Sanjay Malhotra: Monetary policy in a time of heightened uncertainty

Intervention by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, during a panel discussion "Monetary policy in a time of heightened uncertainty", jointly organised by the Swiss National Bank (SNB) and the International Monetary Fund (IMF) as part of the 12th High-Level Conference on the International Monetary System, Zurich, 12 May 2026.

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Good morning, Adam and my fellow panellists.

First of all, let me quote Alan Greenspan, former Chair of the Federal Reserve who said that *"uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic of that landscape"*. In other words, uncertainty is the only certainty in monetary policy.

This is so because even in times of low uncertainty and volatility, the economy, monetary policy transmission, economic models are complex and ever-changing, bringing uncertainty in policy making.

So, central bankers have learnt to live with uncertainty. The monetary policy frameworks have embedded principles, which help them navigate uncertainty.

i. First principle is to prioritise robustness over optimality during uncertain times.

ii. Second is the Brainard principle of attenuation which essentially talks about gradualism in policy making.

iii. Anchoring inflation expectations, maintaining transparency and effective and clear communication are some other principles.

Let me also mention that in India, we are also used to frequent supply shocks. Food items comprise roughly 40 per cent of our CPI basket. Indian agriculture, being significantly dependent on monsoons, is vulnerable to supply shocks.

Supply shocks pose a challenge – pre-emptive and sharp policy tightening, if the shock is temporary, can exacerbate loss of output (growth foregone), while delaying the same can lead to unhinging of inflation expectations, making it difficult to rein in inflation.

In a supply shock, we generally try to "look through" the first-round impact, if we believe that it is transitory and will dissipate quickly. However, if sustained increase in prices drive up wages, production and transportation costs (second-round effects) and lead to generalisation of inflation pressures, the "look through" approach is no longer optimal, requiring tighter policy.

Since the pandemic and particularly after the outbreak of the Russia-Ukraine war, central banks have moved towards a more flexible, meeting-by-meeting approach in policy formulation. They are now dependent on a wider array of information variables, using high-frequency data to make faster and more informed decisions. Moreover, while targeting headline inflation, they are increasingly distinguishing between transitory headline spikes and persistent core inflation trends to avoid any pre-emptive policy tightening that is unwarranted.

Central banks have also realised that in the face of structural supply challenges, monetary policy alone cannot handle supply-side bottlenecks. Close coordination with fiscal and structural policies is necessary to address the nature and source of shocks. For instance, in case of adverse supply shocks that have an impact on food inflation, the government has to ease supply constraints through various means – imports, prevention of hoarding, use of food reserves and buffers – to contain such inflation.

Thus, frameworks focused on price stability are essential anchors. Moreover, conventional economic models often fail during unprecedented supply disruptions, making data-dependent decisions (meeting-by-meeting approach) more important. To be effective, central banks must be flexible enough to handle the immediate impact of shocks without losing sight of the medium-term goal.

Moreover, they need to clearly explain the trade-offs to maintain credibility without adhering rigidly to short-term targets. The future of price stability focused frameworks lies in enhancing their agility and credibility rather than in abandoning them.

Given the above backdrop, India's monetary policy framework, which is a rule-based framework with elements of flexibility embedded in it, has helped in navigating through the persisting shocks and provided us the flexibility to respond depending upon evolving circumstances. I may mention that average inflation, after inflation targeting was introduced, has reduced by about two per centage points.

The sufficiently wide tolerance band of (+)/(-) 200 basis points around the inflation target of 4% provides the necessary policy space to accommodate supply shock induced volatility in the short run, while maintaining focus on the medium-term objective of price stability. It allows for deviations from the target in the face of temporary shocks without frequent changes in the interest rate. The wide tolerance band had come handy during earlier supply shocks like the pandemic, when temporary deviations from the target due to supply disruptions – even when it breached the upper tolerance band of inflation – was ignored in order to remain growth supportive.

The sufficiently longer target horizon of three quarters (nine months) also gives us the due flexibility to address transmission challenges in an uncertain environment.

Regarding the current energy shock, we have clearly articulated in our MPC resolution of April 2026 that the economy is confronted with a supply shock and it may be prudent to wait and watch the changing circumstances and the evolving growth-inflation outlook.

We have been transparent and communicated the conditions which will necessitate the tightening of monetary policy.

That being said, we are aware that the global situation is still fluid, and its macroeconomic implications are still unfolding. We are keeping a close vigil on whether and when the supply shock can become embedded in the general price level that may warrant monetary policy action. We have been maintaining a neutral stance since June

2025, which gives us the flexibility to remain nimble in our approach and respond judiciously to incoming data and information.

Summing up, faced with supply shocks and uncertainty, it is important that policy frameworks focused on price stability are flexible enough to allow central banks to look through transitory shocks while remaining agile and nimble, maintaining a broad policy stance, and avoid making firm commitments on the future path of policy. In such circumstances, broad approach is to be even more data dependent and to continuously reassess the balance of risks. Whether to look through or not depends on the duration of inflation and whether it is generalised in the economy.

Transcript of the intervention by Shri Sanjay Malhotra, Governor, Reserve Bank of India during a panel discussion titled "Monetary Policy in a Time of Heightened Uncertainty" jointly organized by the Swiss National Bank (SNB) and the International Monetary Fund (IMF) on May 12, 2026, as part of the 12th High-Level Conference on the International Monetary System. The panel was moderated by Mr. Adam Posen, President of the Peterson Institute for International Economics. Other panelists included Mr. Joachim Nagel, President of the Deutsche Bundesbank; Mr. John C. Williams, President and CEO of the Federal Reserve Bank of New York; and Mr. Erik Thedeen, Governor of the Central Bank of Sweden.