Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the spike in retail inflation; its causes and implications

News: Retail inflation soared to a five and a half year high of 7.35% in December 2019, with the shortage of onions driving the surge.

Background

The last time retail inflation was this high was the 7.39% recorded in July 2014, just after PM Modi began his first term in office.

What led to this spike in retail inflation?

- According to information released by the National Statistical Office on Monday, retail inflation based on the Consumer Price Index was only 2.11% in December 2018 and 5.54% in November 2019.

- The hike in inflation in the ‘vegetables’ category was at 60.5% last month in comparison to December 2018. Onion prices were above the Rs. 100 per kg mark in many major cities last month, due to a 26% fall in production.

- Overall, food inflation rose to 14.12 per cent in December as against a negative rate of -2.65 per cent in the same month of the previous year. It was also significantly higher than the 10.01% recorded in November 2019. Along with vegetables, high prices of pulses, meat and fish also contributed to last month’s spike.

Inflation targeting by the RBI

- The Centre has mandated the Reserve Bank of India to keep inflation in the range of 2-6%.
- The RBI, which mainly factors in the CPI based inflation, is scheduled to announce its next bi-monthly monetary policy on February 6.

- In its December policy, the central bank, which had been reducing rates, had kept the repo rate unchanged citing inflationary concerns.