

CURRENT AFFAIRS

3 OCTOBER 2022



TOPIC: MONETARY POLICY

Boxed in

As high prices restrain consumption, inflation control must be top priority

The Reserve Bank of India's rate decision on Friday was ultimately inevitable. Monetary policymakers were left with little choice but to raise interest rates by 50 basis points, as a bout of extreme volatility in international financial markets combines with persistently high domestic retail inflation to threaten macroeconomic stability, globally and in India. RBI Governor Shaktikanta Das cited the 'aggressive monetary policy actions and even more aggressive communication from advanced economy central banks' as a third shock - following the pandemic and Russia's invasion of Ukraine - which he said had thrust the 'global economy into the eye of a new storm'. "Emerging market economies, in particular, are confronted with challenges of slowing global growth, elevated food and energy prices, spillovers from advanced economy policy normalisation... and sharp currency depreciations," Mr. Das explained, elaborating on the external challenges confronting emerging economies, including India. The rupee too has been under pressure, weakening by more than 7% against the dollar since the start of the current fiscal year in April. And this has added upward pressure to price stability by way of imported inflation. The RBI's September issue of the Monetary Policy Report in fact pertinently observes that the 'second-round effects of low growth and high inflation globally could keep domestic inflation at elevated levels even beyond eight quarters, necessitating appropriate monetary actions to anchor inflation expectations'.

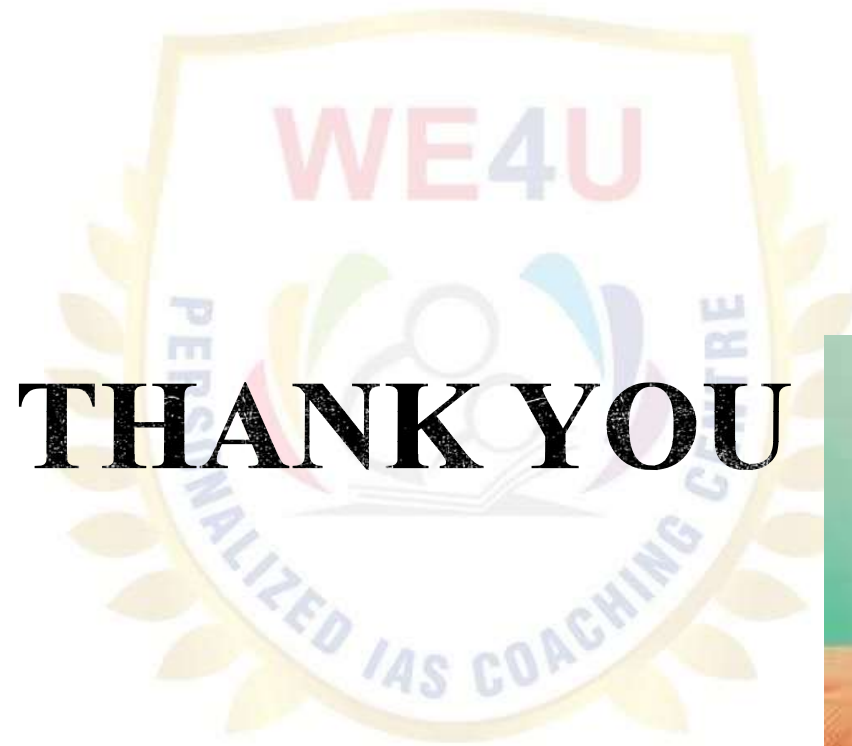
The central bank's own projections, in fact, do not anticipate a slowing in India's retail inflation below its upper tolerance threshold of 6% till the January-March quarter. And Mr. Das was right to point out the multiple factors that could upend the RBI's inflation outlook. These include the likelihood of higher pass-through of input costs by service providers on increased demand, as well as upside risks to food prices from both the lower *khari* output of rice and pulses, and the unseasonably excess spells of rainfall in some regions that have pushed up the prices of vegetables. The surfeit of liquidity or cash in the banking system, which is expected to be buoyed by enhanced government spending in the coming months, could also threaten price stability and the RBI Governor was at pains to note that the policy stance of a calibrated 'withdrawal of accommodation' had become an imperative. Specifically, he pointed out that 'even as the nominal policy repo rate had been raised by 190 basis points since May, the rate adjusted for inflation still trailed the 2019 levels'. With the RBI's latest surveys of households' inflation expectations and consumer confidence too signalling that price pressures will continue to restrain consumption, inflation control will have to remain the top policy priority.

- ✓ Imported inflation is a general and sustainable price increase due to an increase in costs of imported products.

Tangedco seeks clarity on CERC order allowing up to 20% of coal blending

Central Electricity Regulatory Commission (CERC)

- ✓ Established by: Government of India
- ✓ It is the Central Commission for the Electricity Act, 2003 which has repealed the ERC Act, 1998.
- ✓ Composition: Chairperson and four other Members including Chairperson, Central Electricity Authority who is the ex-officio Member of the Commission.
- ✓ Functions: (1) To regulate the tariff of generating companies owned or controlled by the Central Government; (2) To regulate the inter-State transmission of electricity; (3) To determine tariff for such transmission of electricity.
- ✓ CERC also advises the Central Government on the formulation of the National Electricity Policy and Tariff Policy.



THANK YOU

