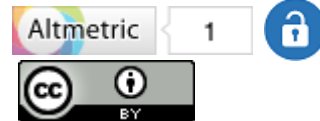


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Evaluation of the Inflation Forecasting Process of the Reserve Bank of India: A Text Analysis Approach

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First Published July 21, 2021 | Research Article

<https://doi.org/10.1177/21582440211033826>

Article Information

Volume: 11 issue: 3,

Article first published online: July 21, 2021; Issue published: July 1, 2021

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Abstract

This study attempts to evaluate the monetary policy of the Reserve Bank of India (RBI) based on an investigation of the policy statements. The analysis based on text mining of the central bank's monetary policy statements seeks to unravel the information considered by the central bank and the processes followed in making its inflation forecasts. The findings indicate that although the RBI examined high-frequency economic indicators, its inflation forecasts have generally been off the mark. Specifically, the monetary policy committee failed to foresee the sharp disinflation that followed the demonetization announced on November 8, 2016. This failure resulted in a high real interest rate regime that dealt a blow to the economy staggering under the effects of demonetization. Our research findings show that the monetary policy governance practices need to be refined and better aligned to economic realities, particularly under the RBI's new monetary policy framework.

Keywords

text mining, qualitative text analysis, monetary policy, inflation forecasting, Indian economy, demonetization

Introduction