

# RBI report projects retail inflation within tolerance band by Q1FY24

Says persistent high inflation needs policy response

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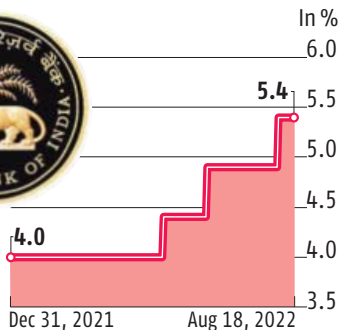
The fall in consumer price index (CPI)-based inflation to 6.7 per cent in July from 7 per cent in the previous month was a “heartening development”, and retail inflation may ease to 5 per cent by the first quarter of the next financial year before hitting the target of 4 per cent, the Reserve Bank of India’s state of the economy report said on Thursday.

The Monetary Policy Committee (MPC) of the RBI has been given the mandate to maintain annual inflation at 4 per cent, with a range of 2 per cent on both sides. CPI inflation had surged to an 8-year high of 7.79 per cent in April.

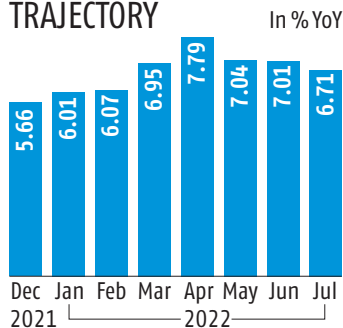
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## KEY INDICATORS

### REPO RATE TREND



### RETAIL INFLATION TRAJECTORY



Sources: Bloomberg, RBI, MoSPI

**BIG-BANG APPROACH OF PSBS' PRIVATISATION MAY DO MORE HARM**



**FOREX INTERVENTION AIMS MET WITH LOWER FALL IN RESERVES**

# RBI report...

“Perhaps the most heartening development in recent times has been the easing of inflation in July 2022 by 30 basis points from June 2022, and an appreciable 60 basis points from the average of 7.3 per cent for Q1:2022-23,” the report said. “This has validated our hypothesis that inflation peaked in April 2022,” it added.

The state of the economy report is authored by RBI staff, including Deputy Governor M D Patra. The report does not necessarily reflect the views of the RBI, it said.

The report observed that the easing of supply chain pressures and the recent ebbing of commodity prices are providing some breather from record high inflation. “...supply conditions are improving, with the recent monsoon pick-up, strong momentum in manufacturing, and a rebound in services. The onset of the festival season should boost consumer demand, including rural, also as sowing activity picks up,” it said. The RBI has to write a letter to the government if average inflation stays outside the 2-6 per cent band for three consecutive quarters, as that is considered a failure of the MPC. CPI inflation, the main yardstick of monetary policy making, has stayed above 6 per cent since January this year. As the inflation trajectory has been largely in line with projections, the RBI expects the momentum to ease from 3.0 per cent in Q1 to 1.7 per cent in Q2 and further to 1.3 per cent in Q3 and turn mildly negative in Q4 before picking up modestly and on seasonal food price effects to 2.2 per cent in the first quarter of the next financial year.

“Fortuitously, base effects

are favourable all through. If these expectations hold, inflation will fall from 7 to 5 per cent in Q1 next financial year - within the tolerance band, hovering closer to the target, but not yet positioned for landing. This is a decisive point in its trajectory,” the report said. While noting the falling inflation trajectory, the report cautioned that its persistence at elevated levels warrants appropriate policy responses to anchor expectations going forward.

Since May this year, the MPC has increased the policy repo rate by 140 bps to 5.4 per cent to address inflation concerns. The report noted that high-frequency food price data for August so far (August 1-12) from the Department of Consumer Affairs point to an increase in prices of cereals, primarily on account of a surge in wheat prices. Pulses prices have registered a broad-based increase while edible oil prices are on a decline.

Apart from increasing interest rates, the central bank has also taken steps to tighten liquidity conditions. As a result, daily average absorption under the liquidity adjustment facility (LAF) moderated to ₹2.7 trillion during July 16-August 15, from ₹4.0 trillion during June 8-July 15. “The forex operations, which mopped up rupee liquidity, also contributed to tightening of liquidity conditions,” it said.

## Firm mergers...

The Competition Bill has proposed a minimum threshold “transaction value” of ₹2,000 crore for any deal as a criterion for notification to the anti-trust regulator if the entity being acquired has substantial operations in India.

The jurisdiction of the CCI