



A study on Monetary Policy and its impact on the price of Stocks of BSE listed Bank

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Abstract: *An economy includes the economic systems of a nation or other area; the labour, capital, and land and the manufacturing, production, trade, distribution, and consumption of goods and services of that area. A given economy is the result of a process that involves its technological evolution, history and social organization, as well as its geography, natural resource endowment, and ecology, as main factors. These factors give context, content, and set the conditions and parameters in which an economy functions. Monetary policy is the process by which the Reserve bank or monetary authority of a nation restricts the money supply by considering a rate of interest. Reserve Bank of India functions as the central bank or monetary authority of our country and is responsible for making implementing and monitoring the monetary policy with the main objective of maintaining stability in price and ensuring required flow of credit to productive sectors. The banking and financial system of a country rests on broad banking operations factors. This research article aims to discover about the monetary policy and its impact on the prices of share of banking companies listed in BSE.*

Keywords: *Monetary Policy, Reserve Bank, Manufacturing, Distribution.*

I. INTRODUCTION

The recent global financial chaos has discovered the fact that the proper and prudential operations of banking system are most vital for the better financial health and the growth of the economy. An economy includes the economic systems of a nation or other area; the labour, capital, and land and the manufacturing, production, trade, distribution, and consumption of goods and services of that area.

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Reserve Bank being the monetary authority of the country is responsible for the financial stability of the country and therefore directly or indirectly regulates the money creation activity of the banks through monetary policy tools. Monetary policy is a macroeconomic tool through which monetary authority of a country regulates the supply of money by regularly targeting a rate of interest aiming to encourage economic growth and stability.

II. MONETARY POLICY- 2013-14 REVIEW

Reserve bank of India has reduced the rate of marginal standing facility (MSF) by 25 basis points that is from 9.0% to 8.75% with immediate effect.

The central bank has also increased the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points that are from 7.5% to 7.75% with immediate effect.

It has also decided to keep cash reserve ratio (CRR) unchanged that is 4.0 per cent of net demand and time liability (NDTL); and RBI has also decided to increase the liquidity provided through term repos of 7-day and 14-day tenor from 0.25% of NDTL of the banking system to 0.5% with immediate effect.

As a result, the reverse repo rate under the LAF stands adjusted to 6.75% and the Bank Rate stands reduced to 8.75% with immediate effect. With these changes, the MSF rate and the Bank Rate are recalibrated to 100 basis points above the repo rate.¹

The aim of this research study is to show the impact of these monetary policy instruments used for inflation targeting on the stock prices of the commercial banks included in Bombay Stock Exchange Bankex. Reserve Bank of India, being the highest monetary authority is responsible for financial stability, constant growth and to regulate inflationary pressures in the economy. It works through its tools and in turn give sign the commercial banks to work in cycle. In this study the significance of changes in monetary policy tools on the stock prices of banks.

III. OBJECTIVES OF THE STUDY

The main objective of this research study is to analyze the impact of monetary policy on stock prices of banks. Besides this determination of the magnitude of the effect of monetary policy on stock prices is also one of the objectives.

IV. RESEARCH METHODOLOGY

Sample Size: To conduct this study 13 banks listed in BSE are selected.

V. DATA COLLECTION

To collect the data the author has used www.bseindia.com website.

VI. TOOLS FOR THE ANALYSIS

To examine the impact of monetary policy of RBI 2013-14 (second quarter review) on the price of stock of banks statistical tools used are Arithmetic Mean, Standard Deviation and Paired Sample t test using SPSS.

VII. HYPOTHESIS

H0: Stock prices do not vary considerably before and after the announcement of monetary policy by Reserve Bank of India
H1: Stock prices vary considerably before and after the announcement of monetary policy by Reserve Bank of India

VIII. FINDINGS

Table-1
Paired Samples Statistics

Pair-1		Mean	N	Std. Deviation	Std. Error Mean
	Before	5.8922	13	468.81405	130.02562
	After	6.1235	13	485.15553	134.55793

Table-2
Paired Samples Correlation

Pair-1		N	Correlation	Sig.
	Before & After	13	.999	.000

Table-3
Paired Sample Test

Pair-1	Before and After	Paired Differences				t	df	Sig. (2-tailed)	
		Mean	Std. Dev.	Std. Error Mean	95% conf. Interval of the diff.				
					Lower				Upper
		-2.31308	23.42303	6.49638	-37.28516	-8.97638	-3.561	12	.004

In the above calculation the value of P is .004 which is less than .05 hence there is a significant difference between stock prices of banks included in BSE Bankex before and after monetary policy.

In our case, the mean stock price of banks at Time 1 was 5.892 and the mean stock price at Time 2 was 6.123. Hence, we can summarize that there was a significant increase in average stock prices of banks included in BSE Bankex from Time 1 (prior to the intervention) to Time 2 (after the intervention). Magnitude of the intervention's effect can be found by calculating eta squared (commonly used effect size statistics)

Eta squared can be obtained using the following formula:

$$\text{Eta squared} = \frac{t^2}{t^2 + N - 1} = .514$$

To interpret the eta squared values the following guidelines can be used (from Cohen, 1988): .01=small effect, .06=moderate effect, .14=large effect. Given our eta squared value of .514, we can conclude that there was a large effect, with a substantial difference in the stock prices obtained before and after the intervention that is second quarter review of monetary policy 2013-2014 by Reserve Bank of India.



IX. CONCLUSION

Reserve Bank of India changes the Cash Reserve Ratio, SLR, PLR, repo rate etc. every year, to control the money supply of the nation. This research article aims to understand whether monetary policy changes hold any informational content for the stock market that may lead to changes in the stock price and to test the impact of these changes on the price of shares Indian banking stocks. The results of the study revealed that the security prices of banks reacted considerably to the 2nd Quarter Review of Monetary Policy 2013-14 by Reserve Bank of India. There was a considerable variation in the price of stock of banks taken before and after the intervention.

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