

## India: Inflation hits RBI's forecast but growth remains slow

The return of the Indian rupee to an appreciation trend after a selloff from September through November reduces pressure on the RBI to raise interest rates



**5.1%** ING forecast for December inflation

### Inflation hits RBI's forecast

India's consumer price inflation data for December and industrial production data for November are due today. CPI inflation is creeping higher and with a low base effect in the food CPI component, it is poised to exceed the Reserve Bank of India's (RBI) 4.3-4.7% forecast for the second half of the fiscal year 2017-18 (ends in March 2018). Our forecast for December is 5.1% year-on-year, in line with consensus.

### Near-term inflation outlook

The likelihood of inflation remaining within the RBI's forecast range depends on seasonal cooling of food prices in the Rabi (Spring) crop harvest months of January to March. However, the upside risk

stems from rising global oil prices working their way through domestic fuel prices, which is likely to keep CPI inflation sticky downward.

**30%** Export growth in November

## Exports support consensus of faster IP growth

However, the industrial production data is expected to reinforce slow growth. The consensus forecast of acceleration in IP growth to 4.4% YoY in November from 2.2% in the previous month rests on strong exports. A 30% YoY surge in exports in November was the fastest in six years. However, it was merely the result of a low base on both monthly and yearly basis, imparting a downside risk to consensus on IP growth.

### Policy implications

India's GDP growth may be gaining some traction, but with elevated inflation the RBI has little scope to move from the neutral policy stance in the near-term. The return of the Indian rupee to an appreciation trend after a selloff from September through November reduces pressure on the RBI to raise interest rates. We reiterate our forecast of no change to the RBI policy in 2018.