Enhancing RBI’s autonomy

Why in news?

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Bank of England recently convened a two-day conference insisting on the need to have independent central banks.

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What are the inferences from the conference?

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- At many critical instances unconventional policies were undertaken by central banks.
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- Delegating policymaking authority stands against the technical elites of the central banks.
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- There is a compelling case to shield the central bank from political influence to accomplish price stability.
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- An independent central bank with a clearly defined mandate was more capable of keeping inflation lower and stable than policymakers.
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- It gives strength to the notion that such an institution is an integral part of any country’s monetary system.
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What are the implications for Indian central bank?

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- India’s central bank has come under pressure to substantially lower the interest rate despite its inflation projections not allowing for it.
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- If the central bank continues to face such pressure, market participants will start suspecting that monetary policymakers might capitulate.
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- Monetary policy can be effective only if there is a strong trust in central banks' action, cynicism on monetary policy will gradually lose its relevance.
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- Due to GST and Demonetization, role of institutional credit (over which the RBI can wield direct control) will gradually expand further.
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How RBI's autonomy can be enhanced?

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- Ensuring full-operational autonomy to the RBI is one of the preconditions to achieve, and sustain macroeconomic stability.
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- If the RBI seems to be giving more weight to controlling inflation than growth, this issue should be addressed through Parliamentary process.
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- The Government should start the discussion with the RBI now to assess whether it is possible to expand the inflation targeting mechanism to include employment mandate.
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- It is prudent for RBI to alter its framework to account for such changes in order to make its policies more effective and far-sighted.
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- Concern over letting technocrats have decision-making authority is a legitimate in a democracy.
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- The way to deal with this is not by influencing their functioning but by making them more accountable to their actions.
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Source: Business Line

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