

Climate change can stoke inflation, stunt growth: RBI

'Frequent Weather Shocks Leading To Higher Food Prices'

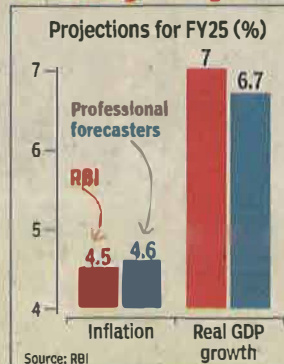
TIMES NEWS NETWORK

Mumbai: RBI has cautioned that frequent shocks to inflation due to climate change can weaken policy transmission and necessitate tighter monetary policy. RBI's monetary policy report noted that climate change can increase inflation and stunt growth.

The report said global average temperatures are rising, with an accompanying increase in extreme weather events, and the economic and social impact is becoming increasingly evident.

It noted three ways in which climate change can impact monetary policy. First, it affects inflation through adverse weather events, disrupting agricultural production and global supply chains. Second, rising tempe-

Monetary Policy Challenges



ratures and extreme weather events may alter the natural rate of interest, reducing productivity and potential output. Third, the aftermath of climate change could hinder the effectiveness of monetary policy in influencing financing conditions for hou-

> Climate change affects inflation through adverse weather events, disrupting agricultural production and global supply chains

> It may alter the natural rate of interest, reducing productivity and output

> It also hinders monetary policy's effectiveness in influencing financing conditions for households and firms

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"For these reasons, central banks are increasingly incorporating climate risks explicitly into their modelling frameworks," the report said. If productivity decreases, the natural interest rate may drop. Even if the natural

rate of interest is lower, if inflation rises suddenly, the central bank may need to tighten monetary policy, it said.

The risk of global warming was highlighted by RBI governor Shaktikanta Das in his policy statement as well. "Frequent and overlapping adverse climate shocks pose key upside risks to the outlook on international and domestic food prices," Das had said. At the post-policy press conference, the governor cited IMD's report, which said that in 2024 the hot weather season between April and June will see above-normal maximum temperatures over most parts of the country.

The central bank's observations on climate change risks come when it struggles with persistent hikes in food prices.

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