

MONETARY POLICY HAS ITS LIMITS, REFORMS MUST CONTINUE: DAS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

Though recognising the signs of an economic slowdown and acting early helped the central bank to reduce interest rate as falling inflation provided space, monetary policy has its own limits, Reserve Bank of India Governor Shaktikanta Das said on Friday.

Speaking at the St. Stephen's College, his alma mater, on 'Seven Ages of India's Monetary Policy', Mr. Das said structural reforms and fiscal measures may have to be continued and further activated to provide a durable push to demand and boost growth.

He said inflation had fallen successively and averaged below 4% since 2017-18, though there was a recent up-tick driven by food prices, especially the sharp increase in vegetable prices, reflecting the adverse impact of unseasonal rains and cyclone.

Since 2016, the RBI follows a flexible inflation targeting framework defined by a target of 4% for consumer price headline inflation, with a tolerance band of +/- 2% around it.

The central bank's primary objective is price stability, while keeping in mind the objective of growth, as defined by the RBI Act.

The RBI Governor said there were some potential growth drivers which, through backward and forward linkages, could give a significant push to growth.

"Some of these areas include prioritising food processing industries, tourism, e-commerce, start-ups and efforts to become a part of the global value chain," he said, adding that the government was also focussing on infrastructure spending which would augment the growth potential of the economy. Financial stability had emerged as another key consideration for monetary policy, "though jury is still out as to whether it should be added as an explicit objective," Mr. Das said.

"It is interesting to note that the central banking function as the lender of last resort (LOLR) has remained intact, notwithstanding the developments and refinements in the policy frameworks across countries, including India," he said.

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