

# Letter expected to explain why the central bank failed to achieve inflation target, and the proposed curative action

## Special MPC Meet Discusses Report for Govt

### Our Bureau

**Mumbai:** The Reserve Bank of India (RBI) Thursday said its monetary policy committee was in full attendance at a special panel meeting called to help draft an explanatory letter to the Centre over missing a legally mandated consumer inflation target. The RBI didn't give details about the contents of the letter.

"A separate meeting of the Monetary Policy Committee was held on November 3 to discuss and draft the report to be sent to the Government by the Reserve Bank of India under the provisions of Section 45ZN of the RBI Act, 1934 and Regulation 7 of RBI MPC and Monetary Policy Process Regulations, 2016," the regulator said in a short statement.

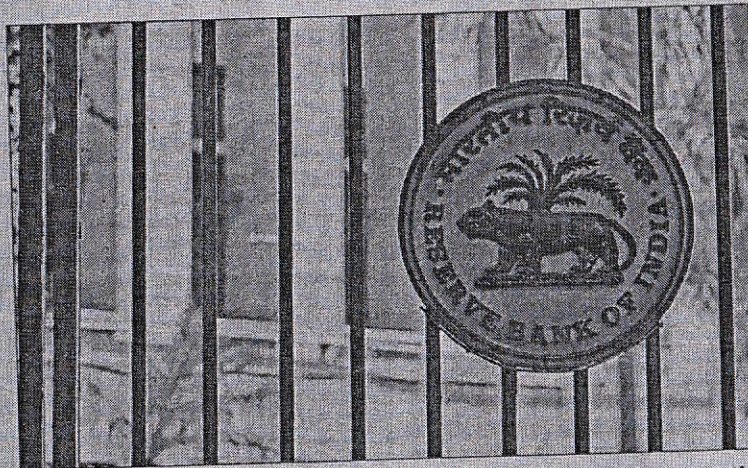
Section 45ZN of the RBI Act requires the panel tasked with monetary policy to send a letter to the government if the central bank fails to meet its inflation mandate. The

letter is expected to explain why the central banks failed to achieve the inflation target, the curative action proposed to be taken, and the timeline by which inflation would be brought under control.

The RBI added that the meeting was chaired by Governor Shaktikanta Das and attended by all panel members, including deputy governor Michael Patra, Dr. Rajiv Ranjan, Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth Varma.

Speaking at a banking conclave on Wednesday, Governor Das had said the central bank doesn't have the authority to make its explanatory letter to the government public. He had, however, said the contents would be made public in due course as the letter would go to Parliament.

**Monetary policy committee would most likely reason that imported inflation due to the Russia-Ukraine war: economists**



"I don't have the privilege, authority and luxury to release it (the letter) to the media before even the addressee gets it," Das said Wednesday. "The first right of receiving the letter lies with the government. In due course, sooner or later, it will be out. Nobody is hiding anything from the public, but it is a question of time."

Since the start to the year, the central bank has struggled to contain consumer inflation within its legally mandated range of 2-6%. Consumer price inflation rose to 7.41% in September. CPI inflation averaged 6.3% in Jan-Mar, 7.3% in Apr-Jun, and 7.0% in Jul-Sep.

Economists said the monetary policy committee would most lik-

ely reason that imported inflation due to the Russia-Ukraine war caused the inflation target to be overshoot.

"The RBI will likely point out that the inflation breach in India's case has been mainly due to supply-side factors, which could have been avoided if not for the Russia-Ukraine war," said Kaushik Das, chief economist, India and South Asia, Deutsche Bank. "The central bank will likely highlight the significant rate tightening and liquidity withdrawal measures that have been put in place thus far to bring inflation back under the target band."

The governor has earlier said that while the central bank had pegged inflation to ease below 5%, the outbreak of the war and the rise in crude oil prices altered the scenario.

"There has been a slippage in our inflation targeting, in our ability to maintain inflation below 6%, but it (a rate hike in February) would have been very costly for the economy," Das said on Wednesday.