

## India: Rising inflation, slowing growth

We expect the Reserve Bank of India to stay on hold for a while but a tailwind of fiscal slippage will keep USD/INR and government bond yields on an upward bias



Source: shutterstock

**4%** RBI's target CPI

India's growth-inflation dynamics have shifted in the recent months in favour of a stable Reserve Bank of India (RBI) monetary policy. We expect today's Consumer Price Index (CPI) and industrial production releases to reinforce this shift.

### **Lower inflation unlikely to be reached**

The RBI wants lower inflation, but given the current trends, we don't think it will get it anytime soon. CPI inflation dipped to the cycle low of 1.5% year-on-year in June but has since accelerated to 3.36%.

---

*Given global concerns about the breakdown of the Phillip's curve, India is among the economies where inflation has been hitting the central bank target but obviously in the undesired direction*

---

The consensus is forecasting a further rise to 3.50% YoY in September, while we see the risk of it reaching the RBI's 4% medium-term policy target due to rising food, fuel and transport prices again. The RBI has warned of fiscal slippage posing inflation risks in the period ahead and has revised its projected inflation path for the second half of FY17/18 (April-March) to 4.2 - 4.6% from 4.0 - 4.5% in the October policy meeting.

## **Exports support industrial production**

Firm exports support the consensus of strong industrial production growth of 2.7% in August. In most other Asian economies the export recovery this year has barely stimulated manufacturing activity, and India is no exception which explains our below-consensus industrial production growth forecast of 2%.

We share the consensus view that increased downside growth risk and upside inflation risk will keep the RBI on hold for a prolonged period and a tailwind of fiscal slippage will keep USD/INR and the government bond yields on an upward bias.