GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA

UNSTARRED QUESTION NO. 4399

TO BE ANSWERED ON 12th AUGUST 2016

QUESTION

Periodic Monetary Policy

4399. DR. RATNA DE (NAG):

SHRI CHANDRA PRAKASH JOSHI:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has introduced any changes in Periodic Monetary Policy review System in the recent past;

(b) if so, the details thereof; and

(c) the details about the key parameter and the impact of the above changes?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ARJUN RAM MEGHWAL)

(a) and (b):The Government had announced in the Budget 2016-17 the intention of the Government to amend the Reserve Bank of India Act, 1934 (RBI Act) to provide for a statutory and institutionalised framework for a Monetary Policy Committee (MPC). The Preamble in the RBI Act, as amended by the Finance Act, 2016, now provides that the primary objective of the monetary policy is to maintain price stability, while keeping in mind the objective of growth, and to meet the challenge of an increasingly complex economy. RBI would, accordingly, operate a Monetary Policy Framework. Thus, now there is a statutory basis for a Monetary Policy Framework and the MPC. A Committee-based approach will add lot of value and transparency to monetary policy decisions. Out of the six Members of MPC, three Members will be from the Reserve Bank of India (RBI), including the Governor, RBI, who will be the ex-officio Chairperson, the Deputy Governor, RBI and one officer of RBI. The other three Members of MPC will be appointed by the Central Government, on the recommendations of a Search-cum-Selection Committee. These three Members of MPC will be experts in the field of economics or banking or finance or monetary policy and will be appointed for a period of 4 years and shall not be eligible for re-appointment. The meetings of the MPC shall be held at least 4 times a year and it shall publicise its decisions after each such meeting.

(c): MPC would be entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level. In exercise of the powers conferred by section 45ZA of the RBI Act, the Central Government, in consultation with RBI, has fixed the inflation target for the period beginning from August 5, 2016 and ending on the March 31, 2021, as under:

Inflation Target:	Four per cent.
Upper tolerance level:	Six per cent.
Lower tolerance level:	Two per cent.

The key advantage of a range around a target is that it allows MPC to recognise the short run trade-offs between inflation and growth but enables it to pursue the inflation target in long run over the course of business cycle. The range also accommodates data limitations, projection errors, short-run supply gaps and instability in the agriculture production, an important factor for CPI inflation, as food articles have a major weight in the CPI indices. It also allows to accommodate unanticipated short-term shocks even while nudging public inflation expectations on the centre of the range, to which the monetary policy will return the economy over the medium term, leading to transparency and predictability.

Further, if the average inflation is more than the upper tolerance level of 4% + 2%, that is, 6%, or less than the lower tolerance level of 4% – 2%, that is, 2%, for any three consecutive quarters, it would mean a failure to achieve the inflation target. Where RBI fails to meet the inflation target, in terms of the provisions of RBI Act, it shall set out a report to the Central Government stating the reasons for failure to achieve the inflation target; remedial actions proposed to be taken by RBI; and an estimate of the time-period within which the inflation target shall be achieved pursuant to timely implementation of proposed remedial actions.

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