

SPECTRE OF STAGFLATION: THE HINDU EDITORIAL ON THE WORRYING OVERALL MACROECONOMIC OUTLOOK

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The latest global financial developments and recent economic data in India are together raising fears that several major economies worldwide, including India's, may be headed for a spell of debilitating stagflation. Last week's retail inflation reading for February from India's NSO, at 6.44%, clearly belies the RBI's most recent forecast for Q4 inflation of 5.7%. With January having logged CPI-based price gains of 6.52%, prices will have to soften so sharply in March as to drag the headline number down by more than 230 basis points to about 4.1% for the RBI's projection to come true. A look at the components driving inflation shows that core inflation, which strips out the impact of food and fuel prices, still remains stuck at 6.2% for a third straight month, and continues to hover almost at or above the 6% level since May 2021. That core inflation remains persistently elevated despite the RBI having raised its benchmark interest rate by 250 basis points since last May reveals the difficulty monetary authorities are facing in tamping down on price gains by increasing credit costs so as to dampen demand. Governor Shaktikanta Das and the RBI's two other members on the Monetary Policy Committee all cited the worrying persistence of core inflation at their last policy meeting in February as justification for deciding to continue tightening monetary policy.

Queering the pitch further is price gains across the food basket too showing disconcerting trends despite a marginal deceleration of five basis points last month in the composite food price index. Prices of four key categories in the food basket that together account for more than a fifth of the Consumer Price Index continued to register significantly high year-on-year inflation, as well as sequential hardening. If the key staple of cereals and products saw inflation accelerate to 16.7% in February, the headline reading for milk and products quickened to 9.65%, that for fruits surged to 6.38% (from January's 2.93%), with only the reading for spices slowing a tad to 20.2% (from 21.1%). With the prediction of a likely El Niño this year, the outlook for food prices is hardly reassuring. While policymakers will, therefore, need to stay focused on containing inflation, the rising uncertainty about the growth momentum sustaining in the face of the heightened risks of a recession in advanced economies raises the risk that higher credit costs may further dampen consumption. Yet, failure to engender enduring price stability could lead to stagflation. Unless supply side measures such as GST rationalisation and fuel price cuts are expedited, the overall macroeconomic outlook appears worrying.

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