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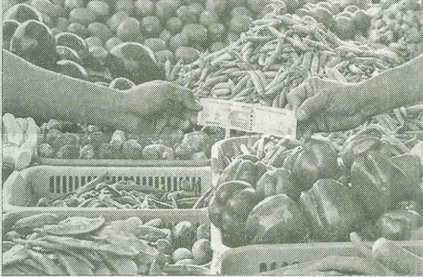
Retail inflation eases to 4-month low of 5.2% in Dec

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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% in November and 5.69% in the year-ago period.

"During December 2024, a 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%), potato (68.23%), garlic (58.17%), coconut oil (45.41%), and cauliflower



The key items having lowest year-on-year inflation in December were jeera, ginger, dry chillies, and LPG.

ber, down from 9.04% in the preceding month and 9.53% in December 2023.

The RBI, which has been tasked by the government to ensure inflation remains at 4% (+/- 2 %), has kept the key short-term lending rate (repo) at 6.5% 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 ICRA -- said while the CPI inflation declined in December 2024 from 5.5% 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%, 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, to support growth," Nayar said.

Paras Jasrai, 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," Jasrai 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% sooner and well within the RBI expected trajectory going forward.