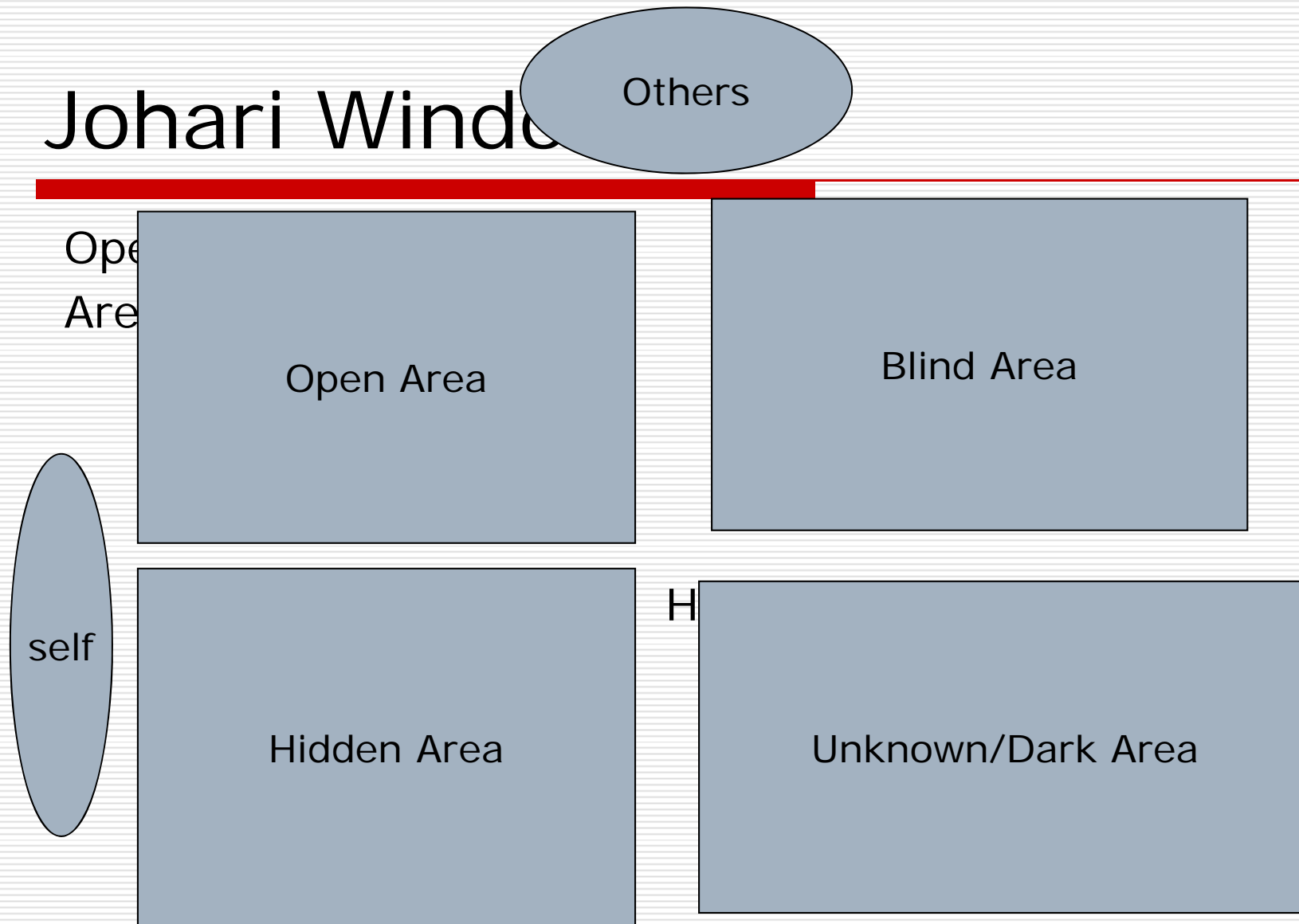


Monetary Policy Transparency and Independence

K.Kanagasabapathy, Director,
EPWRF

ICRIER, 20 Oct 2010

Johari Window



Dimensions

- ☐ Objectives
 - ☐ Framework
 - ☐ Operations
-

Aspects

- ☐ Political
 - ☐ Economic
 - ☐ Procedural
 - ☐ Policy
 - ☐ Operational
-

Preamble to RBI Act 1934

"...to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage"

MP objectives & framework

- ❑ Price stability, growth, financial stability
 - ❑ Monetary targeting-mid-1980s to 1997-98
 - ❑ Multiple indicator approach since April 1998
 - ❑ Though not targeted, projections of annual growth in WPI, M3 and real GDP are provided
-

Issues in Monetary Management

- ☐ Are objectives of monetary policy clearly set?
 - ☐ Should a single objective be promoted?
 - ☐ Should monetary authority be separated from regulatory and supervisory powers?
 - ☐ Does the Reserve Bank have operational autonomy?
 - ☐ Should the committee approach be strengthened?
 - ☐ WPI-CPI debate
 - ☐ Should debt management be separated?
-

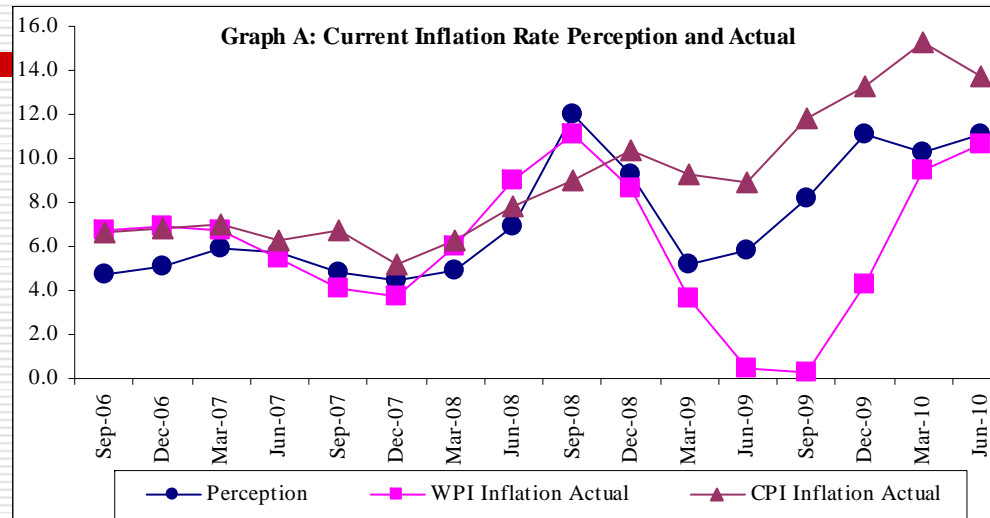
Transparency Issues-

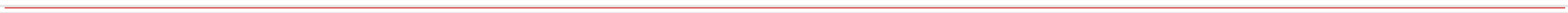
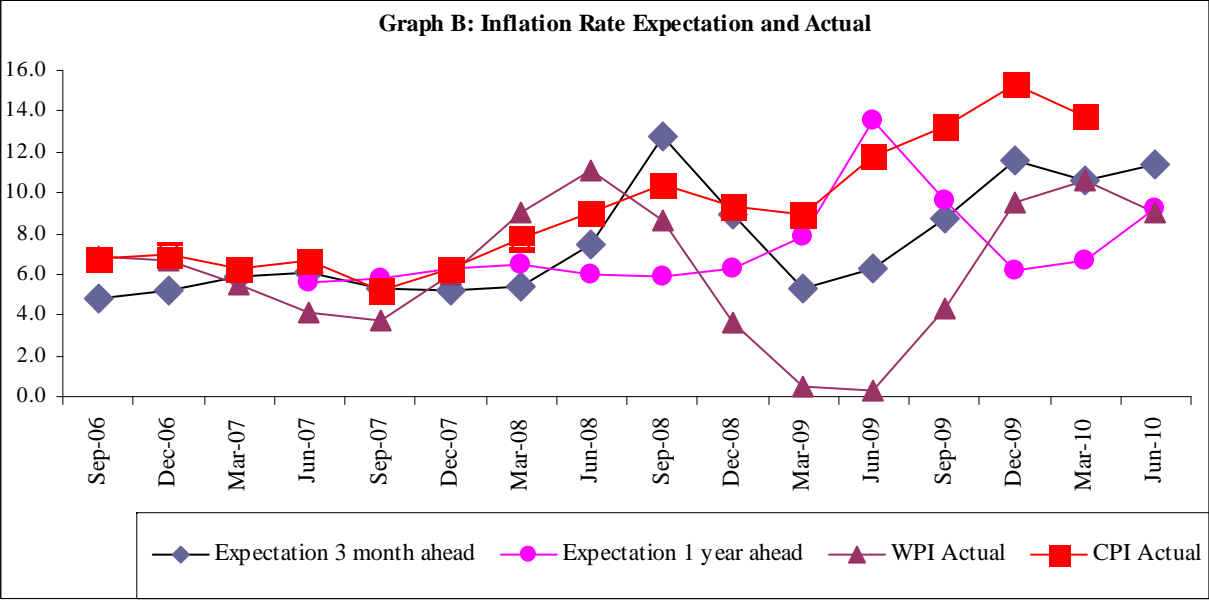
Transparency in Monetary Policy

- India-largely compliant with IMF Code
 - **Review of legislations-**
 - **clarity of objectives;**
 - **role of RBI; independence- can be achieved through amendments-**
 - **Overhaul of legislations**
 - **Separation of Debt Management DMO could be set up within MoF with continuous sharing of information with RBI**
-

Transparency in Monetary Policy

- Price index for measuring inflation- Weekly WPI is best-but quality of data needs improvement
 - Strengthening TACMP- not necessary at this stage-can be considered after gaining experience
 - Directions by government to RBI- not practical to record such consultations
-





Debt and Monetary management

- ☐ Is there a conflict?
 - ☐ Coordination or separation?
 - ☐ Division of responsibilities
 - ☐ State loans vs central loans
 - ☐ Expertise
 - ☐ Current thinking
-