



Growing precarity

Fuel levies must be cut to ease the burden on consumers reeling under rising inflation.

Highlights:

1. The latest inflation data based on retail and wholesale prices are yet again flashing cautionary signals as spiralling costs continue to dog the pandemic-hit economy.
2. CPI-based inflation stayed stuck above the RBI's 6% upper bound for the second straight month, with June's provisional annualised 6.26% only a touch slower than the six-month high pace of 6.3% registered in May.
3. Inflation at the retail level was largely propelled by sharp increases in key food item prices including oils and fats, which surged almost 35% from a year earlier and gained 2.9% from May's levels, as also egg, which jumped 19.4% year-on-year and 6.2% from the preceding month, and pulses and products, which climbed 10% from June 2020.
4. As RBI officials reviewing the State of the Economy in the central bank's monthly Bulletin released on Thursday observed, fuel inflation, which excludes petrol and diesel, surged to a record 12.7% in June driven by LPG, kerosene and the rural poor's mainstay, firewood and dung-cake.
5. And, disconcertingly, LPG and kerosene prices have also registered increases so far in July. Transport costs remain persistently high as both petrol and diesel prices continue to rise, with the former now averaging ₹102.92 a litre in the four major metros as of July 12, and diesel at almost ₹94, according to the Bulletin article.
6. With global crude oil trending higher, the unabated rise in domestic transportation costs is bound to reflect in retail prices of farm produce and products shipped from factories.

Inflation affecting Economic activity and recovery:

1. Wholesale price inflation also stayed stubbornly high at 12.07% in June, after May's record 12.94%, as price gains in the fuel and power category soared 32.8% annually, and those of manufactured products edged up to 10.88%.



2. Medium and small-scale industrial units, already struggling to cope with the pandemic's impact on demand and overall finances, now face rising raw material and input costs.
3. With manufacturing activity contracting in June for the first time in 11 months as per IHS Markit's PMI, the economy is visibly struggling to regain traction in the wake of the second wave, which has eroded demand and consumptive capacity in both urban and rural markets.
4. Add to this the looming possibility that this year's monsoon rains may be less than adequate, either temporally or spatially, disrupting agricultural output and the outlook for both inflation and growth gets significantly clouded.

With cumulative rainfall since June 1 being 5% below average and 12 weather subdivisions spanning 37% of the country's area experiencing deficient rainfall as of July 15, and the pandemic still nowhere near under control, the risk of precarity and hardship rising in the rural hinterland is very real. The Government must, at the very least, cut fuel taxes to ease the burden on consumers.

Ending the impasse

India, China cannot put the distrust of the past behind without resolving the border issue.

Highlights:

1. India's relations with China have been in deep freeze for over a year. The crisis on the LAC remains unresolved, and tens of thousands of soldiers from both sides still remain deployed in forwarding areas.
2. Against this backdrop, Wednesday's meeting between External Affairs Minister S. Jaishankar and his Chinese counterpart Wang Yi in Dushanbe assumes significance.
3. Their last meeting in Moscow, in September 2020, took place in the aftermath of the Galwan Valley clash and at a time of a tinderbox-like situation south of Pangong Lake, with troops and artillery dangerously close to each other on the heights of the Kailash Range.
4. A political agreement then paved the way for both sides to disengage in February, but the agreements in Galwan and Pangong Lake, where both sides

16.07.2021

Friday



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have put in place no-patrolling zones, have not been followed at other disputed sites, in Depsang, Demchok, Gogra and Hot Springs.

Jaishankar, Wang differ on the way forward for India-China ties

1. While External Affairs Minister S. Jaishankar conveyed to his Chinese counterpart, Wang Yi, on Wednesday that the continuing impasse along the Line of Actual Control (LAC) was “visibly impacting the relationship in a negative manner”, the Chinese Minister offered a starkly different message, calling on both sides to “place the border issue in an appropriate position”.
2. Mr Jaishankar reiterated India’s view in their talks on the sidelines of the SCO meeting — their first meeting since September last year in Moscow — that the LAC crisis would have a bearing on broader ties.
3. “Assessing the overall relationship, the External Affairs Minister emphasised that maintenance of peace and tranquillity in the border areas has been the foundation for the development of ties since 1988,” the Ministry of External Affairs (MEA) quoted him as saying, adding that the attempts to change status quo last year “disregarded commitments under the 1993 and 1996 agreements” and “have inevitably affected ties”.
4. Mr Wang, in contrast, said in China’s view the boundary should be kept “in an appropriate position” and it should be addressed while both sides looked to “expand the positive momentum of bilateral cooperation and create favourable conditions for resolving differences through negotiation”.