Indian Economy · GS - III

Examine the importance of central bank independence in maintaining price stability and economic confidence. How can accountability be balanced with operational autonomy?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 29/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Central bank independence; monetary policy; price stability; inflation expectations; political pressure; transparency; democratic accountability

Model Answer

Introduction

Central bank independence refers to the ability of a monetary authority to make policy decisions within its legal mandate without undue short-term political interference. The US Federal Reserve's stated emphasis on economic data highlights this principle.

Importance of Independence

1. Price stability: Independent decisions can help monetary authorities respond to inflationary pressures even when politically unpopular.

2. Credibility and expectations: A credible central bank can anchor inflation expectations, supporting confidence among households, businesses and financial markets.

3. Policy consistency: Monetary policy often operates with time lags. Independence can reduce pressure to prioritise short-term electoral considerations over longer-term economic stability.

4. Financial stability: Evidence-based interest-rate decisions can help address changing economic conditions and financial risks.

Balancing Independence with Accountability

Independence should not mean absence of oversight. Clear statutory objectives, regular legislative testimony, publication of policy statements and minutes, transparent economic projections, and independent audits of administrative expenditure can strengthen accountability.

Indian Context

The Reserve Bank of India operates under the Reserve Bank of India Act, 1934. India's monetary policy framework includes an inflation target and a Monetary Policy Committee, providing an institutional basis for decision-making and accountability.

Conclusion

Operational autonomy combined with transparency, a clear mandate and democratic oversight can strengthen monetary credibility and long-term economic stability.

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