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News (Https://Www.Businessinsider.In/Finance/News) » Retail Inflation Could Soften By 50-60 Basis Points On Government Interventions: CARE

# Retail inflation could soften by 50-60 basis points on government interventions: CARE


KATYA NAIDU (/AUTHOR\_ARTICLES\_ALL.CMS?QUERY=%22KATYA NAIDU%22&AUTHOR=KATYA NAIDU&PAGE=1) | MAY 26, 2022, 17:38 IST



 Retail inflation could soften by 50-60 basis points on government interventions:...

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- **Consumer price inflation or retail inflation could cool down by 50-60 basis points, predicts CARE ratings.**
- **Monetary tightening across the globe could lead to more foreign investor outflows and impact Indian exports due to global growth.**
- **Dollar strengthening and weakening of other emerging basket currencies add to the weakening pressure on the rupee.**

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The many interventions that the Indian government (https://www.businessinsider.in/india/news/five-things-the-government-has-done-to-soften-the-burden-of-inflation-2022-03-17-9178832.cms) has used in the last

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(https://www.businessinsider.com/price-inflation-or-retail-inflation-by-50-60-basis-points-predicts-CARE-Ratings)

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But taking the pressure off Indian households will come at a cost to the government. Its subsidy bills – due to the additional fertilizer subsidy and LPG cylinder subsidy, coupled with lower revenue earnings due to duty cuts on petrol and diesel – will stress its finances, the agency said.

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Apart from direct actions like duty cuts and subsidy, the government also banned wheat exports (https://www.businessinsider.in/international/news/not-just-india-many-countries-are-protecting-their-wheat-to-keep-daily-bread-affordable/articleshow/91733019.cms), curbed sugar exports (https://www.businessinsider.in/stock-market/news/shree-renuka-balrampur-chini-dalmia-sugar-shares-plunge-on-export-curb-reports/articleshow/91766919.cms), waived import duty on raw materials for steel (https://www.businessinsider.in/stock-market/news/heres-why-all-steel-stocks-like-tata-steel-sail-jindal-jsw-down-today/articleshow/91735433.cms) — all to ensure that inflation cools down from its eight year high in April.

“The budgeted target of fiscal deficit to GDP is likely to be met given the support from higher tax revenue collection and nominal GDP growth,” CARE said. As per SBI Ecowrap estimates (https://www.businessinsider.in/policy/economy/news/heatwave-and-high-commodity-prices-drag-down-march-quarter-and-fy22-gdp-estimates/articleshow/91811628.cms), another ratings agency, the GDP for the January to March quarter could grow sluggishly at 2.7%. This is half of what it was in the quarter ending December.

Moody’s too revised its India’s annual GDP growth for 2022 to 8.8% from its former estimate of 9.1%. Heatwave and high commodity prices thanks to the Russia-Ukraine war played spoilsport to an economy that was slowly recovering from the after-effects of Covid-19.

### More FII outflows in the offing

Monetary tightening across the globe could lead to more FII outflows (https://www.businessinsider.in/stock-market/news/foreign-investors-have-pulled-out-more-money-this-year-than-they-brought-in-between-2009-2021/articleshow/91747269.cms) and impact Indian exports due to global growth.

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Rupee [rs] under pressure in response to widening current account deficit and FII outflows. Dollar strengthening and weakening of other emerging basket currencies add to the weakening pressure on the rupee. We expect USD/INR to move in the range of 77-80 in the first half of FY23,” CARE said.

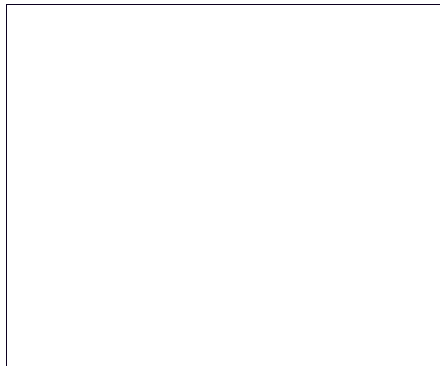
### Consumer sentiments are likely to be further hit by rising inflation

Apart from clothing, fuel and light segments, food was the major driver in April contributing 47% to the overall inflation (https://www.businessinsider.in/finance/news/wholesale-inflation-in-india-is-now-near-the-same-level-as-it-was-during-the-1991-economic-crisis/articleshow/90930779.cms). Cooking oil, wheat and vegetable prices soared high in the month due to various factors ranging from war to heatwave.

The vegetable prices have also started to harden (https://www.businessinsider.in/india/news/tomatoes-brinjal-and-green-vegetable-prices-soar-and-will-keep-going-up-due-to-rains/articleshow/91802500.cms) in anticipation of monsoons which have already started in states like Kerala and Karnataka. The consumer demand for both durables and non-durables fell into the negative trajectory, due to rising prices.

“Poor performance in IIP consumer goods signals weakness in consumption demand. Consumer sentiments are likely to be further hit by rising inflation. Uptick in rural inflation likely to dampen the fragile rural demand recovery,” CARE said. The rural inflation which has a higher basket of food prices in it, grew at 8.4% as compared to urban inflation which is at 7.1% for the month of April.

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