
Macroeconomic indicators - Indian economy still under inflation woes - Fitch

Sunday, 03 Jul, 2011

Despite falling food inflation numbers on the back of a good monsoon, global rating agency Fitch warned that the country's economic outlook still remains somewhat clouded by persistent inflationary pressures.

The London based Fitch in its global economic outlook report released said that "Although food inflation has eased from the high 20.9% in the H1 of 2010, underlying inflation pressures remain intense. India's economic outlook is likely to remain somewhat clouded by persistent inflationary pressures as headline inflation has remained high since the early 2010."

After a month long rally, food inflation plunged to a one and a half month low of 7.78% for the week ended June 18, down from 9.13% in the previous week, as vegetables and pulses became cheaper. The government and analysts are expecting this downward trend would continue as the monsoon advances.

WPI based food inflation was over 20% in the year ago period. However, headline inflation stood at 9.06% in May, which is more than 200 bps above the RBI comfort zone.

Noting that the WPI inflation the main gauge of inflation analysis grew by an average of 9.3% in the first five months of 2011, a tad below the 9.6% averaged last year as core inflation or non food manufacturing inflation, has picked up significant momentum this year.

The report said that since non food inflation rose 7.6% in the first five months of 2011, up from 5% in 2010, would force RBI to take more aggressive monetary policy action to cool inflationary pressures in the next few months.

Fitch also opined that the RBI might need to raise policy rates still further before it can conclude that inflationary pressures have been contained.

(Sourced from PTI)

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