GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3162
ANSWERED ON:19.08.2011
MONETARY MEASURES TO REIN IN INFLATION
Hegde Shri Anant Kumar;Joshi Dr. Murli Manohar;Roy Shri Arjun;Singh Shri Rajiv Ranjan (Lalan)

Will the Minister of FINANCE be pleased to state:

(a)the details of monetary measures taken by the Government/Reserve Bank of India (RBI) to rein in inflation during each of the last three years and current year;

(b)the results achieved therefrom; and

(c)the steps taken or proposed in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c) According to Reserve Bank of India (RBI), there were three phases of monetary measures during the last three years i.e., August 2008 to July 2011 as detailed below:

(i) From August 2008 till the mid-October 2008 the policy rates (repo and reverse repo rate) were not changed. The repo rate was 9 per cent and the reverse repo rate was 6 per cent.

(ii) In the wake of the global financial crisis triggered by the collapse of Lehman Brothers, the RBI, beginning mid-September 2008, followed an accommodative monetary policy stance. In addition to several other measures, it also reduced the repo rate from 9.0 per cent to 4.75 per cent and the reverse repo rate from 6 per cent to 3.25 per cent between mid-October 2008 to mid-April 2010 to mitigate the adverse impact of the global financial crisis on the Indian economy.

(iii) Since mid-March 2010, the RBI has raised the repo rate eleven times by a cumulative of 325 bps in view of inflationary pressures.

Inflation during most part of 2010-11 and the first quarter of 2011-12 has remained persistently much above the comfort level of the RBI. Inflationary pressures have persisted due to a combination of supply and demand factors. A series of supply shocks, particularly global commodity prices, resulted in increase in input costs, exerting pressure on inflation. Supply side shocks also spilled over into a generalised inflationary process reflecting robust demand. Non-food manufacturing inflation remained much above the trend growth of 4 per cent, particularly during the second half of 2010-11 and 2011-12 Q1 indicating the producers capacity to pass on rising commodity input prices and wage costs to consumers. The RBI, therefore, needed to raise the policy rates to contain inflation and anchor inflationary expectations. Monetary measures work with long and variable lags. The impact of past monetary measures effected by the RBI is still playing out. According to the projection of the RBI, inflation is expected to be 7 per cent by March 2012.