

THE INVISIBLE TAX: ON HOPES OF SMOOTH REBOUND OF ECONOMY

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

The [pandemic's second wave](#) may have subsided but hopes of a smooth rebound in the economy in tandem with easing restrictions remain muddled, with the [inflation numbers for May compounding the problem](#). The soaring pace of rising prices, both retail and wholesale, in the month that saw widespread lockdown-like restrictions, has come as a negative surprise. [Inflation based on the Wholesale Price Index](#) is reckoned to have hit a 25-year record of nearly 13%, while [retail inflation touched a six-month high of 6.3%](#). While runaway fuel prices, that include high excise duties and taxes, were a key factor in driving up both the inflation indices, they were not the only ones at work. Retail inflation in food hit a six-month high of 5%, from barely 2% in April, with pulses and eggs as well as edible oils leading the surge. 'Fuel and light' inflation hit 11.6%, the highest in over nine years, and no respite is in sight on this front as pump prices for petrol raced past 100 a litre in even more parts of the country this month. Diesel has also crossed the century mark in Rajasthan's Sri Ganganagar, where freight costs add up on top of State and central taxes. Even if one were to discount food and fuel prices, core inflation has crossed the 6% mark for the first time in 31 months and is estimated at 6.6%.

Reacting to the April retail inflation print of 4.3%, after averaging a steep 6.2% through 2020-21, the RBI Governor had remarked earlier this month that it brought some relief and 'elbow room' for sticking with growth-supportive policy. If anything, May's inflation prints leave no such room for manoeuvre. Though the bank's Monetary Policy Committee may not switch away from its dovish policy, no further easing of interest rates can be expected at these price levels. Most economists expect inflation to remain higher than the average 5.1% estimated by the central bank for this year. If the Government wants the RBI to persist with its accommodative approach to facilitate growth, it must take some actions of its own to curb price rise, including meaningful cuts in fuel taxes that the RBI Governor has been advocating since February. So far, it has only obfuscated the issue with arguments ranging from 'the States should cut taxes first' to 'let's bring petroleum products under GST', and the latest claim by the Petroleum Minister who admitted that the prices are problematic, but the Government is 'saving money to spend on welfare schemes' and buying vaccines. For a population already reeling from job and income losses and higher medical costs since the pandemic's onset, the persistently high inflation is untenable. No welfare scheme can offset its disproportionately adverse impact on the poor.

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From the abrogation of the special status of Jammu and Kashmir, to the landmark Ayodhya verdict, 2019 proved to be an eventful year.

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