Taming inflation must be RBI focus: FinMin officials

'The target should be on keeping the rate within tolerance level of 6%'

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Finance ministry officials are of the view that the Reserve Bank of India (RBI) should prioritise bringing inflation down within the mandated range of 2-6 per cent, even if economic growth is adversely impacted in the process.

"The central bank should focus on combating inflation until it is within the tolerance level of 6 per cent, even if it pares (down) growth," a senior government official told Business Standard. He said that inflation is still elevated, which could have an impact on low-income strata.

The comments come ahead of the bi-monthly monetary policy review of the RBI on Thursday. Eight of the 10 respondents in a Business Standard poll have said that the monetary policy committee (MPC) is expected to lift policy rate by another 25 basis points (bps) to 6.75 per cent before hitting pause.

Retail inflation — the main yardstick of the central bank for policy-making purposes — eased only marginally in February to 6.44 per cent, from 6.52 per cent in January.

Core inflation — which excluded volatile food and fuel inflation and a key concern for the RBI — has remained sticky above 6 per cent in recent months. The RBI has a mandate to keep retail inflation at 4 per cent within a band of 2 percentage points on either side.

The official further said that India is comfortably placed on a sustainable macroeconomic stability front and there is no such concern there.

"Revenue collection has shown strong momentum — both on direct and indirect taxes. Even the bank's balance sheet looks good as we started cleaning up in 2018 in the aftermath of the Infrastructure Leasing & Financial Services and YES Bank fiascos," said the official.

Direct tax collection rose 17.63 per cent to ₹16.61 trillion in 2022-23 (FY23), marginally exceeding the Revised Estimates target, showed the provisional data released by the finance ministry on Monday.

Additionally, the goods and services tax collection in FY23 grew 22 per cent to breach ₹18 trillion, the finance ministry said on Saturday.

However, the official said that before a change in stance from 'withdrawal of accommodation' to 'neutral', the central bank needs to pay attention to the inflation trend.

The RBI expects retail inflation to average 5.3 per cent in 2023-24, with the first quarter at 5 per cent. While it has projected inflation for the January-March quarter of FY23 at 5.7 per cent, experts believe inflation woes are not over yet and the said quarter may see average inflation of 6.3 per cent. "We anticipate a narrow majority of MPC members may choose to vote for another rate hike in the April 6 monetary policy. This would take the repo rate to 6.75 per cent, which is more than 100 bps higher than the MPC's Consumer Price Index inflation forecast for the second half of FY24, and may be adequate, given that gross domestic product (GDP) expansion is at best likely to be similar to potential GDP growth in that period," said Aditi Nayar, chief economist, ICRA.

Nayar believes the MPC should pause through the remainder of FY24, and assess the transmission of policy tightening, as well as the evolving risks to food inflation.

Higher inflation has been a concern for central banks the world over, including India, due to uncertainty in the midst of the Russia-Ukraine war causing supply-side disruptions in a purported post-Covid world still recovering from economic shocks.

₹ up 33p/$, bonds gain before policy

The rupee strengthened against the dollar on Wednesday on improved risk appetite and dollar sales by foreign banks, apart from corporate inflows, and bond yields fell ahead of the Reserve Bank of India's (RBI's) monetary policy review decision on Thursday.

The currency opened at 82.08 a dollar as against Monday's close of 82.33 due to weaker job data in the US and went on to touch 81.92 levels on corporate inflows. Markets were closed on Tuesday on account of Mahavir Jayanti. "Rupee made a bullish start to the day at 82.08 levels as compared to the previous close of 82.33 levels driven by softer dollar, cooling of US labour market and feeble data releases," Ritesh Bhansali, vice-president, Mecklai Financial Services, said. "After making day's high of 82.205 in the first half of the trading session, rupee made a swift move to 81.90 levels, aided by rumoured corporate inflows. Tailwinds continued to blow on the rupee with positive local bourses also running in favour of the local unit for it to mark a close around the levels of 82," he said. The 30-share Sensex was up 582.87 points or 0.99 per cent on Wednesday.

The rupee closed the day at 82 a dollar, up 33 paisa from the previous close – its highest level in over three weeks. The Indian unit which weakened around 8 per cent in 2022-23, has gained 0.9 per cent in 2023 so far. **MANOJIT SAHA**