Inflation Targeting

Why in news?

Recently, centre has announced that the inflation target will remain unchanged from what had prevailed in the last five years.

What does this mean?

- Inflation targeting remains at the centre of the monetary policy framework.
- The fiscal and monetary authorities are giving importance on price stability in the macro-economic development.
- This announcement is relevant at a time when inflation pressures are mounting in the economy which is struggling to regain from the COVID-19 pandemic.
- As per the latest data, retail inflation accelerated by almost 100 basis points to a three-month high of 5.03%, with food and fuel costs continues to remain volatile.

Why flexible inflation targeting is required?

- In December, RBI in its working paper titled 'Measuring Trend Inflation in India' underscored the importance of ensuring the appropriateness of the inflation target.
- There is a steady decline in trend inflation to a 4.1%-4.3% band since 2014 and inflation target lower than the trend can impart a deflationary bias which will dampen economic momentum.
- And any inflation target above the trend could give rise to expansionary monetary conditions which would likely lead to inflation shocks.
- RBI in its report on Currency and Finance — themed 'Reviewing the Monetary Policy Framework' — made it clear that the current framework served the economy well.
- This is supported by a decline in inflation volatility and more credible anchoring of inflation expectations.

Source: The Hindu

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