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‘GLOBAL INFLATION TO SWAY INDIA TRAJECTORY’

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

The union government may be expecting the rate of inflation to decline in FY23, but global factors like energy prices would influence its trajectory in India, the finance ministry suggested in its latest monthly economic review report.

The report said the monetary policy committee’s (MPC) decision to keep interest rates unchanged in its latest policy meet, prioritizes growth during uncertain times and reinforces the investment orientation of the budget.

“Global inflation and energy prices are likely to be influential in determining India’s rate of inflation and the government expects it to decline to eventually obtain a GDP deflator of 3.0-3.5 per cent assumed in the Budget 2022-13," the MER said in a report. With that, the government has estimated a nominal GDP of 11.1% for FY23 in the Union budget, which translated into a real GDP growth rate ranging between 7.6% and 8.1%. GDP deflator is a measure of inflation and is the difference between nominal GDP and real GDP.

“Should retail inflation remain range-bound at 4.5% as projected by the MPC in 2022-23, liquidity levels in the economy will remain high and interface with low interest rates to provide easier financing options to industry and individuals," the report added.

US Fed Reserve is expected to hike interest rates with the world’s largest economy experiencing inflation at a near four-decade high. Meanwhile, oil prices have touched $94 per barrel on the back of rising geopolitical tensions surrounding Russia-Ukraine.

CPI inflation accelerated to a 7-month high in January, breaching the reserve bank of India’s tolerance bank of 6%. The MER report pointed that that going forward, easing vegetable prices on account of fresh winter crop, and better prospects for food grain production were contributing to an optimistic view on inflation. “However, given that the categories bearing the brunt of imported inflation are edible oils and crude oil, it will be important to monitor the multi-round effects such imported inflation may have on the value chain, as also the transmission of input cost pressures to final selling prices, which is currently weak as is evident from the large gap between WPI and CPI inflation," said the report.

The February MPC meeting retained the CPI inflation projection for 2021-22 at 5.3% and for 2022-23 at 4.5%.

The finance ministry noted that the current year may as well end with an economic reset manifest of a post-COVID-19 world. It pointed out that private consumption will grow cautiously as precautionary demand for money will rise at every hint of a new infection. “Private investment, helped by the complementary support of public investment in infrastructure, will continue to gain traction from the ethos of Atmanirbhar Bharat," said the report.

Rising consumption levels consequent to employment generation following the government's capex will also induce private investment, it pointed out.

As the Budget allocated 24.51% less to the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the report pointed out that an additional security of MGNREGS for the rural workforce will always be in a ready state of deployment as was the case in the last two years.

As India is experiencing the subsiding of the third wave induced by the Omicron variant of COVID-19, the finance ministry said that it has been the least fatal, with the impact of the third wave on economic activity “much weaker than the previous two waves." High-frequency indicators show that India’s economy is well on its way to growing at above 9% as projected in the country’s advance estimates for the current year.

“The impact of the third wave on economic activity appears to be much less, even compared to the muted impact of the second wave," it said.

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