

Monitoring of Global Economy in RBI

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Basic objectives of global monitoring

- ▶ Monetary Policy
 1. Assessment of external sector
 2. Monitoring of INR volatility
 3. Current account imbalances
- ▶ Financial Stability
 1. Stress test on bank balance sheet
 2. Network analysis
- ▶ International cooperation for (fine-tuning) Monetary Policy

International Department (ID)

- ▶ International Department within the Reserve Bank of India (RBI) monitors global developments - instituted in November 2014
- ▶ Department is the nodal unit for international financial diplomacy functioning in coordination with the Government
- ▶ The Department has five divisions:
 1. Fund-Bank Division
 2. BIS Division
 3. G20 Division
 4. Financial Stability Board (FSB) Division
 5. Regional Financing Arrangement Division (RFAD)
- ▶ Synergy maintained through coordination with other Departments of the Bank

Functional Aspects - ID

- ▶ The above divisions monitors global developments in tandem
- ▶ Approach of the Department is to suggest/shape the stance on issues under deliberation/negotiation in various international bodies
- ▶ Maintain liaison with international bodies and appraise Top Management through preparation of briefs
- ▶ Direct participation (of staff members) in international meetings made through presentation and intervention
- ▶ It draws upon multi-disciplinary research to formulate or advocate India's stance in multilateral fora

Macroeconomic Analysis in RBI - General Framework

- ▶ The Group lead by an Advisor(s) delegates work - both analytic and empirical - to Directors in various divisions
- ▶ The policy-relevant research on topical issues are carried by staff members - drawn from research and operational areas
- ▶ Research staff conducts in-depth analysis of key global macroeconomic developments and their impact on Indian economy
- ▶ Timely updates on global economic developments are maintained through data collation and analysis of current topics
- ▶ Also conducts seminars and surveys on the behest of Economic forums

Synergy with Research and Operational Departments

Analytical notes on:

- ▶ Global spillover and capital flows
- ▶ Monitoring of India's merchandise trade
- ▶ Balance of Payments (BoP) developments - analysis and Press Release
- ▶ Tracking of Exchange rate movements (most important)
- ▶ Foreign exchange reserves
- ▶ Analysis of commodity composition
- ▶ direction of merchandise trade
- ▶ Prepare materials for Annual Reports, Financial Stability Report and finally Monetary Policy

Engagement of ID with Multilateral Institutions (1)

Department coordinates the work relating to:

- ▶ International Monetary Fund/World Bank:
 1. Article IV consultation
 2. General Review of Quotas
 3. Financial Sector Assessment Program (FSAP)

- ▶ Bank for International Settlements
 1. Basel Committee on Banking Supervision (BCBS)
 2. Committee of Global Financial System (CGFS)
 3. Committee on Payments and Market Infrastructure (CPMI)

Engagement of ID with Multilateral Institutions (2)

- ▶ Group of 20 (G20):
 1. Finance Ministers and Central Bank Governors Meeting (FMCBG)
 2. International Financial Architecture (IFA)
 3. Framework Working Group (FWG)
 4. Investment and Infrastructure Working Group (IIWG)

- ▶ South Asian Association for Regional Cooperation (SAARC Finance):
 1. SAARC Swap Arrangement
 2. BRICS Contingent Reserve Arrangement
 3. Database on SAARC Finance

Interaction with Standard Setting Bodies

- ▶ Financial Stability Board:
 1. Financial Action Task Force (FATF)
 2. Monitor and advise on market developments and their implications for regulatory policy
 3. Monitor and advise on best practice in meeting regulatory standards.

- ▶ International Association of Insurance Supervisors (IAIS)
- ▶ International Accounting Standards Board (IASB)
- ▶ International Organization of Securities Commissions (IOSCO)

Sensitivity Analysis for Forex Risk (FSU)

- ▶ Resilience of banks to exchange rate risk
 1. Shock 1: 10 percent depreciation of INR
 2. Shock 2: 20 percent depreciation of INR
 3. Shock 3: 10 percent appreciation of INR
 4. Shock 4: 20 percent appreciation of INR
- ▶ currencies considered for the analysis are: USD, EUR, GBP, JPY, AUD, CAD and CHF
- ▶ Shocks are applied on the net open positions (long or short) for each currency bank-wise

Current Focus

- ▶ Trade/Tariff war emanated from US
- ▶ Monetary policy normalization
- ▶ Health of the banking sector
- ▶ Interaction between macroprudential, fiscal and monetary policy
- ▶ Impact of Macroprudential policies
- ▶ Dashboard for monitoring Macro-Financial Risk
- ▶ Issues relating to Housing/Retail Credit
- ▶ Regulatory issues relating to macro-prudential policy framework

Thank You