"Central Banks, Macroeconomy and Medium-Term Issues"

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21st Current Issues in Retirement Benefits Seminar

Central Banks as Insurers

Low and Stable Inflation is a Primary Mandate of the Central Bank

- Provides an insurance to savers' money
- Consumption:
  - Poor are hurt more by high and volatile inflation
  - A major proportion of people wages are not indexed to inflation.
- Business and investment: Higher inflation increases uncertainties
  - Cost projections become difficult.
  - Revenue uncertainty
  - Investment uncertainty

Monetary Policy contribute to long-term sustainable growth through low and stable inflation

Central Banks as Insurers

Financial Stability is also Responsibility of the Central Bank

- Reduces Risks emanating from the Financial System.
- Lender of Last Resort
- Macro prudential as well as micro-prudential policies.
- Deposit insurance

Foreign exchange market

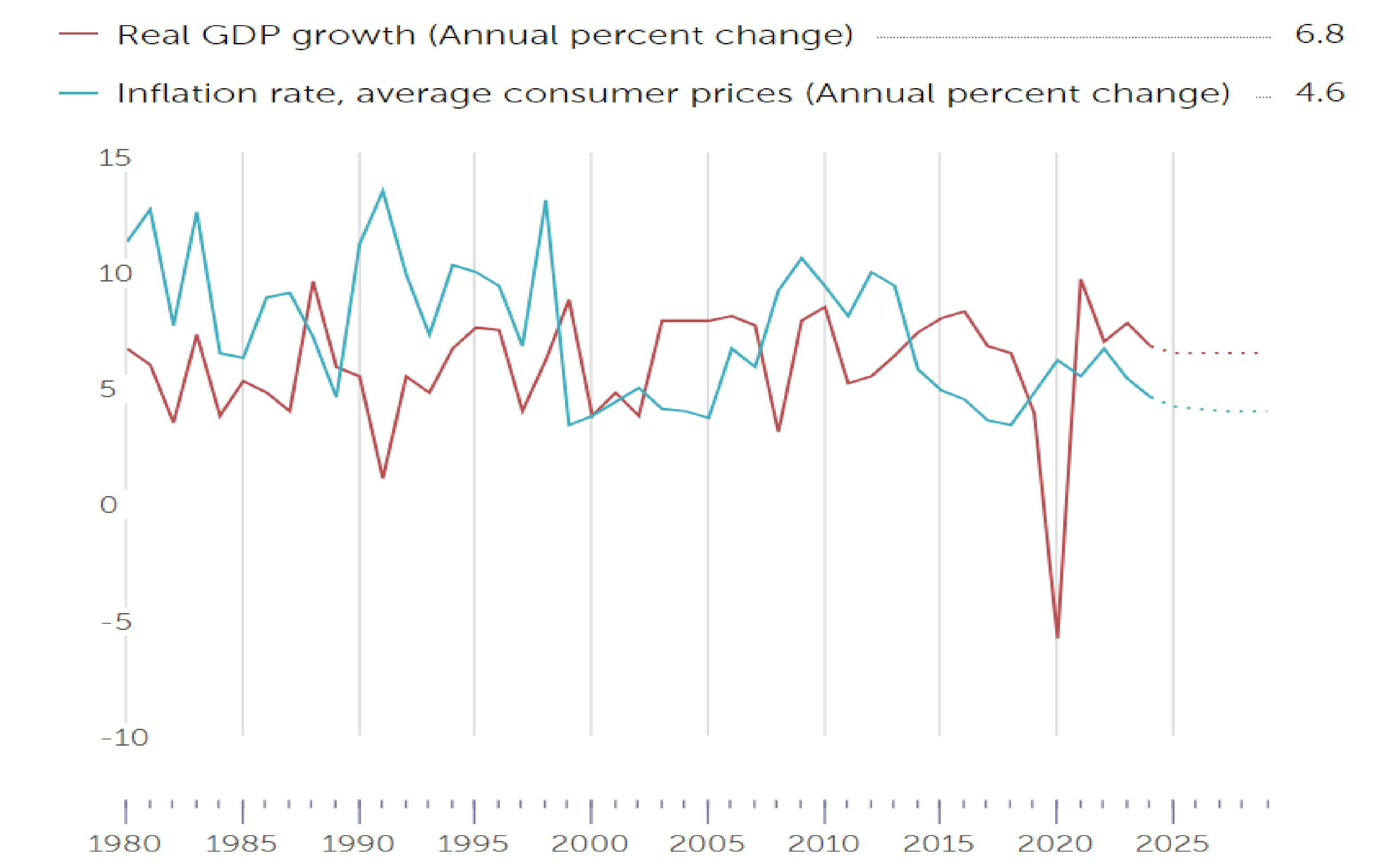
- Central Bank aims to curb excess volatility in the forex market.

Central Banks are also not immune to the issue of moral hazard

The Role of Reserve Bank as a Shock Absorber During the Pandemic

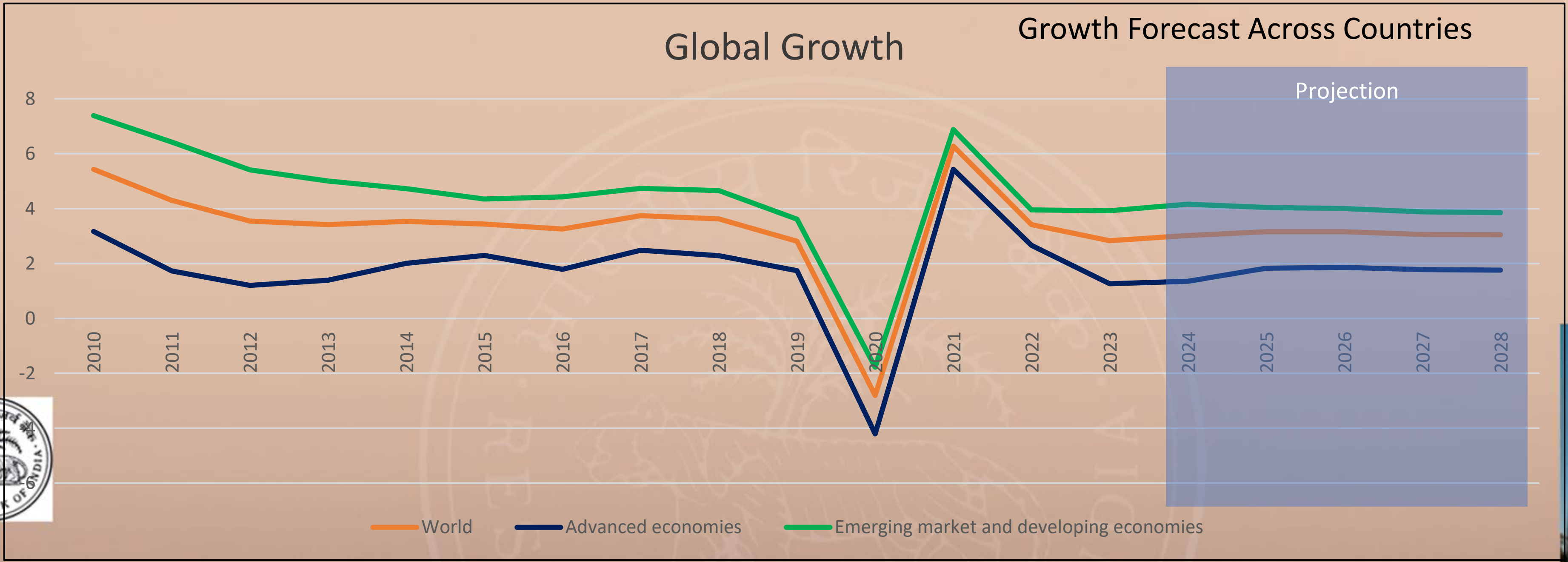
Creation of a Business Continuity Bio-Bubble:

Outcome: India Bounced Back Stronger



Looking Ahead: Major Risk Factors

1. Global Growth: A Slow Recovery



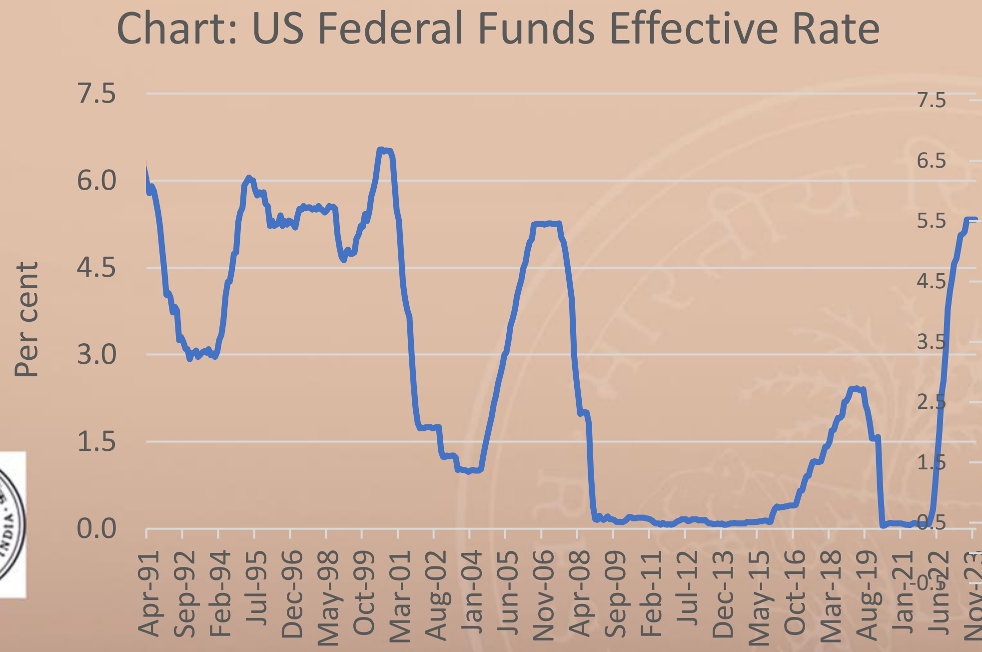
Source: IMF.

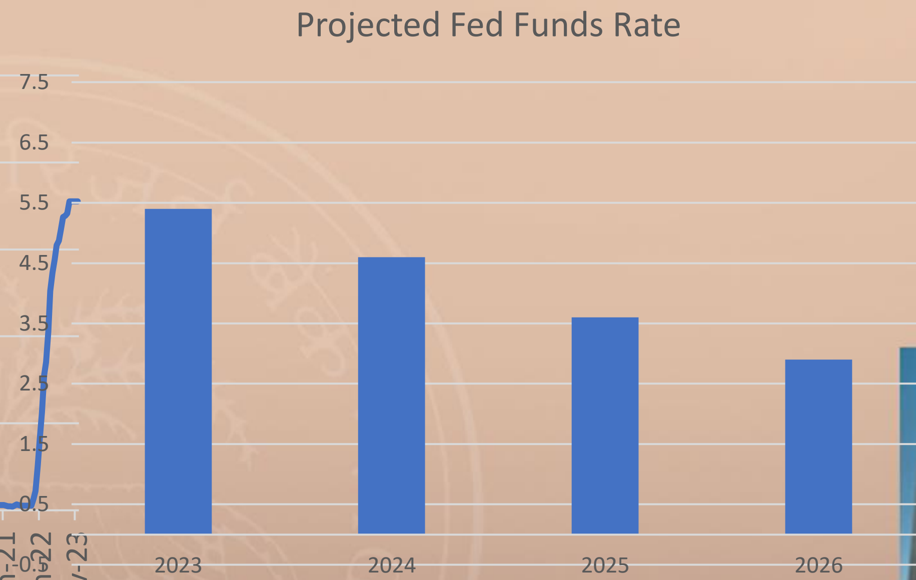
Global Growth is projected to be significantly lower than the previous decade.

Implications

- External demand as engine of growth may suffer.
- Spillover effects through multiple channels of contagion.

2. Global interest rates: Higher for Longer?

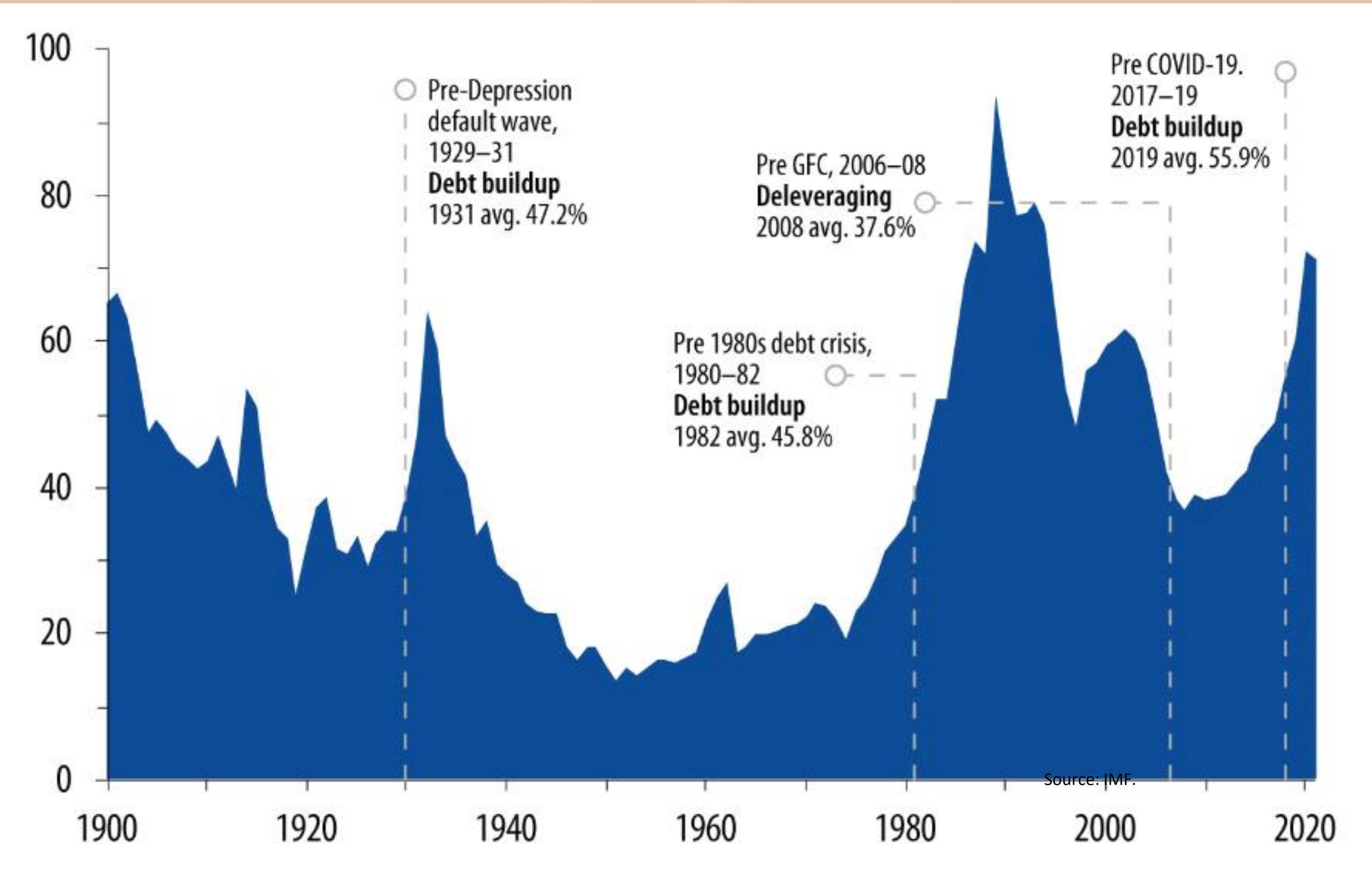




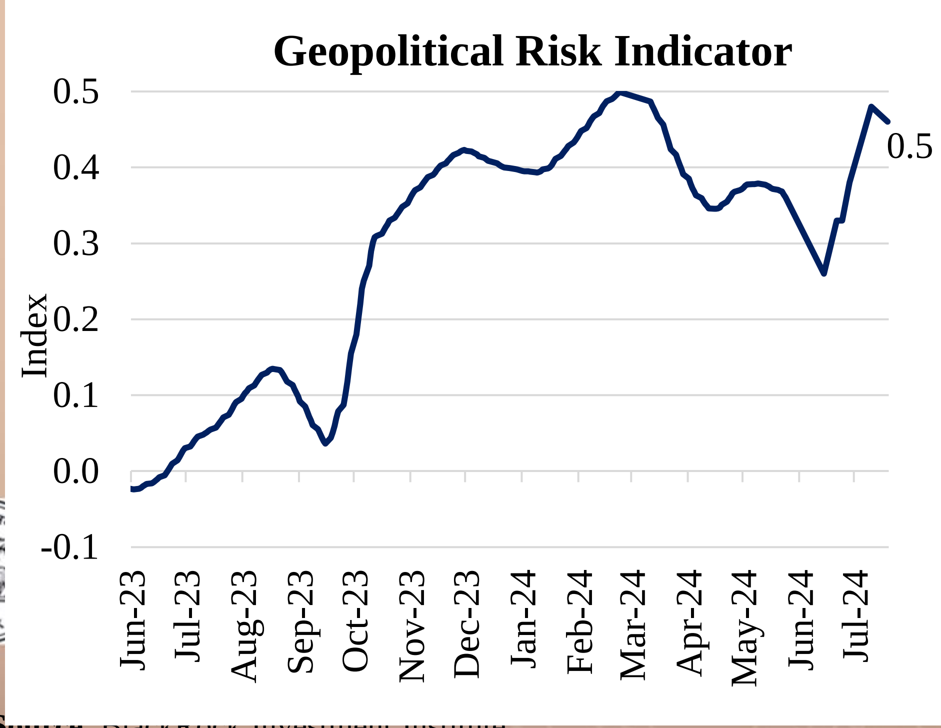
Implications

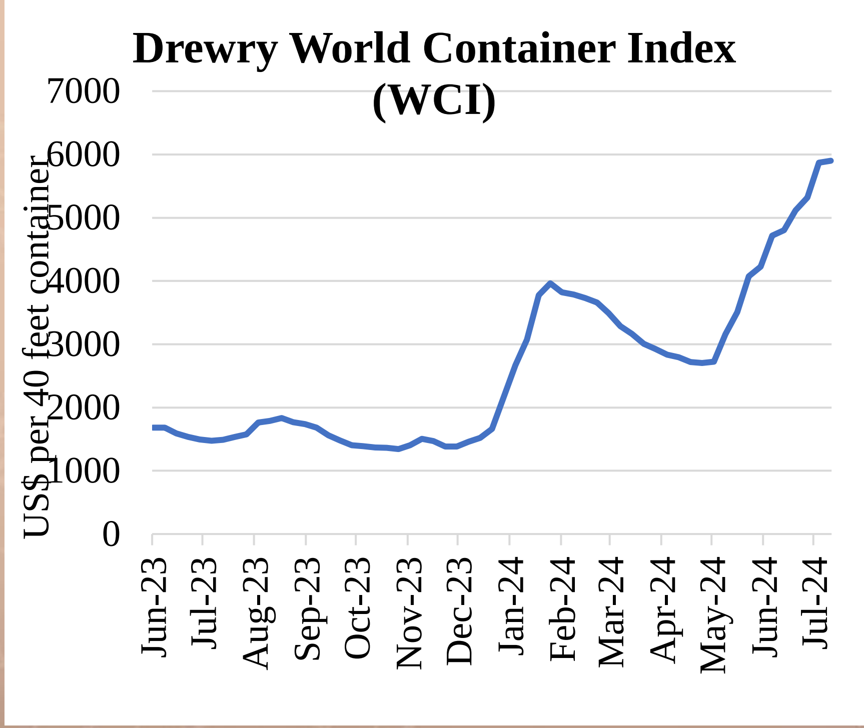
- Cost of borrowing is going to be higher than the last decade.
- Already existing stock of debt complicates the choices.

3. Public Debt as a Percentage of GDP 1900-2021 (46 EMES)



4. Geopolitical Risks Have Become Prominent





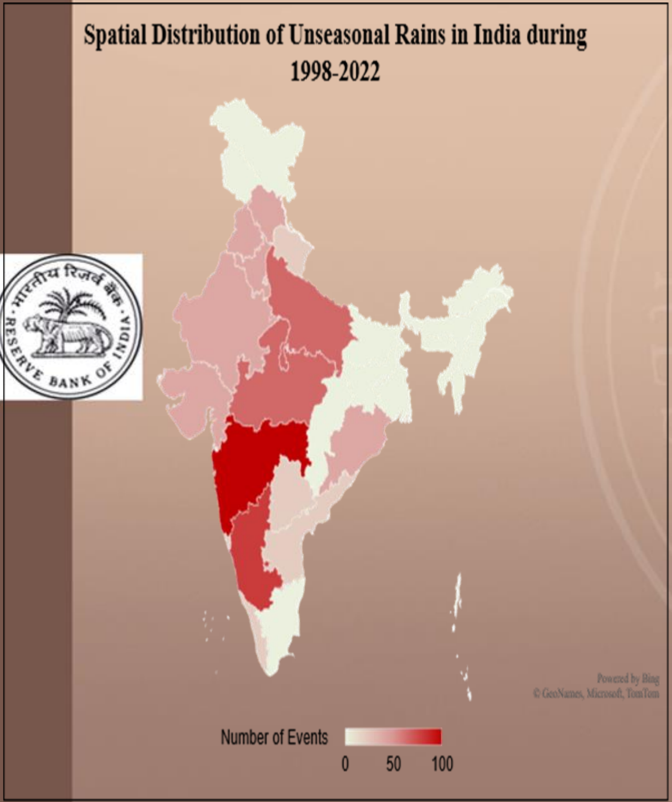
Source: BlackRock Investment Institute.

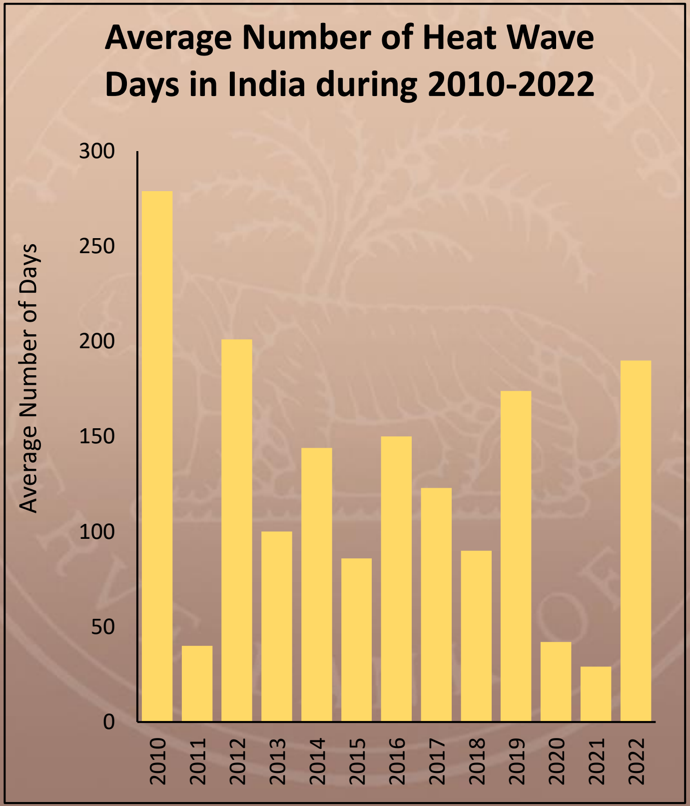
Implications

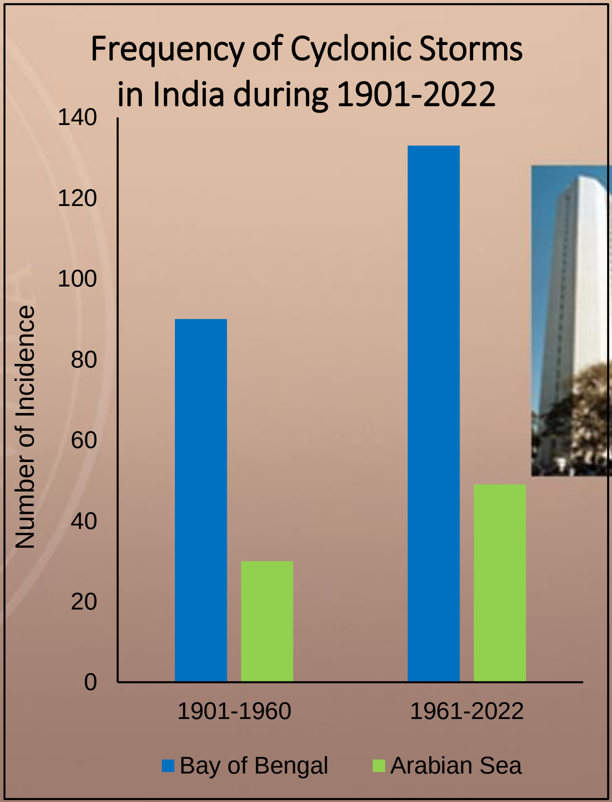
- Volatile Commodity prices
- Migration/Remittances Could Take a Hit
- De-globalization/Slowbalisation (Trade Impact)

5. Climate Change

India is Witnessing Frequent and Extreme Weather Events



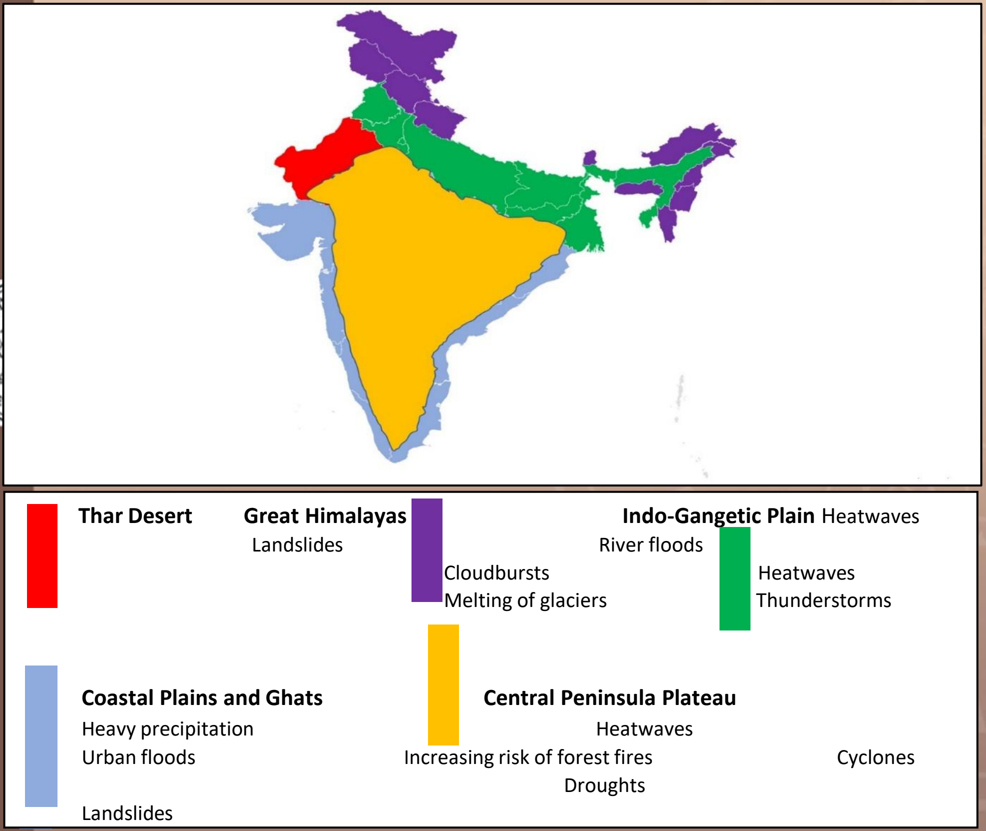


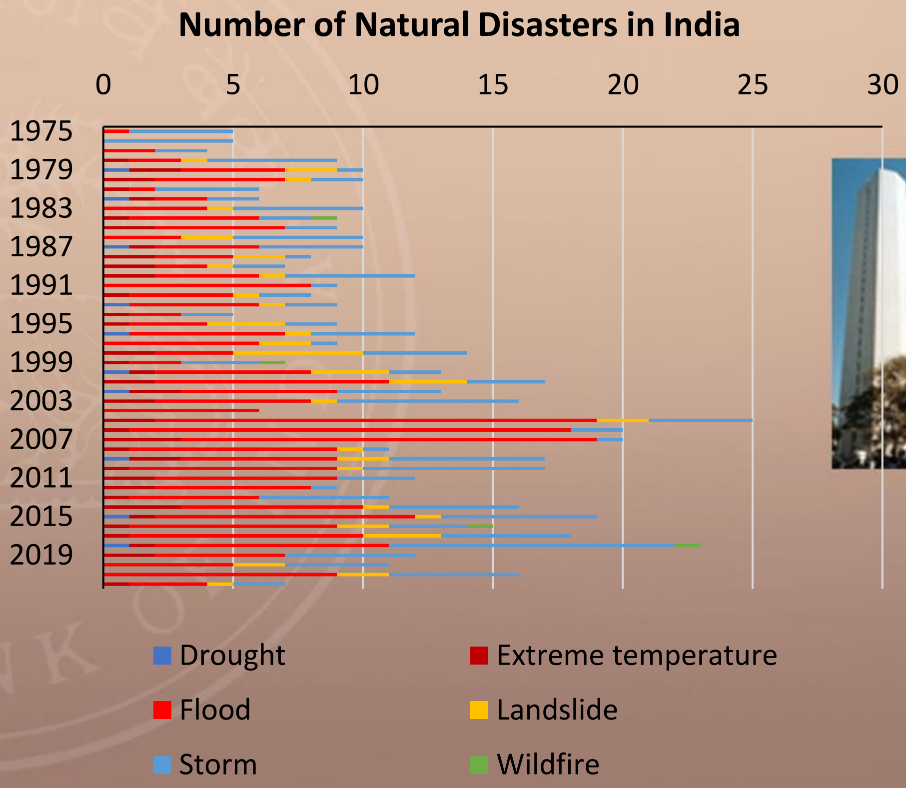


Sources: Down to Earth (Assisted by the Centre for Science and Environment); and Environment Statistics, MoSPI; and IMD.

5. Climate Change

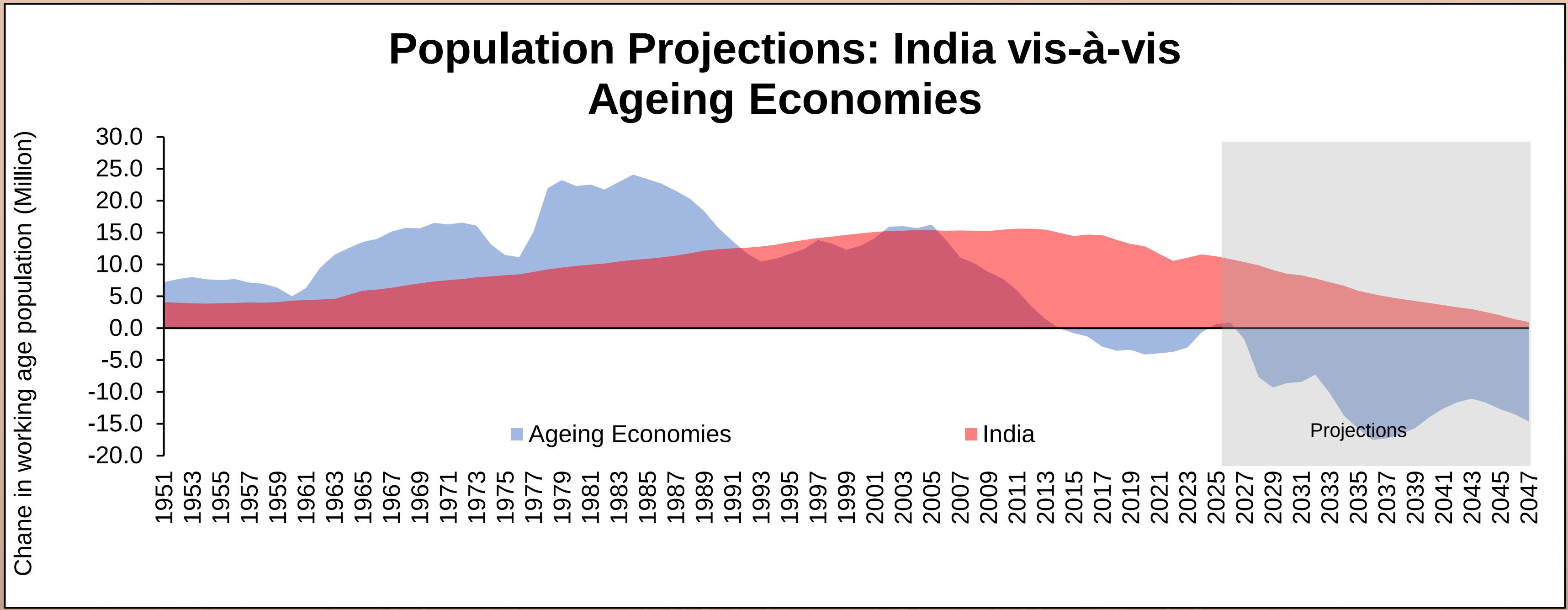
All Geographical Regions in India are Exposed to Extreme Weather Events





Note: Map not to scale.
Sources: Mani et al., (2018); Krishnan, et al., (2020); and Emergency Events – Database (EM-DAT).

6. Demographic Dividend



Implications

- Demographic Dividend to Kick in
- Generating gainful employment is a challenge.
- A generation later, ageing to become a pressing issue.
- Retirement Benefits: A major issue in ageing economies

Looking ahead for India

- India to be an outlier in global growth for years to come
- Inflation remaining low and stable to boost growth.
- Challenges of external headwinds, climate and demographic trends need to be managed.

"… as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know. And if one looks throughout the history, it is the latter category that tends to be the difficult ones."
Donald Rumsfeld

Thank You

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