Inflation and Growth

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

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Inflation has peaked, focus is on growth.

Headline retail inflation has peaked and will ease from hereon, RBI Deputy Governor Michael Patra said on Wednesday, terming criticism about the central bank being behind the curve on inflation 'unfair' as the economy was still coping with output and livelihoods lost to the pandemic.

"We have dug out of the deepest recession in the world and 2021-22 is estimated to close with a GDP growth rate of 9.2%, but most people don't focus on the fact that at this rate of growth, India is only 1% above pre-pandemic levels of GDP," he said. As the economy was already in a cyclical downturn before the COVID-19 lockdowns, he noted that India had lost at least 10-15% of output 'forever'.

"Inflation is a case of statistical effects in India. And if you look at the momentum, it is actually declining, so India is in a comfortable position... we have the headroom to support growth. And we will do so because we are dealing with lost output, lost livelihoods. So I think it is an unfair judgment," Mr. Patra asserted at a discussion with the central bank governors of the Philippines and Sri Lanka. " But RBI reserves the right to choose it's time to normalise," he added at the Asia Economic Dialogue 2022, hosted by the Ministry of External Affairs and the Pune International Centre.

Recession Risk

The upswing in global inflation, Mr. Patra said, is the price of 'bounding too quickly out of the pandemic's downturn' with policy makers finding it easier to 'revive revenge spending than to bring supply capacities on stream'. He warned that the extreme volatility in markets, triggered by an increasing number of central banks tightening or indicating the intent to normalise policy, was the biggest risk to the global economic recovery and may even tip it 'into a premature recession'.

Stressing that India will take a different policy stance than the rest of the world, he said that efforts to address immediate inflation pressures across countries, may not work as 'today's actions can at best be expected to impact inflation six to 12 months down the line' but most projections show inflation peaking in the middle of 2022 and easing thereafter.

"As demand gets stronger, finished goods inventories which are piled up with wholesalers and retailers, will be released into the market. And along with the easing of supply chain problems, there will be a supply glut. New orders will not go up at that time and activity will slow. At that time, today's monetary policy measures may bite but they will not impact inflation, which is set to ease anyway by the second half... Instead, they will kill the recovery," he concluded.

Expected Question (Prelims Exams)

Q. consider the following statements regarding rate of inflation.

1. It is measured on the basis of the wholesale price index (WPI) and consumer price index (CPI)
2. A Price index is a measure of the average level of prices.

Which of the above statements is /are correct?

(a) 1 only **(b)** 2 only

(c) Both 1 and 2 **(d)** None

Expected Question (Mains Exams)

Q. Discuss the various measures and policies adopted by reserve bank of india to control inflation.

(250 Words)

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.