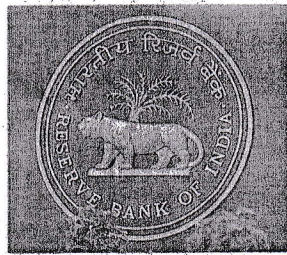


Economy on the move, but we still need to stay the course on aligning inflation with 4% target: RBI

Our Bureau
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Even as the second quarter of FY25 has begun with signs of the economy gathering momentum, it is prudent to avoid the temptation of time inconsistency (placing more value on the present than on the future) and stay the course on the straight and narrow path of aligning inflation with the 4 per cent target, the RBI's latest monthly bulletin said.

Officials of the Reserve Bank of India observed that this does not imply that inflation should reach 4 per cent and stay there before a change in the monetary policy stance is considered; instead, based



on a careful evaluation of the balance of risks, an enduring movement towards the target should provide signals to a forward-looking monetary policy.

"When monetary policy authorities committing to price stability renege on that commitment in the pursuit of short-run gains of increasing growth, they can end up losing credibility, unhinging inflation

expectations and triggering a surge in inflation. This can also undermine growth sustainability," central bank officials wrote in an article on the *State of the Economy*.

The researchers referred to RBI Governor Shaktikanta Das' recent statement that "monetary policy remains squarely focused on price stability to effectively anchor inflation expectations and provide the required foundation for sustained growth over a period of time".

INFLATION EDGES UP

Headline inflation, as measured by year-on-year changes in the all-India Consumer Price Index, edged up to 5.1 per cent in June from 4.8 per

cent in May. The officials said the second quarter of FY25 has begun with signs of quickening momentum in the economy.

"Global economic activity appears to be strengthening across advanced economies and emerging market economies, and global trade in goods and services is gathering momentum. Monetary policy divergence is setting the tone for global economic developments. In India, the second quarter has begun with signs of quickening momentum in the economy. The improvement in the outlook for agriculture and the revival of rural spending have turned out to be the bright spots in the evolution of demand conditions," the article stated.