INFLATION MAY DROP TO 2.4% IN FY21: RBI

Why in news?

The consumer price index (CPI)-based inflation, which had stayed elevated in the last few months, is expected to soften during the course of the financial year, the Reserve Bank of India (RBI) said in its monetary policy report (MPR).

The Monetary Policy Report was published on 9th April 2020 following the unscheduled monetary policy meeting held in end March to discuss the uncertainties arising from the nationwide lockdown.

What RBI said in the MPR?

- CPI inflation is tentatively projected to ease from 4.8% in Q1 of 2020-21 to 4.4% in Q2, 2.7% in Q3 and 2.4% in Q4, with the caveat that in the prevailing high uncertainty, aggregate demand may weaken further than currently anticipated and ease core inflation further, while supply bottlenecks could exacerbate pressures more than expected
- Looking ahead, the balance of inflation risks is slanted even further towards the downside.
- For 2021-22, assuming a normal monsoon and no major exogenous or policy shocks, structural model estimates indicate that inflation could move in a range of 3.6-3.8%.
- Under highly fluid circumstances in which incoming data produce shifts in the outlook for growth on a daily basis, forecasts for real GDP growth in India are not provided here, awaiting a clear fix on the intensity, spread and duration of COVID-19.
- The sharp reduction in international crude oil prices, if sustained, could improve the country’s terms of trade, but the gain from this channel is not expected to offset the drag from the shutdown and loss of external demand.
- The RBI said relatively modest upsides are expected to emanate from monetary, fiscal and other

policy measures and the early containment of COVID-19, if that occurs. However, it added, such uncertainties make the forecasting of inflation and growth highly challenging.
- On exchange rates, the central bank said renewed bouts of global financial market volatility caused by the uncertainty of macroeconomic impact of the COVID-19, as in February-March 2020, could exert pressure on the Indian rupee.

Monetary Policy Report

- The RBI carries out India's monetary policy and exercises supervision and control over banks and non-banking finance companies in India.
- Monetary policy refers to those policies of Central Bank (Reserve Bank of India) which are used to control interest rates, money supply in the economy and the availability of credit in the economy.
- In other words, monetary policy is the use of monetary instruments such as Repo rate, Reverse repo rate, CRR, SLR etc., by RBI to regulate interest rates, money supply, credit availability and to control inflation etc. in the country.
- Monetary Policy Committee is a committee of the "Reserve Bank of India" that is responsible for fixing the benchmark interest rate in India.
- The resolution adopted by the MPC is published after the conclusion of every meeting of the MPC.
- Once in every six months, the Reserve Bank is required to publish a document called the Monetary Policy Report to explain the sources of inflation and the forecast of inflation for 6-18 months ahead.