

# THE ECONOMIC TIMES

## RBI fails to bring inflation to mandated band as CPI quickens to 7.4% in September

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India's retail inflation surged to 7.4 percent in September, logging the third straight quarter where the average print stayed above the Reserve Bank of India's tolerance ceiling of 6 percent and it breached the medium-term target of 4 percent for three years.

largest economy quickened on pressure from high food prices, which on the other hand rose due to 18% increase in vegetable prices.

Food Price Index stood at 8.6%. Cereal inflation spiked 11.53% in September.

"The recent rise in food inflation is exacerbated by seasonal phenomenon and the fresh arrival of Kharif output would provide some comfort on that front. RBI would be concerned about high food inflation and its adverse impact on inflationary expectations," said Rajani Sinha, chief economist at CareEdge Ratings.

Sinha said high core inflation is another cause of concern as it has surged further to 6.2% in September.

A Reuters poll had pegged the retail inflation at 7.3% in September due to surging food prices.

With the latest print well above the 6 per cent mark for the ninth consecutive month, the RBI will have to explain to the government the reasons for the failure to bring it within the 2-6% mandate and the remedial measures to fix it.

In the latest policy meeting last month, the RBI today left its inflation forecast for the country unchanged at 6.7% for this fiscal year, as it flagged persisting pains from food price pressures and amid global risks to costlier imports.

Higher inflation has been a concern for central banks across the globe, including India, as the uncertain nature of the Russia-Ukraine war compounded supply side disruptions.

After two shocks of coronavirus pandemic and the conflict in Ukraine, now we are in the midst of another shock, a storm, arising from aggressive monetary policies by the global central banks, RBI Governor Shaktikanta Das said last month.

In recent months, India has taken several supply-side measures including slashing import taxes on some key raw materials and also lowered excise duty on gasoline and diesel to arrest surging prices. However, the galloping inflation rate has forced India's Monetary Policy Committee to continuously raise policy rate since May.

Sakshi Gupta, principal economist at HDFC Bank, said, they expect the RBI to raise the policy rates by 35 bps at its next policy meeting in December as inflation risks continue to linger on and 25 bps rate hike in Feb 2023 policy, taking the terminal rate to 6.5% by the end of this fiscal year.

Industrial production shrank 0.8 per cent in August, as per the Index of Industrial Production (IIP) data released by the National Statistical Office (NSO).

The IIP had risen 13 per cent in August 2021.

Manufacturing sector's output fell 0.7 per cent in August 2022. Mining contracted 3.9 per cent, while power generation rose 1.4 per cent during during the month.