

## CPI inflation stays above RBI tolerance level in February

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India's retail inflation hit its fastest pace in eight months in February, led by higher prices of food and manufactured goods. The price gauge remained over the central bank's 6% upper tolerance band for the second straight month.

Wholesale inflation also quickened in February, staying in double digits for the 11th straight month amid a spike in the prices of energy, metals and chemicals following disruptions in global supplies caused by the Russia-Ukraine conflict.

Economists cautioned that inflation would likely remain elevated in view of the escalating global geopolitical tensions.

The Reserve Bank of India (RBI) is expected to raise its inflation forecast for 2022-23 in its upcoming policy meeting in April from 4.5%.

Inflation based on the Consumer Price Index (CPI) quickened to 6.07% in February from 6.01% in the previous month, data released by the statistics ministry on Monday showed.

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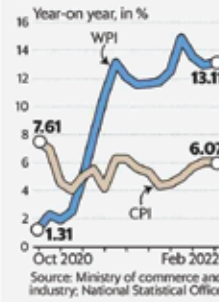
Meanwhile, Wholesale Price Index (WPI)-based inflation accelerated to 13.11% in February from 12.96% in the previous month, data released by the commerce ministry earlier during the day showed.

"The heightened geopolitical risks due to Russia-Ukraine (conflict) have led to a resurgence in energy prices, resulting in cost-push inflation. Against this backdrop, we expect retail inflation to remain close to the upper tolerance band of the Reserve Bank in the near term. A flare-up in crude oil prices is expected to keep energy, logistics and transportation costs high in the foreseeable future. We expect wholesale inflation to remain in double-digits in the near term," said Sunil Kumar Sinha, principal economist, India Ratings and Research.

Food inflation accelerated to a 15-month high of 5.93% in February from 5.58% in January.

### Pricing pressures

Wholesale inflation rose to 13.11%, while retail inflation quickened to 6.07% in Feb.



Prices of food items such as cereals, meats, eggs, vegetables, and pulses rose in February, while those of edible oil, fruits, milk, sugar, confectionery, non-alcoholic beverages and prepared meals declined.

Fuel inflation eased to 8.73% in February from 9.32% in January. Fuel and power inflation under the WPI eased to 31.5% in February from 32.27% in

January.

Brent crude oil prices eased to \$107 per barrel on Monday after touching a 14-year high of \$139.13 per barrel last week over tight global supplies.

Economists expect the impact of the high commodity prices to reflect in the inflation indices in the coming months.

"The transmission of higher commodity prices to the Wholesale Price Index inflation will be relatively rapid. However, in an uncertain demand scenario, output prices that reflect in the Consumer Price Index basket may adjust relatively slowly. Moreover, an eventual cut in the excise duty could absorb a portion of the impact of higher crude on the retail selling prices of petrol and diesel and therefore on the CPI inflation," said Aditi Nayar, chief economist, ICRA Ltd.

Nevertheless, higher edible oil prices will exert pressure on the food inflation in March 2022," Nayar added.

The Reserve Bank-led monetary

policy committee maintained a status quo on interest rates in its policy meeting last month to support growth. However, economists expect the central bank to consider raising rates from the second quarter of the next fiscal given the increasing inflationary pressures.

"The RBI is now faced with Hobson's choice of pushing growth or controlling inflation. Although the escalation in prices is mainly due to the supply disruptions, it will not be long before it can spill

over to the demand side and force the RBI to give up the accommodative stance," said M. Govinda Rao, chief economic adviser at Brickwork Ratings. "We expect the RBI to revise the inflation forecast upwards for the next fiscal from its current estimate of 4.5% and start focusing on inflation from the next meet-

ing of the monetary policy committee," he added.

Core inflation under CPI, which excludes the volatile food and energy categories, inched down marginally to 5.01% in February from 5.96% in January.

Clothing and footwear inflation stood at a 99-month high of 8.86% on the back of elevated cotton prices.

Households goods and services inflation was at a 96-month high in February at 7.22%. "Firms across sectors are increasingly passing on the high input costs into

their output prices to safeguard their margins despite tepid demand. We expect this trend to continue in the near term. Although inflation of both 'transport and communications' and 'fuel and light' declined in February, they continue to be in the high single digits," said Sinha at India Ratings.

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