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Greater transparency could enhance RBI credibility

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In 2016, the Reserve Bank of India (RBI) adopted an inflation targeting framework. Under this, its Monetary Policy Committee (MPC), consisting of three internal and three external members, determines the central bank's policy rate (repurchase rate). Each member has one vote and, in the event of a tie, the RBI governor has the casting vote.

The MPC meeting typically begins with presentations by the central bank's monetary policy department, information and insights derived from various surveys, and stakeholders' discussions such as with representatives of banks and industry that are held leading up to the meeting. This is followed by deliberations among the members. The meeting ends after the members cast their votes on the last day. Usually, the meetings used to be held over two days, but have been stretched to a three-day affair since last June. At the time, RBI had attributed the extension to "administrative exigencies", although it has stuck to the format since. The

next meeting is scheduled on 3, 4 and 6 June. The outcome of the MPC meetings is often non-unanimous. This is true in the case of RBI, as it is in the case of other central banks as well. In six of the last eight meetings, at least one member voted differently from the majority. A non-unanimous verdict suggests differences in the assessment of inflation and growth in the face of economic uncertainty. It is not known, however, if external members of the MPC bring in their own economic projections.

The committee has had 16 meetings till date, the last one was held on April 4. Barring the last two verdicts, the votes of deputy governors and the governor have never differed and have always been with the majority verdict. For the first time in February 2019, deputy governor Viral Acharya recorded a dissenting vote in favour of status quo, going against the governor's view and the majority view calling for a rate cut. His dissenting view in favour of status quo was repeated in the April meeting.

In a significant yet unexpected development, the third internal member, Michael Patra, voted twice consecutively in favour of a rate cut, contrary to his reputation of being an inflation hawk. In the earlier 14 meetings, he had voted only once in favour of a rate cut

while four times for a rate hike, twice going against the majority view. Why is this critical? Had he not voted for a rate cut in February and April, there would have been a tie in both the meetings. The verdict then would have been settled, for the first time in the history of the MPC, by the casting vote of the newly appointed governor, Shaktikanta Das, whose opinion would have prevailed. This would have created some unease about the policy decision, to put it mildly.

In contrast, the voting pattern of the external members, all three of whom have served on the committee since its formation, seems well-established. Chetan Ghatge tends to favour inflation control, while Ravindra Dholakia favours growth. The latter has voted for a rate cut in seven of the 16 meetings and only once for a rate hike. Both have voted against the majority on multiple occasions. The third member, Pami Dua, surprisingly, has never voted against the majority in any of the meetings. It is unclear if this is a coincidence

or if the deliberations during the meetings swayed her position.

Given that the credibility of the central bank is crucial for the success of monetary policy, the key question is Can the transparency of these policy meetings and the accountability of individual monetary policy committee members be enhanced? Could this be achieved by recording and releasing the transcripts of the meetings, or by having silent observers present?

In the US and Japan, recordings of MPC meetings are published after five and 10 years, respectively. In the Eurozone, records of European Central Bank meetings will be published after 30 years. The Bank of England is to publish the transcripts of the second day of its MPC meetings with an eight-year lag. In addition, there are silent observers at the policy meetings of all major central banks.

In the case of RBI, it is not known if the policy review meetings are recorded, or if any observers are present. While the central

bank does publish the minutes of these MPC meetings, they do not convey how the deliberations were carried out. The overall assessment of the economy is followed by the statements of members, which appear as individually drafted statements.

As for the voting order, the statements of external members are reported first, followed by those of internal members, with the governor's vote reported last. It is not known if the voting takes place in the order of the statements. Given this lack of clarity on MPC meetings, it is unclear how far the exchange of information and deliberations among members influences their individual decisions.

Transparency is key to the credibility of any central bank. More transparency, however, can influence the workings of the monetary policy committee. Evidence from the US Federal Reserve policy review meetings, for instance, suggests that when committee members became aware that the meetings were being recorded, the proceedings became more formal and less interactive. Nonetheless, to enhance the credibility of the central bank's policy decision, it is important to have more information in the public domain on the way the Indian central bank's MPC meetings are held.

It may be a good idea to record and release transcripts of Monetary Policy Committee meetings

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