

## Accepted Manuscript

Title: Natural Interest Rate: Assessing the Stance of India's Monetary Policy under Uncertainty

Authors: Harendra Kumar Behera, Sitikantha Pattanaik, Rajesh Kavediya



PII: S0161-8938(17)30020-0  
DOI: <http://dx.doi.org/doi:10.1016/j.jpolmod.2017.03.002>  
Reference: JPO 6339

To appear in: *Journal of Policy Modeling*

Received date: 12-12-2016  
Revised date: 22-1-2017  
Accepted date: 10-2-2017

Please cite this article as: {<http://dx.doi.org/>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

## **Natural Interest Rate: Assessing the Stance of India's Monetary Policy under Uncertainty**

Harendra Kumar Behera<sup>1</sup>, Sitikantha Pattanaik, Rajesh Kavediya,

Reserve Bank of India, Monetary Policy Department, Fort Mumbai, India.

### **Name and Address of the Corresponding Author:**

Rajesh Kavediya,

Assistant Adviser,

Monetary Policy Department,

24<sup>th</sup> Floor, Central Office Building,

Reserve Bank of India,

Fort, Mumbai – 400 001.

Email: rkavediya@rbi.org.in

Tel.: +91 22 22703615.

### **Abstract**

*The constant natural interest rate assumption implicit in Taylor type feedback rules to assess the stance of monetary policy could be misleading at times, particularly because of the time-varying nature of the natural interest rate. In the post crisis period, reflecting a complex web of supply side, demand side, regulatory and global factors, natural rates of both advanced and emerging economies have been estimated in the literature to have altered considerably. Using a theoretical framework that combines the essence of Ramsay's growth model and the New-Keynesian macro-dynamics, and applying the Kalman filter estimation technique, this paper finds that India's estimated natural real interest rate in Q4 of 2014-15 lied in a range of 0.6 per cent to 3.1 per cent, even though core estimates point to a narrower range of 1.6 per cent to 1.8 per cent. These estimates indicate that the real interest rate gap was negative in India for a major part of the last about ten years when CPI inflation was persistently high, implying that monetary policy stance of the Reserve Bank was largely accommodative rather than anti-inflationary.*

**Keywords:** Natural Rate, Real Interest Rate, Monetary Policy Stance, New-Keynesian Framework, Kalman Filter, Time-varying Estimates.

Download English Version:

<https://daneshyari.com/en/article/5101665>

Download Persian Version:

<https://daneshyari.com/article/5101665>

[Daneshyari.com](https://daneshyari.com)