



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

July 26, 2012

RBI Working Paper Series 13 / 2012

Fiscal Stance, Credibility and Inflation Persistence in India

The Reserve Bank of India today placed on its website a Working Paper titled "[Fiscal Stance, Credibility and Inflation Persistence in India](#)." The Working Paper has been written by Shri Pankaj Kumar and Shri Pratik Mitra.

In the recent past, India has experienced high and persistent inflation. In response, the Reserve Bank of India cumulatively raised the cash reserve ratio by 100 basis points and the policy rate (repo rate) by 375 basis points between January 2010 and October 2011. Despite these policy actions, the inflation rate however continues to remain stubbornly high. The authors examine the reasons for our current inflation predicament.

The paper finds that large contemporary government deficits unaccompanied by concrete prospects for future government surpluses promote realistic doubts about whether monetary restraint must be abandoned sooner or later to help finance the deficit. The result will be a rise in inflationary expectations in spite of current money-supply restraint - a bout of unpleasant monetarist arithmetic.

The policy implications of this paper are quite clear. Prudent anti-inflation policy includes containment of the deficit. It is insufficient to announce and maintain restrictive monetary policies unless accompanied by a coordinated reduction in the budget deficits.

The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of RBI and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not that of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.