

## Important Vocab for the Editorial

1. **prudence** (noun) – cautiousness, carefulness, wariness, circumspection; good judgement/management.
2. **prevail** (verb) – exist, be in existence, be present, be prevalent.
3. **speculation** (noun) – prediction, guesswork, conjecture, opinion/thought.
4. **inflation** (noun) – simply meaning “cost of living”; an increase of price level of goods & services and vice versa decrease of currency value.
5. **reassure** (verb) – restore someone’s confidence, encourage, hearten.
6. **put to rest** (phrase) – to stop people from concerning/doubting about an issue by explaining/resolving it.
7. **framework** (noun) – structure, system.
8. **The monetary policy committee (MPC)** (noun) – it is a six-member panel that is expected to bring “value and transparency” to rate-setting decisions. It will feature three members from the RBI — the Governor, a Deputy Governor and another official — and three independent members to be selected by the Government. The MPC will meet four times a year to decide on monetary policy by a majority vote.
9. **terse** (noun) – abrupt, short, to the point, compact.
10. **quinquennium** (noun) – a period or cycle of five years.
11. **tolerance** (noun as modifier) – deviation, fluctuation, variation.
12. **reiterate** (verb) – repeat, say again, restate.
13. **centrepiece** (noun) – highlight, main feature, centre of attention, focal point.
14. **monetary policy** (noun) – monetary policy refers to the use of monetary instruments under the control of the central bank to regulate magnitudes such as interest rates, money supply, and availability of credit with a view to achieving the ultimate objective of economic policy mentioned in the Reserve Bank of India Act, 1934.
15. **monetary policy framework** (noun) – The amended RBI Act explicitly provides the legislative mandate to the Reserve Bank to operate the monetary policy framework of the country. The framework aims at setting the policy (repo) rate based on an assessment of the current and evolving macroeconomic situation; and modulation (change/variation) of liquidity conditions to anchor money market rates at or around the repo rate. Repo rate changes transmit through the money market to the entire the financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth. Once the repo rate is announced, the operating framework designed by the Reserve Bank envisages liquidity management on a day-to-day basis through appropriate actions, which aim at anchoring the operating target – the weighted average call rate (WACR) – around the repo rate. The operating framework is fine-tuned and revised depending on the evolving financial market and monetary conditions, while ensuring consistency with the monetary policy stance. The liquidity management framework was last revised significantly in April 2016.
16. **fiscal** (adjective) – financial.
17. **fiscal authority** (noun) – it refers to the branch of government responsible for managing the financials of a country.
18. **monetary authority/central bank** (noun) – it refers to the institution responsible for managing the currency of a country, establishing interest rates, and controlling its money supply. The goals of a country’s central bank include stabilizing prices, fostering economic growth, and increasing employment. The Reserve Bank of India (RBI) is the central bank of India.
19. **lockstep** (noun) – in agreement with someone mindlessly and has exactly the same ideas/opinions that someone else has, often without questioning them in any way.
20. **primacy** (noun) – importance, priority, preference, first place.
21. **price stability** (noun) – no (drastic) change in the price of goods and services in an economy over a period of time. It implies avoiding both prolonged inflation and deflation.
22. **bedrock** (noun) – core, basis/base, foundation.

23. **macro-economic** (adjective) – relating to the branch of economics concerned with large-scale factors (interest rates/national productivity).
24. **apposite** (adjective) – appropriate, suitable, apt, befitting.
25. **mount** (verb) – increase, grow, rise, escalate.
26. **regain one's footing** (phrase) – stand up or recover again after falling.
27. **devastating** (adjective) – destructive, ruinous, disastrous.
28. **contraction** (noun) – In economics, it refers to a decline in national output as measured by gross domestic product; economic decline (recession).
29. **fiscal** year (noun) – financial year.
30. **pandemic** (noun) – the worldwide spread of a new disease; The illness spreads around the world and typically affects a large number of people across a wide area.
31. **drastic** (adjective) – extreme, serious, desperate, substantial.
32. **measure** (noun) – action, step, procedure.
33. **curb** (verb) – control, contain, restrict, limit.
34. **result in** (phrasal verb) – cause, bring on, bring about, call forth, give rise to.
35. **precarity** (noun) – the state of being uncertain/insecure/unsafe.
36. **consumer price index** (CPI) (noun) – it is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households. To put it simply, it tracks the prices of goods and services purchased by consumers.
37. **retail or consumer price index (CPI) inflation** (noun) – it is a measure of the total inflation within an economy, including commodities such as food and energy prices. The CPI monitors retail prices at a certain level for a particular commodity. The change in the price index over a period of time is referred to as CPI-based inflation or retail inflation.
38. **core inflation** (noun) – it is a measure of the total inflation within an economy, excluding commodities such as food and energy prices (which change frequently).
39. **accelerate** (verb) – increase, rise, advance.
40. **basis point (BPS)** (noun) – a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). Used for measuring change in interest rate/yield.
41. **volatile** (adjective) – unpredictable, turbulent, uncertain, inconstant.
42. **trajectory** (noun) – track/course, route, path, direction, approach.
43. **IHS Markit** (noun) – it is a global leader in information, analytics and solutions for the major industries and markets that drive economies worldwide. It partners with clients in business, finance and government to help them see the big picture with unrivaled insights that lead to well-informed, confident decisions.
44. **cope with** (verb) – deal with, grapple with, handle/manage.
45. **unwavering** (adjective) – steady, firm, resolute; steadfast, persistent, unflagging.
46. **emphasise** (verb) – draw attention to, put stress on, underscore, highlight.
47. **flexible** (adjective) – accommodating, adaptable, amenable.
48. **oversee** (verb) – supervise, be in charge of, be responsible for, look after, keep an eye on, inspect.
49. **underscore** (verb) – underline, emphasize, highlight.
50. **appropriateness** (noun) – rightness, aptness, propriety, suitability, usefulness.
51. **trend inflation** (noun) – it can be thought of as the rate of inflation that would be expected to prevail if there were no temporary factors, such as a level of economic activity below the economy's potential, influencing the inflation rate. Put another way, trend inflation is the inflation rate that we would expect after temporary factors subside (diminish/ease up).
52. **band** (noun) – range.
53. **run the risk** (phrase) – do something even if knowing something unpleasant/bad might happen.
54. **impart** (verb) – give, lend, provide.
55. **deflation** (noun) – a decrease in the general price level of goods and services.
56. **deflationary** (adjective) – characterized by or tending to cause economic deflation.
57. **deflationary bias** (noun) – it refers to a government approach to managing inflation versus deflation. It means that there is a tendency for economic policy to promote lower growth and lower

inflation. It means there are pressures that keep demand subdued leading to lower inflation, higher unemployment and lower growth.

58. **dampen** (verb) – decrease, diminish/lessen, reduce.
59. **momentum** (noun) – power, strength, impetus.
60. **engender** (verb) – cause, give rise to, bring about.
61. **expansionary** (adjective) – (of an action) planned to cause economic expansion.
62. **lead to** (verb) – result in, cause, bring about, produce, make happen, give rise to.
63. **shock** (noun) – disturbance causing volatility/uncertainty in an economy.
64. **make clear** (phrase) – explain, clarify, elucidate.
65. **volatility** (noun) – unpredictability, instability, unreliability.
66. **credible** (adjective) – acceptable, trustworthy, reliable, dependable; believable, plausible, reasonable.
67. **anchor** (verb) – impart/give a firm base/foundation/basis.
68. **heed** (verb) – pay attention to, take notice of, listen to, notice.

## Prudence prevails: on speculation about inflation

**That inflation is a concern for policymakers is reassuring for consumers and savers**

The Finance Ministry has put to rest all speculation about the inflation targeting framework that will guide the interest rate decisions of the RBI's Monetary Policy Committee over the five-year period starting on April 1. In a terse notification, the Department of Economic Affairs announced that the inflation target for the quinquennium ending on March 31, 2026, will be 4%, with an upper tolerance level of 6% and a lower tolerance level of 2%. Economic Affairs Secretary Tarun Bajaj said that the framework's parameters would remain unchanged from what had prevailed in the five years that ended on March 31. The government's announcement is a welcome step in reiterating that inflation targeting remains the centrepiece of the monetary policy framework and signals that the fiscal and monetary authorities are in lockstep in ensuring the primacy of price stability as the bedrock for all macro-economic development. This is particularly apposite at a time when inflation pressures are mounting in an economy that is still struggling to regain its footing from the devastating contraction in the just-ended fiscal year, when the COVID-19 pandemic and the drastic measures to curb its spread resulted in widespread precarity. The latest Consumer Price Index data show retail inflation accelerated by almost 100 basis points to a three-month high of 5.03% in February, with food and fuel costs continuing to remain volatile. Also, with the prices of multiple raw materials on an upward trajectory, an IHS Markit India Business Outlook survey last month showed companies were planning to raise selling prices over the coming 12 months to cope with rising costs.

The RBI's officials have in recent months maintained an unwavering focus on emphasising the need to retain the flexible inflation targeting framework. In a December working paper titled 'Measuring Trend Inflation in India', the Deputy Governor overseeing monetary policy, Michael Debabrata Patra, and a colleague underscored the importance of ensuring the appropriateness of the inflation target. Observing that there had been a steady decline in trend inflation to a 4.1%-4.3% band since 2014, they said a target far lower than the trend ran the risk of imparting a 'deflationary bias' that would dampen economic momentum, while a goal much above the trend could engender expansionary monetary conditions that would likely lead to inflation shocks. And in February, the RBI's researchers authoring its Report on Currency and Finance — themed 'Reviewing the Monetary Policy Framework' — made clear that the framework had served the economy well, attested by a decline in inflation volatility and more credible anchoring of inflation expectations. That the government's economic officials have heeded these calls will certainly reassure investors and savers that inflation remains a central concern for all policymakers.

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