



# Inflation conundrum

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## **A weak performance and low inflation may persuade the RBI to go for an interest rate cut**

- The multi-month low retail and wholesale inflation prints for December pose an interesting challenge for policymakers and the central bank. Inflation in Consumer Price Index (CPI), at 2.19% in December, is at an 18-month low, while the WPI, at 3.8%, is at an eight-month low.
- The Reserve Bank appears to have been blindsided by the CPI number, which is way below projections made during its last few monetary policy pronouncements.
- The MPC and the RBI may well want to reassess the robustness of their inflation projection mechanism in light of the data coming in.
- When the new Governor, Shaktikanta Das, sits down with the monetary policy committee (MPC) in early February he may well have to return to a “neutral” stance given the soft trends in headline CPI.
- The automobile industry, the first to feel the effect of an economic slowdown, has seen sales falling over the last two months.
- The inflation data have also thrown a curveball at policymakers in that their different components show divergent trends.
- Prominent policymakers, including principal economic adviser Sanjeev Sanyal, have called for the RBI to take a re-look at the interest rate structure.
- It will be interesting to watch how the RBI under the new Governor reacts to these calls.

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