

# RESERVE BANK OF INDIA

VSA MODEL PARLIMENT 2022

Agenda: Reviewing and devising new monetary policies to  
counter inflation

## LETTER FROM EXECUTIVE BOARD

Greetings delegates! A very warm welcome to the RBI committee. RBI is the central bank of India and it is through this institution that our very economy and monetary aspects of it can be regulated. Delegates in this committee hold great power when it comes to devising solutions to fix the economic problems of our country. Something as minute as a simple miscalculation can set the course of our economy to doom.

Over the course of the two days of debating, lobbying and drafting resolutions, the delegates will hope to accomplish a very important task. The delegates are vested with the responsibility of fixing the problem of inflation in our economy. We look forward to seeing in this committee active participation from all delegates and adequate research to devise whatever solutions the committee needs to come up with.

On that note we would also like to convey to the delegates, best of luck in your preparations and we hope to see fruitful debate in the form of articulate expression of your points and impeccable drafting of all working papers which would convey your solutions for the agenda.

We are very happy to host you at RBI and hope all delegates enjoy the experience of this conference! And once again, wishing all delegates, best of luck!

Regards,

Pranav Bhalla and Aditi Singh,  
Executive Board of RBI

## INTRODUCTION

### Aims of the committee:

The committee on this occasion of its convention shall shift its attention to the rising inflation in the country and its impact on the population. Currently, Indian inflation rate is above the level the RBI considers to be normal and healthy for an economy such as ours. Rising prices have affected the day-to-day lives of India's population and consumption of elastic goods has decreased causing problems in various sectors of the economy. The inflation is also negating any growth in the national income as the cost added due to inflation is very difficult to keep up with despite any economic growth.

## CURRENT SCENARIO

**Inflation due to the russia-ukraine war:** The russia-ukraine war is such an event that has presently left a mark on the indian economy and the financial system. Despite having only a limited dependence on them for imports(2.1%) and exports(1%), their conflict is affecting India's inflation. The high rate of inflation in March, 2022 was primarily due to rise in prices of crude petroleum and natural gas, mineral oils, basic metals, etc. owing to disruption in the global supply chain caused by the Russia-Ukraine conflict. As per the CPI data, inflation in March soared up as the geopolitical crisis due to the Russia-Ukraine war pushed edible oil prices higher. Ukraine is a major exporter of sunflower oil. But, even before the Russian invasion of Ukraine in February 2022 restricted supplies of a range of commodities, especially oil, gas, and foodgrains, much had occurred. The exit of financial investors from India's financial markets, triggered by global uncertainty (covid - 19) and the prospect of low interest policies in the advanced nations, set off a depreciation of the rupee that raised import costs and added another element to cost push inflation. What the Russian invasion of Ukraine did was to accelerate this underlying and pre-existing inflationary trend.

**Inflation due to rising food prices (effect of monsoons):** Poor monsoon showers have threatened India's economic recovery post covid and has made food even more expensive in a country where more than half of the population depends on rain for farming. The weather pattern, which usually begins its four-month journey from the southern state of Kerala on June 1, stalled for three weeks after bringing higher-than-average rains in the first half of June. The monsoon has now revived, but the delay and poor precipitation will hurt the sowing of crops such as rice, cotton and soybeans. Month over month inflation for the month of July for vegetables was recorded to be 15.67%

**Role of subsidies in rising inflation:** Subsidies in the sense of Governments refers to any form of financial aid or support given by the government to the people. Its main aim is to increase socio-economic equality. Subsidies have a major indirect relation with inflation. Subsidies reduce costs of living which gives rise to more disposable income. Thus there is an increase in liquidity to the extent that subsidies are provided. However, subsidies could also decrease inflation if they reduce cost of production.

Various subsidies ranging from free electricity to direct cash transfers have different impacts on inflation. Free electricity for example, would reduce cost of production which would have an overall impact on the price of the final goods. However, subsidies such as direct bank transfers simply increase the liquidity in the market, and thus oftentimes result in a further increase in inflation, negating the effect of the subsidy itself.

**Impact of covid:** Driven by increasing global crude and commodity prices and supply shortage of inputs due to the Covid 19 pandemic, India as well as many countries are currently struggling with high inflation rates. When covid first hit the country, people were hardly spending any money. However in the past year that the economy is back open, people are spending and travelling and, therefore, there is a bottleneck with very high demand. This has caused high inflation in a short term. The strained supply lines due to covid paired with an increase in demand is one of the main reasons for inflation at the moment.

***Note to delegates: These are just three causes of inflation and you are requested to not base all your arguments for causes on this.***

## QUESTIONS A RESOLUTION MUST ANSWER

1. The inflation rate of India and its direct impact
2. The types of inflation in India
3. A review of previous monetary policies used to tackle inflation
4. An analysis of the different causes of inflation in India
5. An analysis of impact of existing monetary policies in reducing inflation
6. A review of current monetary policies of other countries
7. A prediction on future disharmonies which could cause further inflation
8. New monetary policies that would be used to tackle inflation
9. Fiscal policies to recommend to finance ministry

## LINKS FOR FURTHER RESEARCH

<https://rbi.org.in/home.aspx>  
<https://www.jstor.org/stable/1991632>  
<https://www.aeaweb.org/articles?id=10.1257/jep.32.1.195>  
<https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1813-6982.1976.tb00500.x>  
<https://onlinelibrary.wiley.com/doi/abs/10.1111/1467-8268.12056>  
<https://ijrar.org/papers/IJRAR19D1454.pdf>  
<https://www.sciencedirect.com/science/article/abs/pii/S0304393218302368>  
[shorturl.at/tuvY6](http://shorturl.at/tuvY6)  
[https://www.ey.com/en\\_in/tax/economy-watch/why-india-is-gaining-clout-in-the-post-covid-universe](https://www.ey.com/en_in/tax/economy-watch/why-india-is-gaining-clout-in-the-post-covid-universe)  
[https://www.boj.or.jp/en/announcements/press/koen\\_2016/data/ko161009a.pdf](https://www.boj.or.jp/en/announcements/press/koen_2016/data/ko161009a.pdf)  
<https://theprint.in/economy/after-second-wave-patchy-monsoon-rains-are-raising-growth-and-inflation-worries-for-india/699310/>  
<https://indianexpress.com/article/explained/russia-ukraine-war-india-inflation-7788806/lite/>

***Note to delegates: Delegates are requested to not base the entirety of their research from the study guide and the links provided.***

If you require any clarifications regarding any aspect of this committee, feel free to contact:

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