Global Spillovers and Monetary Policy Transmission in India

Michael Debabrata Patra, Sitikantha Pattanaik, Joice John and Harendra Kumar Behera

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With the world's largest economies setting divergent courses for monetary policy, India faces significant risk of spillovers. This paper examines the impact of global spillovers on transmission channels of monetary policy through domestic financial markets in India. Drawing on stylised facts and using a dynamic factor model to develop an indicator of global spillovers (IGS), a time varying parameter vector auto-regression (TVP-VAR) model is estimated.

The results indicate that there is no strong evidence of domestic monetary policy losing traction because of global spillovers although there are effects on some segments of the market spectrum. Monetary policy responds to volatility-driven stress in domestic financial market conditions as a policy choice in the context of meeting domestic goals, rather than a loss of independence.

[1] Michael Debabrata Patra isExecutive Director,Reserve Bank of India and Sitikantha Pattanaik, Joice John and Harendra Kumar Behera areDirector, Assistant Adviser and Assistant Adviser in Monetary Policy Department, Reserve Bank of India, respectively.The views expressed in the paper are those of the authors and not of the institution to which they belong.