Daily Mains Practice Answer 21-07-2026

Q. "Inflation in India is no longer merely a monetary phenomenon but increasingly reflects structural vulnerabilities in the economy." Discuss. (250 words, 15 marks)

Direction: Intro------Inflation monetary phenomenon + reflects structural vulnerabilities + Way forward-----Conclusion.

Introduction:

Define Inflation.

Main Body

Inflation as a monetary phenomenon

- Excess liquidly – High money supply to increase aggregate demand.
- Low interest rate encourages credit growth.
- Persistent inflation can trigger a wage-price spiral.
- RBI's Role – Repo rate changes, liquidity management, and inflation targeting (4% ± 2%).

Why does inflation increasingly reflect structural vulnerabilities?

- Domination of food inflation – Food highest weightage in CPI, driven by pulses, vegetables, fruits, etc. rather than excess demand.
- Agricultural Constraints – Monsoon dependence, low productivity, fragmented landholdings, poor storage & post-harvest infra, etc.
- Climate Change – Heatwaves, irregular & unpredictable rainfall, drought, etc. increased vulnerability of agricultural outputs.
- Global Commodity Dependence – Relies heavily on imported crude oil, edible oil, etc. Geopolitical conflicts and supply-chain disruptions disrupt the food market.
- Supply Chain & Logistics Constraints – High logistics costs (around 13–14% of GDP), inadequate cold-chain facilities, and transport bottlenecks.
- Limits of Monetary Policy – Repeated supply-side inflation reduces the effectiveness of conventional monetary policy.

What measures does India need to take?

- Strengthen climate-resilient agriculture practices.
- Improve infrastructure for post-harvest, transport, etc.
- Reduce import dependence through domestic production.

- Enhance agricultural market reforms and digital supply chains.
- Coordinate monetary, fiscal, and structural policies.

Conclusion:

Conclude by mentioning the statement given in the question by interlinking some reasons and measures that are suitable for India.