Low growth and High inflation

What is the issue?

- The Index of Industrial Production (IIP) contracted 3.8% in October, as against a healthy growth rate of 8.4% during the same month last year.
- Low growth combined with high price inflation has occurred now.

What had happened?

- Economic data released by the government suggest that India may be stepping even closer to stagflation.
- **Industrial output had shrunk** by 4.3% in September 2019.
- At the same time, retail inflation jumped to a 40-month high of 5.5% in November fuelled mainly by a sharp jump in food prices.
- **Retail inflation** is now in the **upper** band of the inflation range targeted by the Reserve Bank of India (RBI).
- But it might drop as fresh food supplies hit the market.

Why this combination is a concern?

- Low growth combined with high price inflation is sure to cause further headaches for policymakers.
- Economic growth has declined for six consecutive quarters now, making it one of the longest downturns in recent history.
- With inflation raising its ugly head now, the RBI is unlikely to cut rates aggressively in the next few months at least.
- So it is entirely up to the government now to find ways to boost growth.
- Given the seriousness of the slowdown, the government cannot delay reforms.

What is the government's explanation?

- For a long time, the government maintained that the country's growth rate was held back by the **RBI's tight monetary policy stance**.
- But with the benchmark interest rate being cut five times so far this year, the government can no longer shift blame on to the RBI.
- The government's defence right now is that the slowdown in growth is merely a **cyclical** one that will end sooner than later.
- But regardless of the nature of the current slowdown, the Centre has fallen

short on its promise of bringing about major structural reforms to the economy.
- Except for the recent cut in corporate tax rates, the government has not come up with any other significant reform in response to the slowdown.
- Further, the presence of low growth along with high inflation also raises questions about the **root cause of the slowdown**, which has been attributed to a drastic fall in consumer demand.

Why further rate cuts cannot be a solution?

- Aggressive rate cuts by the RBI that have extended over most of the year cannot stop the continuous slide in growth rate.
- It may well be that supply-side is also in deep trouble.
- **Way forward** - The answer to the current slowdown lies in economic reforms that can first lift the potential growth rate of the economy.
- Otherwise, further rate cuts by the RBI will only add to the government's troubles by stoking inflation in the wider economy.

Source: The Hindu

Quick Facts

Index of Industrial Production (IIP)

- The IIP is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time, with respect to a chosen base period.
- It is compiled and published on a monthly basis by the Central Statistics Office (CSO) under the National Statistical Office (NSO).
- It is published with a time lag of six weeks from the reference month.