# Twitter Thread by Nilesh Shah

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**Lot of comment on RBI becoming Pro Growth & keeping Inflation in back ground. Few Points to ponder.**
**- Inflation is being pushed on back burner globally. ECB moved from Inflation to Growth long back. US Fed has publicly stated to tolerate higher Inflation.**

RBI pre Inflation targeting framework was managing Growth, Inflation, Govt Borrowing, Rupee and Financial stability remarkably well. Nobel Laurate Joseph Stiglitz complemented RBI stating that US Sub prime crisis would have been averted if Dr Reddy was US Fed Governor.

Despite stupendous success of the RBI in managing conflicting needs of Indian Economy, Inflation Targetting Framework was established without proper definition/measurement of Inflation.

This was like attributing credit of Mahabharat Victory to Single minded focus of Arjun (could only see Bird's eye while shooting arrow) than all round guidance of Shree Krishna.

Oddly Central Banks around the world are now following RBI in managing conflicting objectives as per the need of economy.

There are several omissions in calculating Inflation in India
- Globally feature improvements is considered for Inflation. Feature enhanced product will be non inflationary despite price increases. We look at TV price irrespective of its transition from B & W to LCD.

Globally Central Banks focus on Inflation excluding Food and Fuel. They accept the limitation that monetary policy can't influence OPEC or Rain God. We focus on Inflation where major part comes from Food & Fuel. Strangely Gold is part of Inflation calculation.

Calculation of Inflation is a different issue due to limitation on data capturing / price variation across India. For e.g WPI Inflation was 1.48 % in Oct 20 & 1.32 % in Sept 20. CPI Inflation was 7.61 % in Oct 20 & 7.34 % in Sept 20.

If we measure effectiveness of monetary policy from WPI it is excessively tight as Inflation is below RBI's target range. From CPI angle it is excessively soft as Inflation is above RBI's target range.

Argument of High liquidity keeping CPI elevated doesn't make sense as YTD Bank credit growth is Rs 5.55 Lac crore (PY Rs 7.15 Lac crore). Bank Credit Growth is down Rs 1.60 Lac crore YTD. How can liquidity push inflation higher If it remains trapped between RBI & Banks ?

Higher Inflation impacting poor people also doesn't take into account concessional food grains given under PDS & other welfare schemes. Actual Food Inflation is much lower than reported food inflation if we take into account those data.

India Inc is running at much lower capacities as reflected in 7 % sales degrowth in NIFTY cos for Sept 20 quarter. Lack of demand is witnessed across sectors as reflected in negative GDP growth in FY 21. Supply chain disruptions are probably a bigger contributor to Inflation

Interest cost indirectly contributes to Inflation. Most MSME borrows money at high single digit / low double digit real interest rates. The depositors don't benefit from those rates as intermediarion cost remains high due to non resolutions of NPAs.

Raising Interest rates restricts creation of supply and increases cost of product & services. This creates a vicious cycle of higher Inflation, higher interest rates & lower Growth. Arguments of tight monetary policy for controlling Inflation overlooks this crucial aspect.

Our peers have brought inflation under control by lowering rates, pumping liquidity, supporting entrepreneurship and creating supply more than the demand. Our focus should be to create supply rather than curtail demand over long term to control Inflation.

Glad that the RBI has got the Shakti to come back to its original Krishna Avatar of managing conflicting objectives of Growth, Inflation, Rupee, Financial Stability and Govts Borrowing Program.

ECB & US Fed can ignore Inflation but India can't argument, doesn't take into account that they are growing at lower single digit & we need to grow at lower double digit. Negative real interest rates has been a catalyst for faster growth by encouraging investments in many places