

Rangarajan for supply-side shocks to contain inflation

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Former RBI governor C Rangarajan (*pictured*) has said the Reserve Bank of India (RBI) alone could not contain inflation as supply-side shocks are needed to be managed by the government.

In a paper titled 'The New Monetary Policy Framework - What it Means', Rangarajan talked about the limitations of the RBI's monetary policy in containing inflation.

"The inflation mandate as already mentioned must provide for a range and a time frame for adjustment which



should not be too short. Nevertheless, monetary policy must act irrespective of what triggered inflation. Obviously, supply-side management is needed in situations of supply stock and that should be the responsibility of the government," he said.

Rangarajan said the adoption of inflation targeting by India had given rise to many doubts and concerns. The new policy framework requires the RBI to maintain consumer price inflation at 4 per cent with a margin of + or - 2 per cent.

"Thus in a sense, it is flexible targeting. The amendment to RBI Act also provides for the setting of a MPC which will determine the policy interest rate in order to abide by the inflation mandates," he said. The focus on inflation targeting by monetary authorities hardly mean a neglect of other objectives such as growth and financial stability, he noted.