Summer sowing may ease inflation: FinMin

Says CAD needs to be watched in FY25

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The finance ministry expects a broad-based moderation in inflationary pressures on the back of an anticipated reduction in food prices as a result of the uptick in summer sowing. The retail inflation rate remained stubbornly clung to the 5 per cent mark in seven of the past eight months.

"Core inflation is trending downwards, indicating a broad-based moderation in price pressures... Driven by strong domestic growth and benign global commodity prices, core inflation is declining continuously. Timely and multi-frontal supply-side measures by the government have also helped the cause of price stability," the finance ministry said in its monthly economic report for February. The report was released on Friday.

These comments from the finance ministry precede the Reserve Bank of India's monetary policy committee (MPC) meeting, scheduled for April 3-5.

In February, high food prices kept the retail inflation rate at 5.09 per cent. A rise in the food inflation rate nullified the moderation in the core inflation rate, which excludes food and oil prices.

Earlier this week, the RBI's State of the Economy report cautioned that the recurring incidence of short-amplitude food price pressures is impeding a more rapid decline in headline inflation towards the 4 per cent target. It added that the monetary policy must remain in a risk-minimising mode.

The finance ministry report also highlighted that a narrowing merchandise trade deficit, coupled with rising net services receipts, is expected to improve the current account deficit (CAD). However, the CAD needs to be monitored in FY25.

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WHAT'S IN THE REPORT

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- Narrowing merchandise trade deficit, coupled with rising net services receipts, is likely to result in CAD improvement
- Backed by strong domestic growth and benign global commodity prices, core inflation is declining
- Increase in domestic household savings is necessary to finance private sector capital formation
- Bright outlook for FY25 despite headwinds like hardening crude oil prices and global supply chain bottlenecks
- Burgeoning air passenger traffic and sale of PVs, digital payments, improved consumer confidence show that private consumption demand has strengthened

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FOREX RESERVES, RUPEE SIT ON OPPOSITE POLES

The rupee on Friday hit a fresh closing low 83.43, after depreciating 0.3 per cent versus the dollar due to importers' demand for the greenback. Foreign exchange reserves, on the other hand, rose to a record high of $642.49 billion in the week ended March 15.

Inflation

The report noted that improving global investor confidence in India has started to reflect in foreign portfolio investment flows, but an increase in domestic household savings will be necessary to finance private sector capital formation in the economy. "The announcement by Bloomberg that India would be included in its bond index from January 2025 should bolster inflows, buoyed by the fiscal prudence that the government has demonstrated over the years. Bond investors will base their investment decisions on their perception of its persistence. On the whole, India looks positively towards the dawn of FY25," it further said.

The household savings rate had plummeted to a near five-decade low of 5.1 per cent in 2022-23 from 11.5 per cent in 2020-21, raising concerns about rising household indebtedness.

Despite headwinds like hardening crude oil prices and global supply chain bottlenecks to trade, the report said India is looking forward to a bright outlook for FY25. It suggested that strong growth, stable inflation, a balanced external account, and a progressive employment outlook would help the Indian economy close the current financial year on a positive note.

The monthly report noted that burgeoning air passenger traffic, increased sales of passenger vehicles, digital payments, and improved consumer confidence show that private consumption demand has strengthened. "India's strong economic performance, borne out by recent data releases, stands out amidst the sluggish global growth," the report said.

It also noted that the increased demand for residential properties in tier-2 and tier-3 cities augurs well for furthering construction activity.

On the employment front, the report highlighted the latest results of the Periodic Labour Force Survey, which indicated a decline in the unemployment rate and an increase in labour force participation in 2023.