

# No Policy Deviation Needed for Inflation

Retail inflation snapped out of a three-month declining trend in August as food inflation accelerated due to an uneven monsoon, building up on benign conditions in the same month a year ago. Fuel inflation softened, but retained its pressure on the consumer price index (CPI). RBI in its latest review of monetary policy last month had raised its projection for inflation during the current quarter on expectations of such supply-side effects. GoI has imposed an export duty on rice, and the pressure on cereal prices should abate. This is in line with a policy approach that does not rely entirely on monetary tightening to control inflation. With core inflation stabilising, moderate volatility in food and fuel prices is unlikely to force retail inflation to dramatically breach RBI's quarterly estimates.



But the persistence of food inflation is affecting demand revival. Rural wages are lagging increases in food prices, squeezing purchasing power and consumer goods demand. Factory output slowed sequentially in July with declines in consumer goods and mining on account of rainfall. Softening demand is also showing up in export industries, a trend that will be driven by central bank actions to fight demand-driven inflation in advanced economies. Keeping a lid on fuel prices and extending food subsidies keep the pressure up on the fiscal deficit. Arresting the decline of the rupee disadvantages exports and widens the trade deficit.

The latest data would not suggest any policy deviation since post-pandemic supply-side inflation began. Demand conditions do not warrant more forceful intervention in monetary or fiscal terms, while enhanced public investment gains traction.