

# RBI's FY22 inflation projection an underestimate now: Brickwork Ratings

Updated: 18 Jun 2021, 12:34 PM IST



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Mumbai: As consumer price index (CPI) inflation crossed the upper end of the target of 6% in May for the first time in the last five months, RBI's inflation outlook of 5.1% for the current fiscal looks an underestimate, going by the prevailing price conditions, Brickwork Ratings said in a note.

"There is a likelihood of the Q1FY22 inflation breaching the RBI's projections of 5.2% at a substantial gap if the June inflation stays beyond 6%. Moreover, it remains to be seen for how long the MPC will continue with the accommodative monetary policy stance," it said.

According to the report, in the immediate context, the MPC may put the onus of controlling inflation to augment supply-side constraints, but if the situation persists, sooner or later, the MPC will be forced to rethink.

As per the monetary policy framework, the RBI's Monetary Policy Committee (MPC) has to maintain CPI inflation in the 2% to 6% range, with the median target of 4%. On 31 March 2021, the government retained this target for the next five years (April 2021-March 2026), and therefore, keeping the inflation below 6% is crucial for the RBI.

"Meanwhile, in the June MPC meeting, the RBI projected a 5.1% inflation outlook for FY22. Recent data on inflation in both the Wholesale Price Index (WPI) and Consumer Price Index (CPI) points towards a rising trend. WPI inflation in May rose to 12.94% (highest in the series), and CPI inflation surged to 6.3%, the highest since November 2020," it added.

When the second wave adversely impacting the domestic economy, global economy was seen emerging from the pandemic much faster than expected, it said, adding that the recovery created considerable demand for commodities, leading to a broad-based surge in international commodity prices. Rising commodity prices also adversely impacted various commodities imported to India such as crude oil, edible oil and steel, the report added.

Crude oil prices moved above \$60 per barrel on an average in February 2021 and increased further to cross \$70 per barrel recently.

"The rising fuel prices can aggravate the situation through the cost push effect. The matter is of concern is even food inflation has shown a rising trend, with the prices of edible oil and pulses showing increases," it said.