

## India – A mixed inflation bag

With the risk of worsening public finances overshadowing green shoots of economic recovery, the Indian rupee will remain under weakening pressure in 2018



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**5.2%** Inflation in December

Worse than expected

### Lower WPI but higher CPI inflation in December

Contrary to the consensus of acceleration, India's wholesale price inflation slowed in December to 3.6% year-on-year from 3.9% in the previous month. The consensus was 4.0% while at ING, we were forecasting: 3.9%.

This follows consumer price inflation data last Friday showing acceleration to a 17-month high of

5.2% in December from 4.9% in November. Food prices were a source of divergence in two price measures, while fuel and utility prices remained elevated in both measures. This puts October-December average CPI inflation at 4.6% and WPI inflation at 3.7%, up from 3.0% and 2.7% respectively from the previous quarter.

## Potential inflation risk

The Reserve Bank of India targets CPI inflation for monetary policy purpose, and the medium-term target is set at 2-6%.

However, with 5.2% latest print CPI inflation has already surpassed the RBI's 4.3-4.7% forecast range for the second half of the fiscal year 2017-18. While we do not see inflation breaching the medium-term policy target as yet, the continued upward grind in food and fuel price, and potential overshoot of the government budget deficit keep such risk alive.

**8.4%** Industrial production growth in November

Better than expected

## Some green shoots of economic recovery

On some positive news on growth, industrial production surged by 8.4% YoY in November, an 18-month high, on the back of a 30% surge in exports in that month. December trade data will show if the export strength was sustained through the end of 2017. But for now, firmer activity growth supports our forecast of a pick-up in GDP growth to 6.5% YoY in the October-December quarter from the previous quarter of the last year.

## On-hold RBI policy in 2018

We don't think the RBI will get carried away by the latest CPI and Industrial Production data for increased tightening at the next monetary policy meeting on February 7. Nor do we expect any change to the current neutral policy stance through the rest of 2018.

### Weakening pressure on the Rupee

All eyes are now on the government budget for the fiscal year 2018-19 to be unveiled on February 1, which will be a balancing act for the Modi administration ahead of general elections in 2019.

With the risk of worsening public finances overshadowing green shoots of economic recovery from dual shocks of de-monetisation and poorly planned tax reforms, we expect the Indian rupee to remain under weakening pressure in 2018. Our USD/INR forecast for end-2018 is 64.50 (spot 63.62).

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