

**EFFECT OF RBI COMMUNICATION ON TRADING VOLUMES
IN BOND MARKET**

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Abstract

The objective of our study is to analyze the effect of clarity in monetary policy communication on the bond market. We define clarity in the sense of linguistic complexity of the document, which is particularly important in the case of monetary policy, which conveys the state of the economy and current and future course of actions intended by the central bank. For a reader digest the contents and sentiment in the document, he should be able to adequately understand the dialect of the document. We employ natural language processing techniques to construct an index to measure the readability of the statement. The communication of the RBI has become improved over the years. The communication has become less complex especially after the Inflation Targeting. We use simple linear regression to conclude that the increased complexity in communication leads to higher trading in the bond market and this effect is most predominant in the first 45 minutes after the announcement. This has adverse effects on the monetary transmission and volatility in the market.