



Inflation worry for the economy

1. That recent event — notably Russia's invasion of Ukraine — and the consequent spike in commodity costs will have an economic cost (and not just in India) is a given.
2. RBI's latest estimate for GDP growth in India in 2022-23 is 7.2%, down from the 7.8% estimated in February. Even more worrying, though, is its inflation projection — an average of 5.7% in 2022-23, up from the 4.5% projected in February. Both estimates assume the average price of oil at \$100 a barrel.
3. "Inflation is now projected to be higher, and growth projected to be lower than the assessment made in February," said RBI governor Shaktikanta Das.

Accommodative to neutral

1. The unexpected downside risk to growth, and the consequent delay in the change in RBI's stance from accommodative to neutral mean that interest rates will likely remain the same this calendar year — unless inflation has a nasty surprise in store.
2. That, in turn, will mean RBI has to be nimble with liquidity management to control inflation even as it focuses on growth, which, as Das repeatedly indicated, is the primary focus.
3. Improving consumer confidence could help the cause of consumption, and, as a result, growth — but the country can ill-afford any other jolt, external or internal, natural or man-made.
4. That could push growth below 7%; worse, it could accentuate the K-shaped recovery currently underway in the economy, and that could mean significant social and political costs.

Challenges facing the economy:

1. RBI's recent policy announcements also highlight the macroeconomic challenges facing the government. The war in Ukraine and spiralling commodity prices come at a time when the Indian economy has most likely

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surpassed pre-pandemic levels but threatens to limit it to a lower-than-previously-estimated trajectory.

2. The government may have to provide succour (in cash and kind) to both individuals and businesses even as it continues to do the heavy lifting in terms of capital spending.