January 25, 2021

RBI Working Paper No.03/2021:
Monetary Policy Transparency and Anchoring
of Inflation Expectations in India

   Today the Reserve Bank of India placed on its website a Working Paper titled "Monetary Policy Transparency and Anchoring of Inflation Expectations in India" under the Reserve Bank of India Working Paper Series.* The Paper is authored by G.P. Samanta and Shweta Kumari.

   This paper constructs an index of monetary policy transparency for India and examines the role of transparency in anchoring inflation expectations. Empirical results show that the degree of policy transparency has indeed increased substantially since the adoption of Flexible Inflation Targeting (FIT) in 2016. Further, empirical evidence suggests that inflation expectations of professional forecasters and households were anchored, in weak-form, in the post-FIT period, though households' expectations did not necessarily lie within the inflation tolerance band. During the transition period (between the self-imposed disinflationary glide-path since 2014 and adoption of the FIT), both realised inflation and expectations followed a declining path, which resulted in a positive association between them. During the pre-transition period, when explicit inflation target was absent, expectations were also reasonably anchored, *albeit*, at a higher level.

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