1. What are the causes of rising inflation? Comment on the effectiveness of monetary policy of RBI in containing inflation.

Inflation is the persistent rise in the general price level of goods and services, leading to a fall in the purchasing power of money. The Consumer Price Index (CPI) is the primary measure of inflation in India. As per RBI data (March 2024), India's headline inflation stood at 5.1%, within the official target band, but food inflation remained volatile. The Reserve Bank of India (RBI) targets inflation under the Flexible Inflation Targeting (FIT) regime with a range of 4% ± 2% under Section 45ZA of the RBI Act, 1934.

I. Causes of Rising Inflation in India:

1. **Demand-Pull Inflation:** Caused by excess demand over supply, often due to increased income, credit growth, and government spending. For example, post-COVID stimulus and increased rural demand have contributed to it.
2. **Cost-Push Inflation:** Triggered by rising costs of production such as raw materials, labour, and energy. Crude oil prices remained high (~$84/barrel in 2024).
3. **Supply-Side Inflation:** Caused by disruptions in the supply chain. For example, unseasonal rains in 2023 led to a 40% increase in tomato prices and food inflation.
4. **Imported Inflation:** A weaker rupee raises the cost of imported goods. In 2024, the rupee depreciated to ₹85.61/USD, increasing import costs.
5. **Global Factors:** Geopolitical tensions (E.g., Russia–Ukraine war, Red Sea crisis) increased global food and energy prices.

II. Effectiveness of RBI's Monetary Policy in Containing Inflation:

The RBI used various tools such as repo rate hikes, liquidity control through CRR, SDF, and OMOs, and CPI inflation targeting. These measures helped reduce inflation from 7.8% (April 2022) to 5.1% (March 2024).

III. Limitations of RBI's Monetary Policy in Controlling Inflation:

1. **Supply-Side Inflation:** Monetary policy cannot address issues like crop failure or agri-input shortages, which require production-side interventions.
2. **Imported Inflation & Global Impact:** Global oil and commodity prices and currency depreciation are beyond the RBI's control.
3. **Transmission Lag:** Repo rate changes take 3 to 6 quarters to reflect in lending rates and consumer behaviour, delaying impact.
4. **Structural Bottlenecks:** Inflation arising from inefficient logistics and poor market linkages needs long-term structural reforms, not rate hikes.

Conclusion:

While RBI's monetary policy has helped anchor inflation expectations, its scope is limited in addressing supply shocks, global price surges, and structural issues. A coordinated fiscal-monetary strategy, investment in agriculture, and robust infrastructure are essential to complement RBI's efforts. The Economic Survey 2023–24 rightly notes, "Monetary policy alone cannot contain inflation unless supported by supply-side management and macroeconomic coordination."

2. Discuss the impact of rising oil prices on the Indian economy and the measures taken by the government to mitigate its effects.

India, being the third-largest importer of crude oil globally, imports over 85% of its oil requirements. This heavy dependence on crude oil imports makes the Indian economy vulnerable to fluctuations in global oil prices. In 2024, the average Brent crude price ranged between $84–88 per barrel, exacerbated by geopolitical tensions and OPEC+ production cuts. This has wide-ranging implications for the Indian economy.

I. Impact of Rising Oil Prices on the Indian Economy:

1. **Widening Current Account Deficit (CAD):** Crude oil is responsible for nearly 25% of India's import bill. In FY 2023–24, the oil import bill surged to $170 billion, contributing to a CAD of 1.1% of GDP (RBI, March 2024).
2. **Currency Depreciation:** The increase in oil imports leads to higher demand for dollars, putting downward pressure on the rupee. In 2024, the rupee depreciated to ₹85.61/USD, leading to imported inflation, which increases the cost of goods and services.
3. **Inflationary Pressures:** The rise in oil prices triggers cost-push inflation, impacting fuel, transport, and manufacturing inputs. This has led to volatility in the CPI inflation, with sectors such as transport and food experiencing significant cost increases.
4. **Fiscal Stress:** Higher oil prices necessitate increased fuel subsidies, while reduced excise duties on petrol and diesel put a strain on government revenue. The Centre cut excise duties on fuel in 2022 and again in 2024, which impacted tax collections and fiscal health.
5. **Industrial Impact:** Industries like aviation, chemicals, and logistics face higher operating costs due to rising fuel prices, which in turn affect profit margins and competitiveness in the market.

II. Government Measures to Mitigate the Impact:

1. **Excise Duty Cuts:** The government reduced central excise duties on petrol and diesel in May 2022 and October 2024 to mitigate the impact of rising fuel prices on consumers.
2. **Strategic Petroleum Reserves (SPR):** India has developed SPR facilities in Vishakhapatnam, Mangalore, and Padur, storing around 38 million barrels of crude oil to buffer against supply disruptions and manage price shocks.
3. **Diversification of Import Sources:** India increased crude oil imports from Russia at discounted rates in 2023–24, which accounted for over 30% of the country's total crude imports, reducing dependence on West Asian nations.
4. **Promotion of Biofuels and E-Mobility:** The Ethanol Blending Program aims to achieve a 20% ethanol blending target by 2025, thus reducing dependence on fossil fuels. Additionally, the FAME II scheme encourages the adoption of electric vehicles and development of charging infrastructure.
5. **Public Transport & Energy Efficiency:** Investments in metro rail projects, highways, and the implementation of the PAT (Perform, Achieve, Trade) scheme under the National Mission on Enhanced Energy Efficiency (NMEEE) are key steps towards reducing energy consumption and improving efficiency in the transportation sector.

Conclusion:

Rising oil prices have created significant macroeconomic vulnerabilities for India, including inflation, a widening trade deficit, and a weakened rupee. While the government has used short-term fiscal measures, such as excise duty cuts and strategic reserves, long-term solutions require diversifying energy sources, enhancing energy security, and accelerating the transition to greener, more sustainable energy alternatives. As highlighted in the Economic Survey 2023–24, "Reducing dependence on fossil fuels and securing affordable energy is crucial for India's economic stability."