

Extreme weather, crude pose inflation risk

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Mumbai, 23 April

Retail inflation — the main yardstick for the central bank's policymaking — is 'finally' in sight of hitting the 4 per cent target, but extreme weather events, along with a spike in international crude oil prices due to geopolitical uncertainties, pose an inflation risk, the Reserve Bank of India's (RBI's) State of the Economy report said.

The report, authored by RBI staffers including Deputy Governor Michael Patra, says that the country

must grow by 8-10 per cent for the next three decades to reap the advantage of demographic dividends, which will last until 2055.

It has been clarified that the views expressed in the report are those of the authors and do not represent the views of the RBI.

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er reading — usually seen ahead of big events such as election results, or the Union Budget — is indicative of uncertainty among market players.

“Vix depicts volatility expectation for next 30 days. The lower the Vix, the more confident traders are about the upswing,” said Anand James, chief market strategist, Geojit Financial Services.

RBI report...

After failing in its mandate to maintain Consumer Price Index (CPI)-based inflation in the 4-6 per cent range for three successive quarters in 2022, the Indian central bank is refusing to drop its guard on price rise even though the repo rate has not been hiked since April 2023.

Observing that the softening of headline CPI inflation since January is providing tailwinds to growth impulses, inflation has gravitated towards 4.9 per cent in March after averaging 5.1 per cent in the preceding two months following the recent peak at 5.7 per cent in December 2023. “This trajectory was along anticipated lines,

with fourth quarter of 2023-24 inflation outcome of 5 per cent in alignment with projections,” the report said.

RBI has projected headline inflation for the current financial year (2024-25) at 4.5 per cent. “With 4 per cent inflation finally being sighted, there is greater confidence now that the descent of inflation to the target is imminent,” the report said.

The report noted that with alignment with the inflation target gradually occurring, incoming data will provide greater clarity and confidence on the disinflation path.

The report reiterated concerns over food inflation, which, despite some signs of moderation, remains elevated and a potential source of risk to the disinflation trajectory.

“In the near term, extreme weather events may pose a risk to inflation along with prolonged geopolitical tensions that could keep crude prices volatile,” the report said. Brent prices hit \$90 per barrel earlier this month following a rise in geopolitical conflicts in West Asia before cooling down.

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