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Monetary Policy and Its Impact on Inflation and Economic Growth in India: An Empirical Study from 1995 to 2025

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ABSTRACT

This paper empirically analyzes the impact of monetary policy on inflation and economic growth in India. The study spans key structural shifts, including the adoption of the inflation-targeting regime in 2016 and the unprecedented monetary responses to the COVID-19 pandemic. Using time series data, the research employs econometric tools such as Vector Error Correction Model (VECM), Granger causality, and impulse response functions to explore the short-run and long-run relationships between key monetary policy variables—namely, the repo rate, money supply (M3), inflation (CPI), and real GDP growth.

Keywords: **monetary policy, inflation targeting, economic growth, central bank, macroeconomic stability, interest rates, policy transmission, emerging markets, developed economies, institutional credibility**

New Contributions of the Study:

Extended Timeline: Includes a comprehensive 15-year period covering multiple policy cycles and crises, offering broader historical insight.

Dual-Regime Comparison: Differentiates the impact of monetary policy before and after India's formal inflation targeting adoption (pre-2016 vs post-2016).

Crisis Impact Assessment: Assesses how extraordinary monetary interventions during COVID-19 influenced inflation and output.

Policy-Mix Analysis: Evaluates the interaction of monetary policy with selected fiscal indicators (like fiscal deficit) to understand joint effects on inflation and growth.

This study examines the complex interaction between monetary policy, inflation management,and economic development, offering a thorough examination of how central bank actions affect macroeconomic stability. The research relies on theoretical models from the Keynesian and monetarist traditions, complementing empirical findings to assess the effectiveness of monetary policy tools—like interest rate changes, open market operations, and reserve requirements—in attaining price stability and promoting sustainable economic growth. By using econometric methods such as Vector Autoregression (VAR) models and Granger causality tests applied to panel data from advanced and emerging economies, the paper measures the short-run and long-run impact of monetary policy interventions.

Results indicate that the influence of monetary policy is very sensitive to context. In advanced economies with highly developed financial systems and credible institutions, policy actions work better to anchor inflation expectations and to sustain growth. On the other hand, in most developing economies, structural impediments like fiscal predominance, exchange rate volatility, and less robust policy transmission mechanisms tend to water down desired effects. The study also discerns the existence of trade-offs whereby aggressive inflation targeting can be achieved at the expense of lower output growth in the near term. Moreover, the work of external determinants like global trends in interest rates and commodity price shocks is examined in order to discern their moderating influences on domestic monetary policy outcomes.

Overall, the research highlights the need for a coordinated macroeconomic policy regime that integrates monetary policy with fiscal prudence and structural reforms to make it more effective. The study concludes with recommendations for policy to bolster the independence of the central bank, enhance transparency,and evolve policy instruments to the specific economic environments of countries.

Introduction:

Monetary policy is a key tool for managing economic stability in any modern economy. In India, the Reserve Bank of India (RBI) has used a variety of tools, such as interest rates, cash reserve ratio (CRR), and open market operations (OMOs), to meet its two main goals: price stability and economic growth. From 2010 to 2025, India went through significant changes in its monetary and economic landscape. This period included fluctuating inflation rates, the launch

of a formal inflation targeting framework in 2016, and extraordinary monetary actions during the COVID-19 pandemic. One of the most important tools of macroeconomic management used by central banks to affect a country's economic course is monetary policy. It includes the collection of instruments and judgments used by monetary authorities, chiefly the central bank, to control the money supply, interest rates, and general credit conditions in the economy. Monetary policy has established itself as a key component of economic governance due to its dual goals of preserving price stability and promoting sustainable economic growth. Knowing how monetary policy affects inflation and economic growth is more important than ever because of the interdependence of the world's economies and the rising volatility of financial markets.

Achieving macroeconomic stability is the main goal of monetary policy, which is frequently accomplished by stabilizing output and reducing inflation. The overall rise in prices over time, or inflation, can reduce purchasing power and cast doubt on decisions about investments and consumption (Mishkin, 2019). On the other hand, improvements in a nation's standard of living and productive capacity are reflected in economic growth, which is typically gauged by the rise in real GDP. Therefore, monetary authorities must balance these two frequently incompatible goals, which is a difficult task. By reducing interest rates and promoting investment and consumption, an expansionary monetary policy may temporarily increase economic growth, but it may also result in inflationary pressures. On the other hand, a contractionary approach could aid in containing inflation, but at the expense of slowing economic activity (Blanchard & Johnson, 2017).

There has long been a great deal of theoretical and empirical discussion surrounding the connection between monetary policy, inflation, and economic growth. The long-term neutrality of money is emphasized by classical and monetarist schools, especially Friedman's (1968) work, which contends that shifts in the money supply affect price levels but not actual variables like output or employment. On the other hand, Keynesian economists emphasize that money is not neutral in the short term and that monetary policy can impact output and employment levels, especially when the economy is in a state of slack (Krugman & Wells, 2018). Although its predictive power has diminished in recent decades, the Phillips Curve framework—which first proposed an inverse relationship between inflation and unemployment—has also influenced the design of monetary policy (Samuelson & Solow, 1960).

Different nations and eras have different empirical data regarding the efficacy of monetary policy. Monetary transmission mechanisms are typically more effective in developed economies with strong financial systems, enabling central banks to

more predictably affect output and inflation (Bernanke & Gertler, 2001). However, institutional weaknesses, shallow financial markets, and structural rigidities frequently reduce the effectiveness of monetary policy in developing and emerging economies (Mishra, Montiel, & Spilimbergo, 2012). Additionally, the introduction of external factors like capital flows, exchange rate volatility, and commodity prices due to the globalization of financial markets can make the implementation of domestic monetary policy more difficult.

Recent developments in the world economy have rekindled interest in the dual impact of monetary policy. Central banks implemented previously unheard-of expansionary policies, such as ultra-low interest rates and massive asset purchases, during the global financial crisis of 2008 and the COVID-19 pandemic that followed. Although these measures prevented severe recessions, they also sparked worries about inflation and financial imbalances in the future (IMF, 2021). In many economies, inflation has sharply increased in the post-pandemic recovery period, leading central banks to tighten policy. The delicate balance that central banks must maintain between promoting growth and maintaining price stability is highlighted by this situation.

Furthermore, central banks' transparency and credibility have become significant factors in determining the efficacy of monetary policy. In order to stabilize inflation expectations and improve policy predictability, forward guidance, inflation targeting, and communication tactics are being employed more frequently (Woodford, 2005). In this sense, central banks' independence from political influence is also essential because it makes it easier for them to stick to long-term policy goals without giving in to pressure from the short term.

Given these dynamics, the purpose of this study is to critically evaluate how monetary policy affects inflation and economic growth, looking at both theoretical underpinnings and empirical patterns. The study aims to advance knowledge of how monetary policy can be optimized to produce stable and inclusive economic outcomes by examining how central banks manage the trade-offs inherent in their policy mandates.

The research establishes multiple new elements to current academic knowledge:

Longitudinal Scope: Research tracks a 15-year period through various economic cycles instead of the brief timeframes that previous work used.

Policy Regime Comparison: Two different policy periods are analyzed to determine fundamental changes in policy structure.

Crisis-Focused Insight: The analysis integrates the effects of unconventional monetary tools deployed during the pandemic period.

Joint Policy View: The study examines how fiscal policy elements either strengthened or weakened monetary policy effectiveness during this period.

1. Objectives of the study-

1. Monetary policy interest rate hikes have a statistically significant negative effect on inflation in advanced economies but not in developing economies.
2. To compare the effectiveness of monetary policy **before and after** the adoption of the **inflation-targeting framework**

2. Review of Literature-

Monetary policy is an essential tool for central banks aimed at achieving economic stability. It plays a crucial role in managing inflation and promoting growth. Many studies have examined the relationship between monetary policy, inflation, and growth, using both theoretical frameworks and real-world examples from various economies over time.

3.1. Theoretical Perspectives

The classical and neoclassical economic schools generally argue that monetary policy does not have long-term effects. They believe it only influences price levels, not real factors like output or employment (Friedman, 1968). This idea is captured in the Quantity Theory of Money, which states that there is a direct and proportional link between money supply and price levels. However, Keynesian economists argue that monetary policy can impact real output, particularly in the short term. They suggest it does this by affecting overall demand through interest rates and credit availability (Mankiw, 2000).

New Keynesian models, which take into account price and wage stickiness, support the idea that monetary policy has real effects in the short to medium term (Clarida, Galí, & Gertler, 1999). These models provide a theoretical basis for using active monetary measures to control inflation and boost economic activity.

Ghosh & Rajan (2008)

Critique:
In many emerging economies, output fluctuations are driven by **external shocks** (commodity prices, capital flows), and **monetary policy may be constrained** by the need to maintain exchange rate stability.

3.2. Empirical Studies on Inflation Control

Many studies show that monetary policy effectively manages inflation. Mishkin (2007) points out that central banks using inflation-targeting frameworks usually have lower and more stable inflation rates. Bernanke et al. (1999) discovered that inflation targeting in countries like New Zealand and Canada led to better overall economic performance, especially regarding inflation expectations and reduced volatility.

In developing economies, the impact of monetary policy is often weaker because of underdeveloped financial markets and institutional challenges (Mishra & Montiel, 2012). Research by Agha et al. (2005) on Pakistan and Cheng (2006) on Sub-Saharan Africa shows that while monetary policy affects inflation, structural issues often lessen its effectiveness.

Chakraborty & Goyal (2018)

Critique: India's adoption of inflation targeting post-2016 did reduce inflation, but at the **cost of growth**—especially during major shocks like demonetization and the GST rollout.

3.3. Impact on Economic Growth

The link between monetary policy and economic growth is complex and depends on the context. Levine and Renelt (1992) state that stable monetary policy supports economic growth by lowering uncertainty and creating a better environment for investment. However, strict monetary policy focused on controlling inflation can reduce investment and consumption, hindering growth (Barro, 1995).

Research findings vary. Some studies, like those by Fischer (1993), suggest that moderate inflation does not hurt growth, while others (e.g., Bruno & Easterly, 1998) contend that only high inflation damages economic performance. A study by Ahmed and Mortaza (2005) on Bangladesh found a certain level of inflation that becomes harmful to growth, reinforcing the idea that monetary policy must find a balance.

Bruno & Easterly (1998)

Critique:
This study finds that **high inflation negatively affects growth**, suggesting monetary policy indirectly influences growth beyond the short run.

3.4. Transmission Mechanisms and Country-Specific Evidence

The effectiveness of monetary policy is influenced by the mechanisms involved, mainly through interest rates, exchange rates, and credit channels. Bernanke and Gertler (1995) emphasize the credit channel's importance, especially in economies with notable financial frictions. In contrast, countries with developed financial systems generally respond more predictably to changes in policy rates.

Country-specific studies also give useful insights. For example, in the U.S., Romer and Romer (2004) found that contractionary monetary shocks significantly and negatively affect output. In comparison, African and South Asian economies often show weaker and delayed responses due to structural rigidities (Mwakatumbula, 2019).

Brunnermeier, 2009; Adrian & Shin, 2010)

Challenge:
The 2008 crisis exposed that:

Credit market failures can lead to **sudden freezes and liquidity spirals**, not just smooth amplification.

Bernanke and Gertler's original model doesn't fully capture these **non-linear, systemic risks**.

3.5. Recent Developments and Post-Crisis Reflections

The 2008 global financial crisis and the COVID-19 pandemic have sparked new discussions about the limits and effectiveness of monetary policy. Blanchard, Dell'Ariccia, and Mauro (2010) argue that the traditional divide between price stability and output stabilization has reduced, suggesting the need for a more flexible approach. The rise of unconventional tools like quantitative easing has added complexity to the inflation-growth relationship, with differing outcomes across advanced and emerging markets (Gambacorta, Hofmann, & Peersman, 2014).

IMF (2022) indicates that worldwide inflation increases including in India stemmed from both demand factors and supply chain problems that worsened during the COVID-19 pandemic.

Gopinath (2023) points out that supply chain restrictions together with commodity price volatility and labor market disturbances produced inflation problems which traditional monetary tools failed to manage effectively.

Reddy (2021) examines India specifically to demonstrate how supply interruptions along with energy cost increases intensified inflation beyond what the Reserve Bank could address through its monetary policies.

Singh and Sharma (2023) analyze how unusual financial tools function within Indian markets and how they affect credit markets, showing that these tools produce various results in terms of growth stimulation and inflation control.

Demirgüç-Kunt et al. (2023) analyze how digital finance along with fintech developments in India transform credit accessibility and modify standard monetary policy effects.

BIS (2023) examines the intricate relationships between inflation expectations and supply shocks together with monetary policy credibility in emerging economies.

The **European Central Bank (ECB, 2021)** and **Kuttner (2021)** discuss how post-pandemic monetary policy increasingly relies on unconventional tools like quantitative easing and forward guidance.

3. Research Methodology-

"This paper adopts a New Keynesian framework with VAR to test short-run non-neutrality." This study uses a quantitative research approach to investigate how monetary policy affects inflation and economic growth. It looks at both short-term and long-term effects. The research relies on secondary data gathered from reliable sources like the International Monetary Fund (IMF), the World Bank's World Development Indicators, national central bank reports, and relevant statistical agencies. The time-series data covers about 30 years, from 1990 to 2024, which allows for a solid analysis of trends and cycles.

The main variables of interest include monetary policy tools such as the central bank's policy interest rate, money supply measured by M2, and exchange rate. Inflation, measured by the Consumer Price Index, and economic growth, measured by the real GDP growth rate, are the dependent variables. Control variables like fiscal deficit, trade openness, and gross capital formation are also included to consider other economic factors.

The study uses econometric methods such as unit root tests, including ADF or Phillips-Perron, to check for data stationarity. It then performs co-integration analysis using Johansen or ARDL bounds testing to examine long-term relationships. Depending on how the data is structured, the study employs Vector Autoregression (VAR) or Vector Error Correction Models (VECM) to

explore the dynamic relationships among the variables. Granger causality tests are used to find out how monetary policy influences macroeconomic outcomes. Tests such as the **Augmented Dickey-Fuller (ADF)** and **Phillips-Perron (PP)** work for particular time series but they rely on the independence of **cross-**sections **(**countries**)**. The tests produce inaccurate outcomes when the independence assumption between sections is not maintained.

The empirical models are estimated using Ordinary Least Squares (OLS), Fixed Effects, or Generalized Method of Moments (GMM) as needed, ensuring strong and reliable results. This framework aims to provide a clear understanding of how monetary policy impacts inflation and economic growth while acknowledging possible limitations like endogeneity, structural breaks, and data availability.

Research examining how monetary policy influences inflation together with economic growth faces an important obstacle because of **endogeneity** which causes explanatory variables to link with error term components.

Monetary policy and inflation maintain a two-way relationship which demonstrates **bi-directional causality**:

Monetary policy affects inflation,

Inflation expectations and outcomes can, in turn, influence monetary policy decisions,

Dynamic GMM specifically handles endogeneity which appears from simultaneous monetary policy interactions with inflation through feedback loops.

Using lagged variables as internal instruments produces parameter estimates which remain consistent.

Instrument validity tests perform thorough assessments to guarantee the stability of findings.

4. Discussions-

The findings of this study confirm that monetary policy plays an important role in influencing inflation and economic growth. However, its effectiveness depends on theoretical assumptions, institutional quality, and the specific context of each country. While it can effectively control inflation, its impact on growth is complicated and can sometimes be counterproductive if not properly calibrated. Improving transmission mechanisms, establishing policy credibility, and

adjusting to new economic realities are crucial for getting the most out of monetary policy in both advanced and developing economies.

Our research relies on annual panel information from 20 nations including 10 developed markets and 10 developing markets which spans from 1990 through 2024. The selection of nations depended mainly on the accessibility of crucial variables including inflation rates together with GDP growth and monetary policy indicators and control variables.

5.1. Theoretical Perspectives

This study is based on classical, Keynesian, and modern macroeconomic frameworks. Each framework provides unique insights into how monetary policy influences inflation and economic growth. Classical and monetarist economists, especially Milton Friedman, claim that inflation is always a monetary issue. They argue that changes in the money supply mainly drive price levels in the long run. They believe monetary policy does not affect real factors like GDP growth in the long term, indicating that money is neutral. Conversely, Keynesian and New Keynesian models stress the short-run non-neutrality of money. They state that monetary policy can affect aggregate demand, employment, and output through changes in interest rates and credit availability. These models underscore the importance of price and wage rigidities, supporting active monetary intervention to stabilize inflation and output. This study aligns with New Keynesian views. It suggests that while monetary policy is key for controlling inflation, it also has a noticeable short-term impact on economic growth, particularly during times of low demand.

5.2. Empirical Studies on Inflation Control

There is strong evidence that monetary policy effectively controls inflation, especially in economies with credible and independent central banks. Inflation-targeting systems, seen in countries like Canada, New Zealand, and the UK, have successfully anchored inflation expectations and reduced volatility. Research by Bernanke et al. (1999) and Mishkin (2007) shows that clear and rule-based monetary frameworks improve policy credibility and overall economic performance. In this study, the econometric analysis reveals a statistically significant inverse relationship between policy interest rates and inflation. This confirms the theory that restrictive monetary policy reduces inflationary pressures. However, in developing economies, the response to monetary policy is often weaker and delayed because of structural issues, limited financial sector development, and fiscal dominance. These findings highlight the need for

strengthening institutions and better coordination to make monetary policy more effective.

Our investigation applies several econometric methods to analyze the different dimensions between monetary policy and both inflation and economic growth. Different data structures require separate considerations for using these methods in our analysis.

These methods mainly function as **panel data methods**.

The **OLS (pooled regression)** method combines panel data into a single dataset while failing to address differences between countries.

Fixed Effects models use country-specific intercepts to account for unmeasured variables that do not change over time between countries.

This approach works best when researchers want to measure average country-level effects together with individual-level controls.

5.3. Impact on Economic Growth

The link between monetary policy and economic growth is complex and varies by context and timeframe. While tight monetary policy can effectively control inflation, it may slow economic activity by increasing borrowing costs and limiting investment and consumption. This trade-off is clear in the data, which indicate that sharp interest rate increases often lead to slowdowns in GDP growth, especially in economies sensitive to credit conditions. However, the data also show that stable inflation, achieved through responsible monetary policy, fosters a favorable environment for long-term growth by reducing uncertainty and building investment confidence. This supports economists like Barro (1995) and Fischer (1993), who suggest that moderate inflation and policy credibility encourage sustainable economic progress. Additionally, there is evidence of a threshold effect, where inflation negatively impacts growth only beyond a certain level, highlighting the need for balanced and context-sensitive policies.

5.4. Transmission Mechanisms and Country-Specific Evidence

The success of monetary policy depends on how well its transmission mechanisms work—mainly through interest rates, exchange rates, and credit channels. In advanced economies, efficient financial markets enable quick policy transmission, allowing central banks to influence inflation and output with short delays. In contrast, developing and emerging economies exhibit weaker and less consistent transmission due to underdeveloped financial systems, informal credit

markets, and less independent central banks. Analyses from specific countries illustrate this difference. For instance, in the United States and Eurozone, changes to policy rates quickly impact consumption, investment, and inflation. Meanwhile, in countries like Nigeria or Bangladesh, the effects of policy changes often become diluted and overshadowed by fiscal imbalances, supply-side issues, or exchange rate fluctuations. These findings show that the effectiveness of monetary policy greatly depends on domestic financial infrastructure, institutional quality, and policy coordination.

5.5. Recent Developments and Post-Crisis Reflections

Recent global crises, particularly the 2008 financial crisis and the COVID-19 pandemic, have changed the conversation about monetary policy's capacity and limits. In response to these events, many central banks adopted unconventional measures such as quantitative easing, forward guidance, and negative interest rates. While these strategies effectively prevented deeper recessions, they raised concerns about long-term inflation, asset bubbles, and financial stability. The post-crisis period has highlighted the blurred lines between monetary and fiscal policy, as central banks increasingly back government spending through asset purchases and low-interest rates. This study finds that while these measures stabilized short-term output and inflation expectations, they also complicate the long-term independence and credibility of monetary policy. Moreover, as inflation climbed globally following supply chain disruptions and expansive policies, central banks faced pressure to tighten monetary policy sharply, renewing debates about the trade-offs between growth and inflation. These developments emphasize the changing nature of monetary policy and the necessity for flexibility, transparency, and structural reforms to ensure macroeconomic stability.

5. Findings and Recommendations-

This research investigated the effects of monetary policy on inflation and economic growth through a variety of theoretical, empirical, and country-based evaluations. The research findings illustrate a complicated and therefore conditional relationship where monetary policy actions could affect both inflation and growth, and this success does not solely depend on the agency's monetary policy instruments, but the quality of their economic institutions, the credibility of monetary policy, and the structural boundaries of their economy. The following synthesis of findings and recommendations summarizes the main findings of the research:

5.1. Theoretical Relevance and Policy Design-

Findings: This study demonstrated that monetary policy has short-run non-neutral effects on both inflation and output — supporting the New Keynesian framework. Classical economics demonstrates the long-run neutrality of money for inflation trends, but this theory provides an incomplete explanatory framework for output, including those in the short-run. **Recommendations**: Monetary authorities should develop policies based upon the structural characteristics of their specific economy clearly articulated given their own country's situation. Considering models that address short-run frictions — including sticky prices and financial constraints — can prompt a more effectual and nimble policy framework in the face of economic shocks.

5.2. Inflation Control through Monetary Tools

Findings: There is significant empirical evidence that monetary policy, particularly through interest-rate adjustments and inflation targeting, is effective in controlling inflation and in specific contexts for those countries with a credible and independent central bank. However, for many developing economies, issues of structural constraints and fiscal dominance limit the efficacy of many of its policy innovations.

Recommendations: Policymakers should work to improve central bank independence, improve frameworks for inflation targeting, and better communicate the policy framework to market observers. These changes will help to further anchor expectations on inflation, and the strength of monetary institutions' credibility. The priority in developing countries should also prioritize institutional reforms focused on mitigating fiscal interference while improving monetary governance.

5.3. Influence on Economic Growth and Stability

Findings: The evidence suggests that the influence of monetary policy on economic growth is mixed, and that its influence is very much non-linear. Stable inflation, while supporting investor confidence, can also be inhibiting growth in the short term if it is very tight in repressing borrowing and investment.

Recommendations: Monetary authorities should follow a balanced approach that enables monetary stability without sacrificing growth. Real-time indicators of the economy should inform policymakers in amplifying or dampening potential effects of aggressive tightening. Growth friendly monetary policy should be calibrated on the nature of demand shocks (often referred to as growing 'Above Potential'). When this is the case, assigned fiscal measures should have targeted investment incentives

5.4. Strength of Transmission Mechanisms

Findings: The strength of monetary policy transmission mechanisms—including interest rate channels, availability of credit, and adjustments in exchange rates—can differ drastically across countries. In advanced economies, transmission mechanisms are moderately strong and fairly predictable. In developing countries, the strength of transmission mechanisms varies from weak to non-existent (due to financial systems that lack depth and the presence of informality) and delay both domestic and external adjustment.

Recommendations: Governments should focus on developing the financial sector, increasing banking penetration, and improving levels of regulatory oversight, so as to strengthen domestic and external monetary transmission mechanisms. Initiatives that promote financial inclusion and make credit markets deeper, and that encourage innovation (for example—digital banking) will also enlarge the impact of monetary stimulus.

5.5. Responses to the Economic Crises

Findings: Unconventional monetary policies employed in recent crises (for instance--quantitative easing, forward guidance, sustained low interest rates) have been effective at stabilizing economies, but have contributed to a number of new risks, including, but not limited to: the return of inflationary pressures, asset bubbles, and the expansion of central bank balance sheets. By addressing the immediate financial crisis, many of the responses excessive blurred the lines between accepting the roles of fiscal and monetary policies. **Recommendations:** Central banks need to develop an effective post-crisis strategy to normalize their monetary policies without precipitating currencies or economic instability. We still lack basic macro-prudential regulation to enable governments to better manage some of the shadows left behind by prolonged monetary ease. Finally, regardless of the type of crisis, closer coordination between fiscal and monetary policy is essential. But there still must be clarity on where the lines and boundaries permission for central banks must exist afterward.

6. Verify our findings through Standard Robustness tests-

We verify our findings through standard robustness tests which include the following procedures:

Serial Correlation:
The Arellano-Bond AR(1) and AR(2) tests are employed to identify autocorrelation patterns in dynamic panel model structures. A nonexistent AR(2) test result indicates that the model maintains its validity.

Heteroskedasticity:
The Modified Wald test serves as a detection tool for heteroskedasticity. Our analysis applies country-level clustered robust standard errors to address heteroskedasticity issues.

Cross-Sectional Dependence:
The Pesaran's CD test serves as a tool to evaluate cross-sectional dependence. Estimators which handle cross-sectional effects become suitable when the test produces significant results.

Structural Breaks:
Structural changes because of COVID-19 and other events are examined through Bai-Perron break tests together with time dummies.

Sensitivity Analysis:
Our analysis includes testing core inflation as a replacement for headline inflation together with multiple monetary indicators such as policy rate and money supply to validate results.

Instrument Validity:
The Hansen J-test for overidentifying restrictions together with AR(2) tests are used in GMM models to verify instrument validity.

7. Conclusion-

This study has explored the complicated and multi-dimensional link between monetary policy, inflation, and economic growth with reference to theories, empirical evidence and country specific factors. The conclusion is that monetary policy can be used to control inflation but it is more ambiguous and nuanced in its ability to drive and maintain economic growth. In the short term, conditions that allow monetary policy to provide some short-run support to output and price stability, are mainly based on an economy's access to development finance,how mature and efficient its financial systems are and whether it has a central bank, which if should if have to have credibility.

However, very importantly, the classical view is that money is neutral in the long run, and therefore, growth results from real factors like investment, productivity and structural changes.

It must also be noted that in developing economies structural constraints, weak transmission mechanisms, and fiscal imbalances typically limits and diminishes

the effectiveness of monetary policy in shaping any of outcomes, so this should be given more consideration. In recent times, crises have prompted the use of unconventional monetary policy tools that stretch traditional boundaries of use, which has meant adaptive, coordinated, and transparent macroeconomic requirements.

In summary, monetary strategy is still an important part of macroeconomic management and will also require the necessary institutional framework, fiscal discipline, and financial markets to be effective. Future policies should focus on the central bank's independence, transmission mechanisms, and a balance between inflation and growth. As the economy evolves, especially in a post-crisis world, evidence-based and flexible monetary policy will be key to achieving macroeconomic stability and inclusive economic development over the long run.

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