

## Geopolitical events have added to challenges for central banks.

**Tough Times:** Central banks are in a bind; act aggressively to curb inflation and they risk starting a recession, says Das.

Financial markets the world over have turned extremely volatile as they have been left grappling with heightened uncertainty over the pace of future monetary policy normalisation, Reserve Bank Governor Shaktikanta Das said on Friday.

“Recent geopolitical developments have further aggravated the challenges and dilemmas for the central banks,” Mr. Das said, without specifying the developments he was referring to.

### Complex Challenges

“The current global conditions, after about two years of living through the pandemic, are now posing complex challenges for central bank communication,” he noted, delivering an address on Monetary Policy and Central Bank Communication at the National Defence College in New Delhi.

“A number of economies, including the major ones, are facing multi-decadal high inflation due to supply disruptions, tighter labour markets, fragility of the just in time inventory management and geopolitical disturbances,” he added.

“Central banks are in a bind — if they act aggressively to contain inflation which may perhaps subside as normalcy returns, they run the risk of setting in recession; on the other hand, if they act too little and too late, they may be blamed for “falling behind the curve” and may have to do a lot of catching up later, which will be detrimental to growth,” the RBI Governor observed.

Stating that communication was an extremely potent component of the toolkit of modern central banks, Mr. Das said it needed to be balanced and well-telegraphed to avoid unintended consequences.



## Expected Question (Prelims Exams)

**Q. What is meant by monetary policy?**

- (a) The process by which the Parliament controls the money supply.
- (b) The process by which the central bank or monetary authority of a country controls the supply of money.
- (c) The process by which International Market controls the money supply.
- (d) None of the above.

## Expected Question (Mains Exams)

**Q. Discuss how globalization has affected the formation of monetary policies by the central banks?**

**(250 Words)**

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**Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.**