प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल/email : helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001
Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

October 01, 2024

DRG Study No. 50: Monetary Policy Transmission and Labour Markets in India

Today, the Reserve Bank of India released on its website the DRG Study titled, "Monetary Policy Transmission and Labour Markets in India." The study is co-authored by Chetan Ghate, Satadru Das, Debojyoti Mazumder, Sreerupa Sengupta, and Satyarth Singh.

The study investigates how informality in India's labour markets affects monetary policy transmission under inflation targeting. The study first characterises a set of stylised facts governing Indian labour markets and the business cycle between 1980 and 2019, by using information from employment and unemployment survey rounds of National Sample Survey (NSS), Periodic Labour Force Survey (PLFS) and India KLEMS dataset. The study finds the following:

- The upturns in India's business cycle have typically been associated with an increase in regular (formal) employment, and a decline in casual employment.
- Using Local Linear Projections with monthly data assembled from the Consumer Pyramids Household Survey (CPHS) by Centre for Monitoring Indian Economy (CMIE), the study finds that contractionary monetary policy shocks reduce inflation and growth after a lag.

The study then builds and calibrates a New Keynesian Dynamic Stochastic General Equilibrium (NK-DSGE) with search and matching frictions to explain these facts. The key findings are:

- Contractionary monetary policy shocks impact inflation, output and employment negatively as in the data.
- More formalised labour markets can make monetary policy more effective, *i.e.*, inflation witnesses an additional reduction when there is an increase in the size of the formal sector. There is a change in the composition of informal employment away from casual employment towards higher self-employment.

The study is the first rigorous analysis in the Indian context identifying the mechanisms behind how monetary policy under inflation targeting, in the presence of a large informal sector, impacts key macroeconomic variables.

(Puneet Pancholy)
Chief General Manager

Press Release: 2024-2025/1199