

# WILL URJIT PATEL COMMITTEE OVERHAUL MONETARY POLICY FRAMEWORK?

The Urjit Patel committee, set up by Raghuram Rajan days after he took charge of Reserve Bank of India to review and strengthen the monetary policy framework, is expected to come out with its recommendations shortly – though it has missed the three-month deadline.

The key question is whether the committee will emphasise on ending the discretionary monetary

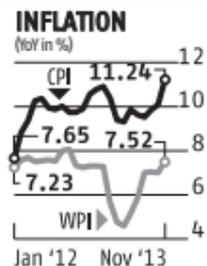
policy framework – in which multiple instruments are used to address a specific issue – to a rule-based framework that gives less headroom for manoeuvring.

While it may not be possible to shift to a rule-based regime from a discretionary regime overnight, it is to be seen how far the panel goes to strike a balance between the two.

## Here are the key issues that the committee is expected to throw light on:

### INFLATION ANCHOR

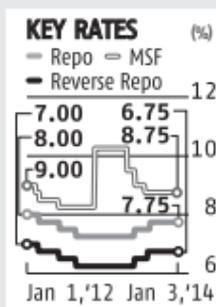
Whether consumer price inflation will be the new inflation anchor and whether RBI will be asked to set a target for it, which is the case now for wholesale price index-based inflation. Core CPI is also seen as another contender to anchor inflation.



### OPEN MARKET OPERATIONS

OMOs at the long end have been a trait of the RBI in the last few years and have come under criticism as they were often used to keep government bond yields artificially low. While OMOs conducted at the short end are seen as a purely liquidity management tool, the longer ones are used to manage yields.

### SINGLE RATE REGIME



While the repo rate is the key policy rate, other rates like reverse repo rate and the marginal standing facility rate are still operational and used by the RBI from time to time. Is it time to shift to a single rate regime which will reduce RBI's

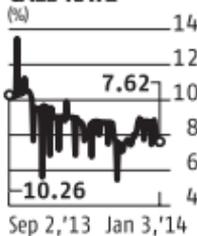
discretionary powers significantly?

### VOLATILITY IN OVERNIGHT RATES

The introduction of borrowing via term repo is seen as causing volatility to the overnight rates

where sharp downward spikes were noticed post September. The committee may also address the volatility of overnight rates while laying a road map for the development of term repo market.

### CALL RATE



### DEBT MANAGEMENT OFFICE

The committee's view on the issue will be crucial. Will the RBI continue to man the debt management office since it has the capabilities?

### MONETARY POLICY TRANSMISSION

#### BASE RATE OF TOP BANKS (%)

SBI	10.00
ICICI Bank	10.00
HDFC Bank	10.00
BoB	10.25
Bol	10.25

Call Rate: CCL

The base rate has for long been facing criticism that it does not facilitate monetary policy transmission. The last two rate cuts (in March and May) of 2013 have not induced banks to pass on the benefit to

customers. Lenders' response was tepid even when the repo rate was hiked in September and October. The real test of transmission is when the cycle alters. Is there a need to review the base rate?

### FSLRC

The committee's observation on the recommendation of the Financial Stability Legislative Reform Commission will also reflect the new governor's view on the issue.