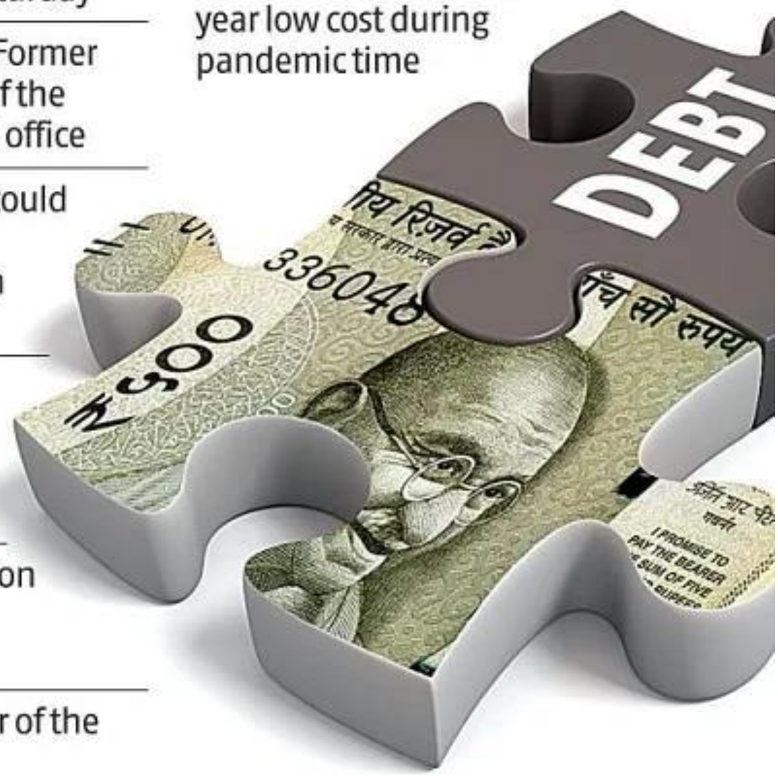
RBI is fighting inflation with its hands tied

- RBI's ability to make the right call on inflation is hamstrung by the extraordinary burden of public debt it has to service. Raising interest rates makes borrowing dearer for the country's biggest debtor, the government.
- Tolerating inflation helps the government by lowering the real value of its interest outgo (interest payments adjusted for inflation).
- As the government's debt manager, RBI has a strong incentive to tolerate inflation as long as possible and keep yields on long-dated government securities as low as possible.
- In prioritising its debt management role, the central bank ends up compromising its inflation-fighting role.

RELOOK

- Parliamentary Standing Committee on Finance to visit RBI on Saturday
- Panel Chair Jayant Sinha, Former PM Manmohan Singh part of the panel visiting RBI's Mumbai office
- Key points of discussions could include separate of debt management function from the RBI
- Experts say there is merit in separating the debt management function, but now is not the time
- Debt management function critical to RBI functioning, including monetary policy
- RBI is the money manager of the government, and has managed record borrowings at 16-year low cost during pandemic time



Separate public debt management offices

1. The conflict between the debt management and inflation management role is not unique to India. Some countries have managed this conflict by carving out separate public debt management offices. Such proposals have been made in India too, but haven't been carried through.
2. Given that RBI-finance ministry relations have improved considerably over the past few years, the time is perhaps ripe to revisit this proposal. RBI should view this step as a way to free itself from a heavy burden.
3. Without having to worry about managing the government's borrowing costs, RBI can focus better on its primary mandate of maintaining price and financial stability.