RBI and Inflation targeting

Why in news?

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- RBI’s surveys have been questioned by the Centre and an MPC, since there’s a structural shift in inflation.
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- The data in the RBI survey are in contrary with economic survey II.
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What is status of Inflation in India?

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- The Central Statistical Organisation’s CPI data reveals that recent retail inflation is 2.36 per cent.
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- It has shown signs of moving upwards but lower than July 2016 primarily due to negative food inflation contributed by vegetables and pulses.
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- A lower inflation rate at the end of fiscal 2017-18, at around 3.5 per cent has been estimated.
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- Cost inflation (core inflation) a year ahead to be around 3 per cent.
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What is the role of MPC in inflation targeting?

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- The goal of the monetary policy is keeping inflation around 4%.
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- It should be within a variation of 2 percentage points in the up or down direction.
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- The more robust the inflation surveys, the more effective would be the policies of the RBI and its Monetary Policy Committee (MPC) in targeting inflation.
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What are the issues with RBI’s Survey?

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- There are contrary data points floating around, each offering an inflation trajectory that has different estimates.
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- The Economic Survey (Volume II) says that in the last 14 quarters, inflation has been overestimated by more than 100 basis points in six quarters with an average error of 180 basis points.
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- This errors now puts the RBI under pressure and probably seeks to signal that a conservative approach of inflation.
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Source: Business Line

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