Communication Policy for RBI

What is the issue?

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Given the dynamic economic situation, it is increasingly essential for the RBI to have a better communication policy in place.

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What are the recent concerns?

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- **Uncertainty** - The economy is recovering from demonetisation and is implementing a path-breaking fiscal instrument, the GST.
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- In these uncertain times, when guidance is most needed, the monetary policy document has been shrinking.
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- The time dedicated by the RBI management to interact with the media is also shrinking.
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- **Monetary policy** - Illustratively, signals given in the last monetary policy of the RBI are hazy.
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- It acknowledges that growth of real gross value added accelerated in the last quarter after five consecutive quarters of deceleration.
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- However, a deeper look into sector wise growth trends reveals that the growth is uneven.
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- Evidently, growth in the coming quarters cannot scale very high to achieve an annual average of 6.7 per cent in 2017-18.
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- The disputed communications leave scope for doubts and uncertainty among the public, economists and the business class.
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How significant is communication?

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- **Guidance** - Besides monetary policy formulation, RBI is tasked with banking regulation, management of external sector and government debt.
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- There are constant challenges in each of these sectors and the public, including economic analysts, seek guidance from the RBI.
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- **Governance** - Communication helps in making the RBI transparent and contributes to its reputation and accountability.
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- In a market-determined liberalised economic environment, systematic communication helps achieve monetary policy effectiveness.
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- Compulsions to communicate contribute to improving the quality of decision making and provides a helpful feedback.
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- In uncertain times, communication policy assumes added responsibility in view of abundant online information which is sometimes misleading.
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- **Economy** - Empirical evidence highlights that better communication policy reduces market uncertainty.
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- Growth predictions from RBI should be in line with its interest rate decisions that play a significant role in handling inflation and growth.
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- For credibility, convincing communications are essential from the RBI on explaining the following:
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i. econometric model for growth prediction
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ii. rationale behind interest rate decisions
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iii. true inflation pictures
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- In all these ways, communication's role is as significant as being recognised

as a monetary policy tool in itself.
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What could be done?

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- It is essential that RBI have in place a systematised communication policy.
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- The RBI could consider bringing out a summary of the economic and business conditions prevailing in the country.
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- E.g. Beige Book of US Fed, Agents report of the Bank of England.
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- Similarly, RBI could consider theme-based research seminars, conferences and workshops on topics that need urgent attention.
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- Conferences could also encourage academic participation by providing the opportunity to publish research papers.
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Source: BusinessLine

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