

DATED THIS 20th DAY OF FEBRUARY 2015

PRESIDENT OF INDIA ACTING
THROUGH THE MINISTRY OF FINANCE,
GOVERNMENT OF INDIA

AND

RESERVE BANK OF INDIA

AGREEMENT ON MONETARY POLICY FRAMEWORK

AGREEMENT ON MONETARY POLICY FRAMEWORK BETWEEN THE GOVERNMENT
OF INDIA AND THE RESERVE BANK OF INDIA

An Agreement made this Twentieth Day of February 2015 between the President of India acting through the Ministry of Finance, Government of India (hereinafter referred to as the "Central Government") of the one part and the Reserve Bank of India (hereinafter referred to as the "Reserve Bank") of the other part.

- A. WHEREAS it is essential to have a modern monetary policy framework to meet the challenge of an increasingly complex economy. The Central Government and the Reserve Bank are entering into an Agreement to put in place such a framework.
- B. WHEREAS the objective of monetary policy is to primarily maintain price stability, while keeping in mind the objective of growth.
- C. WHEREAS the monetary policy framework in India shall be operated by the Reserve Bank.

AND, WHEREAS in pursuance of the above objectives this Agreement is entered into between the Central Government and the Reserve Bank.

NOW IT IS HEREBY AGREED AND DECLARED AS FOLLOWS:

- 1) In this agreement unless the context otherwise requires:
 - a) "Central Board" refers to the Central Board of the Reserve Bank.
 - b) "Central Government" refers to the Government of India.
 - c) "CPI" means the Consumer Price Index – Combined published by the "Ministry of Statistics and Programme Implementation", Government of India.
 - d) "Governor" refers to the Governor of the Reserve Bank.
 - e) "Inflation" means the year-on-year change in the monthly CPI-C expressed in percentage terms.
 - f) "Operating Procedure of Monetary Policy" means the framework for implementation of monetary policy under Clause 4.
 - g) "Operating Target" means the operational target or targets as may be announced by the Reserve Bank from time to time under Clause 4.
 - h) "Policy Rate" means the rate for repo transactions under Section 17(12AB) of the Reserve Bank of India Act, 1934.
 - i) "Publish" means to publish information in a manner best suited to bring it to the attention of the persons which are affected by the information and to the public at large, including by way of electronic means, as soon as may be practicable, unless otherwise provided or specified.
 - j) "Target" means the Inflation the Reserve Bank shall seek to achieve as specified in Clause 2.
- 2) The following shall be the Target:
 - a) The Reserve Bank will aim to bring inflation below 6 per cent by January 2016.
 - b) The Target for financial year 2016-17 and all subsequent years shall be four (4) percent with a band of +/- 2 per cent.
- 3) The Governor, and in his absence the Deputy Governor in charge of monetary policy, shall determine the Policy Rate, as well as any other monetary measures, to achieve the Target.
- 4) Operating procedure of monetary policy:
 - a) The Reserve Bank shall Publish the Operating Target(s) and establish an Operating Procedure of Monetary Policy through which the Operating Target will be achieved; any change in the operating target(s) and the operating procedure in response to evolving macro-financial conditions shall also be published.

Handwritten signature:
Raj -

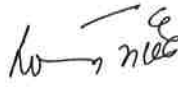

- 5) Once every six months, the Reserve Bank shall publish a document explaining:
- Sources of Inflation;
 - Forecasts of Inflation for the period between six to eighteen months from the date of the publication of the document; and
- 6) Flexible inflation target
- The Reserve Bank shall be seen to have failed to meet the Target if inflation is:
 - More than six (6) per cent for three consecutive quarters for the financial year 2015-16 and all subsequent years
 - Less than two (2) percent for three consecutive quarters in 2016-17 and all subsequent years
 - Failure to maintain Target:

If the Reserve Bank fails to meet the Target it shall set out in a report to the Central Government

 - the reasons for its failure to achieve the Target under Clause 2;
 - remedial actions proposed to be taken by the Reserve Bank; and
 - an estimate of the time-period within which the Target would be achieved pursuant to timely implementation of proposed remedial actions.
- 7) Any dispute regarding the interpretation or implementation of this Agreement shall be resolved through a meeting between the Governor and the Central Government.
- 8) This Agreement shall be effective as on the date of this Agreement.

In witness whereof Finance Secretary to the Government of India acting for and on behalf of and by the order and direction of the President of India has hereunto set his hand and the common seal of the Reserve Bank of India has been hereunto affixed in the presence of its subscribing officials the day and year first above written.

Signed by the said
Shri Rajiv Mehrishi,
Finance Secretary,
Government of India for
and behalf of President of
India in the presence of Dr CKG Nair,
Adviser, to the Government of India

The Common seal of
The Reserve Bank of India
was affixed hereto in the
presence of its Governor Dr. Raghuram G Rajan
who has signed in the presence of URJIT .R. PATEL,
DG, RBI .

