

Staying the course: On monitoring Inflation

The article is related to
General Studies-Paper-III
(Indian Economy)

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Inflation may have moderated a bit, but remains a threat that warrants constant vigil.

Over this week, Finance Minister Nirmala Sitharaman spoke at length on India's inflation battle, signalling it is no longer as 'red-lettered' a priority as there are more big picture pursuits such as creating jobs, sustaining growth and ensuring equitable wealth distribution.

The Government, she remarked, has shown its ability to tackle inflation, having brought it down to a somewhat 'manageable' level in the last couple of months. The Finance Ministry expects inflationary pressures to be 'capped' due to steps taken by the central bank and the Government since consumer inflation hit an eight-year high of 7.8% this April and the recent dip in commodity prices. Though July's retail inflation of 6.71% was a relief, it still remained uncomfortably above the 6% official tolerance threshold.

Price rise in rural India has been much sharper — averaging 7.6% in the first four months of 2022-23 and over 7% through 2022 so far, compared to the overall average consumer inflation of 7.14% and 6.79% for the two time-frames, respectively.

While headline monthly numbers affect sentiment, a prolonged spell of high inflation is more deleterious for households' ability and propensity to spend, denting demand and growth impulses that may catalyse fresh investments from industry.

The uneven monsoon so far could further weaken rural demand even as worries about lower sowing of paddy and pulses are spurring their prices higher in recent weeks.

The RBI believes that inflation has peaked in India, but Deputy Governor Michael Patra is not entirely convinced about the 'durability' of moderating prices despite lower commodity costs, noting that upside risks persist. The Consumer Price Index (CPI) for August due next week, some reckon, could take inflation closer to 7% again, partly because food price rise, that accounts for 45% of the CPI and had dipped to a five-month low in July, may have resurged.

While one should hope the worst is behind, it is too early to let the guard down. On Thursday, Ms. Sitharaman said that monetary policy tools such as interest rate hikes alone cannot tame inflation and nudged the RBI to not be ‘as synchronised’ with its developed world counterparts when growth needs to be unfettered.

The emphasis on a multi-pronged approach to contain inflation, including better logistics, fiscal and trade policy moves, such as the export duty imposed on rice later that evening, is correct.

Her flagging of wide variations in States’ inflation trends and linking higher inflation in some States to their failure to cut petroleum prices may be a tad political.

But the Government must act expeditiously on her call for a mechanism where the Centre and States work together to tackle price rise.

That would be more effective in ensuring that inflation’s immediate term moderation is durable and it can be re-activated so that future policy reactions are quicker, more sure-footed and cohesive.



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Expected Question (Prelims Exam)

Q. Consider the following statements-

1. Inflation is the rate at which the general level of prices for goods & services is rising and consequently, the purchasing power of money is falling.
2. Repo rate is the interest charged by RBI when commercial banks sell their securities to the central bank and borrow from them.

Which of the above statements is/are correct?

- (a) 2 only
- (b) 1 only
- (c) Both 1 and 2
- (d) Neither 1, nor 2

Ans. (c)

Expected Question (Mains Exam)

Q . While examine the factors of high rate of inflation in the Indian economy in recent months, discuss the need for reforms in RBI's monetary policy based on balancing inflation.

(250 Words)

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