



Role Of Monetary Policy For Safeguarding Life And Livelihood Of Bottom Of Pyramid In India

¹Vivek Verma , ²Mohit Mehra , ³Nishu Chawla

²Assistant Professor, Department of Management Studies, Graphic Era Deemed to be University, Dehradun, Uttarakhand, India, vivekverma.mgt@geu.ac.in

² Student, MBA, Department of Management Studies, Graphic Era Deemed to be University, Dehradun, Uttarakhand, India.

³Research Scholar, Department of English, Graphic Era Hill University, Dehradun.

ABSTRACT

Covid pandemic has tested the abilities of global leaders and institutions. India has witnessed challenging situation due to Covid pandemic. Saving lives and livelihood became difficult. The paper examines the role of monetary policy in safeguarding the lives and livelihood of bottom of pyramid people in India during Covid and period after revival of economic activities post lock down. Secondary data is used for the study. Data of Repo rate change and inflation is used for the study. It is found that RBI has managed the difficult situation very sensitively taking care of bottom of pyramid people by infusing liquidity and keeping interest rates at very low level. At the same time RBI has acted timely to curb inflation by increasing repo rate after revival of economic activities post lock down. RBI has demonstrated that growth with inclusion is possible by using monetary policy sensibly.

Keywords: India, Covid, Monetary Policy, RBI, Bottom of Pyramid, Inclusion

1. INTRODUCTION

The world has witnessed one of the worst medical crises in a century. Countries with one of the best healthcare infrastructures struggled to save lives of its citizens. India being a developing country with 2nd largest population had a tough challenge not only to save the lives but also livelihood of its citizens. It was a tough time for the leaders and institutions in the country to serve the mankind. The political establishment has demonstrated that despite having a weak healthcare infrastructure it is possible to take care of pandemics by involving institutions and citizens in the fight against the pandemic. The relief package including free ration and cash in Jan Dhan accounts provided a sign of relief to the people at bottom of pyramid.

2. LITERATURE REVIEW

The changes in interest rates of BRICS nations were aligned with each other. There was a drastic decrease in interest rates globally during Covid pandemic. The interest rates decrease in India was in line with the monetary policy changes globally. Reserve Bank of India adopted

non-traditional monetary policy to supplement traditional monetary policy tools to mitigate the negative effects of Covid pandemic. Monetary policy alone is not sufficient to mitigate the negative impacts of Covid pandemic. Fiscal policy measures need to be supportive of monetary policy to provide relief to the economic activities (Dua, 2020). The policy initiatives should not only provide short term relief but also take care of long-term benefits for the economy (Nath, 2020). Enhancing liquidity has been the primary focus of monetary policy during Covid. Too much reliance on consumption driven taxes have restricted the tax collections. Austerity measures are good, but some of them will be counter-productive in the long run. New avenues are needed to be explored for enhancing revenues of the exchequer (Jose et al. 2020). The option of increasing the tax on fuel in limited, as India already has one of the highest taxes on fuel (Sharma, 2020). Auction of natural resources is also an alternative to augment the revenues sources (Bhaskar, 2020). The stress of banking sector will increase due to Covid impact in India (Garg, 2020). Emergency credit lines to MSME sector eased some pressure on the MSME sector in the Covid pandemic (Pandey & Pillai, 2020). MSME contribute a significant portion of India's economy. Support to MSME sector provided relief to the bottom of pyramid. The deposits grew with the bank due to preference of safe investment by the investors. Banks have no option but to park the surplus funds with RBI at lower rate below 4% (Ghosh, 2020).

3. METHODOLOGY

An exploratory research design is used for the present study. Secondary data from published sources are used to analyse the role of monetary policy for safeguarding the life and livelihood of bottom of pyramid in India. Data is analysed using descriptive tools. The monetary policy changes till October 2020 have been considered.

4. FINDINGS

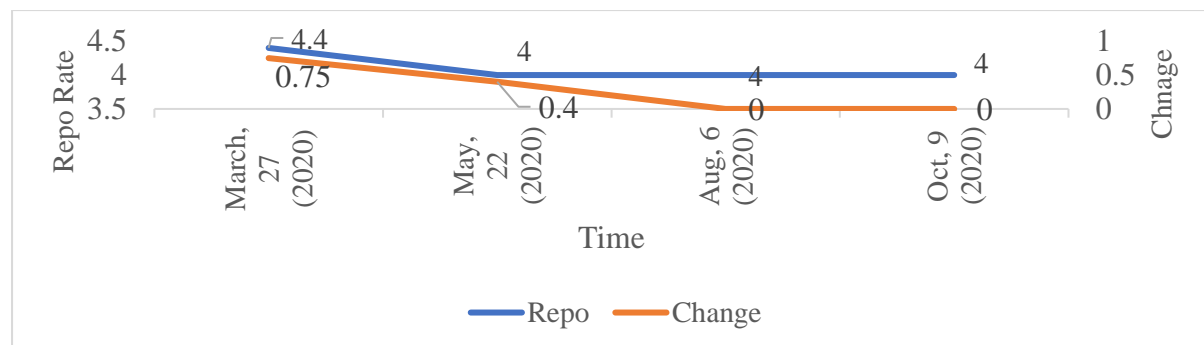


Figure 1: Trend of Repo Rate, Change (%) during Covid Era in India

Source: RBI, 2020

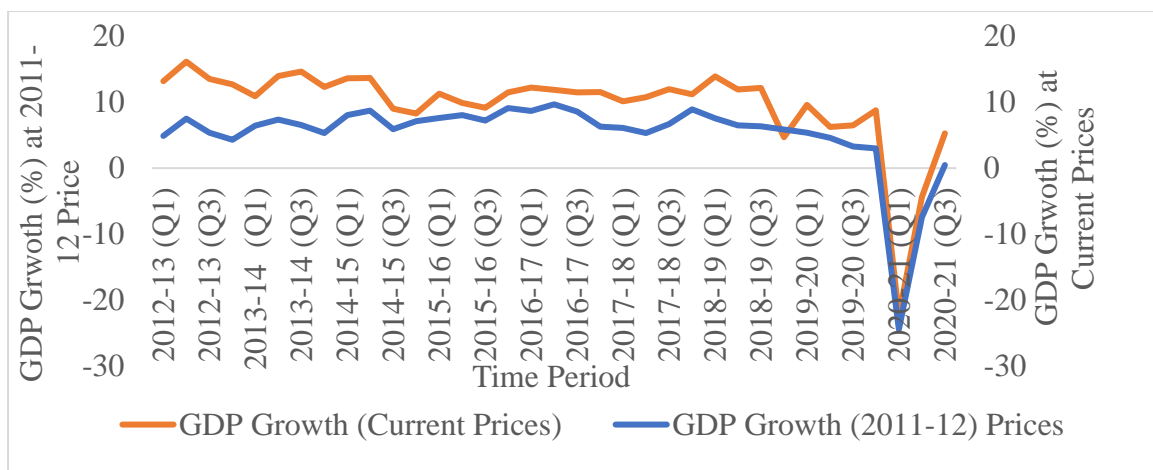


Figure 2: Trend of GDP Growth Rate in India

Source: Statistics Times, 2020

The repo rate was reduced drastically after the onset of Covid in India. There was 0.75% decrease in repo rate and it came down to 4%. The repo rate was allowed to be at the low level to infuse liquidity in the system, during the lock down period and peak of covid impact. This was done to safeguard the livelihood of the bottom of pyramid in India. As the economic activities started coming back to normalcy, it was the organized sector which benefitted more than unorganized sector. The RBI has given more time with accommodative monetary policy so that unorganized sector gets more time for revival and bottom of pyramid gets more time to revive the shocks of Covid. The sudden fall in GDP growth rate (as shown in figure 2) after Covid indicates lack of preparedness to meet the exigencies. Lock down and giving priority to healthcare on war footing led to a slow revival. The monetary policy and fiscal stimulus collectively have provided relief.

5. CONCLUSION

India is the largest democracy in the world. India has robust institutions to manage growth with sensitivity. The Covid pandemic has been a tough challenge for a country of over a billion people without strong healthcare infrastructure. The political leadership supported by timely intervention of Reserve Bank of India has saved lives and livelihood of millions of people in the bottom of pyramid in India. The drastic reduction in repo rate by RBI led to infusion of much needed liquidity in the system. The surplus liquidity provided much needed cushion to absorb the shocks of Covid pandemic. RBI has demonstrated its leadership in not only managing the growth and inflation but taking care of lives and livelihood of bottom of pyramid by monetary policy changes. All institutions in India can learn from RBI to manage macro level indicators while taking care of bottom of pyramid with sensitivity.

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