

## 'STATE OF THE ECONOMY'

# 'Every silver lining has a cloud': RBI report as rise in veg prices halts disinflation

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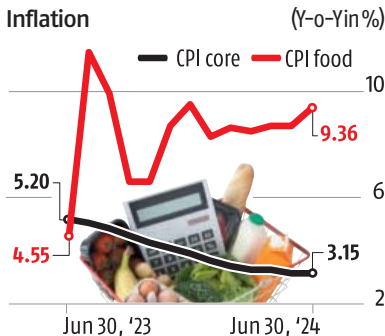
The sharp rise in vegetable prices in June has halted the process of disinflation towards the 4 per cent target, noted the Reserve Bank of India's (RBI's) monthly bulletin released on Thursday. The article on "State of the Economy" reiterated that "the fight against inflation is far from over".

The report emphasised that monetary policy should stay the course on aligning inflation to the target. However, this does not mean that inflation needs to hit 4 per cent and stay there before any changes in policy stance are considered. "...instead, based on a careful evaluation of the balance of risks, an enduring movement towards the target should provide signals to forward-looking monetary policy to respond," it further said.

Alluding to the bright growth prospects amid rising food prices, the report said: "Every silver lining has a cloud".

"Data for June 2024 showed that consumer price inflation ticked up after three consecutive months of moderation as a broad flare-up in vegetables prices halted the overall disinflation that had been underway," stated the report, which has been authored by RBI staffers,

## STICKY ISSUE



Sources: Bloomberg, Mospi  
Compiled by BS Research Bureau

including Deputy Governor Micheal Patra. The report does not reflect the view of the central bank, it has clarified

Headline inflation, measured by year-over-year (Y-o-Y) changes in the All-India Consumer Price Index, edged up to 5.1 per cent in June, from 4.8 per cent. Food inflation (Y-o-Y) increased to 8.4 per cent in June, from 7.9 percent in May, as the positive price momentum more than offset a favourable base effect. Core inflation remained unchanged at 3.1 per cent in June.

# Disinflation has been grudging & uneven, says RBI report

“...disinflation has been grudging and uneven and headline inflation remains closer to 5 per cent than to the target of 4 per cent in its latest readings in spite of historically low readings on core inflation and sustained deflation in fuel prices,” the report said.

It said that the argument that food price shocks are transitory does not seem to be borne out by the actual experience over the past year – “too long a period for a shock to be termed as transitory”.

On the dominance of food prices in shaping headline inflation and household expectations, the report warned that accumulating food price pressures threaten the outlook for inflation in the form of spill-overs to wages, rents, and expectations. “The MPC (Monetary Policy Committee) of the RBI has committed to align inflation durably to the target. Till that is achieved, the recent halting declines in inflation readings have to be regarded as work still in progress” said the bulletin.

It further cautioned that in the pursuit of short-run gains of increasing growth, monetary policy could



lose credibility, unhinge inflation expectations, and trigger a surge in inflation.

On the banking sector, the report indicated that the share of low-cost current and savings deposits has largely bottomed out in the 39-40 per cent range, down from about 44 per cent in 2021-22. This decline is likely to “squeeze banks’ net margins going forward” and prompt a “re-pricing of deposit books”. It also noted that banks have increased their mobilisation of funds through certificates of deposits (CDs) in June, ahead of the quarter-end.

