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Retail inflation eases to 4-month low of 5.2% in dec ; may prompt RBI's rate cut

NEW DELHI Retail inflation declined to a four-month low of 5.22 per cent in December, mainly on account of easing of prices in the food basket, including vegetables – according to government data released on Monday – giving headroom to the Reserve Bank to reduce the key interest rate in upcoming monetary policy reviews. The inflation-based on the Consumer Price Index (CPI) eased for the second month in a row after it breached the Reserve Bank of India's (RBI's) upper tolerance level of 6 per cent in October.

The annual rate of inflation was 5.48 per cent in November and 5.69 per cent in the year-ago period.

"During the month of December 2024, significant decline in inflation is observed in vegetables, 'pulses and products', 'sugar and confectionary', 'personal care and effects', and cereals and products," the National Statistics Office (NSO) said while releasing the CPI data.

The top five items showing highest year-on-year inflation in December 2024 were peas (89.12 per cent), potato (68.23 per cent), garlic (58.17 per cent), coconut oil (45.41 per cent), and cauliflower (39.42 per cent).

The key items having lowest year-on-year inflation in December were jeera, ginger, dry chillies, and LFG (excluding conveyance). "The CPI (General) reached its lowest point during this period in July 2024. However, the CPI (General) and food inflation in December, 2024 is the

lowest in the last four months," NSO said.

Inflation in the food basket was at 8.39 per cent in December, down from 9.04 per cent in the preceding month and 9.53 per cent in December 2023.

The RBI, which has been tasked by the government to ensure inflation remains at 4 per cent ($\pm$ 2 per cent), has kept the key short-term lending rate (repo) at 6.5 per cent since February 2023.

The Reserve Bank's rate setting panel – Monetary Policy Committee (MPC) – is scheduled to meet in February.

Commenting on the data, Aditi Nayar, Chief Economist and Head – Research and Outreach at KRA – said while the CPI inflation declined in December 2024 from 5.5 per cent in November 2024, the pace of the correction was narrower than expected. In sequential terms, the dip was driven by food and beverages, even as the year-on-year inflation for fuel and light, and pan, tobacco and intoxicants recorded mild upticks, she said.

"With the headline inflation stuck stubbornly above 5 per cent, the probability of a rate cut in the February 2025 policy review has certainly receded. However, the considerable decline in vegetable prices that is underway could convince some MPC members to consider an early cut in the upcoming meeting, with a view to supporting growth," Nayar said.

Paras Jaisri, Senior Economic Analyst at India Ratings and Research, said the February 2025 monetary policy would

be happening at the outset of the Union Budget.

"The conviction of fiscal arithmetic would also be weighing closely on the monetary policy action. While the current data is positive from the monetary policy perspective, Ind-Ra believes that the monetary authority would want to wait for one more policy before undertaking any change on the rates front," Jaisri said.

Akhil Mittal, Senior Fund Manager – Fixed Income, Tata Asset Management, said early price trend in January show vegetable inflation moderating and this could mean inflation falls below 5 per cent sooner and well within the RBI expected trajectory going forward.

"This could open up space for the RBI to support growth, which is estimated to have slowed down most since Covid-19. We believe the RBI to shift focus from inflation towards growth going forward.

While currency volatility has complicated matters for RBI, we think that as things calm down globally, RBI could start easing cycle," he added.

Last month, the RBI raised the inflation projection for the current fiscal year to 4.8 per cent from 4.5 per cent. It also said the lingering food price pressures are likely to keep headline inflation elevated in the December quarter.

The CPI-based headline inflation increased from an average of 3.6 per cent during July-August to 5.5 per cent in September and further to 6.2 per cent in October 2024.

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