

Unchecked inflation can hurt real economy prospects: RBI report

Early signs of spillover from high food prices; pvt consumption back

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Following retail inflation spike in October, the Reserve Bank of India's (RBI's) state of the economy report warned that rising prices, if unchecked, would undermine prospects of the real economy while cautioning on the spillover effect of rising food prices on headline and said uptick in core inflation is a 'worry'.

The RBI Bulletin for November sounded optimistic on growth and said private consumption was back to being the driver of domestic demand and promising rabi crop prospects augured well for farm income and rural demand.

The October inflation figure — at 6.21 per cent — remained above the RBI's tolerance zone. Termed a "sticker shock" by the report, it reinforced the central bank's warnings against complacency following sub-target inflation outcomes in July and August.

"What is worrying is that apart from the sharp surge in the momentum of food prices, core inflation has edged up," the report, authored by RBI staffers, including Deputy Governor Michael Debabrata Patra, said. Turn to Page 6 ▶

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WARNING SIGNS

- Uptick in core inflation worrying
- Stress faced by private banks in retail loans like credit cards
- Need to carefully watch hardening of input costs across goods and services
- Inflation biting into urban consumption demand, corporate earnings

COMFORT FACTORS

- Jul-Sep period slack behind
- Festival spending boosted real activity in Q3
- Bright outlook for India's exports
- Footfalls in malls may be low but e-commerce is burgeoning

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RBI net bought \$8.5bn in H1FY25

The Reserve Bank of India (RBI) was a net buyer of dollars in the first half of the current financial year (April–September) with \$8.52 billion purchased during the period. In the first half of the previous financial year, the central bank had bought a net \$17.68 billion worth of the foreign currency. In the current calendar year up to September, RBI had bought a net \$32.27 billion.

▶ NO EVIDENCE OF EXCHANGE POLICY HURTING EXPORTS: RBI

Outlook for India's exports is improving: RBI report

"There are early signs of second-order effects or spillovers of high primary food prices — following the surge in prices of edible oils, inflation in respect of processed food prices is starting to see an uptick," the report said.

Views expressed in this article are those of the authors and do not represent the views of RBI, it was clarified.

With spillover effects taking shape, the report said there was the need to carefully monitor the hardening of input costs across goods and services and their impact on selling prices.

"Inflation is already biting into urban consumption demand and corporates' earnings and capex. If allowed to run unchecked, it can undermine the prospects of the real economy, especially industry and exports," the report cautioned.

On growth, it said the slack in the July-September period is now behind, and private consumption is back to being the driver of domestic demand, albeit with mixed fortunes.

Observing that festival spending has boosted real activity in the third quarter, the report said rural India was emerging as a goldmine for e-commerce companies in this festival season.

"...this is expected to gather further momentum with the sharp increase

in kharif output and optimism around rabi production emboldening a record foodgrains target for 2024-25," it said.

The report said the outlook for India's exports is improving, with the country gaining share in global trade for key manufacturing items.

India currently holds 13 per cent, or a sixth, of the global market share in petroleum products, and is the largest exporter of precious and semi-precious stones, the third-largest exporter of insecticides, the eighth-largest in rubber pneumatic tyres, and ninth in semiconductors, the report pointed out.

Commenting on the banking sector, the report highlighted stress faced by private banks in retail loans like credit cards. "Several private banks are reported to be experiencing stress in small-ticket advances, credit cards, and personal loans, with a rise in over-leveraged clients as well as in provisioning," it said.

At the same time, banks have increased credit to industry — across small, medium, and large enterprises — reflecting buoyant growth momentum in the Indian industry.

"Overall, a better balance is emerging between deposit and credit growth, with the incremental credit-deposit ratio falling to more normal levels from stratospheric heights earlier," it said.

