# Inflation kept MPC busy, but may not hurt growth for now

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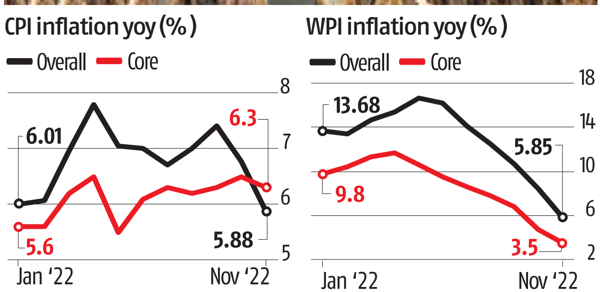
After keeping the Reserve Bank of India's (RBI) monetary policy committee (MPC) on its toes for most part of the year, retail price inflation rate may not be such a worry for economic growth in 2023.

Hope comes from the consumer price index (CPI)-based inflation rate falling below the RBI's upper tolerance level of 6 per cent in November, and also by the behaviour of the wholesale price index (WPI)-based rate of price rise. One has to see if CPI inflation rate remains below 6 per cent beyond November or not, but WPI inflation does indicate it would be so if no shocks happen. WPI inflation rate fell to a 21-month low of 5.85 per cent in November.

"WPI is the lead indicator. It has come down substantially. That will also be feeding into CPI with a lag. That had happened in earlier part of the year too when WPI stayed in double digits for long, CPI went above six per cent. Now, WPI has come down very sharply and that will bring down CPI too. So, I am not worried about inflation as of now," said former chief statistician Pronab Sen.

He said a caveat that shocks jacking up commodity prices may alter the scenario. Covid has already raised the prices of active pharma ingredients which India imports from China.


Source: MoSPI and Commerce and Industry ministry

Core CPI inflation has been over 6 per cent since June. It fell from 6.5 per cent in October, but remained elevated at 6.3 per cent in November. "Transmission from headline to core is a process; if you see a decline in headline inflation, it is largely due to a decline in input prices. It will have a lagged impact on core inflation," said N R Bhanumurthy, vice chancellor of Dr B R Ambedkar School of Economics.

However, ICRA's chief economist Aditi Nayar said given the pending pass-through of higher input costs by producers and sustained robust demand for services, core inflation is likely to remain elevated in the remainder of FY23, notwithstanding the recent correction in prices of some global commodities. Bhanumurthy said the kind of inflation that was seen — higher than RBI's threshold — for most part of this calendar year was largely due to international inflationary pressures.

"In the absence of international price pressure, domestic factors will influence inflation, going forward. Domestic factors, in my view, need not be inflationary except if there are shocks like rainfall shortage, etc. On the other hand, even if [a] global slowdown happens, domestic factors will see that inflation is somewhere between 4 and 5 per cent in the coming months," he said.

CPI inflation fell below 6 per cent in November, but not before the RBI wrote a letter to the government explaining the reasons behind its failure to keep the rate of price rise within its mandate.

With most experts saying inflation may not be a concern for economic growth, the moot question arises as to what will be MPC's stance. Will it now reverse its stance and cut repo to promote growth?

"Not yet. At the moment CPI inflation is just below the repo rate which is 6.25 per cent. The real repo rate is positive. My personal belief is when the inflation rate comes down around 4.5 per cent that is the time when the repo rate should be brought down fairly quickly. I would give it another quarter at least," Sen said.

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