

# BHARAT SCHOOL OF BANKING

## INFLATION TARGETING

### Inflation Targeting

**Inflation** is a key concern for every **economy**. **Governments** or **central banks** always try to keep **inflation** in a manageable level (low), because, the impact of **inflation** falls directly on the daily life of the **citizens** (like, high price of goods, etc.).

Some **central banks explicitly** declare a **target** to keep **inflation** within the limit. This explicit declaration is known as **Inflation targeting**. However, whether it is explicitly declared or not, every central bank tries to keep inflation in a manageable level.

### Inflation targeting adopted by RBI

Recently, **RBI** and **Union Government** signed an **agreement** on **Monetary Policy Framework** to focus on flexible **inflation targeting**.

As per the **agreement**, **RBI** will have to maintain **Consumer Price Index (CPI)**-based **inflation targets** below **6 %** by **January 2016**, and **4 % (+/- 2 %)** from **2016-17** financial year (onwards).

With this **inflation targeting**, **RBI** will be more **accountable**, because if it **fails** to meet the **inflation target** set by it, then **RBI** will have to **explain** reasons to the **government**.

### Recommended by Urjit Patel Committee

The **transition** from **Monetary Targeting** suggested by **Chakravarty Committee** (1988) to **Inflation Targeting** suggested by Dr. **Urjit Patel Committee** (2015) is similar to the **practice** adopted by **central banks** in **developed countries**.