract**

The current economic scenario of various countries across the world are hugely suffered from the set back issues such as War incidents, global recession, downward trend of economic growth and uncertainty caused due to COVID-19. The outlook for growth and inflation are both at risk from lingering conflict and sanctions, high oil and commodity prices, protracted supply-chain disruptions, amplified global financial market volatility resulting from monetary policy changes in major economies and new COVID-19 outbreaks in India. During 2021–2022, excess liquidity conditions and the external benchmark-based pricing of variable rate loans significantly improved monetary transmission. The bulk of the industries saw an increase in interest rates on existing loans. With the support of conventional and unconventional liquidity measures, RBI has supported the banks to maintain orderly market conditions while boosting mood on the financial markets. In view of the existing scenario, the research paper critically examines the trends in instruments used by RBI to control the flow of deposits and money circulation among the banks with a main aim to reduce the negative effects of economic down turn. In this paper, an attempt is made to evaluate the impact of financial instruments of RBI on Indian Economy. The paper further examines the influence of the select instruments (i.e., Repo Rate, Reverse Repo Rate, Cash Reserve Ratio) on Inflation rate, GDP and Unemployment rate. The study is descriptive research oriented. Secondary sources of data extracted from RBI; World Bank data holds major part of the present research paper.

## **Keywords**

CRR, GDP, Inflation, Repo Rate, and reverse Repo Rate.

## **1. Introduction**

India has a broad financial industry that is rapidly growing due to both the expansion of already-existing financial services companies and the entry of new players. Commercial banks, Insurance firms, Non-Banking Financial Institutions, co-operatives, Pension funds, Mutual funds, and other smaller financial organizations forms the sector. The banking regulator recently permitted the creation of new organizations, like Payment Banks, expanding the variety of organizations operating in the market. The Statistics of RBI reveals that Commercial banks make up more than 64% of the total assets held by the Financial System, making the Indian financial sector primarily a banking sector. By 2028, India is anticipated to rank as the fourth-largest private wealth market worldwide.

India's economy is currently among the most dynamic in the world because, to its thriving of banking and insurance industries. The Financial Services Industry responded favorably to the loosening of foreign investment regulations, with many corporations announcing plans to raise their interests in joint ventures with Indian firms. The Reserve Bank of India (RBI) claims that the Banking Industry in India is adequately capitalized and well-regulated. The nation has significantly better financial and economic circumstances than any other nation in the world. Studies on credit, market, and liquidity risk indicate that Indian banks are generally robust and have fared well during the global recession.

Growth in the banking industry is anticipated to be further boosted by increased infrastructure spending, better project execution, and ongoing reforms. All of these indications point to the banking sector in India being well-positioned for expansion as rapidly expanding companies seek to banks for credit. Additionally, the development of technology has made online and mobile banking services more prominent. The banking industry is placing more emphasis on offering their customers better services and modernizing their technological infrastructure in order to improve the entire customer experience and give banks a competitive edge.

In addition to cooperative credit institutions, the Indian banking system includes 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96,000 rural cooperative banks. There were 213,145 ATMs in India as of September 2021, with 47.5 percent of them located in rural and semi-urban areas. In order to achieve the specific goals, the monetary authority must control and regulate the supply and demand for money through the use of monetary policy.

### **1.1 Instruments**

Banking Indicators which significantly influence the performance of Indian Banks is Prescribed below:

The Repurchasing Option / Repurchasing Agreement (REPO) rate is the rate at which the RBI lends commercial banks short-term money when they borrow from the RBI. Repo Rate entails the sale of securities that will be repurchased in the future. When inflation exceeds acceptable levels, the RBI raises the Repo Rate, which causes home loans, other EMIs, and lending rates to rise, reducing demand and liquidity in the financial system. Increased interest rates reduce inflation and have a negotiable impact on GDP and unemployment.

The rate that the RBI provides banks wishing to maintain their funds with it is known as the reverse repo rate, which implies that the RBI short-term borrows funds from commercial banks. The reverse repo market is employed to control cash flow and preserve the nation's financial reserves. Money is moved from one account to another at the reverse repo rate. While other factors stay constant, a rise in the reverse repo rate causes a decrease in the money supply and vice versa. The market supply will decrease as a result of commercial banks being more inclined to lodge their cash with the RBI when the reverse repo rate rises. Reverse repo rate increases lower inflation without affecting GDP or unemployment.

The Cash Reserve Ratio(CRR) is another conventional monetary instrument that the RBI has been employing to curb national inflation as well as credit flow to the commercial sector. The percentage of a bank's total deposits that it must keep in liquid cash is known as the CRR. A bank cannot use the liquid cash it maintains with the RBI for lending or investing reasons, nor does it get interest on it. CRR aids in the development and maintenance of commercial banks' solvency positions. The CRR rate aids in maintaining a steady flow of money and credit throughout the economy. Inflation is impacted by a rise in the CRR rate, although GDP and the unemployment rate are unaffected.

Gross Domestic Product (GDP) is a metric used to determine the monetary worth of finished goods and services, or those that are purchased by the final consumer and produced in a nation during a specific time period (quarter/year). Investment spending, net exports, government spending, and consumption are the constituents of GDP.

The pace of price growth over a specific time period or the decline in the purchasing power of money is known as inflation. There are four different types of inflation: hyperinflation, galloping, walking, and creeping. The main drivers of inflation are demand-pull, cost-push, inherent, increased money supply, devaluation, rising wages, etc. Consumer Price Index is used to measure inflation (CPI). The higher earnings are really enriched by inflation while the lower ones suffer. Maximum employment is seriously threatened by rising inflation.

## **2. Objectives of study**

1. To Study the Performance of Banking Indicators and to analyze the Banking environment.
2. To assess how banking indicators affect the Indian economy.
3. To assess the influence of repo rate, reverse repo rate, and cash reserve ratio on Indian Economy.

## **3. Review of Literature**

Akiko (2005) have presented various issues raising from frequent foreign exchange rate in Asian countries. The author especially focused on China as well as India in their capital inflows. Author finds some connections between two economies in credit growth, but their impacts short-lived. Due to which some changes in exchange rate policy are called to have more freedom in policy options, although the incentives are limited, and also currencies are managed more tighten in liquidity than previous. Finally, the author tries to argue maintaining the

exchange rate in control, some domestic reforms should be pushed for capital account conversion and more flexibility in exchange rates can be observed in long term.

Trifonova (2021) has discussed about monetary policy implemented by the US Fed after the global financial crisis. The authors have conducted analysis and study the economy effects of US Fed in financial market by observing 10-year government bonds from January 2009 to march 2019 where they used monthly data. As their first step they planned gradual termination of quantitative easing, lifting of the interest rates which were reign during 2019-2020. Authors have used vector error correction model to determine changes in bonds, interest rates, portfolio balance, exchange rate channels etc., The Authors found the results that monetary policy must be guided carefully, consistent with macroeconomic conditions to avoid serious potential risks in coming future.

Malz (2020) has opined that, due to unsecured federal rates overnight crisis can be seen to operations at which bank lend to one another in the domestic US market. The author says it is difficult to keep the funds rate for dropping below its lower range although they eventually tried to stabilize it near the middle of the target range. A severe shortage in the liquidity in money markets disruption in nonfinancial banking institutions, security dealers to meet targets they have to need cash or need to invest liquid balances for its economy support.

Sastry et al. (2010) have viewed that, in the continuous financial reforms, lending stickiness in an economy a change can be seen over the period of time. During the reforms 1990-2000 change in role to different policy rates, finds evidence for decreasing in lending rates, due to which majority of Indian policy makers used discount for policy signaling. The Authors conveys that repo rate did not react up to the mark though there is change in discount rates. A change of 100 bps in all policy rates towards the end of reference period could change lending rate in India. Authors identifies inelastic credit demand as a very important factor in India. Authors opined that demand for personal and housing loans in India are likely to be increase in future due to demographic factor which further tends to increase in loan rates at the end.

Nath (2013) has observed that, Repo is an instrumental in India for institutionalizing daily Liquidity Adjustment Facility (LAF) which allows to manage their liquidity needs by primary dealers. Due to this liquidity stress has an impact on short term interest rate. Those who don't have enough securities balances they borrow funds from other inter-bank uncollateralized call market and call rates prone to liquidity shocks created in the system. The Author has used some methods and found out some impact and behavior when the system has excess liquidity. From the tests author found that monetary policy is stable in both regimes and effectiveness of monetary policy is different in both the regimes are not statistically different.

Kahn (2021) have examined the recent negative rates in bilateral repo markets. Authors have discussed the sources: 1. Broad factors which pushed down general collateral repo rates ,2. Narrower factors which in turn pushed bilateral repo rates below comparable tri-party general collateral rates. Authors says that there is much spread between these two sources, explained the demand for special collateral. Authors have examined the effect of special collateral transactions on SOFR (secured overnight financing rate) and found it SOFR limits the impact on reference rate.

Shayanewako (2018) felt that banking industry is the engine of economic activities of present modern financial systems. Banks plays an important role in supporting the economic growth through allocation of resources, risk diversification, optimal interest rate spread. Author here explains the impact of interest rate spread on banking system in south Africa from 2000-2017 by employing some nonlinear frame works and found negative relationship between them. The results from this study show that economic growth and real exchange rate are the factors that positively influence the Banking system efficiency and non-performing loans delay the efficiency of Banking system in South Africa.

Dasgupta (2014) have explained limitations of monetarism, both at theory level and guide level of economic policies. On analyzing, the Authors confirms monetary principles and policies practiced in different countries are responsible for both recession an instability in different parts of the world economy.

Kostikov et al. (2019) have made a study to check whether there is a influence on market interest rate on commercial banks and what are the effects due to it. The author opined that world economy have caused extremely low interest rates on loans, mortgages market in Czech Republic. Cheaper money is generated due to low interest rates and interest rate dropped below 2.5% due to which GDP, unemployment, real effective exchange rate got effected. The author founds banks ROE got affected by profit margin and liquidity.

Hatmanu et al. (2020) have explained the role of interest and exchange rate in economic growth. The author examines monetary policy interest rate and real exchange rate in Euro area on the economic growth in Romania. Authors applied some tests and identified the variables. Authors measured the short-run impact of interest rate. The authors found that economic growth is negatively influenced by interest rate and positively influenced by exchange rate and also creates a mixed effects on economic growth.

Clertax (2022) in his article discussed clearly what is meant by repo rate, reverse repo rate, how does repo rate works, what are the components of a repo transaction, how does repo rate affect the economy, what is the current repo rate and its impact. LokeshwarriSK (2022) has stated that, RBI's off-cycle rate hike, will it make loans more expensive. The author explained clearly why RBI has gone for sudden increase in repo rates and increase in CRR rates.

#### **4. Methods and Data Collection**

The study combines a cause-and-effect research design and descriptive research design. The secondary sources of data used in the study include RBI reports, annual report of Indian Banks, websites, newspapers, magazines, journals, and online media. The conceptual literature is extracted from books. In the research report, the data is compiled from spanning more than 20 years. The research paper's study period runs from 2002 to 2022.

#### **5. Results and Discussion**

The detailed analysis is presented here.

##### **5.1. RBI norms for Indian Banks:**

The nation's central bank as called the Reserve Bank of India. Since they were first founded in the early 20th century, most central banks as we know them now are a relatively new invention.

The Hilton Young Commission's recommendations served as the foundation for the creation of the Reserve Bank of India. The Reserve Bank of India Act, 1934 (II of 1934) establishes the legal framework for the Bank's operations, which got underway on April 1, 1935.

The Bank was established to:

1. Control the issuance of banknotes;
2. Maintain reserves in order to ensure monetary stability; and
3. Manage the nation's credit and currency systems in a way that benefits it.

The handling of Government accounts and public debt, which had previously been handled by the Controller of Currency and the Imperial Bank of India, were transferred to the Bank when it first started operating.

Despite the fact that Burma (Myanmar) broke away from the Indian Union in 1937, the Reserve Bank remained the country's central bank until the Japanese occupation of Burma and then until April 1947. The Reserve Bank operated as Pakistan's central bank following the division of India until June 1948, when the State Bank of Pakistan started operations. The Bank was nationalized in 1949 after being founded as a shareholder's bank.

The Reserve Bank of India had the intriguing quality that from the beginning, people saw the bank as having a specific function to play in the context of development, notably agriculture. In the 1960s, when India began its plan endeavors, the Reserve Bank, in many ways, pioneered the idea and practice of leveraging money to catalyze development, the Bank's development function came into sharper focus.

The Bank also played a crucial role in the establishment of institutions that helped create the nation's financial infrastructure, including the Unit Trust of India, the Industrial Development Bank of India, the National Bank of Agriculture and Rural Development, and the Discount and Finance House of India.

The Bank's attention has returned to crucial central banking duties like monetary policy, bank supervision and regulation, and overseeing the payments system as a result of liberalization, and it is now concentrating on the growth of the financial markets.

According to RBI norms (2022)-

1. The current Repo Rate is at 4.9 percent.
2. The Reverse Repo Rate is at 3.5 percent.
3. The Cash Reserve Ratio is at 4.5 percent.

Year wise imposition of Repo Rate, Reverse Repo Rate and Cash Reserve Ratio are compiled, and growth rate are measured and presented below in Table 1:

Table 1. Results of Financial Instruments

Year	Repo Rate (%)	Growth Rate (%)	Reverse Repo Rate (%)	Growth Rate (%)	Cash Reserve Ratio (%)	Growth Rate (%)
2000	11.638		11.923		8.534	
2001	8.750	-24.812	9.005	-24.476	7.729	-9.433
2002	7.750	-11.429	8.135	-9.661	5.260	-31.946
2003	7.050	-9.032	7.136	-12.282	4.635	-11.882
2004	6.000	-14.894	6.221	-12.823	4.591	-0.953
2005	6.250	4.167	4.922	-20.884	5.000	8.913
2006	6.917	10.667	5.673	15.256	5.000	0.000
2007	7.625	10.241	6.000	5.773	6.333	26.667
2008	7.917	3.825	6.000	0.000	7.746	22.303
2009	5.083	-35.789	3.582	-40.306	5.064	-34.621
2010	5.625	10.656	3.983	11.191	5.734	13.230
2011	7.536	33.968	6.298	58.150	6.000	4.636
2012	8.000	6.161	7.188	14.117	4.971	-17.153
2013	7.583	-5.208	6.542	-8.986	4.048	-18.558
2014	8.000	5.495	6.954	6.303	4.000	-1.194
2015	7.313	-8.594	6.313	-9.225	4.000	0.000
2016	6.375	-12.821	5.875	-6.931	4.000	0.000
2017	6.000	-5.882	5.833	-0.709	4.000	0.000
2018	6.250	4.167	6.042	3.571	4.000	0.000
2019	5.617	-10.133	5.367	-11.172	4.000	0.000
2020	4.258	-24.184	3.743	-30.257	3.167	-20.833
2021	4.000	-6.067	3.350	-10.496	3.667	15.789
2022	4.325	8.125	3.350	0.000	4.167	13.636

Source: RBI Database (Annual reports), 2000-2022

### Interpretations for Table 1:

Results presented in Table 1 specifies about year wise performance of financial instruments obtained from the reports of RBI for the period 2000 to 2022. Following are the key observations from the study.

- a) Results on Repo Rate reveal that, the repo rate prescribed by RBI ranges in between 4.000 to 11.638. Highest Repo rate is observed during 2000-01 period and the least Repo Rate is noticed in the year 2021-2022. The comparison of growth rate reveals that, highest negative rate is noticed during 2001-002 with -24.812 percent and highest positive growth is noticed during 2011-2012 period with 33.968 percent.
- b) Results on Reverse Repo Rate reveal that, the Reverse Repo Rate prescribed by RBI ranges in between 3.350 to 11.923. Highest Reverse Repo rate is observed during 2000-01 period and the least Reverse Repo Rate is noticed in the year 2021-2022. The comparison of growth rate reveals that, highest negative rate is noticed during 2008-2009 with -40.306 percent and highest positive growth is noticed during 2010-2011 period with 58.150 percent.
- c) Results on Cash Reserve Ratio reveal that, the Cash Reserve Ratio prescribed by RBI ranges in between 3.167 to 8.534. Highest Cash Reserve Ratio is observed during 2000-01 period and the least Cash Reserve Ratio is noticed in the year 2019-2020. The comparison of growth rate reveals that, highest negative rate is noticed during 2008-2009 with -34.621 percent and highest positive growth is noticed during 2006-2007 period with 26.667 percent.

**Year wise imposition of GDP, Inflation, and Unemployment are compiled, and growth rate are measured and presented below in Table 2:**

Table 2. Results of Financial Instruments

Year	GDP (%)	Growth Rate (%)	Inflation (%)	Growth Rate (%)	Unemployment Rate (%)	Growth Rate (%)
2000	3.840		4.010		5.750	
2001	4.820	25.521	3.780	-5.736	5.730	-0.348
2002	3.800	-21.162	4.300	13.757	5.770	0.698
2003	7.860	106.842	3.810	-11.395	5.770	0.000
2004	7.920	0.763	3.770	-1.050	5.720	-0.867
2005	7.920	0.000	4.250	12.732	5.650	-1.224
2006	8.060	1.768	5.800	36.471	5.520	-2.301
2007	7.660	-4.963	6.370	9.828	5.410	-1.993
2008	3.090	-59.661	8.350	31.083	5.360	-0.924
2009	7.860	154.369	10.880	30.299	5.610	4.664
2010	8.500	8.142	11.990	10.202	5.650	0.713
2011	5.240	-38.353	8.860	-26.105	5.650	0.000
2012	5.460	4.198	9.310	5.079	5.660	0.177
2013	6.390	17.033	11.060	18.797	5.670	0.177
2014	7.410	15.962	6.650	-39.873	5.600	-1.235
2015	8.000	7.962	4.910	-26.165	5.560	-0.714
2016	8.260	3.250	4.950	0.815	5.510	-0.899
2017	6.800	-17.676	3.330	-32.727	5.410	-1.815
2018	6.530	-3.971	3.950	18.619	5.330	-1.479
2019	4.040	-38.132	3.720	-5.823	5.270	-1.126
2020	-7.960	-297.030	6.620	77.957	7.110	34.915
2021	8.700	-209.296	5.700	-13.897	12.600	77.215
2022	8.200	-5.747	6.700	17.544	7.600	-39.683

Source: RBI Database (Annual reports), 2000-2022

### Interpretations for Table 2:

Results presented in Table 2 specifies about year wise performance of financial instruments obtained from the reports of RBI for the period 2000 to 2022. Following are the key observations from the study.

- a) Results on GDP reveal that, the GDP prescribed by RBI ranges in between -7.960 to 8.70. Highest GDP is observed during 2020-2021 period and the least GDP is noticed in the year 2019-2020. The comparison of growth rate reveals that, highest negative rate is noticed during 2019-2020 with -297.030 percent and highest positive growth is noticed during 2008-2009 period with 154.369 percent.
- b) Results on Inflation reveal that, the Inflation prescribed by RBI ranges in between 3.330 to 11.990. Highest Inflation is observed during 2009-2010 period and the least Inflation is noticed in the year 2016-2017. The comparison of growth rate reveals that, highest negative rate is noticed during 2013-2014 with -39.873 percent and highest positive growth is noticed during 2019-2020 period with 77.957 percent.
- c) Results on Unemployment reveal that, the Unemployment prescribed by RBI ranges in between 5.270 to 12.600. Highest Unemployment is observed during 2020-2021 period and the least Unemployment is noticed in the year 2018-2019. The comparison of growth rate reveals that, highest negative rate is noticed during 2021-2022 with -39.683 percent and highest positive growth is noticed during 2020-2021 period with 77.215 percent.

### Statistical results

Table 3. Results of Statistical Data

S.NO	Column1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7
1	MEAN	6.777	6.062	5.028	6.017	6.220	6.040
2	MEDIAN	6.917	6.000	4.635	7.410	5.700	5.650
3	STANDARD DEVIATION	1.687	1.948	1.412	3.508	2.644	1.527
4	COEFFICIENT OF VARIATION	24.895	32.136	28.091	58.304	42.510	25.282

Source: Compiled from R-studio results

## 5.2 Correlation results

The results of inter correlation between the select instruments and financial indicators is presented below in Table 4.

Table 4. Results of Correlation

S.no.	Correlation	Repo Rate	Reverse Repo Rate	Cash Reserve Ratio	GDP	Inflation	Unemployment
1	REPO RATE	1.000					
2	REVERSE REPO RATE	0.937	1.000				
3	CASH RESERVE RATIO	0.720	0.607	1.000			
4	GDP	0.000	-0.067	-0.249	1.000		
5	INFLATION	-0.118	-0.353	0.059	0.019	1.000	
6	UNEMPLOYMENT	-0.472	-0.395	-0.278	0.019	-0.014	1.000

Source: Compiled from R-studio results

### Interpretations for Table 4:

Correlation analysis is applied to evaluate the relationship between the variables. The variables are tested with Significance analysis, the computed p-value for the select variables are found less than 5 percent significance level.

- The relationship between Repo Rate and other variables indicate that Repo Rate has shown high degree of positive relationship with Reverse repo rate ( $r=0.937$ ), high degree of positive relationship with Cash Reserve Ratio ( $r=0.720$ ), no correlation with GDP ( $r=0.000$ ), negative relationship with inflation ( $r=-0.118$ ) and negative relationship with unemployment rate ( $r=-0.472$ ).
- The relationship between Reverse Repo Rate and other variables indicate that Reverse Repo Rate has shown high degree of positive relationship with Cash Reserve Ratio ( $r=0.607$ ), low degree of negative relationship with GDP ( $r=-0.067$ ), negative relationship with inflation ( $r=-0.353$ ) and negative relationship with unemployment rate ( $r=-0.395$ ).
- The relationship between Cash Reserve Ratio and other variables indicate that Cash Reserve Ratio has shown low degree of positive relationship with Inflation ( $r=0.059$ ), negative relationship with GDP ( $r=-0.249$ ), and negative relationship with unemployment rate ( $r=-0.278$ ).
- The relationship between GDP and other variables indicate that GDP has shown low degree of positive relationship with Inflation (0.019), low degree of positive relationship with Unemployment (0.019) and no impact on Repo Rate, Reverse Repo Rate, Cash Reserve Ratio.
- The Relationship between Inflation and other variables indicate that Inflation has shown low degree of negative relationship with Unemployment (-0.014) and remaining other variables are un effected.
- There is no impact, effect of correlation between Unemployment Rate and other Variables.

## 5.3 Linear Regression Results

To study the impact of RBI instruments on financial indicators, the linear regression is applied, and the consolidated results is presented here.

Table 5. Results of Linear Regression

S.NO.	Impact Of Independent Variables	Impact Of Dependent Variables	Regression Equation
1	REPO RATE, REVERSE REPO RATE, CRR	GDP	$GDP=4.9019+1.4421(RR)-1.1373(RRR)-0.3505(CRR)$
2	REPO RATE, REVERSE REPO RATE, CRR	INFLATION	$INFLATION=4.01495+2.71192(RR)-2.69465(RRR)+0.03254(CRR)$
3	REPO RATE, REVERSE REPO RATE, CRR	UNEMPLOYMENT	$UNEMPLOYMENT=9.2288-0.9803(RR)+0.3919(RRR)+0.2145(CRR)$

Source: Compiled from R-studio results

### Interpretations for Table-5:

- a) The study on Financial Instruments (Repo Rate, Reverse Repo Rate and CRR) on GDP reveals that, Repo rate positively impacting the GDP Growth rate whereas the Reverse Repo Rate, Cash Reserve Ratio (CRR) are negatively impacting the GDP Growth rate. Further, a unit change Repo rate is influencing 1.44 times positively to GDP and a unit change Reverse Repo Rate is influencing -1.13 times negatively to GDP and a unit change Cash Reserve Ratio is influencing -0.35 times negatively to GDP Growth rate. Overall linear equation formed using independent variables Repo Rate, Reverse Repo Rate and CRR and dependent variable GDP is given below.

$$GDP=4.9019+1.4421(RR)-1.1373(RRR)-0.3505(CRR)$$

- b) The study on Financial Instruments (Repo Rate, Reverse Repo Rate and CRR) on Inflation reveals that, Repo rate, Cash Reserve Ratio (CRR) positively impacting the Inflation rate whereas the Reverse Repo Rate is negatively impacting the Inflation rate. Further, a unit change Repo rate is influencing 2.71 times positively to Inflation and a unit change Cash Reserve Ratio is influencing 0.03 times positively to Inflation and a unit change Reverse Repo Rate is influencing -2.69 times negative to Inflation rate. Overall linear equation formed using independent variables Repo Rate, Reverse Repo Rate and CRR and dependent variable Inflation is given below.

$$INFLATION=4.01495+2.71192(RR)-2.69465(RRR)+0.03254(CRR)$$

- c) The study on Financial Instruments (Repo Rate, Reverse Repo Rate and CRR) on Unemployment reveals that, Reverse Repo rate, Cash Reserve Ratio (CRR) positively impacting the Unemployment rate whereas the Repo Rate is negatively impacting the Unemployment rate. Further, a unit change Reverse Repo rate is influencing 0.39 times positively to Unemployment and a unit change Cash Reserve Ratio is influencing 0.21 times positively to Unemployment and a unit change Repo Rate is influencing -0.98 times negatively to Unemployment rate. Overall linear equation formed using independent variables Repo Rate, Reverse Repo Rate and CRR and dependent variable Unemployment is given below.

$$UNEMPLOYMENT=9.2288-0.9803(RR)+0.3919(RRR)+0.2145(CRR)$$

## 6. Conclusion

The Indian economy has been slightly impacted by RBI operating choices. A country's economy is greatly impacted by the repo rate because it is crucial to controlling the market's cash flow. Depending on market liquidity and inflation cash flow, the Indian monetary policy controls and regulates the repo rate. Additionally, the repo rate directly influences banks' ability to borrow money. As the repo rate rises, banks' borrowing capacity decreases, which lowers industries' production capacity and raises the cost of essential products and services while also increasing unemployment. Repo rates play a significant part in regulating inflation in the nation. For instance, if there is high inflation, the RBI will raise the repo rate, which will reduce the amount of currency flowing through the market. As cash flow declines, investment and manufacturing capacity also decline, which lowers the inflation rate. Banks are encouraged to borrow money from RBI since, on the other hand, RBI only cuts the repo rate when the inflation rate declines. The repo rates of RBI and the interest rates on loans of commercial banks are proportional to each other. If the repo rates get increased interest rates on loans to get increased and vice versa. Reverse repo rate increases encourage commercial banks to deposit more money with the RBI, hence limiting the quantity of money accessible in the market. A rise in the reverse repo rate will cause the money supply to decline,



and vice versa. The growth rate of India has dropped as a result of the rise in Repo and Reverse Repo, while the inflation rate has climbed and the unemployment rate has improved.

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