

Press Release

CPI inflation set to inch up to the 4%-6% band in H2 FY20

Repo rate unlikely to move much below 5.0% over the next few quarters

Acuité believes that the emerging risks of higher inflation over the next few quarters may constrain any major reduction in interest rates beyond the current levels. While RBI has slashed the benchmark repo rates by 135 bps since February 2019, it may be difficult to continue the highly accommodative stance beyond the third quarter of the current year given the upward risks to both inflation and fiscal deficit. Acuité expects the CPI growth rate to be higher in H2 FY20 albeit within the band of 4%-6%.

The consumer inflation rate (CPI) for September 2019 has increased sharply by 71 bps to 4.0%. Such a sharp increase in the overall inflation levels is a consequence of perceptible increases in prices of food articles with food inflation having increased to 5.1% in September 2019 as compared to 3.0% in the previous year. It is largely a result of rising prices of vegetable (15.0%) and protein based items such as meat and fish (10.3%). While a spurt in some of these items may be primarily due to excessive rainfall in some parts of India and the short term supply disruptions thereof, Acuité is of the opinion that non-core inflation (food and fuel) is moving in a cyclical trend and is expected to accelerate in H2 FY20. Although the overall agricultural production in the completed kharif season may be slightly higher than the previous year, there is a risk of a moderate shortfall in food grain output due to late sowing and incidence of floods in some of the high acreage areas. Despite the deflation in fuel prices in September (-2.8%), the risks of a surge in the fuel price index also remain given the geo-political risks in the Middle East.

The core inflation for September has remained steady at 4.5% despite the sharp slowdown in growth. The monetary and the fiscal measures taken by RBI and the government is expected to give fillip to the private consumption in the coming months, putting upward pressure on the core inflation figures. Therefore, Acuité expects the CPI to inch well above 4.0% in H2 of current fiscal year. This is based on our view that despite inadequate monetary transmission for the 135 bps rate cut in this year, inflation has already reached the 4.0% mark. Once the core inflation starts its upward trajectory to 5.0%, the overall inflation is likely to reach the upper limit of the 6.0% level.

Acuité Ratings & Research Limited

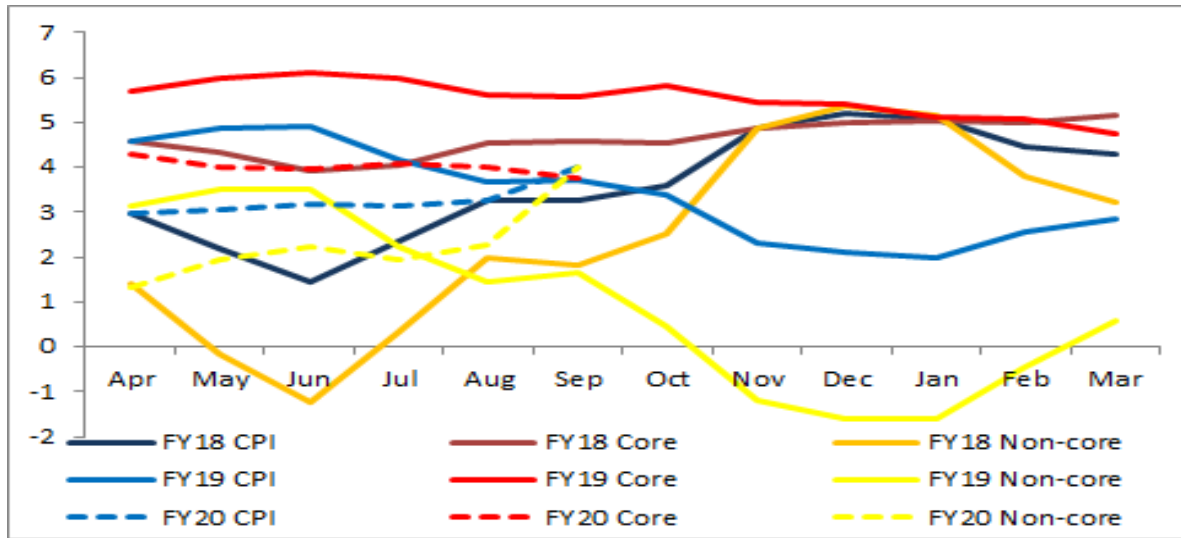
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Chart 1: Category wise inflation movements during this financial year



Source: MOSPI

About Acuité Ratings & Research Limited:

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