



सत्यमेव परमो धर्मः

INSTITUTE OF ECONOMIC GROWTH

University Enclave, University of Delhi (North Campus), Delhi-110 007, INDIA

November 26, 2019

SEMINAR NOTICE

Topic: "Can Monetary Policy Stabilise Food Inflation?
Evidence from Advanced and Emerging Economies"

Speaker/s: Dr. Rudrani Bhattacharya


Chair: Professor Manoj Panda, IEG

The seminar details are as follows:

Date & time: **FRIDAY, DECEMBER 6, 2019 AT 03.30 P.M.**

Venue: A.M. Khusro Room
Institute of Economic Growth,
Delhi-110 007

All are welcome.


(Oindrila De)

Abstract:

This paper addresses a long-standing political debate as how effective is monetary policy to stabilise food inflation. While a wealth of theoretical literature suggests a stabilising role of monetary policy via aggregate demand channel, there exists hardly any empirical consensus on this issue. Very recently, a limited strand of empirical literature has attempted to shed light in this arena. The present study contributes to this literature by analysing the effectiveness of aggregate demand channel in presence of production cost channel of monetary policy transmission, affecting prices positively via supply side, in a panel of developed and emerging economies for the period 2006 Q1 to 2016 Q2. We find that an unexpected monetary tightening has a positive and significant effect on food inflation in both advanced and emerging economies. Our findings suggest that in the backdrop of inflationary pressure stemming from the food sector, a monetary tightening may turn out to be destabilising for the food as well as overall inflation in the economy. Higher interest rate enhances cost of capital raising capital-intensive non-food price. Substitution of capital with labour increases wage rate raising labour-intensive food price. Response of food inflation to monetary shock depends on net impact of production cost and aggregate demand channels. To have a negative effect on food prices, a sustained monetary contraction is required so that the negative effects from aggregate demand channel can outweigh the positive effects from production cost channel. However, in that process, the activities in non-food sector will have disproportionately higher negative effects, given the Engel's Law. Hence, including food inflation in the indicator for inflation target may have unbalanced negative growth effect of monetary policy across food and non-food sector, with core sector bearing the greater burden.