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High inflation to complicate growth issues, may bring stagflation: Experts

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THE SPIKE IN headline inflation is an “unwanted complication” in a slowing economy and will prevent the Reserve Bank from cutting rates, analysts said on Monday, warning of the “spectre of stagflation” that India risks getting into.

Official data released showed the consumer price inflation fastened to 7.35% in



December, driven largely by a massive increase in vegetable prices.

“A closer look shows the current spike in inflation comes from transitory or idiosyncratic factors. Let's call them 'noise'. Does that mean the RBI can pass over the noise as just noise? No,” analysts at rating agency Crisil said. “Along with slowing growth, more-than-desirable inflation raises the spectre of stagflation,” they warned.

A 'stagflation' is an undesirable phenomenon which has persistently high inflation with high unemployment and a stagnancy in demand.

It can be noted that under the medium-term target it signed with the government, the RBI is mandated to keep the inflation at 4% with a flexibility to have a 2 percentage point relaxation on either side. The central bank had surprised watchers by keeping rates unchanged contrary to

expectation of a cut to boost the sagging economic growth, which slid to an over five-year low of 4.5% for the September quarter.

Rating agency Iera said it expects the number to correct sharply in January, but the RBI's rate setting Monetary Policy Committee (MPC) will pause over next few of its bi-monthly review meets.

Private sector lender Yes Bank's house economists said they do not expect a cut until the last quarter of 2020.

The analysts at Crisil explained that food is the noisemaker at present and if one were to exclude vegetables and pulses which have resulted in the spike, food inflation comes at 5% which is still at a 33-month high.

The core inflation, which is price rise excluding food and fuel, also runs the risk of getting impacted because of the rise in telecom prices, it said.

Care Ratings also flagged the high fiscal deficit, which induces inflation, is also a concern. It can be noted that there are calls for looking over the fiscal deficit concerns to push up the growth process ahead of the Budget scheduled for February 1.