



Follow Us:

[Home](#) [Explained](#) [Political Pulse](#) [India](#) [Tech](#) [Cities](#) [Opinion](#) **The Indian EXPRESS**
Entertainment Education Premium Sports

Tuesday, May 31, 2022

Hot Offer

[Sign in](#)[Home](#) / [Opinion](#) / [Columns](#) / Tackling the inflation hydra

Tackling the inflation hydra

Dharmakirti Joshi, Pankhuri Tandon write: There is little that the RBI can do in the near term.

Written by [Dharmakirti Joshi](#), [Pankhuri Tandon](#) |

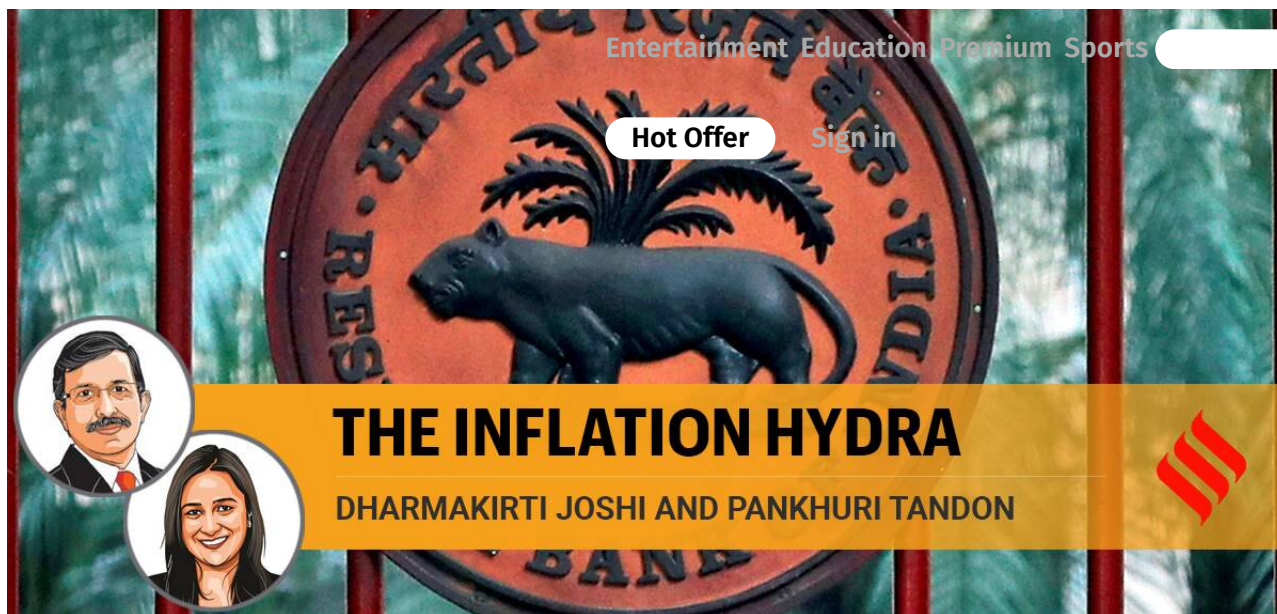
Updated: April 28, 2022 8:52:34 am



Entertainment Education Premium Sports

Hot Offer

Sign in



In two months (between February and April), the RBI has sharply revised upwards its CPI-based inflation forecast to 5.7 per cent from 4.5 per cent for this fiscal. (Reuters Photo/File)

After the rampaging virus, flaming prices are the new global scourge. Systemically important central banks that viewed the consistent uptick in [inflation](#) as transitory — caused by post-pandemic supply shocks — are now finding it hard to bottle the genie. Expectations that commodity and oil prices would cool down in 2022 as the pandemic ebbed were belied by the Russia-[Ukraine](#) conflict, which exacerbated existing pressures. Fresh lockdowns in China are also extending the pandemic-induced supply-chain bottlenecks.

What central banks like even less is having to deal with rising inflation in times of weak growth. Because the primary tool they have to fight it — the interest rate hike — can be recessionary.

Cut to India, and you can see domestic inflation broad-basing in fiscal 2023. In just two months (between February and April), the Reserve Bank of India (RBI) has sharply revised upwards its consumer price index-based (CPI) inflation forecast to 5.7 per cent from 4.5 per cent for this fiscal.


[Home](#) [Explained](#) [Political Pulse](#) [India](#) [Tech](#) [Cities](#) [Opinion](#)
[Entertainment](#) [Education](#) [Premium](#) [Sports](#)
[Hot Offer](#)
[Sign in](#)

CPI inflation averaged 6.3 per cent in the January-March 2022, above the RBI's target range of 2-6 per cent. The RBI forecasts inflation for April-June at 6.3 per cent. One more quarter over the 6 per cent mark, and the central bank would owe the government an explanation.

BEST OF EXPRESS PREMIUM



Siddaramaiah interview: 'If polls held for local bodies without OBC...



Rajya Sabha Polls: Heartburn in Congress; party straying from Udaipur res...



Explained: Securing your Aadhaar data



Speedy recovery, good take-up across classes: Executive vice president-co...

[More Premium Stories >>](#)

But India's inflation — unlike in advanced countries where sizeable fiscal stimulus also contributed to the heating up of prices — has been largely “imported” via exogenous supply shocks. Pertinently, private consumption demand continues to be the weakest link in gross domestic product (GDP) growth so far. What's noteworthy, though, is that the drivers of inflation are morphing.

In fiscal 2021, inflationary pressures came largely from food and, to some extent, core (which excludes fuel and food). Back then, fuel inflation was quite benign. In fiscal 2022, crude prices hardened to emerge as the new driver. Core inflation

**Opinion | Ishan Bakshi writes: On inflation, RBI has been behind the curve**[Hot Offer](#) [Sign in](#)

What makes this fiscal worrying is, all three are firmly pointing in the same direction — up. Truly, the inflation hydra is on the horizon. A breakdown by each component helps clarify this.

Fuel inflation, in double digits for a year now, shows no signs of easing. Energy prices have risen sharply across the board — from crude oil to coal and natural gas. The cut in excise duties on petrol and diesel in November 2021 is insufficient to bring down fuel inflation, in the event crude prices stay above \$90 per barrel this fiscal. We also expect some delayed pass-through from last fiscal, given that prices of petrol, diesel, liquefied petroleum gas and compressed natural gas were kept unchanged between November and March, despite rising international prices.

Food is the most volatile component and biggest mover of CPI inflation, given that it occupies 39 per cent weight in the average consumption basket. On the positive side, India looks set to enjoy a fourth successive year of normal monsoon and still has good buffer stocks of rice and wheat. But the monsoon is yet to play out and its distribution is always a bit of a wild card. Some other factors that adversely influence output and prices, such as the recent heatwave that is projected to impact wheat yields this year, are creeping up.



What is certain, though, is the rising cost of food production. Prices of fertilisers, pesticides, diesel and animal feed are all surging. This will lead to higher minimum support prices (MSPs) this fiscal since they are pegged on changes in cost of production. MSPs also factor in international price trends.

Prices of wheat and sugar (India's major exports), and vegetable oils (a major import) have skyrocketed post Russia-Ukraine



expected to rise.

Entertainment Education Premium Sports

Finally, core inflation, a barometer of demand, will continue to climb despite an environment of weak demand, thanks to the persistence of supply shocks.

Must Read Opinions

[Murder in Madhya Pradesh: I am Bhanwarlal](#)

[Why Bollywood doesn't win at Cannes](#)

[India needs a forward-looking strategy on Pakistan](#)

[CLICK HERE FOR MORE](#)

For producers, the bump-up in international prices across energy and metal commodities since the war has brought more pain. The average [wholesale price index-linked \(WPI\)](#) inflation last fiscal was at 12.9 per cent — the highest in 30 years and non-food WPI inflation was at 15.7 per cent.

But a weak and uneven demand recovery means producers had limited ability to pass on cost pressures to consumers. Such pass-through has been partial, at best: For most goods, CPI inflation has been much lower than the corresponding WPI last fiscal. The pattern of recovery is also uneven across different segments, with contact-intensive services lagging formal manufacturing, and rural wages slowing in contrast with rising wages in the urban formal sector.

All this is reflected in the pattern of pass-through to consumers. CPI inflation for services at 5.1 per cent in fiscal 2022 has not risen to the same extent as for goods at 6.2 per cent (under core category, excluding petrol and diesel). Within goods, too, greater pass-through is seen in goods consumed by upper income segments, such as passenger cars, paints and packaged food items.

But contact-based services will catch up sooner or later, as restrictions become a thing of the past. Moreover, S&P Global's PMI data shows that input cost pressures



Does India's Govt Benefit From High Inflation? | The Express Econo...
Hot Offer Sign in



The last time we saw such broad-basing of inflationary pressures was after the Global Financial Crisis. India's CPI inflation averaged 9.2 per cent annually between fiscals 2012 and 2014. Food inflation averaged 9.8 per cent and core, 8.6 per cent. In fiscal 2022, these were at 3.8 per cent and 6.0 per cent, respectively. Together, they have 86 per cent weight in the CPI basket. Fuel inflation was slightly lower at 10.9 per cent (fiscals 2012 to 2014) compared with 11.3 per cent (fiscal 2022). The difference this time around is consumer demand, which remains weak and will limit the extent of pass-through.

Forecasting inflation in such uncertain times is fraught with risk. The RBI has predicted ~5.7 per cent consumer inflation this fiscal, while professional forecasters see it at 5.6 per cent. The odds currently favour a higher inflation print, and a rate hike in June.

This column first appeared in the print edition on April 28, 2022 under the title 'The inflation hydra'. The writers are chief economist and economist at CRISIL Limited

[Home](#) [Explained](#) [Political Pulse](#) [India](#) [Tech](#) [Cities](#) [Opinion](#)[Entertainment](#) [Education](#) [Premium](#) [Sports](#)[Hot Offer](#)[Sign in](#)

The Indian Express website has been rated GREEN for its credibility and trustworthiness by Newsguard, a global service that rates news sources for their journalistic standards.

EXPRESS GROUP

[The Indian Express](#)[ieTamil.com](#)[The Financial Express](#)[ieBangla.com](#)[Loksatta](#)[ieMalayalam.com](#)[Jansatta](#)[inUth](#)[The ExpressGroup](#)[MyInsuranceClub](#)[Newsletters](#)[26/11 Stories of Strength](#)[Ramnath Goenka Excellence in Journalism Awards](#)[Online Classes for Kids](#)[Light House Journalism](#)

QUICK LINKS

[T&C](#)[Privacy Policy](#)[Advertise with Us](#)[Brand Solutions](#)[Contact Us](#)[Subscribe](#)[Statutory provisions on reporting \(sexual offenses\)](#)[This website follows the DNPA's code of conduct](#)[CSR](#)