

FULL CIRCLE: THE HINDU EDITORIAL ON CUTTING FUEL TAXES

Relevant for: Indian Economy | Topic: Infrastructure: Energy incl. Renewable & Non-renewable

As the ruling Bharatiya Janata Party marks the eighth anniversary of Prime Minister Narendra Modi's government, [retail inflation has accelerated close to the 8.3%](#) level last seen in May 2014, when Mr. Modi assumed office in the last week of the month. For a government that prided itself on its inflation taming successes in the first five years, a combination of factors including the COVID-19 pandemic, high crude oil prices and now the war in Ukraine have created a perfect storm that sent the Consumer Price Index (CPI)-based inflation racing to a 95-month high of 7.79% in April. Food and fuel were the biggest culprits fanning last month's furious pace of price gains that seem unabating. Food inflation as measured by the Consumer Food Price Index (CFPI) quickened to a 17-month high of 8.38% last month, with rural consumers experiencing it at 8.5%, a pace that was 41 basis points faster than that experienced by their urban counterparts. Ten of the 12 items in the food and beverages basket of the overall CPI registered sequential acceleration as well. Of concern are the prices of cereals and products, which constitute almost a tenth of the CPI and account for the key staples of wheat and rice that are essential for ensuring food security. Inflation in cereals accelerated by more than 100 basis points to 5.96% last month.

With both output and government procurement of wheat set to be lower than estimated earlier and exporters seeking to corner a greater share of the crop to tap the recent surge in global demand for the grain, domestic prices have already hardened and could pose a challenge to household budgets in the coming months. Edible oil is another constituent of the food basket meriting close monitoring on the prices front. While inflation in the price of the cooking medium slowed by 151 basis points from March, the pace was still a dizzying 17.28%, with the sequential rate also a sizeable 2.52%. With the war in Ukraine having shut the tap on sunflower oil supplies from the largest global source of the commodity, unless Indonesia rescinds its ban on palm oil exports in the near future, the immediate outlook for edible oil prices is far from reassuring. Ultimately though, with inflation now having turned far more broad-based and logging a strident pace in excess of 8% for four of the six sub-groups in the CPI, policymakers have their task cut out. While the RBI must continue to tighten monetary policy in order to protect the vast majority who have no hedge against inflation, the pass-through of high oil costs, reflected in double-digit price gains in the transport and fuel and light categories, leaves the Government with little option but to cut fuel taxes if it is serious about taming inflation so as to ensure overall macroeconomic stability.

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