GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA

UNSTARRED QUESTION NO. 2463

ANSWERED ON – TUESDAY, AUGUST 10, 2021/ SRAVANA 19, 1943 (SAKA)

GROWTH VERSUS INFLATION TARGETING

2463. SHRI KUMAR KETKAR:

SHRI SHAKTISINH GOHIL:

Will the Minister of FINANCE be pleased to state:

(a) whether the Ministry along with the Monetary Policy Committee has adopted a policy to boost growth over controlling inflation;

(b) if so, the reasons therefor including whether the Ministry has considered a formula to support the decision to target growth over inflation;

(c) if so, the details of the formula and/or calculation underlying the decision to target growth over inflation;

(d) whether the calculations consider the effect on purchasing power effect on consumers spending and saving behaviours and how these will affect the economy and the effect of loss of incomes; and

(e) if not, the reasons therefor?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a): The Reserve Bank of India Act, 1934 was amended in June 2016 to pave the way for a flexible inflation targeting (FIT) framework for the conduct of monetary policy. The mandate of the Reserve Bank of India was defined as maintaining price stability while keeping in mind the objective of growth. To operationalise this mandate, the Government of India notified on August 5, 2016, the inflation target in terms of Consumer Price Index (CPI) at 4 per cent with a lower tolerance band of 2 per cent and an upper tolerance band of 6 per cent.

The target was for a period up to March 31, 2021 which was retained for further period of 5 years up to March 31, 2026.

The amended Act also provided for the constitution of a Monetary Policy Committee (MPC) to determine the Policy Rate required to achieve the inflation target.

(b) to (e): The MPC normally meets once in two months. In its meeting of June 2-4, 2021, the MPC noted that “the second wave of COVID-19 has altered the near-term outlook, necessitating urgent policy interventions, active monitoring and further timely measures to prevent emergence of supply chain bottlenecks and build-up of retail margins. A hastened pace of the vaccination drive and quick ramping up of healthcare infrastructure across both urban and rural areas are critical to preserve lives and livelihoods and prevent a resurgence in new waves of infections. At this juncture, policy support from all sides – fiscal, monetary and sectoral – is required to nurture recovery and expedite return to normalcy. Accordingly, the MPC decided to retain the prevailing repo rate at 4 per cent and continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.”

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