RESERVE BANK OF INDIA'S (RBI) POLICY COMPOUNDS INDIA'S VULNERABILITIES: A Review

Date: March 22, 2016 Venue: CSTEP

Ganeshprasad R. Pavaskar, Research Engineer presented a paper by Rajan Govil who is co-founder of Marketnomix. Rajan Govil has worked as an economist with the International Monetary Fund (IMF) for over eight years and as an economist/investment strategist for multinational banks for ten years.

The session was attended by 10 people. The basic theme of the paper was that the policy of Inflation Targeting (IT) adopted by Reserve Bank of India (RBI) does not have a positive impact on reducing Inflation in the country and there is no empirical evidence of its benefit globally as well. Some of the key points that were discussed are:

1) Inflation has reduced because of lower food prices and international oil prices. Thus, RBI's monetary policy cannot be contributed to lower inflation rate as it has no impact on these variables.
2) Basic terminology like Consumer Price Index (CPI) and its components, Real Repo Rate and Nominal Repo Rate.
3) RBI's higher interest rates and overvalued exchange rate policy is in its interest to lower inflation but it is disregarding impact on investments, lower export growth and cheaper imports hurting domestic industry.
4) RBI needs to abandon its inflation targeting regime, focus on lower interest rates and manage currency depreciation to a competitive level for 'Make in India'.
5) Higher interest rates and overvalued exchange rate are contributing to a delay in India's much anticipated economic growth by raising the cost of investments, reduced investment demand, lower export growth and increased cheaper imports capturing market share of domestic firms.

Reported by Yeshika Malik, Research Economist