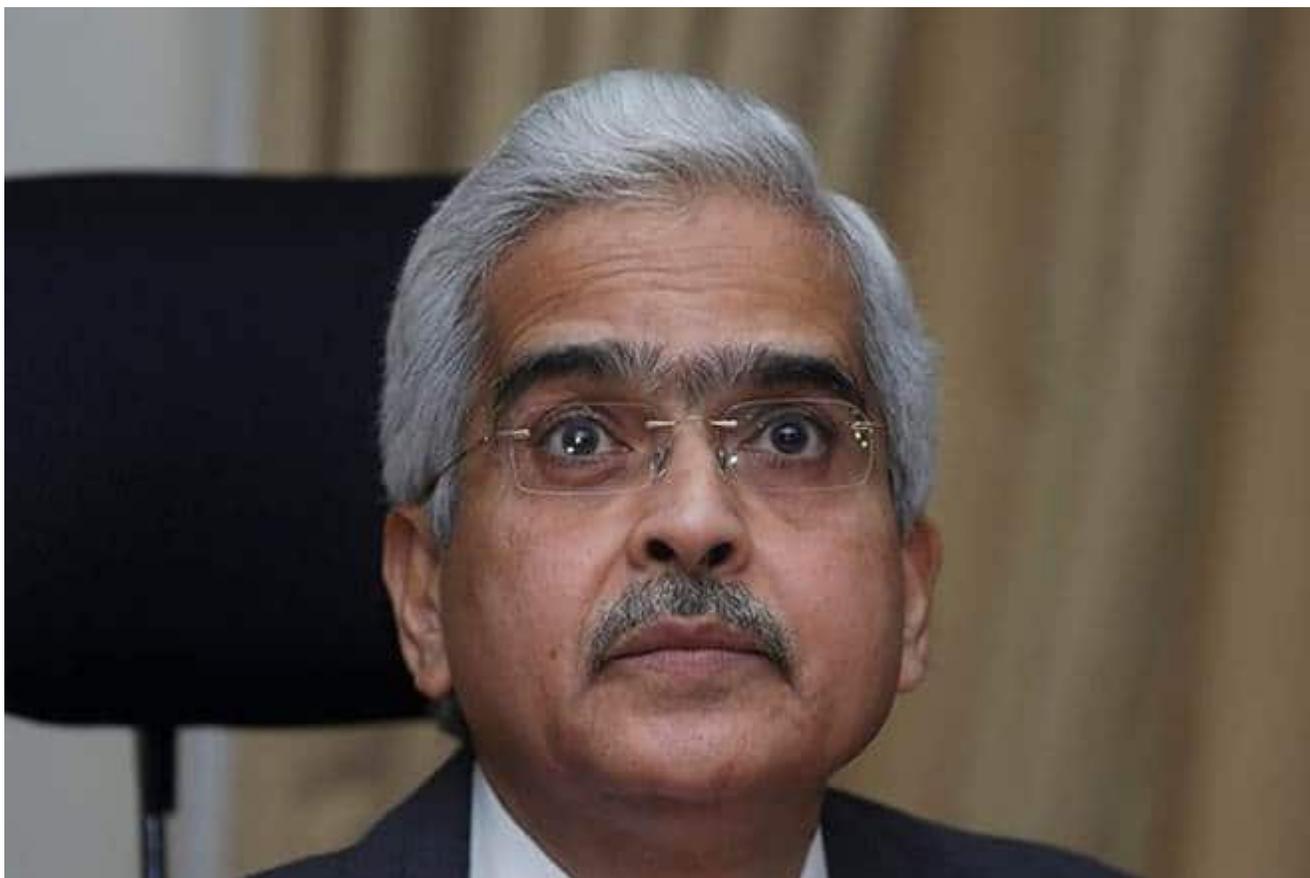


Financial stability now a key metric for monetary policy: RBI

By: FE Bureau

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RBI Governor Shaktikanta Das (Reuters)

Financial stability has emerged as a key consideration for monetary policy formulation in post-2008 financial crisis, beyond the imperatives of inflation and growth, Reserve Bank of India (RBI) governor Shaktikanta Das said on Monday. “The fact remains that though the focus of the monetary policy is mainly on inflation and growth, the underlying theme has always been financial stability,” Das said at a programme for IAS officers at the Lal Bahadur Shastri National Academy of Administration in Mussoorie.

The RBI will consider financial stability as a key consideration for the monetary policy as post the global financial crisis, the central bank feels that focusing on price stability may not be sufficient. The RBI governor spoke about added focus to achieve broader macroeconomic objectives of price stability, growth and financial stability.

Das pointed out that the primary objective of the monetary policy was to maintain price stability while keeping in mind the objective of growth. “It has been our endeavour in the Reserve Bank to ensure price stability under the flexible inflation targeting regime and simultaneously focus on growth when inflation is under control,” said Das.

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However, post the global financial crisis, the central bank feels that price stability may not be sufficient for financial stability. “Post global financial crisis, it has been recognised that price stability may not be sufficient for financial stability, and therefore, financial stability has emerged as another key consideration for monetary policy, though the jury is still out as to whether it should be added as an explicit objective of monetary policy,” Das said.

A healthy financial sector is a pre-requisite to improve growth prospects, he said, and expressed confidence that the end of political uncertainty with the recent polls and continuation of economic reforms may lead to a reversal of the current weaknesses.

The comments come amid a slew of troubles plaguing NBFCs, which account for a fifth of the credit market. The central bank is taking a “fresh look” at shadow banking regulation and supervision, and is also monitoring the activities of large NBFCs with a view to ensure financial stability, Das said.

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