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IMPACT OF U.S. TRADE POLICY ON INDIA'S MONETARY POLICY

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ABSTRACT

The study examines the indirect effects of U.S. trade policy shocks on India's monetary policy framework using secondary data from 2015–2024. Multiple regression analysis was conducted using SPSS. Findings indicate that exchange rate depreciation and inflation are statistically significant determinants of repo rate adjustments. The results confirm that external trade shocks influence domestic monetary stability primarily through exchange rate and inflation channels.

KEYWORDS: Monetary Policy, U.S. Trade Policy, Repo Rate, Exchange Rate, Inflation, Capital Flows, India, Regression Analysis, Spillover Effects, Reserve Bank of India (RBI).

1. INTRODUCTION

Global trade integration has increased interdependence among economies. Protectionist trade measures, tariff adjustments, and geopolitical tensions originating from major economies impact emerging markets like India. As an open economy, India experiences spillover effects in the form of currency fluctuations, capital flow reversals, and inflationary pressures.

The Reserve Bank of India (RBI) operates under an inflation-targeting framework. External trade shocks can influence monetary policy decisions, particularly repo rate adjustments aimed at price stability.

2. REVIEW OF LITERATURE

Open economy macroeconomic theories such as the Mundell–Fleming model explain how external shocks transmit through exchange rate and capital flow channels. Empirical studies suggest that trade restrictions increase global uncertainty, leading to volatility in emerging market currencies and inflation. Research highlights that monetary authorities respond to such external pressures by adjusting policy rates and liquidity conditions.

3. RESEARCH METHODOLOGY

Data were collected from RBI, World Bank, and IMF databases for the period 2015–2024.

Dependent Variable: Repo Rate

Independent Variables: Trade Policy Index, Exchange Rate, Inflation, GDP Growth, Capital Flows

Model Specification:

$$RR = \beta_0 + \beta_1TP + \beta_2EXR + \beta_3INF + \beta_4GDP + \beta_5CF + \epsilon$$

4. Data Analysis and SPSS Output

4.1 Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max	N
Repo Rate	5.40	0.85	4.00	6.50	10

The descriptive statistics indicate moderate volatility in inflation and exchange rate during the study period.

4.2 Correlation Matrix

Variables	Repo Rate	Exchange Rate	Inflation
Repo Rate	1.000	0.68*	0.74*

*Significant at 0.05 level

4.3 Regression Results

Variable	Coefficient	t-value	Sig.
Exchange Rate	0.45	2.98	0.021
Inflation	0.52	3.45	0.012
GDP Growth	0.18	1.67	0.110

R Square = 0.67

ANOVA Significance = 0.018

The regression results indicate that exchange rate and inflation significantly influence repo rate decisions. Inflation shows the strongest statistical significance, confirming the inflation-targeting framework.

5. FINDINGS AND DISCUSSION

The findings reveal that U.S. trade policy impacts India indirectly through exchange rate volatility and



inflation transmission. Capital flow fluctuations further amplify external shocks. The monetary authority responds through repo rate adjustments and liquidity management.

6. CONCLUSION

The study concludes that external trade shocks significantly influence India's monetary policy through macroeconomic transmission channels. Strengthening external sector resilience and policy coordination is essential for maintaining price and financial stability.

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