



## Retail Inflation Slides Below 6%

**For Prelims:** RBI, CPI, WPI, Core Inflation, MPC.

**For Mains:** Retail Inflation Slides Below 6%.

### Why in News?

Recently, India's retail inflation rate declined to 5.66%, below the [Reserve Bank of India's \(RBI\)](#) upper target of 6% in March 2023, primarily due to a decrease in food prices, especially for vegetables.

- [Core inflation](#), which excludes food and fuel prices, was at **5.95% in March**, down from 6.12% in February.

### What is the Significance of the Decline?

- The decrease in retail inflation is a **positive development for the economy**.
- It provides some relief to consumers who have been dealing with rising prices for essential goods and services. Moreover, **it could give the RBI more flexibility in its monetary policy decisions** going forward.
- However, it remains to be seen if this trend will continue, and if the RBI will adjust interest rates accordingly.

### What is Retail Inflation?

- **Retail Inflation:**
  - Retail inflation, also known as [Consumer Price Index \(CPI\) inflation](#), is the rate at which the **prices of goods and services that consumers buy for personal use increase** over time.
  - It measures the **change in the cost of a basket of goods and services** that are typically purchased by households, including food, clothing, housing, transportation, and medical care.
  - **Four types of CPI are as follows:**
    - CPI for Industrial Workers (IW).
    - CPI for Agricultural Labourer (AL).
    - CPI for Rural Labourer (RL).
    - CPI for Urban Non-Manual Employees (UNME).
      - Of these, the **first three are compiled by the Labour Bureau** in the Ministry of Labour and Employment. Fourth is compiled by the **NSO in the Ministry of Statistics and Programme Implementation**.
  - **Base Year for CPI is 2012.**
    - In 2020, the Ministry of Labour and Employment released the [new series of Consumer Price Index for Industrial Worker \(CPI-IW\)](#) with base year 2016.
  - [The Monetary Policy Committee \(MPC\)](#) uses CPI data to control inflation. In April 2014, the RBI adopted the CPI as its key measure of inflation.

## What is the Need for Monitoring Inflation in the Economy?

- **Price Stability:**
  - Inflation erodes the value of money, which makes it **harder for people to plan their finances** and can lead to economic instability.
  - By monitoring inflation, **policymakers can take steps to maintain price stability**, which promotes economic growth and stability.
- **Consumer and Business Confidence:**
  - When inflation is low and stable, it provides **consumers and businesses with confidence** in the economy, encouraging them to spend and invest.
- **Interest Rates:**
  - Inflation affects interest rates, which in **turn affects borrowing and lending decisions**, investment decisions, and overall economic growth.
  - By monitoring inflation, policymakers can adjust interest rates to ensure that the economy is growing sustainably.
- **International Competitiveness:**
  - High inflation rates can make a **country's exports more expensive**, which can reduce its international competitiveness.
  - Monitoring inflation can help policymakers keep inflation in check, which can support a country's **economic competitiveness**.

## What is the Wholesale Price Index?

- It measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses.
- Published by **the Office of Economic Adviser, Ministry of Commerce and Industry**.
- It is the most widely used inflation indicator in India.
- Major criticism for this index is that the general public does not buy products at wholesale price.

### UPSC Civil Services Examination, Previous Year Question (PYQ)

**Q.1 With reference to Indian economy, demand-pull inflation can be caused/increased by which of the following?**

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing of wages
4. Higher purchasing power
5. Rising interest rates

**Select the correct answer using the code given below:**

- (a)** 1, 2 and 4 only
- (b)** 3, 4 and 5 only
- (c)** 1, 2, 3 and 5 only
- (d)** 1, 2, 3, 4 and 5

**Ans: (a)**

**Q.2 Consider the following statements: (2020)**

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on

changing the key policy rates.

**Which of the statements given above is/are correct?**

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

**Ans: (a)**

**Source: TH**

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