'Inflation won't come below RBI tolerance level in FY23'

A few days after the International Monetary Fund (IMF) cut India's economic growth by 60 basis points to 6.8 per cent for 2022-23, compared to its earlier forecast of 7.4 per cent, its India Mission Chief **NADA CHOUEIRI** tells **Indivjal Dhasmana** that the new growth rate is not bad since emerging market and developing economies are expected to grow by only 3.7 per cent on average in 2022. Edited excerpts:

The IMF did not cut global economic growth forecast in the latest review compared to the July one, but slashed India's by 60 basis points. Why?
We did not cut global economic growth forecasts but these were changed for many individual countries. Forecasts of some countries declined and those of some others were raised. That is why the global growth forecast was unchanged. For those countries whose growth forecasts declined, they are large trading partners of India, for instance, the US, EU and China. Because their growth forecasts declined, the external demand for India's goods declined and hence growth forecasts for India too declined. Decline in growth forecast for India is not entirely due to a fall in external demand but also due to tighter financial conditions as the West has raised interest rates quite a bit this year. This has affected investment flows into India and hence there are less opportunities for investments and growth in India than what we were projecting earlier.

Q&A

NADA CHOUEIRI

India Mission Chief, IMF

The IMF had a higher growth projection for India at 7.4 per cent than the MPC 7.2 per cent for 2022-23 in its July publication. However, now it is lower than MPC's projection. Any take on this divergence in the sense that you were more optimistic than MPC earlier and are more pessimistic than MPC now?
Every forecasting agency has its own models and assumptions about global and domestic environments. We have seen that the global environment has deteriorated quite significantly compared to what we were expecting when we did forecasting in July. As I said above, tighter global financial conditions, weaker external demand and weakening growth in China have led us to our views about India.

> DECLINE IN GROWTH FORECAST FOR INDIA IS NOT ENTIRELY DUE TO FALL IN EXTERNAL DEMAND BUT ALSO DUE TO TIGHTER FINANCIAL CONDITIONS AS THE WEST HAS RAISED INTEREST RATES QUITE A BIT THIS YEAR

With the WEO saying that more than a third of the global economy will contract in 2023, while the three largest economies — the United States, the European Union, and China — will continue to stall, how do you view 6.8 per cent growth rate for India in 2022-23?
Today, India is the relative bright spot in the world. Last year, India grew by 8.7 per cent which was also a bit over pre-pandemic growth rate. This year 6.8 per cent is a good growth rate compared to other emerging markets. Average economic growth projections for emerging market and developing economies put by the IMF is about 3.7 per cent. So, 6.8 per cent is really a good number for India.

The IMF expects average retail price inflation in India at 6.9 per cent for 2022-23. Average inflation stands at 7.16 in the first six months of the current financial year. This means that you don't expect inflation to come down below RBI's tolerance level of six per cent in the next six months. Your take?
India has seen a lot of pressures on prices particularly food prices. Inflation in food and beverages increased significantly in September. Food and beverage constitute around half of the consumption baskets in the index. If you consider half of it, which is 25 per cent of the total index, prices for these 25 per cent have risen over six per cent on average so far this year. If you look at non-food and beverage, we have another 25 per cent of the basket whose prices are increasing above six per cent. So we see significant momentum in prices and we don't see inflation coming down below six per cent in the current financial year. However, we expect it to come down below six per cent in the next financial year.

In this respect, the IMF sounds more pessimistic than the RBI's monetary policy committee, doesn't it?
As I said our views are determined by what we see as the momentum in prices in the markets today and what we expect in the next few months. We see that the momentum remains high. These will start coming down below the upper level of RBI's tolerance band in the next year.

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