

Inflation - May 2021

Why in news?

The official data for wholesale (WPI) and retail (CPI) inflation for May 2021 was released.

What is the current inflation scenario?

- **WPI** - The wholesale price index (WPI) hit an all-time high of 12.49% in May 2021.
- It touched the double-digit mark of 10.49% in April (2021).
- This is the fifth straight month of rise in WPI inflation.
- **CPI** - Consumer Price Index (CPI) reached its highest levels in 6 months, at 6.30%.
- This is much higher than April's 4.23%.
- It is also outside the Monetary Policy Committee's inflation targeting range of 4 (+/-2)%.
- The breach is witnessed for the first time since November 2020.

What led to the rise?

- The WPI increase is a result of a spike in prices of manufactured products, crude petroleum, and mineral oils.
- Runaway fuel prices, that include high excise duties and taxes, were a key factor in driving up both the inflation indices.
- No respite is in sight on this front as pump prices for petrol raced past Rs. 100 a litre in some parts of the country.
- A low base effect of May last year also contributed to the spike in inflation in May 2021.
- The WPI inflation stood at (-)3.37% in May 2020.
- Also, retail inflation in food hit a six-month high of 5%, from barely 2% in April.
- Pulses and eggs as well as edible oils led the surge.
- Even if food and fuel prices are discounted, core inflation has crossed the 6% mark for the first time in 31 months and is estimated at 6.6%.

What does this imply?

- Inflation is expected to remain higher than the average 5.1% estimated by

the RBI for 2021.

- The rise in inflation has disturbed the hopes of economic recovery after the pandemic-driven lockdowns are relaxed.
- The Monetary Policy Committee may not switch away from its less stringent policy.
- But, no further easing of interest rates can be expected at these price levels.

What is the way forward?

- The Government may want the RBI to persist with its accommodative approach to facilitate growth.
- In that case, the government must take some actions of its own to curb price rise.
- This includes meaningful cuts in fuel taxes that the RBI Governor has been advocating for long.
- People are already facing job and income losses and higher medical costs since the pandemic's onset.
- Given this, emergent action is needed to rein in inflation.

Source: The Hindu, Financial Express

