

THE ECONOMIC TIMES

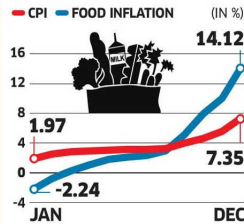
Copyright © 2014 Bennett Coleman & Co. Ltd. • All rights reserved

Tue, 14 Jan-20; Economic Times - Delhi; Size : 91 sq.cm.;
Circulation:134320; Page : 1

RATE CUT HOPES EVAPORATE

Retail Inflation Hits 5-yr High of 7.35% in Dec

FOOD INFLATION AGGRAVATES CONSUMER INFLATION



WHAT IT MEANS

Inflation likely to stay high for some time

RBI unlikely to cut rates next month



CPI breaches RBI band on spike in food prices

Our Bureau

New Delhi: Retail inflation rose to its highest in more than five years in December following a spike in food prices, breaching the targeted outer limit and effectively ruling out the possibility of further interest rate cuts by the RBI.

The rate of inflation as measured by the Consumer Price Index was 7.35% last month, the most since 7.39% in July 2014, according to data released by the statistics office on Monday. India's GDP growth is forecast to slip to an 11-year low of 5% in the current fiscal.

"No denying there is an element of seasonality involved in the current retail inflation, but the job of RBI has become more complicated due to the growth slowdown," said India Ratings chief economist Devendra Pant.

Core Inflation at 3.7% >> 10

Core Inflation at 3.7%

Madan Sabnavis.

►► From Page 1

“Very little window to play around with the policy rate on the downside and retail inflation now higher than the targeted level,” said Pant.

The RBI is mandated to maintain consumer inflation at 4% with a band of two percentage points on either side — minimum 2% and maximum 6% — between August 2016 and March 2021. It’s the first time the limit has been breached since the target was set in 2016.

The RBI had kept interest rates unchanged in December, citing inflation concerns, following five cuts totalling 135 basis points in 2019. A basis point is 0.01 percentage point. CPI inflation in November was 5.54%.

“CPI at 7.35% is at a five-year high, led predominantly by food, fuel and miscellaneous,” said Yes Bank chief economist Shubhada Rao. “Given this number, (in the) next few months CPI (is) expected to firm up further. We maintain our ‘no-rate cut’ (stance) until October-December quarter.”

The RBI is scheduled to make its next monetary policy announcement on February 6, five days after finance minister Nirmala Sitharaman presents the budget for FY21.

“Interestingly, both rural and urban inflation have registered inflation of around 7.4%, which is indicative of pervasiveness of the same,” said CARE Ratings chief economist

FOOD SPIKE

Food inflation accelerated 14.12% in December compared with 10% in November as vegetables, particularly onions, turned dearer.

The inflation in vegetable prices was 60.5% while that for pulses and products was 15.44% and 9.57% for ‘meat and fish’. Egg prices rose 8.79% in December.

Economists expect vegetable prices and inflation to moderate in January with the new onion crop coming to market. However, a low base effect will impact inflation for one more month. “In particular, prices of pulses may remain elevated in the coming months, despite the favourable outlook for the rabi crop,” said ICRA principal economist Aditi Nayar, adding that the RBI may change its stance from ‘accommodative’ to ‘neutral’.

Core inflation, a measure of demand inflation, was 3.7% in December; a slight increase from November. Nayar said that an increase in rail fares, higher prices of some automobile categories as well as the unfavourable base effect may contribute to a further uptick in core inflation to around 4% in January.

Some states exceeded the outer limit by a bigger margin. Retail inflation in Odisha stood at 9.41%, while it was 9.39% in Telangana and 8.92% in Uttar Pradesh.