

**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**वेबसाइट : [www.rbi.org.in/hindi](http://www.rbi.org.in/hindi)Website : [www.rbi.org.in](http://www.rbi.org.in)ई-मेल/email : [helpdoc@rbi.org.in](mailto:helpdoc@rbi.org.in)

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**RBI Working Paper No. 14/2022: Monetary Policy Independence under a Flexible Exchange Rate Regime – The Indian Case**

Today the Reserve Bank of India placed on its website a Working Paper titled "[Monetary Policy Independence under a Flexible Exchange Rate Regime – The Indian Case](#)" under the Reserve Bank of India Working Paper Series<sup>1</sup>. The Paper is co-authored by Harpreet Singh Grewal and Pushpa Trivedi.

In an open economy, central banks confront the impossible challenge of simultaneously preserving exchange rate stability, conducting independent monetary policy, and benefitting from an open capital account.

Against this backdrop, the paper assesses whether the foreign exchange market interventions by the RBI to contain the volatility in INR have had any constraining influence on India's monetary policy independence during 1991 to 2020.

The major findings of the paper are:

- i) There is a high degree of sterilisation of the increase in money supply that results from forex market interventions in India.
- ii) Forex market interventions during surges in capital flows to contain the INR volatility lead to an increase in  $M_3$ , which however is found to be neither inflationary nor elicits a policy rate response by the RBI; this points to RBI's monetary policy independence not facing much constraints from its exchange rate policy and financial openness.

**Press Release: 2022-2023/903****(Yogesh Dayal)**  
Chief General Manager

<sup>1</sup> The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors, when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.