

Sanjay Malhotra: Reserve Bank of India's role in India's growth and navigating global challenges

Address by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, at Princeton University, Princeton, New Jersey, 18 April 2026.

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Good Morning.

Let me begin by thanking you for giving me this opportunity to share my thoughts with you. It is indeed a pleasure to be present here amongst some of the brightest minds.

I fondly remember the 11 months spent here in 2008-09: from the basics of economics with courses by Bob Willig on anti-trust economics (God bless his soul), Angus Deaton, Alan Blinder (who had thought his lessons on monetary policy and communication would be of so much use going forward!) and the Grossmans, to the lively camaraderie of the small and cohesive MPP batch, the family outings to the beautiful country side in Fall and Spring, and the Princeton-Harvard football rivalry, are all vividly etched in memory.

You are all aware of the huge growth story of India in the last decade. We have grown, on an average, by 6.1% per year¹, whereas the global economy grew by 3.2% and our nearest peers like China grew by 5.6% and Indonesia by 4.2%². I will not discuss the core drivers of growth – consumption, investment, services, etc. I will talk about the enablers which work in the background creating a facilitating environment for the core factors to play out.

I will talk about RBI's role in providing this facilitative ecosystem. I may mention here that the RBI, unlike many central banks, is a full-fledged, full-service central bank, with multifarious responsibilities ranging from monetary policy, currency management, forex management and regulation and supervision of banks, non-banking financial companies and payments systems. Apart from being the Banker's bank, it is the banker and debt manager of the central and state governments. Besides, RBI also has a developmental role. I will, however, be touching upon the core functions of the Reserve Bank, which provide the enabling conducive environment for households, businesses and governments.

I. Price Stability

First is price stability. It is a goal all central banks follow - not only because inflation is a regressive tax, which hits the poorest hardest, but also because price stability is important for businesses and households to plan and invest confidently. Unlike some countries like the USA which have an explicit dual mandate and others like New Zealand, which have an explicit single mandate, we have price stability as the primary mandate to be pursued, keeping in mind the objective of growth.

We formally adopted this mandate in 2016. We have a Flexible Inflation Targeting (FIT) framework. It is flexible because, while we have a point target (4 %), there is a band of

2% on either side. The relatively wide tolerance band around the target allows us to navigate the supply shocks – internal as well as external, given the large weight of food and fuel (supply side factors) in the CPI basket.

How do we conduct monetary policy, especially in navigating the global challenges creating high uncertainty like this? I am reminded of what Alan Greenspan once said that uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic. In other words, in central banking, the only certainty you have is uncertainty.

This is so because even in times of low uncertainty and volatility, the economy and monetary policy transmission are complex and ever-changing. Economists over the years have tried to understand the relationships between various macroeconomic variables and built models. However, every model, no matter how detailed or how well designed conceptually and empirically, is a vastly simplified representation of the world that we experience with all its intricacies on a day-to-day basis. For example, the slope of the Phillips curve or the the natural rate of interest are uncertain. This itself introduces uncertainty in policy making. There is also uncertainty about data. Along with uncertainty, where we are unable to predict the probability of an outcome, we also have unpredictability now, where outcomes cannot even be predicted. This makes monetary policy making even more difficult.

Since, uncertainty is central to monetary policy, the broader guiding principles of our policy-making do not change. It is only their application, which changes.

The first principle is to prioritise robustness over optimality. It involves risk management. We try to understand the risks arising out of the uncertainties, assess their probabilities, quantify their impact and then devise a policy that maximises best policy outcomes of price stability and growth.

Another principle that we keep in mind is the Brainard's principle of attenuation. If the central bank is unsure of the magnitude of the effect of a change in its instrument, it should change that instrument less than it would, were it was sure. In other words, this is the policy of gradualism. There are, however, exceptions to this rule as in the case of inflation persistence.

There is a corollary to the Brainard's principle. If central banks do not react under uncertainty or react gradually, as the Brainard principle would suggest, it could be difficult to manage inflation expectations. Therefore, anchoring inflation expectations becomes crucial, which is another important objective that we pursue through various tools including providing forward guidance.

Our fourth guiding principle is transparency, which provides predictability and credibility, and thereby enhances effectiveness. It also removes uncertainty from the minds of economic agents.

Lastly, clear communication of a central bank's strategy and policy decisions, is a very potent underlay to achieve the objectives of monetary policy. It brings clarity of the approach and thus helps in both improving the transparency and anchoring inflation expectations.

Coming to the present crisis, it particularly impacts us as West Asia contributes about one-sixth of our exports, one-fifth of our imports, half of our crude oil imports, two-fifths of our fertilisers imports and almost two-fifths of our inward remittances. The appropriate monetary policy response to such a supply shock is to look through the first-round effect to the extent that it does not feed into second-round dynamics. Second-round effects are the real concern. They can materialise if the supply chain disruptions continue for long. Then, what began as a supply shock can become embedded in the general price level. Preventing this entrenchment is where monetary policy has a primary role to play - through its influence on inflation expectations rather than through blunt demand compression.

Moreover, in uncertain times such as this, it is important to be agile and nimble, maintaining a broad policy stance, and avoid making firm commitments of the future path of policy. In such circumstances, our broad approach has been to be even more data dependent and to continuously reassess the balance of risks. We are therefore in wait and watch mode now. Moreover, we have been maintaining a neutral stance for the last few policy cycles. It preserves the flexibility to respond as the inflation-growth dynamics evolve.

Our decade-long experience with the FIT, in navigating through persisting shocks from the pandemic to the Ukraine war, suggests that it has served us well.

Since we adopted FIT, our average headline inflation has dropped to 4.7% (September 2016 to December 2025), down from 7.4% in the years prior (April 2012 to August 2016).

Moreover, headline inflation volatility came down to 1.7% from 2.4% over the same period.

Inflation expectations are better anchored and less volatile.

Even in terms of global perspective, the FIT framework has been a success. From the highest average inflation among both AEs and EMDEs during 2006-2015, inflation in India has moderated to below the average of EMDEs during the last decade.

It is also pertinent to mention that post supply chain disruptions due to COVID and the Ukraine war, inflation in India converged to target faster than many advanced countries.

Role of fiscal-monetary coordination in ensuring price stability

While we do give credit to monetary policy and flexible inflation targeting for the improvement in price stability, I may mention that fiscal policy has an equally important role to play in this regard. This is specially so in a country like ours, where supply side factors play a large role in inflation.

The government has over the years complemented monetary policy actions with supply-side measures to check price pressures. First, the government has prioritised building resilience in agriculture and reducing its vulnerabilities arising from the vagaries of monsoons and crop diseases. This has been achieved by getting more land under irrigation; better seeds; crop management and post harvesting practices. Second, the

government has strengthened the storage and supply chain infrastructure, besides building a retail distribution network for essential commodities to be used in times of price pressures. Third, it has used excise duty on oil as an instrument to reduce the volatility of fuel prices.

During the current crisis, domestic production of oil and gas is being ramped up. Sources of imports are being diversified. While there is no shortage of oil, given the reserves maintained by us, there is some rationing of gas for industrial purposes. The oil marketing companies and government have absorbed the price pressures in oil, while passing on some of the price pressures on gas to the consumers.

Moreover, fiscal consolidation has progressed steadily in recent years, with enhanced efficiency in tax collections and improvement in the quality of expenditure.

On the revenue side, adoption of GST and sweeping reforms in income tax including digitalisation, simplification, rationalisation, and reducing human interface in tax assessment and collection have helped improve tax buoyancy³. Gross GST buoyancy (Centre plus State revenue) over the eight-year period post GST from 2018-19 to 2025-26 is 1.23. Buoyancy in corporate tax has generally been above one since corporate tax rate was reduced and personal income tax buoyancy has averaged 1.7 in the last five years.

On the expenditure side too, government spending is better targeted. The quality of expenditure has improved. Direct Benefit Transfer, which is estimated to have brought savings of about 50 billion USD (until March 2024)⁴; digitalisation of various government programmes like public distribution scheme; and just-in-time flow of funds to state governments are some examples of enhancing expenditure efficiency. Its approach to the pandemic is a case in point. Rather than front-loading stimulus packages, as most countries did, India adopted a flexible and agile approach to support the vulnerable sections of society and small firms.

Revenue expenditure as a percentage of GDP decreased to 10.8% in 2025-26 (RE) from 13.6% in 2021-22. In contrast, there has been a robust increase in capital expenditure. The share of central government's capital expenditure as a percentage of GDP has surged from 1.7% in 2019-20 to 3.1% in 2025-26 (RE). Including the capital grants in aid to the states, it has increased to 3.9% (RE).\$

The central government's fiscal deficit to GDP ratio has declined from 9.2% in 2020-21 to 4.4% in 2025-26 (RE). India's general government debt to GDP ratio at 81.1% (in 2024-25) is reasonable, with the world's top 10 economies (in terms of nominal GDP in USD), other than Germany and Russia⁵, having higher debt ratios than India.

II. Financial Stability

I now come to financial stability. It is the bedrock on which an economy prospers and grows sustainably.

Our pursuit of financial stability is duly reflected in our broader regulatory framework. We have been willing to sacrifice some short term upside for long term growth. While

some regard this as conservatism, we believe it is prudence. This is evident from our resilience over various crises. I will highlight this with a couple of examples.

When the Asian financial crisis swept through the region in 1997–98, it brought down currencies and economies that had been held, only months earlier, as models of export-led development. India watched from a position of comparative stability, and the reasons were not accidental.

RBI had maintained controls on the capital account, particularly for residents. Short-term external debt was maintained at levels well below what foreign exchange reserves could comfortably cover. It refused to permit the kind of short-term foreign currency borrowing that had left our regional neighbours exposed to sudden reversals in sentiment. When intervention in the foreign exchange market was warranted, the RBI acted - but it did not commit to an indefensible peg. India's current account deficit was manageable and foreign currency exposure reasonable. The lesson embedded is that for a country at India's stage of development, the sequencing of capital account liberalisation is not a technicality - it is a first-order question of macroeconomic sovereignty.

If the Asian crisis demonstrated the importance of external discipline, the subprime crisis of 2007-08 showed the importance of maintaining internal discipline. As the global financial system was developing ever more elaborate and complex financial architecture through the mid-2000s, the RBI was doing something that appeared unpopular by prevailing standards. When in 2002, interest rates were falling and banks had no reason to anticipate a reversal, the RBI required them to build a counter-cyclical buffer called the Investment Fluctuation Reserve, against precisely that eventuality. Subsequently, during 2005-07, risk weights and provisioning requirements were raised, *inter alia*, for commercial real estate. On securitisation, recognition of profits was required to be spread over the life of securities. Moreover, accounting standards at the time did not permit the recognition of unrealised gains.

None of these was particularly popular at the time. But when the global financial system came under stress, these measures gained significance. Indian banks came out of the crisis with relatively stronger balance sheets.

We continue to value financial stability. A number of measures have been taken in the last decade. Asset Quality Review launched in 2015, Insolvency and Bankruptcy Code (IBC), 2016; alignment of prudential norms to global standards, and governance reforms in PSBs are some of them.

On account of these, our financial system is very healthy and resilient today, thereby supporting economic development.

III. Developmental Role

Maintaining price and financial stability are the core mandates of most of the central banks. But the role of RBI traverses beyond these confines. We have a large developmental role.

RBI played a critical role in financial inclusion. It collaborated with the government for the Jan Dhan program which was launched in 2014 on a mission mode. Leveraging the digital identity called Aadhar and mobile penetration under this mission, India ran the largest financial inclusion drive in human history in the last decade. Over 570 million bank accounts were opened for people who never had one. Almost everyone has a bank account today. This enabled Direct Benefit Transfers from governments, which bypassed the middlemen. It eliminated leakages. This revolution silently empowered people.

RBI has played a pivotal role in the development of UPI. This is a success story without any parallel. Today, India accounts for nearly half of the world's real-time digital payments volume. UPI processed over 22 billion transactions in March this year. The developmental mandate of RBI, a robust digital public infrastructure, widespread mobile ownership and low-cost data access along with a large presence of public sector in the banking space helped India leapfrog in digital payments. We have already taken UPI global with acceptance in 8 countries and are now working to connect it with many more including the European Central Bank's TARGET instant payment systems (TIPS).

We are currently building the Unified Lending Interface (ULI) to give lenders instant digital access to data, allowing them to assess credit worthiness within minutes for small farmers and business owners who previously had no documents to show or had to spend considerable time and effort at a bank.

We are also pushing the frontiers with our Central Bank Digital Currency (CBDC). It has the potential to make cross-border payments faster and cheaper. We are even testing programmability to direct payments for specific uses and purposes.

Our developmental mandate helps the national goal of inclusive growth.

V. Conclusion

Let me now conclude.

The resilience of the Indian economy is not by chance. It is because of the robust policy frameworks that have been successfully developed. It is due to the strong and credible institutions that have been assiduously built. It is on account of the various reforms undertaken steadily over the years. It rests on a foundation of stability and inclusion.

With these words, I thank you all for your patient audience. I will be happy to take questions, if any.

¹ Pertain to the period 2015-16 to 2024-25 based on National Statistical Office (NSO) data.

² Pertain to the period 2016-2025 based on IMF data.

³ Tax buoyancy is measured as a ratio of % change in tax revenue to % change in GDP.

⁴ <https://dbtbharat.gov.in/static-page-content/spagecont?id=18>

⁵ IMF Fiscal Monitor, April 2026.