

‘LOW OIL PRICE, FOOD SUPPLY KEPT INFLATION LOW‘

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

Falling value: High inflation makes financial asset holdings economically unattractive, says Viral Acharya. V. V. Krishnan

A flexible inflation targeting framework aided by low oil prices and food supply management has helped keep the headline inflation low in the last five years, outgoing Reserve Bank of India Deputy Governor Viral Acharya said on Saturday.

The RBI Act was amended in 2016 for an inflation targeting framework, that had set a target for the RBI of 4% consumer price (CPI) index-based inflation, with a deviation of 2% on both sides, for five years.

“The important reform of flexible inflation targeting, helped by low oil prices and food supply management, has kept the headline inflation under control during the last five years, relative to the MPC’s (monetary policy committee) mandated target,” said Mr. Acharya, who decided to quit the central bank six months before his term ends.

He said India’s GDP growth had been one of the highest among large economies in the last decade and half. “Two preconditions of macroeconomic stability — stable growth and low inflation — necessary for financialisation of savings and capital market development are now in place in India,” he said in a speech on ‘Development of viable capital markets — the Indian experience’ at the ISB, Hyderabad. He added that high levels of inflation makes holdings of financial assets economically unattractive relative to assets such as housing and gold.

He said there had been a conscious effort by the RBI to expand the investor base and thereby, the liquidity of the markets it regulates, while preserving financial stability. “The investor base for G-Secs, for instance, has expanded over the past decade in terms of an increase in the share of holdings by insurance firms and corporates and a corresponding decrease in [that of] commercial banks,” he said. “In parallel, calibrated access for global investors via the FPI route is helping broaden the investor base, while also bringing in diversity of trading views and strategies.”

“However, the lack of a bankruptcy resolution framework for non-bank financial entities remains a crucial gap that deserves prompt attention of the authorities,” he added.

(With PTI inputs)

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