Experts See No Big Impact of Rupee Fall on Inflation

Economists expect retail inflation to rise closer to 6% in next couple of months

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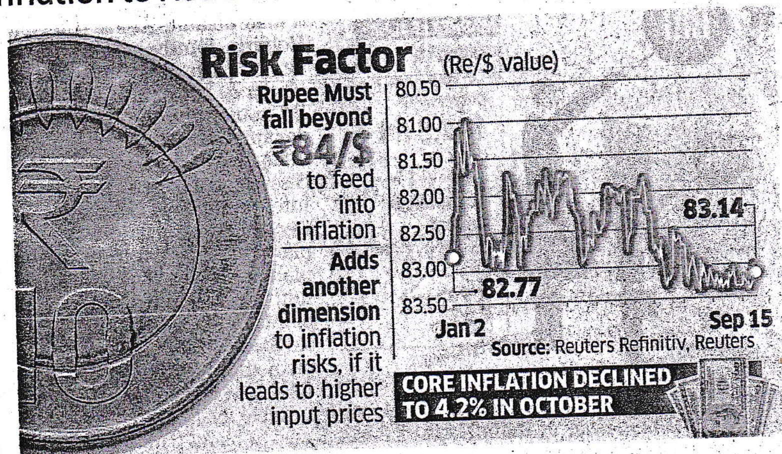

New Delhi: The latest depreciation of the Indian rupee is unlikely to impact inflation significantly unless it falls further beyond the ₹84 to a dollar level, economists said.

"As per RBI estimates, a 5% depreciation in rupee can increase headline inflation by 35 bps. Hence, it would require a significant movement in INR for it to have an impact on inflation," said Gaura Sengupta, economist, IDFC First Bank.

India's inflation fell below the 5% mark for the first time in four months in October, data released earlier this week showed. But it is likely to climb back again if onion prices remain high. Food inflation has remained over the 6% level.

Core inflation declined to 4.2% in October.

However, economists contend that the rupee depreciation does add another dimension to price pressures, with risks from commodity prices rising due to geopolitical tensions and uneven monsoon.

"If rupee depreciates further, then it is likely to put pressure on input prices," said Sunil Kumar Sinha, principal economist, Ind-Ra. He added that input price pressures due to higher commodity prices led to inflation rising to high levels during 2021-22 and higher levels of core inflation.

Economists expect retail inflation to rise closer to 6% within the next couple of months. Onion prices had risen to 42% in October, but that was countered by a 43.9% decline in tomato prices relative to the previous year and a 17.7% decline in potato prices.

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Though the rupee has lost 0.2% against the dollar since the start of the year, further weakness could cause concern. Madan Sabnavis, chief economist, Bank of Baroda, points out that besides the magnitude of depreciation, what also matters is the permanency of depreciation.

"Rupee depreciation leads to higher cost of forex which in turn pushes up the price of imports. Given that imports are valued at around 20% of GDP, the direct impact of depreciation will inflate this ratio. It all depends on how much is the depreciation over a long period of time," he said.

Sabnavis underlined that depreciation does not fully pass through to consumer prices as well.

"Very broadly speaking, one can say that the impact of 1% depreciation on a permanent basis will push up prices by 0.2% based on import ratio as nearly 20% of the components of GDP will move up. However, it is not always that the costs are passed on fully, and hence there will be only partial impact," he noted.

However, economists do not see the rupee depreciating further. "Given adequate FX reserves and FY24 current account deficit remaining moderate at 1.9% of GDP, we don't expect the USDINR to cross the 84 mark," IDFC First Bank's Sengupta said.