One Year in the Life of India's Monetary Policy Committee[1]

(Dr. Michael Debabrata Patra, Executive Director, Reserve Bank of India – Speech delivered at the Jaipur Regional Office of the RBI on October 27, 2017)

At 2.30 pm on October 4, 2017 the resolution of the Monetary Policy Committee (MPC) was released on the website of the Reserve Bank of India (RBI) and history was made in a small way. Exactly a year ago, a page was turned on a tradition that went back to the origins of the RBI in pre-independent India. The monetary policy decision, hitherto made solely by the Governor of the RBI, was ceded to a six-member committee comprising the Governor as the Chairperson, the Deputy Governor in charge of monetary policy, one officer of the RBI appointed by its Central Board, and three external members appointed by the central government. The room filled with debate and argumentation, challenge and counter-challenge, articulations of well-defended individualistic assessments, and voting – India's monetary policy was undergoing a regime change. Quietly ushered in, without any grandeur about it or anything like that, it was a big step towards the modernisation of the conduct of monetary policy in India.

Invested by legislative mandate – through an amendment to the RBI Act – with the goal of 'maintaining price stability keeping in mind the objective of growth', India joined a select but growing band of countries that, beginning in 1990, adopted flexible inflation targeting (FIT) as their framework for monetary policy. Under FIT, price stability is accorded primacy as an objective of monetary policy, while being mindful of the state of the economy. Accordingly, the target for inflation is to be achieved over a medium term horizon rather than at a point in time to mitigate any

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[1] The theme of this lecture was inspired by an interview given by Governor Dr. Urjit R. Patel in the Mint, October 9, 2017 available at http://www.livemint.com/Industry/Gr9H0MnqAL5Ko4PdGa7fdL/RBI-governor-Urjit-Patel-Weve-started-seeing-the-upturn-in.html.

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output effects that disinflation could entail. Furthermore, the target itself is set within a band or range in acknowledgement of potential supply shocks that well up outside monetary policy's realm. Accountability for failure to ensure the inflation band is generally defined, but after taking into account the various lags characterising the operation of monetary policy.

In India, the amended RBI Act defines the metric for the inflation target as the year-on-year change in the monthly consumer price index (CPI). The numerical inflation target has been set by the government at four per cent, with an upper tolerance level of 6 per cent and a lower tolerance level of 2 per cent, internalising flexibility. The amended RBI Act has also specified accountability norms for dealing with failure to achieve the inflation target while building in recognition of the lags inherent in the conduct of monetary policy. It defines failure as average inflation breaching the tolerance band for three consecutive quarters, not instantly. Although concerns about inflation had dominated monetary policy over the past decades in deference to a societal intolerance threshold, such an explicit commitment to a numerical inflation target as the centre-piece of policy had never been made.

It was veritably a baptism by fire for the MPC, the new kid on the block in a cross-country sense of the term. The amendment to the RBI Act, the inflation target and tolerance band around it, and accountability with respect to failure to achieve the target were notified in the Gazette of India during May-August 2016. They were widely telegraphed and occupied many media bytes. What was little noticed, however, was that it was only on September 29, 2016 that a press release of the Government of India (GoI) informed the world about the appointment of the MPC. Just one working day later, the MPC plunged into its work and on October 4, it issued its first resolution, unanimously backed. Many 'firsts' surround that *debut*. As the statutory semi-annual Monetary Policy Report (MPR) of October 2016 noted: "For the first time in its history, the RBI has been provided the explicit legislative mandate to operate the monetary policy framework of the country. The primary objective of monetary policy has also been defined for the first time. The amendments also

provide for the constitution of a monetary policy committee that shall determine the policy rate required to achieve the inflation target, another landmark in India's monetary history." Each of these milestones warrants a more detailed exposition to catch the inflexions around the turning points. Indeed, each shall receive its due and enter the pantheon of legends in my memoirs. In the interest of brevity and time, however, I shall devote the rest of my lecture to (I) the initial conditions that brought to critical mass the urgency of the regime shift; (II) the RBI's efforts to build the institutional architecture ahead of and to prepare the ground for FIT; (III) the high wire that electrified the six decisions the MPC took in its formative year; and (IV) the conflicting pulls and trade-offs that shaped the decision of October 4, 2017 – arguably, one of the most testing.

II. The Initial Conditions

Today, the Indian economy basks in macroeconomic stability with a configuration that could be the envy of peers: a fiscal deficit steadfastly consolidating towards a Maastricht-like rendezvous with a strong consensus that its quality matters; inflation below target, shepherded by an MPC committed to the centre of the band notified by government; a current account deficit below 1 per cent of GDP and sustainable in terms of a dashboard of external sector indicators – overall, a sweet spot by any consideration! Yet, just four years ago, an ocean of vulnerability engulfed the economy. The situation around the “taper tantrum” seemed so dire that even a growth rate of 6.6 per cent and foreign exchange reserves of close to US $ 300 billion seemed like matchsticks before a tide that swept India into the infamous 'fragile five' in that fateful summer of 2013. In a fundamental way, it was those troubled conditions that provided the impetus for monetary policy regime change.

India was among the first nations to rebound from the global financial crisis, with tailwinds from a fiscal stimulus, the RBI’s policy rate cut cumulatively by 425 basis points and access to potential liquidity from the Reserve Bank expanded to as high as 10 per cent of GDP with a view to keeping financial institutions functional as

financial markets seized up. In 2009, growth seemed set to accelerate to the aspirational double digits that Indians dream about. Long embarrassed by the parlous state of the physical infrastructure, we set out to build world class roads, airports, power supply and ports. The financial sector was expected to take a lead role in creating conducive conditions for this big push even, as we have learned painfully, at the risk of much loss of governance and risk control.

There was, however, a serpent in the garden! Starting out innocuously in the guise of food prices rising on the back of a monsoon failure, inflation reared its ugly head, hidden behind the heady upswing of growth that deceptively appeared too good to interrupt. The wholesale price index (WPI), the official metric for measuring inflation then, failed to detect it initially – although the WPI food index rose by close to 15 per cent in 2009, headline inflation measured as the year-on-year change in the WPI remained below 4 per cent. It was beguilingly pulled down by the core measure of those days – WPI non-food manufactured products inflation was close to zero! By contrast, inflation in terms of the consumer price index for industrial workers (CPI-IW) was raging at above 12 per cent. Spreading incipiently, food inflation became generalised by 2010-11. The WPI picked it up by then, and spillovers to prices of non-food manufactured products started getting manifested. By the time there was a policy reaction in March 2010, it was too late. Over the period 2009-12, inflation averaged 10.4 per cent measured by the CPI-IW and 7.4 per cent by the WPI. Thirteen policy rate increases failed to excoriate it. Entrenched now in the system, it began to mutate like a multi-headed Hydra.

Inflation is not just the rate of increase of the price level. It is also considered an index of the quality of governance and macroeconomic management by the state which seeks to assure the well-being of its people who have relinquished to it some control over their lives for the greater common good. Indian society is well-known for zero tolerance for double digit inflation. Often in the not too distant past, it has been a pivotal election issue and governments have been voted out of office over the price of the lowly onion. In the year 2009 itself, inflation expectations of households a year

ahead rose by 400 basis points. By the end of the year, they crossed 12 per cent and kept climbing, entrenched in those high reaches. People were completely discounting the possibility of putting the genie back into the bottle. This time around, however, they did not take recourse to the ballot. They did something more sinister – they bought gold!

As inflation outcomes and expectations climbed, the real rate of return on bank deposits started to get eroded and even turned negative. Saving in financial assets became a losing proposition. So people pulled out their money from bank deposits and other financial assets and put it into gold. For India, buying gold is just another conduit of capital flight; only 2 per cent of India's gold demand is mined domestically. Since 2012, India was already the largest consumer of gold. In the troubled years (2009-12), an annual average of 700-800 tonnes of gold imports surged to cross 1000 tonnes. With gold constituting 11 per cent of total imports, the current account deficit began to expand and by the third quarter of 2012-13, it reached 6.8 per cent of GDP – a time bomb ticking away, waiting to explode. Indeed, the RBI warned of the danger posed by the burgeoning current account deficit in its monetary policy statements of 2011-12 and 2012-13, but with the intoxicating surges of capital inflows of that time, these warnings went unheeded.

In hindsight, it was a crisis waiting for ignition. That was provided in May 2013 when the Federal Reserve (Fed) hinted at the possibility of normalising monetary policy later in the year. Financial markets were rudely jolted out of the complacency that the Fed's quantitative easing (QE) had spread since 2009. Foreign capital started frantically herding at exits out of emerging market economies (EMEs) to scramble for safe haven. Currencies, yields and equities were roiled as investors fled out of EMEs – perceived as risky asset classes – and contagion claimed one economy after another. In particular, they lost faith in five emerging economies – Brazil, Indonesia, Turkey, South Africa, and India. The epithet – the "fragile five" – entered the lexicon of financial markets.

Inflation had perniciously attacked the Indian economy in more ways than one. What started out as a dose of food inflation had eventually morphed into a balance of payments crisis. Monetary policy was subjected to its most severe challenge – the evaporation of credibility. The time for reform had arrived unannounced and was demanding immediate attention.

III. Building the Institutional Framework

The immediate response of the government and the RBI was to arrest the deterioration in the external accounts. Buffering up the reserves, restricting gold imports, tightening domestic liquidity to push up market interest rates – much has been written about the 2013 defence of the economy, and visceral memories of that turmoil remain. But, it was a time for soul searching – something rather basic was broke and needed to be fixed. The pledge of good governance and macroeconomic management to the people had taken a body blow and had to be re-built. Early on, it was clear that a fundamental change was due, something that would shake up the system and unsettle the ruling orthodoxy, something that would require an amendment to the RBI Act. Accordingly, starting in 2014, the RBI embarked upon building stone by stone – though not necessarily in chronological order – the institutional plinth for a new monetary policy framework.

In September 2013, an Expert Committee to Revise and Strengthen the Monetary Policy Framework was set up. The Expert Committee's recommendations provided the intellectual edifice on which the new framework would rest. It was an internally consistent model, complete in itself, ranging from the goal(s) of monetary policy; the instrument rule that would guide the policy maker’s pursuit of the goal; the operating procedure; the transmission; and the international dimensions of monetary policy. It drew heavily on work accumulated before it and broke new ground as well.

The consumer price index, the official metric for gauging inflation, struck a chord with households and consumers by capturing price changes at the retail level, unlike the WPI which is closer to a producer price index or at least, it reflects wholesale price changes and tells households about inflation measured before it reaches them. Moreover, the WPI was until January 2012 a weekly index comprising 676 items. Price relatives were not always available or collected and often they were just repeated[2]. All this was easier said than done. The public had for long been used to the RBI articulating inflation concerns in terms of the WPI under a multiple indicator based monetary policy framework. In January 2015, a new all India consumer price index had been constructed with 2012 as its base. The problem for the RBI was, however, that it had never reacted to CPI inflation before. Consequently, the responsiveness of CPI inflation to policy impulses was unknown. There was no way to calibrate policy actions. The anointment of headline CPI inflation as the official measure of inflation was a brave move in another significant aspect - almost half of the CPI basket was food! The Indian economy has had a long history of being buffeted by food shocks which exhibit persistence and spillovers. Supply shocks cannot be within the remit of monetary policy. The RBI took the view that although the first incidence of a food shock is outside the purview of monetary policy, second round effects such as on inflation expectations and especially, spillovers impacting the rest of inflation are! It also judged that headline CPI inflation is more easily communicated than an exclusion measure stripped of its most salient components.

The RBI set out a glide path for bringing down inflation from its peak of 11.5 per cent in November 2013 towards more conscionable levels, abjuring a big bang in order to minimise output losses of disinflation. Within this path, it set up self-imposed targets – 8 per cent by the end of 2014; 6 per cent by end-2015 and 5 per cent by end-2016. These targets were achieved with a large measure of good luck (the collapse of international commodity prices in 2014; geometric averaging in the new CPI) but

[2] The WPI has a low weight for food items, which is not in sync with consumption patterns of households. It does not includes services. Price relatives are drawn from a mix of markets, but primarily from bulk sale markets where ordinary consumer do not shop.

perhaps fortune favours the brave! This was the backdrop against which the MPC set about its work. It was destined to confront a growth-inflation balance on the razor's edge over the year ahead amidst heightened uncertainty.

IV. The Year Gone By

The first year of the MPC's functioning would be a tumultuous one in more ways than one. After several false starts, global demand and trade secured a tenuous foothold in the second half of 2016 and gained traction through the first half of 2017. Financial markets were churned by political events, though. In November 2016, the US presidential elections stampeded capital flows out of EMEs and a surge of the US dollar triggered sizeable depreciations in currencies around the world. Again in January 2017, the 'Brexit' roadmap and expectations of fiscal expansionism by the new US administration propelled the US dollar to a multi-year high. As 2017 progressed, reflation trade lifted equity markets, hardened bond yields and returned capital flows to emerging markets. The US dollar's bull run lost steam by mid-March; in fact, it weakened right through early September, while EME currencies traded with an appreciating bias. By late September, however, there was a complete reversal. The US dollar clawed back lost ground with the announcement of Fed balance sheet normalisation and tensions around North Korea. Capital outflows from EME equity markets gathered pace. For India, an improvement in external sector viability occurred despite these global developments. Generally buoyant capital inflows buffered up the foreign exchange reserves.

What would challenge the MPC throughout the year was the domestic dilemma – the trade-off between inflation and growth was set to become sharp and the tension between the two so acute that it would eventually impact the voting pattern of the MPC. Shortly, I am going to focus exclusively on the trials and tribulations facing the MPC in this crucial balancing act; for a moment, however, let me introspect on the RBI.

At the time of the MPC's first meeting a year ago, the RBI itself was caught up in the throes of leadership change – the twenty-fourth Governor had just assumed office; the Deputy Governor responsible for monetary policy had not yet been appointed, and the senior-most Deputy Governor had to step in to complete the six-member MPC. Also, the RBI had been working with the convivial guidance of a technical advisory committee since 2005. The more formal processes associated with an MPC had to be literally tailored from the cross-country experience to adapt to the country-specifics. What emerged was quite a unique sequence of institutional procedures informed heavily by internal management information systems.

As the MPC set about its first meeting, the accommodative cycle of monetary policy in India that commenced in January 2015 was maturing, with the policy rate having been reduced by a cumulative 150 basis points already. Yet, the ground underneath was moving. Macroeconomic and liquidity conditions were about to undergo tectonic shifts. The combination of a stronger than usual seasonal spike in vegetable prices, highly elevated pulses prices and international crude prices firming up from a recent trough, veered inflation up from its projected path during April-July 2016, even as growth slowed. In the August CPI reading – which was the first print that became available to the MPC – a glimpse of the forming vortex was revealed. With a suddenness that overturned the April-July surge, inflation fell off a cliff as the prices of vegetables and pulses sank into deflation!

In these challenging circumstances, the MPC prognosticated inflation developments as "…a downward shift in the momentum of food inflation – which holds the key to future inflation outcomes…." This assessment would turn out to be prophetic! On the hope that the satisfactory monsoon and cautious business optimism would quicken growth in the window of opportunity that the lull in inflation opened up, the MPC voted unanimously for a reduction of 25 basis points in the policy rate. This took the cumulative rate reduction to 175 basis points in this phase of easing. In this meeting, the MPC maintained an accommodative policy stance.

Just a month later, demonetisation – which involved withdrawal of about 87 per cent of the outstanding stock of currency from circulation, setting off a sudden liquidity explosion in the system – altered monetary conditions drastically. Over the next few months, the pangs of currency exchange preoccupied the nation, but when the definitive history of that time is documented, the RBI's valiant defence of financial stability, right from the morning after, will hopefully receive its due. As the withdrawn currency notes were returned by the public, deposits flooded into banks and swamped them with idle reserves. A wall of liquidity started moving through financial markets, threatening to take down everything in its path – interest rates; yields; exchange rates; asset prices. Standing alone between the ocean of liquidity and financial chaos, the RBI mounted an extraordinary liquidity absorption strategy. It combined unconventional instruments with regular operations when the liquidity tsunami was so overwhelming that it could have completely depleted the RBI's stock of government securities that are used as collateral in reverse repo auctions. In order to tide over the delay in obtaining market stabilisation scheme securities from the government, the incremental cash reserve ratio (ICRR) was deployed and for the first time in the RBI's history, an ICRR of the size of 100 per cent of the relevant demand and time liabilities of banks was applied.

These austere conditions weighed ponderously upon the MPC's meetings in December 2016, February and April 2017. *Ab initio*, the MPC recognised that its assessment of underlying conditions will likely be clouded by demonetisation effects that were unfolding in the form of transient disruption of cash-intensive segments of the economy, an abrupt compression of demand, restrained discretionary spending and fire sales of perishables that would reduce inflation temporarily. Accordingly, it decided – unanimously again – to look through these 'transitory but unclear effects' that were influencing the outlook disproportionately. It kept the policy rate unchanged through these meetings, but noting that inflation excluding food and fuel was setting a floor to headline inflation by exhibiting downward inflexibility. The MPC also worried that global financial market spillovers could impact macroeconomic conditions in emerging markets. Accordingly, it changed the policy stance from

accommodative to neutral in its February meeting. Importantly, the MPC renewed its commitment to the inflation target of 4 per cent. In keeping with this stance, the RBI refined its liquidity management framework in its April meeting, *inter alia* narrowing the liquidity adjustment facility (LAF) corridor to +/-25 basis points (from +/-50 basis points earlier) to ensure a finer alignment of the weighted average call money rate, the operating target of monetary policy, with the policy rate.

Three features distinguish these meetings of the MPC. First, it was assailed by the criticism of large one-sided inflation forecast errors right up to the June inflation print, which turned out to be a historic low. Demonetisation was readily available to denounce. Yet, the collapse in inflation occurred from August 2016, well before demonetisation, which could have accentuated it transitorily during November 2016-January 2017. The cumulative deviation of 80 basis points between actual inflation and forecasts between August 2016 and June 2017 was entirely due to the twin deflation of vegetable and pulses prices that produced a trend shift, holding a mirror to serious errors in food management which would later ignite wide-spread farmers' unrest. In this context, the MPR of October 2017 stated: "These developments may warrant a reappraisal of the scope and quality of food management strategies that seem prone to failure in the face of shocks in either direction. In the past too, supply shocks, of which large one-sided deviations of inflation from projections are merely a symptom, drove disinflation episodes." In the rush to pillory the scapegoat, attention was diverted from the real issues and consequently, from the right fixes. Second, there was an overwhelming preference to wait out the transitory effects of demonetisation. Although today, it appears the logical decision to take, markets were taken by surprise by the neutral stance and sentiment turned bearish. At the cost of a hawkish tone, the MPC was striving to anchor expectations in a situation when even the near-term was a step in the dark. Third, the decisions of the MPC in these meetings were taken by unanimity, although driven by individualistic approaches. The MPR of April 2017 surveyed the recent country experience and found many decisions taken by unanimity. Where differences were revealed, they were typically confined to

the size of the change in the policy rate rather than contesting the overarching policy stance.

The June and August meetings of the MPC were different from the three that preceded them, being literally on the horns of the growth-inflation dilemma. Although inflation had firmed up a bit in February and March, its abrupt and significant retreat in April caused the MPC to lower the forecast path of inflation for 2017-18 from 4.5 per cent in H1 and 5 per cent in H2 to 2-3.5 per cent in H1 and 3.5-4.5 per cent in H2 in its June meeting. It unambiguously pointed out that "prices of pulses are clearly reeling under the impact of a supply glut caused by record output and imports. Policy interventions, including access to open trade, may be envisaged to arrest the slump in prices." Abundant supply, coupled with the renege on procurement by designated agencies, resulted in the market price of pulses falling sharply below minimum support prices fixed by the government. Nonetheless, the MPC did express misgivings about the durability of the unusually low momentum of inflation, the likelihood of petrol and diesel prices rising, and the possibility that the stickiness of inflation excluding food and fuel would re-assert itself soon. It also indicated that the transitory effects of demonetisation have 'lingered on in price formations' and warned that 'premature action at this stage risks disruptive policy reversals later and the loss of credibility.' Importantly, the MPC prognosis of economic activity also reflected its concern about a deeper than initially anticipated loss of momentum. It underscored the urgency around reviving private investment, restoring banking sector health and removing infrastructural bottlenecks all of which were outside the purview of monetary policy but would greatly enhance its effectiveness. For the first time, the MPC voted to keep the policy rate unchanged not by unanimity but by a five-member majority, as the scars left by falling growth and inflation set up conflicting pulls.

In the August meeting, the MPC saw for the first time the impact of the implementation of the house rent allowance (HRA) for central government employees for which it had been preparing the public for some time, especially the need to distinguish between 'statistical' and second round effects. The former would merely

push up the index without actual inflation, while the latter would warrant careful monitoring for evidence of generalisation. The MPC observed that some upside risks to inflation had reduced – inflation excluding the HRA impact would likely be only a little above 4 per cent by Q4; inflation excluding food and fuel had fallen significantly over the past three months – but underlying growth impulses in industry and services were weakening, given corporate deleveraging and the retrenchment of investment demand. In fact, growth projections for 2016-17 and 2017-18 had been revised down by a cumulative 70 basis points and 10 basis points, respectively (in its October 2017 meeting, the MPC would revise it down even further, as I will shortly bring out, and the cumulative downward adjustment would be 70 basis points for each year). Seizing the space that had opened up for some accommodation, the MPC decided to reduce the policy repo rate by 25 basis points but with a neutral stance. In order to derive the maximum effects of the rate cut, it reiterated the urgent need to revive private investment, remove infrastructure bottlenecks, resolve stress in corporate balance sheets and recapitalise public sector banks to help restart credit flows. This time around, the vote was carried by a four-member majority, and the divergence in voting preference was two-sided – one member voted for *status quo* while another voted for a rate cut by 50 bps.

V. The Fourth Bi-Monthly Monetary Policy, 2017-18

The monetary policy statement of October 2017 was framed in quite a dramatic setting. Even as growth broadened globally, it slowed below 6 per cent for the second quarter in a row in India in April-June. At this rate, India was still among the fastest growing large economies of the world, but the blow from the growth print was significant enough to set off a chorus of alarm.

The slowdown was essentially located in manufacturing activity which slumped to a 20-quarter low. Over the recent few years, industrial output has shown synchronicity across geographies, with trade being identified as the channel of co-movement. In the early part of 2017-18, however, Indian industry has been an outlier, decelerating just when industrial production the world over is on the mend. Transient disruptions

associated with the GST rollout are likely operating as a drag. Nonetheless, it is fair to say that the nation is impatient to see a revival in industry, especially as capital formation staged a modest recovery.

Sharpening the dilemma for the MPC, retail inflation rose nearly 200 basis points since its last meeting. The upturn was broad-based, provoking households to expect that the general level of prices would increase by more than the current rate in the months ahead. Input costs facing both farms and firms rose, but weak pricing power in conditions of subdued demand prevented a fuller-blown pass-through into retail inflation.

In the MPC's assessment, inflation will likely rise from current levels in the rest of the year, with farm loan waivers and the implementations of pay and allowance revisions by states *a la* the centre posing upside risks. The MPC also pensively expressed concern about the spectres of geopolitical tensions and imminent normalisation of systemic central bank balance sheets that loomed over the outlook. On food inflation, the MPC's prognosis was more sanguine though, with adequate foodstocks and supply management efforts seen as mitigating factors.

On growth, the MPC regarded the first estimates of *kharif* production – which were lower than last year's level and the target for this year – and the GST rollout as early but transitory setbacks. It believed that agricultural activity will improve from here on. Furthermore, it found business optimism expressed by firms about prospects for the October-December quarter reassuring. Relative to its August assessment, the MPC lowered its growth forecast by 60 basis points which, in a rough and ready sense, measures the net lagged impact of shocks such as demonetisation and the GST.

The MPC expressed the view that recent structural reforms would support growth over the medium-term. Accordingly, it expected upsides to the growth forecast from the resolution of GST-related impediments and from the pay and allowance revision

for state government employees, while the hardening of input costs and the loss of consumer confidence would balance the risks.

The MPC was particularly candid in drawing out the bottom line: "…it is imperative to reinvigorate investment activity." For this, creation of a conducive environment for investment is critical, involving adequate recapitalisation of stressed banks, closing the infrastructure gap, simplifying the GST, hastening clearances and rationalising procedures by states relating to investment proposals.

Against this backdrop of its appraisal of the evolution of macroeconomic and financial conditions, the MPC decided to hold the policy rate unchanged and to maintain a neutral policy stance. In the reactions that followed, there seemed a central tendency that the MPC may have called right.

V. Concluding Remarks

I hope my thoughts on the recent monetary policy engagement have provided some clarity on the challenges confronting the MPC and the rationale underlying its decisions. Monetary policy is ultimately the art or science of the feasible. Ben Bernanke, when he was chairman of the Federal Reserve Board, was once asked by Liaquat Ahmed, the author of the celebrated book *Lords of Finance*, as to how confident he was that the theory of quantitative easing or QE would work. His reply – "The problem with QE is it works in practice but it doesn't work in theory" – provoked laughter, but it is so true of monetary policy more generally. Monetary policy decision making is always complex and severely testing. It is typically undertaken in an explosion of diverse views, each differing from the other in expressing intensity and fervour. The endeavour of our MPC has been to try to share with the public through its resolutions and through individual minutes a set of balanced assessments so that monetary policy in India becomes transparent and predictable. Looking ahead, the task of the MPC is cut out and I can do no better than quote Governor Dr. Patel from his recent interview: "we should aim at achieving the inflation target without losing sight of supporting economic growth."