

RBI's inflation goals need to be reviewed: PM's advisor

Will have to decide whether the inflation target band of 2-6% is too wide, says Rathin Roy

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The new government should review the central bank's inflation goals, including whether consumer prices or the underlying core measure is the appropriate target to use to determine interest rates, an economic advisor to the Prime Minister said.

Speaking in his personal capacity, and not as a member of Prime Minister Narendra Modi's Economic Advisory Council, Rathin Roy said the Reserve Bank of India's inflation target should be relooked at after the elections, given that the current mandate expires at the end of March 2021. The RBI's goal is to keep inflation at 4 per cent over the medium term.

"We need to decide what sort of macroeconomic framework

we want going forward," said Roy, who is director of the National Institute of Public Finance and Policy in New Delhi. Those discussions and decisions will take time and a new administration should therefore start immediately to get the process going, he said.

The RBI has in the past faced criticism for largely overstating inflation, forecasts that were then used to underpin the monetary policy committee's hawkish policy stance and two interest-rate hikes in 2018. In February, Deputy Governor Viral Acharya said the unpredictability of food prices was the reason for inflation forecasts going awry.

The RBI made a surprise U-turn on monetary policy this year under new Governor Shaktikanta Das after food prices



Rathin Roy

fell. Authorities will need to decide whether the inflation target band of 2 per cent to 6 per cent is too wide, Roy said. The current targeting regime — a rather uniquely broad range of 400 basis points within which the RBI has sanction to operate — should become a little more disciplined, he said.

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A decision should also be made on what interest rate is required to keep inflation in the middle of the band.

Interest rate

"If you look at the interest rate as the price you pay to keep inflation at a certain target then we have to ask collectively whether that price is worth paying," Roy said. "Why is it that the RBI needs the repo rate as high as 6 per cent to maintain 4 per cent inflation? Why cannot it do it with less," he asked.