Concerns over runaway inflation and CAD seem to have tapered off

INDIA POISED TO BE WORLD'S FASTEST GROWING ECONOMY THIS YEAR

GOVT CAUTIOUS ABOUT CRYPTOS, 'WAZIRX EPISODE REVEALS DARKER SIDE'

ARUP ROYCHOUDHURY
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With commodity prices easing due to fears of recession in advanced economies, the concerns regarding runaway inflation and current account deficit (CAD) have abated in India, a top policymaker said on Thursday.

"At any point in time, different aspects of the economy have to be monitored, and we are closely monitoring inflation and current account deficit. Steps have been taken to bring down prices of essential items, which are showing results," the official told reporters at a media briefing.

"Prices of crude oil and fertilisers are coming down. These are two of the biggest items when it comes to imports. Hence, CAD is also expected to moderate, and is not as much a concern as it was earlier," the official said.

The person added that India's economy was better placed than other countries, having recovered from two years of the Covid-19 pandemic and poised to be the world's fastest-growing economy this year.

Consumer Price Index-based (CPI) inflation for June came in at 7.01 per cent, the sixth straight month of headline inflation being above the Monetary Policy Committee's target of 4 (+/-2) per cent.

Earlier this month, the six-member MPC of the Reserve Bank of India hiked the policy repo rate by 50 basis points to 5.4 per cent — a three-year high — owing to inflation concern and to shield the exchange rate, which has come under pressure since war broke out in Europe in February. With this latest hike, all Covid-era rate cuts have been reversed.

RBI Governor Shaktikanta Das struck a hawkish tone and said with growth momentum expected to be resilient despite headwinds from the external sector, monetary policy should persevere further in its stance of withdrawal of accommodation to ensure that inflation moves close to the target of 4.0 per cent over the medium term.

As fears of recession grow in the US and European economies, crude oil prices have eased from their highs for the calendar year seen earlier this year. West Texas Intermediate crude was trading at nearly $120 a barrel in March and was above $115 a barrel till late June.

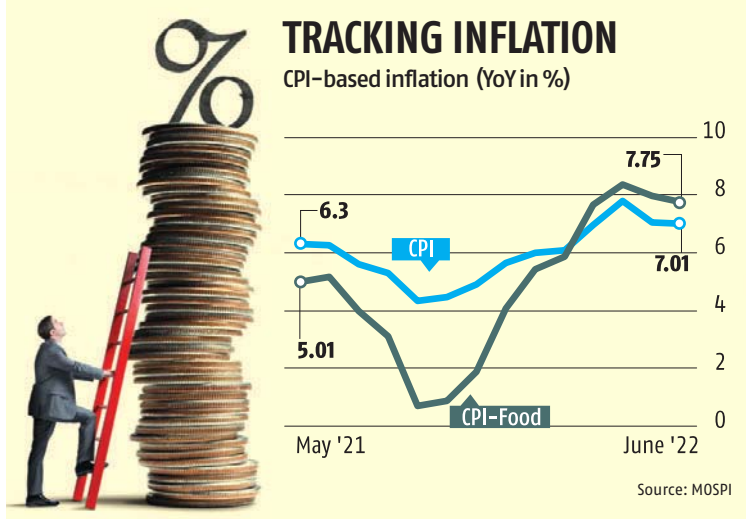
Oil prices rose by over 1 per cent on Thursday after the International Energy Agency raised its oil demand growth forecast for this year as soaring natural gas prices lead some consumers to switch to oil. Brent crude futures gained $1.29 to $98.69 a barrel by 1.48 PM (GMT), while WTI crude futures rose $1.45 to $93.38.

Regarding cryptocurrency, the official said caution was necessary and the recent WazirX episode had exposed many darker sides of crypto transactions.

Speaking on other matters, the official said that whenever the Centre had the fiscal headroom to speed up devolution to states, it would do so promptly. "The aim is to pass on the devolved funds to the state as speedily as possible so they can continue with their capital expenditure and welfare spending plans. On Wednesday, the Centre released ₹1.16 trillion in devolution to states, instead of the usual monthly devolution of ₹58,333 crore. This is a clear indication that owing to healthy direct tax and goods and service tax collections, the Centre is front-loading devolution to states from the divisible tax pool.

"Even if not a full extra installment, if in the coming months we have the space to give 50 per cent more, or any amount more, we will do so," the official said.

This is not the first time the Centre has paid two monthly devolution installments in one go. In November 2021, two instalments were paid, after Finance Minister Nirmala Sitharaman's meetings with chief ministers and finance ministers of states on economic- and infrastructure-related issues. Two installments were also paid in February 2021.



SBI report: Inflation trajectory may be benign going forward

India's inflation trajectory going forward is expected to be benign with headline retail inflation potentially printing at less than 5 per cent in March 2023, State Bank of India said in a report on Thursday.

"CPI (consumer price index) numbers for March 23 could be even lower than 5 per cent, if July CPI numbers are closer to 6.5-6.6 per cent, a likely possibility," SBI's Group Chief Economic Adviser Soumya Kanti Ghosh wrote.

India's CPI inflation has remained above the upper band of the RBI's mandated 2-6 per cent range for six straight months up to June 2022. The June inflation print was at 7.01 per cent. The RBI's medium-term target for CPI inflation is 4 per cent.

Upside risks to domestic inflation increased significantly after Russia's invasion of Ukraine in late February led to a spurt in global commodity prices.

The Reserve Bank of India has raised the repo rate by 140 basis points to 5.40 per cent since May to tackle high inflation. The central bank has projected CPI inflation at 6.7 per cent in the current fiscal year and at 5 per cent in the first quarter of 2023-24 (April-March).

BHASKAR DUTTA