

GOVT. RETAINS 4% INFLATION TARGET FOR RBI'S RATE PANEL FOR 2021-26

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

Clear focus: The Centre has agreed with RBI officials' view that the current inflation target is appropriate. K. Murali Kumar MURALI KUMAR K

The Centre has decided to retain the inflation target of 4%, with a tolerance band of +/- 2 percentage points for the Monetary Policy Committee of the RBI for the coming five years, a top finance ministry official said.

"The inflation target for the period April 1, 2021, to March 31, 2026... has been kept at the same level as it was for the previous five years," Economic Affairs Secretary Tarun Bajaj told reporters on Wednesday.

He dismissed queries on whether the focus had shifted to core inflation or any other component of retail inflation and hinted that the framework would remain 'the same' as earlier.

Economists welcomed the continuity in the framework, despite the recent spate of high inflation prints beyond the 6% upper threshold of the inflation target.

"The range of 2%-6% as a flexible inflation target has worked reasonably well and continuing with the same target would not disturb the monetary policy framework as such going forward," said M. Govinda Rao, member Fourteenth Finance Commission and former director of the National Institute of Public Finance and Policy. "Inflation may have breached the 6% mark a few times recently, but this has been during an exceptional situation in the economy."

The decision puts to rest speculation about the government considering a looser inflation target to enable a more growth-oriented focus in monetary policy.

RBI officials had in a report in February stressed that "the current numerical framework for defining price stability" was appropriate for the next five years.

END

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