



RESERVE BANK OF INDIA

Minutes of the January 19, 2011 Meeting of the Technical Advisory Committee on Monetary Policy

The Reserve Bank of India constituted a Technical Advisory Committee (TAC) on Monetary Policy in July 2005 with a view to further strengthening the consultative process in monetary policy formulation, with external experts in the areas of monetary economics, central banking, financial markets and public finance. The Committee was last reconstituted in July 2009. The role of the Committee is advisory in nature. While the Reserve Bank takes into account the advice of the Committee, its final decision is in no way constrained by the views of the Committee. The Reserve Bank alone is responsible and accountable for policy actions and the time paths for decision-making.

2. It has been the endeavour of the Reserve Bank to place in public domain all such data/inputs as go into the formulation of monetary policy. The publishing of data on inflation expectation survey conducted by the Reserve Bank is an example of such efforts. Since discussions in the TAC are an important input for the formulation of monetary policy, it has been decided to place the main points of discussion of the Committee in public domain with a lag of roughly four weeks after the meeting of the Committee.

3. The last meeting of the Committee, which was twenty-third in the series, was held on January 19, 2011 in the run up to the Third Quarter Review Monetary Policy of January 25, 2011. The main points of discussion of this meeting are set out below.

4. The Committee reviewed the macroeconomic developments, both global and domestic. It felt that the global recovery was strengthening. In particular, the recovery in the US was picking up steam. However, continued uncertainty in the Euro area was a cause of concern. The Committee expressed concerns about rising inflationary pressures, especially in emerging market economies (EMEs). Rising food prices in the international market, in particular, was a source of worry. Rising food and energy prices could emerge as a major problem in 2011, according to the Committee.



5. Dwelling on the domestic macroeconomic developments, the Committee felt that growth was stabilising. However, it also felt that the main challenge before the Reserve Bank was to manage inflation. A sharp reversal in inflation in December 2010 was a matter of serious concern. In addition to the sharp increase in food prices, concern was expressed on the upside risks to inflation on account of increase in input costs that could translate into increases in output prices. This was more so as the economy was operating close to its trend path. About the path of inflation, the Committee's assessment was that inflation for March 2011 would be higher than 5.5 per cent projected by the Reserve Bank in the Second Quarter Review of Monetary Policy. The Committee, therefore, unanimously felt that it was imperative to contain inflation and anchor inflation expectations. According to the Committee, going forward inflation was a major risk to growth. As the current inflation was being driven largely by structural factors, there was a need to take necessary measures on the supply side besides further monetary tightening. It felt that the long-term solution to the demand-supply imbalance was to improve productivity in agriculture and supply chain management.

6. Several members of the Committee expressed concerns about the high and rising current account deficit. It felt that such a high level of current account deficit was not sustainable. The current account deficit was financed largely by portfolio and other short-term capital flows. They, therefore, also expressed concern over the slowdown in FDI flows, especially when such flows were quite buoyant in other EMEs. The Committee was of the view that if the global recovery was stronger than expected, it could adversely impact capital flows to India, going forward.

7. Most members of the Committee were of the view that the repo and reverse repo rates be raised by 25 basis points each. One member suggested 50 basis points increase in the repo rate and 25 basis points increase in the reverse repo rate. In addition to increase in the policy rates by 25 basis points each, one member was of the view that the statutory liquidity ratio (SLR) could be increased to reduce the



borrowing capacity of the banks and the Repo facility could be linked with the credit-deposits (CD) ratio of banks to bring in discipline. Two members were also of the view that small and managed depreciation in currency could be considered to manage CAD, while another member suggested a hike in the cash reserve ratio (CRR) to contain inflation.

8. Dr. D. Subbarao, Governor and Chairman of the TAC chaired the meeting. Other members present were: Dr. Subir Gokarn, Vice-Chairman, Smt. Shyamala Gopinath, Dr. K.C. Chakrabarty, Shri Anand Sinha, Dr. Shankar Acharya, Shri Y.H. Malegam, Shri Sanjay Labroo and Prof. Sudipto Mundle. Prof. Samir K. Barua and Dr. A. Vasudevan could not attend the meeting but submitted their written comments. Prof. Dilip M. Nachane could not attend the meeting. Shri Deepak Mohanty, Dr. Janak Raj, Shri K.U.B. Rao, Shri Pardeep Maria and Shri Amitava Sardar were in attendance.