**Current News**

Current news on the latest developments in fertilizer, energy, weather, agriculture, agri-business, logistics, economy, and other related areas

*(The views expressed in the news items are not necessarily of FAI)*

<table>
<thead>
<tr>
<th>Tuesday, August 23, 2022</th>
</tr>
</thead>
</table>

**AGRICULTURE**

- Egypt’s deal to buy Indian wheat at $400 per tonne stands, says minister
- MSP panel discusses agri reforms, to prepare road map to boost farmers’ earnings
- Haryana basmati exporters seek lower market levies
- June tea output drops 17% on flood, pest attack
- Paddy planting picks up, deficit down to 8%
- Indian wheat is now costlier than CBOT futures
- Traders fear stricter pesticide residue norms in Middle East could hit basmati exports
- Water Policy 2022: Karnataka to restrict groundwater, penalty for water wastage

**ECONOMY**

- IGST on ocean freight likely to be scrapped
- Has inflation in India peaked?

---

FAI House, 10 Shaheed Jit Singh Marg, New Delhi – 110067

Tel.: 91-11-26567144, Fax: 91-11-26960052, e-mail: stat@faidelhi.org
Egypt's deal to buy Indian wheat at $400 per tonne stands, says minister

Egypt contracted to buy the 180,000 tonnes of wheat from India in June.

Egypt's supply minister said on Monday an agreement to buy 180,000 tonnes of Indian wheat at $400 per tonne still stood, although the wheat had not been shipped yet.

Egypt, one of the world's biggest wheat importers, has in recent years purchased much of its grain from the Black Sea, but has sought to diversify import origins following disruptions by Russia's invasion of Ukraine.

Egypt contracted to buy the 180,000 tonnes of wheat from India in June.

Source: Business Standard, Monday, August 22, 2022
MSP panel discusses agri reforms, to prepare road map to boost farmers’ earnings

On Monday, the committee decided to gather more data on benchmark prices before firming up any road map to make it a more effective instrument to boost farmers’ earnings.

A key government panel deliberated on the effectiveness of the minimum support price (MSP) regime for various crops, farm loan waivers and the need for further reforms in the agriculture and allied sectors, in its first meeting on Monday.

The committee was set up under former agriculture secretary Sanjay Agarwal, in sync with a directive by Prime Minister Narendra Modi, after the government repealed three controversial farm laws last year after year-long protests by farmers, mainly from Punjab and Haryana. The panel was tasked with looking into issues associated with MSPs, crop diversification and promotion of natural farming.

On Monday, the committee decided to gather more data on benchmark prices before firming up any road map to make it a more effective instrument to boost farmers’ earnings. Officials from the agriculture, food and other ministries presented their views before the panel.

“A major portion of the discussion was around the effectiveness of the existing MSP system and its impact on the farmers,” panel member Gunwant Patil, a farmer leader associated with Shetkari Sanghatna, Maharashtra, told FE. Patil said issues around farm loan waivers and the need for reforms in the agriculture sector were extensively discussed.

Sources said in the subsequent meetings, the committee will take a call on setting up sub-panels to deal with a range of issues.

“We discussed the larger implication of the existing MSP regime and will identify issues which pose challenges to ensure that farmers’ remuneration is economical in terms of their cost of the production,” another member of the panel said. The panel is likely to meet in Hyderabad soon.

Currently, the Food Corporation of India, in association with state agencies, procures rice and wheat mainly in Punjab, Haryana, Madhya Pradesh, Rajasthan, Chhattisgarh, Odisha, Telangana and Andhra Pradesh through payment of MSP to farmers. The procured grain is used for the implementation of the National Food Security Act and other welfare schemes, and to maintain buffer stock.

Farmer cooperative NAFED purchases pulses to maintain buffer stock, while Cotton Corporation of India procures cotton from farmers when prices fall below MSP. Oilseeds and copra are procured by NAFED when market prices fall below MSP. The Commission for Agricultural Costs and Prices periodically recommends MSP for 23 kharif and rabi crops.

On July 18, the agriculture ministry set up the committee headed by Agarwal, with key mandates to make MSP more effective and transparent, change crop patterns keeping in mind the changing needs of the country, and promote zero-budget natural farming.

The committee has 26 members, with three slots set aside for representatives of Samyukta Kisan Morcha (SKM), an umbrella body of over 40 farm unions which had spearheaded the protests against the three farm laws.

SKM, however, has opposed the constitution of the committee terming it “anti-farmer”.

Other committee members include Ramesh Chand, member, Niti Aayog; CSC Shekhar, agri-economist from the Indian Institute of Economic Development; and Sukhpal Singh from Indian Institute of Management – Ahmedabad. Senior members of agricultural universities, five central government secretaries, and chief secretaries of Karnataka, Andhra Pradesh, Sikkim, and Odisha are also on the committee.

Source: Financial Express, Tuesday, August 23, 2022
Haryana basmati exporters seek lower market levies

Haryana, which accounts for more than half of basmati shipments from India, imposes arthia commission of 2.5%, market fee of 2% and rural development cess of 2%; these take the total burden to 6.5%.

Basmati exporters from Haryana have asked for a reduction of levies such as mandi fee, rural development cess and arthia (agent) commission imposed on the purchase of paddy from the current collective 6.5%, to bring them on a par with those in other key producing states like Punjab, Delhi and Uttar Pradesh.

The levies are 3% in Delhi, Uttar Pradesh and Uttarakhand, 3.25% in Rajasthan and 4.5% in Punjab. Higher levies bite into the margins of basmati exporters in Haryana, forcing many traders and processors to procure paddy from Delhi and Punjab.

Haryana, which accounts for more than half of basmati shipments from India, imposes arthia commission of 2.5%, market fee of 2% and rural development cess of 2%; these take the total burden to 6.5%.

“Higher levies on basmati paddy procurement are not only impacting exporters and processors, but also dragging down earnings of farmers,” said Vijay Setia, former president of the All India Rice Exporter Association and a Karnal-based basmati rice exporter.

In June last year, the Haryana government increased the market or mandi fee on basmati as well as the rural development cess from 0.5% to 2% each.

The Haryana Rice Exporters Association (HREA) had written to chief minister Manohar Lal Khattar that rice millers should be provided a level playing field with exporters from other states to enable them to compete in the global market. It said many rice millers and exporters have closed their plants due to recurring losses.

Khattar had assured exporters to review the fees and other charges at mandis.

According to exporters, basmati harvest from this kharif season will start arriving in mandis by October 1. The Haryana government has to take a call on reducing levies soon, they said.

In 2021-22, India exported Basmati rice valued at $3.54 billion. Saudi Arabia, Iran, Iraq, Yemen, UAE, US, Kuwait, UK, Qatar and Oman had a share of close to 80% in total shipments of the aromatic long-grain rice from India in 2021-22.

Source: Financial Express, Tuesday, August 23, 2022
India’s June tea production fell 17.4% from a year earlier to 141.31 million kilograms (kg), the State-run Tea Board said, as floods and pest attack dented output in the main producing region.

Heavy June rainfall flooded tea gardens in Assam, which accounts for more than half the country’s production, making tea plucking difficult for workers.

That sent production down 19% year-on-year to 74.35 million kg.

Tea plucking in India, the world’s second-biggest tea producer, usually accelerates from June to October.

In the first half of 2022, India’s tea production fell 20% from a year earlier to 360.19 million kg, Tea Board data shows. Lower tea production in June lifted average tea prices in July to ₹194.49 ($2.44) per kg, up 10.5% year on year, according to the Tea Board.

The country exports CTC (crush-tear-curl) grade mainly to Egypt and the United Kingdom, with the orthodox variety shipped to Iraq, Iran and Russia.

The CTC tea is produced using a maceration device.

Source: The Hindu, Tuesday, August 23, 2022

Back to Headlines
Paddy planting picks up, deficit down to 8%
Total cropped area touches 1,012.99 lh as of August 18, down 2.5% from year-ago

Paddy sowing in the past one week has improved with addition of about 34 lakh hectare (lh), narrowing the deficit in its acreage following improvement in rainfall in Jharkhand, Bihar and West Bengal, where transplanting got delayed even as nurseries were ready in many districts. If the trend continues for another week, the deficit may be further narrowed down, easing concerns over any significant drop in paddy output.

Overall acreage of paddy is down by 8 per cent at 343.70 lakh hectare(lh) as of August 18 from 374.63 lh in the year-ago period, whereas the sowing area was 12 per cent lower at 309.79 lh until August 12, data released by the Agriculture Ministry show. The government had earlier set this season’s paddy area target at 413.13 lh.

<table>
<thead>
<tr>
<th>Kharif crops’ sowing progress as of August 18</th>
<th>Normal area</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paddy</td>
<td>397.06</td>
<td>343.7</td>
<td>374.63</td>
</tr>
<tr>
<td>Pulses</td>
<td>140.18</td>
<td>125.57</td>
<td>132.55</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>184.11</td>
<td>184.41</td>
<td>185.84</td>
</tr>
<tr>
<td>Cotton</td>
<td>125.57</td>
<td>124.27</td>
<td>116.51</td>
</tr>
<tr>
<td>Coarse cereals</td>
<td>183.57</td>
<td>172.78</td>
<td>167.42</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>47.38</td>
<td>55.32</td>
<td>54.52</td>
</tr>
<tr>
<td><strong>All crops</strong></td>
<td><strong>1,084.97</strong></td>
<td><strong>1,012.99</strong></td>
<td><strong>1,038.51</strong></td>
</tr>
</tbody>
</table>

Source: Agriculture Ministry

‘Next month crucial’

“With 83 per cent coverage so far from the target, it is unlikely to be met in the remaining days even if some areas in West Bengal and others got added as transplanting in many States are now complete. The next one month is crucial as there have been reports of flood coming from some States. Unless water recedes in a few days, it can damage the crop,” said an agriculture scientist. Some climate resilient rice varieties released for eastern India may be helpful for farmers this year as those can withstand both drought and flood for up to 15 days, he added.

West Bengal and Odisha together have 77 lh target this kharif, and there is deficit of about 10 lh in each State. Some improvement is expected in these two States as short duration varieties can still be taken up, officials said. Jharkhand may not see an improvement since rainfall deficit is very high (– 26 per cent as of August 21) and the situation is the same in almost all districts, the officials said. Jharkhand, however, received 267 per cent above average rains on August 21 and similar precipitation a day before due to low pressure.

Overall acreage of all kharif crops – paddy, pulses, oilseeds, coarse cereals, cotton, sugarcane and jute – has reached 1,012.99 lh as of August 18, a drop of 2.5 per cent from 1,038.51 lh year-ago, the ministry said. As the crop area has crossed 93 per cent of last five years’ average, officials are hopeful of the acreage reaching at least 97-98 per cent by end of the season.

Source: The Hindu Business Line, Tuesday, August 23, 2022

Back to Headlines
Indian wheat is now costlier than CBOT futures

- According to government data, retail wheat prices are at a record high of ₹30.72 a kg
- Prices in the global market fell 6.5% last week; domestic prices, however, continue to rise

September and December wheat futures on the Chicago Board of Trade (CBOT), used as a reference rate in the global grains market, are currently ruling lower than the cereal’s price in India after dropping 6.5 per cent last week.

Domestic wheat prices are ruling near record highs even as global prices of the commodity are hovering near a 52-week low. Usually, Indian wheat is sold at a discount in the global wheat market, including CBOT wheat futures.

According to Ministry of Agriculture and Farmers Welfare data, the average weighted modal price (the rate at which most trades take place) was ₹22,840 a tonne on August 20.

On August 19, CBOT September futures ended at $7.55 a bushel (₹22,160 a tonne), while December futures closed at $7.72 (₹22,665). In the global spot market, wheat prices are near a year-low, though they are higher than the Indian rate.

2 reasons for global fall

According to the International Grains Council, Europe wheat (French grade) is $323 a tonne, while US Soft Red Winter wheat is quoted at $318 free-on-board. In India, wheat is currently available at ₹24,000-25,000 a tonne for fair average quality. Globally, prices are down since Russia has begun to sell wheat,” said Pramod Kumar, Vice-President, Roller Flour Mills Federation of India (RFMFI).

Two reasons are attributed to the fall in global wheat prices. The first reason is the UN-brokered deal on July 22 to allow exports of food commodities in the Black Sea region between Ukraine and Russia.

Over 5.6 lakh tonnes of grains have moved out since then, though wheat shipments are hardly 50,000 tonnes. At least 27 ships have left the region with another seven ships being loaded at three ports. “Black Sea region wheat is being offered at $385 a tonne cost and freight,” said Kumar.

Fears over recession

The second reason is the worldwide sell-off by speculators and funds wary of a global recession. According to Food Policy Research Institute, the sell-off is a cause for concern as it comes along with a drop in inventories.

“The fall in CBOT will not impact Indian wheat prices. We have to include freight and insurance. Also, if the Centre were to allow duty-free wheat how long will the window be open? It can allow such imports only for a limited period since the next year’s crop will be ready by then. At the most, this can give a limited period of a 50-day window,” said trade analyst S Chandrasekaran.

Following concerns raised by the RFMFI over rising wheat prices, Food Secretary Sudhanshu Pandey had said the Centre is considering all options - from lowering wheat import duty to zero from the current 40 per cent to imposing stock declaration orders.

Retail prices up 18% y-o-y

“Unfortunately, nothing has been done so far to control the prices, which are rising daily,” said RFMFI’s Kumar.

According to Consumer Affairs Ministry data, retail wheat prices are at a record high of ₹30.72 a kg and atta (wheat flour prices) are ruling at ₹35.24. Both prices are 18 per cent higher than the same period a year ago.

Wheat prices in the country have soared this year on lower-than-estimated production due to a heat wave sweeping the country during March-April and demand for exports at the beginning of the season after the Russian-Ukraine conflict escalated.
Initially, wheat production was estimated at 111.31 mt before it was pruned to 106.34 mt. In its fourth advance estimate, the Agriculture Ministry raised the production a tad to 106.84 mt. The US Department of Agriculture has also raised the Indian wheat output estimate for this year to 104 mt this month against 99 mt last month. Trade sources said they suspect the wheat production figures since the cereal was in short supply. “It could be lower than 100 mt,” a trader, who did not wish to be identified said.

While Indian wheat prices are on the rise, bids in import tenders floated by some countries have begun to drop, said Rajesh Jain Paharia, a Delhi-based exporter.

“If the current trend of global price drop continues, domestic wheat will be under pressure since imports will become viable then,” said Chandrasekaran.

*Source: The Hindu Business Line, Tuesday, August 23, 2022*
Traders fear stricter pesticide residue norms in Middle East could hit basmati exports

But experts say that as agriculture is a state subject, it’s the responsibility of the state governments, exporters and farmers to work together towards making basmati pesticide-free, instead of depending on the Centre for this.

While the export of basmati (a long grain aromatic rice) may have increased by 25% in the first quarter (April to June) of 2022-23 compared to the corresponding period in the previous year, the basmati traders are fearing that the export joy could be short-lived as from September 1 UAE and other Middle East countries have decided to implement the stringent norms of maximum residue levels (MRLs) for pesticides. The US and EU have already imposed strict testing guidelines for the import of Indian basmati. An MRL is the highest level of a pesticide residue that is legally tolerated in or on food or feed when pesticides are applied correctly in accordance with good agricultural practice.

Exporters say that they had already managed to get notification from the Punjab government banning the use of 10 pesticides with effect from August 12 this year till the harvesting of the crop and now they are seeking the state government’s help to impress upon the central government to ban these pesticides in all basmati-growing states to save the basmati export industry which has been bearing the brunt of the stringent MLR norms in terms of rejection of consignments for the past few years. But experts say that as agriculture is a state subject, it’s the responsibility of the state governments, exporters and farmers to work together towards making basmati pesticide-free, instead of depending on the Centre for this.

Dr A K Gupta (retired), former director of Basmati Export Development Foundation (BEDF), which was founded by the Agricultural and Processed Food Products Export Development Authority (APEDA) that comes under the Ministry of Commerce & Industry, while speaking to The Indian Express said that Punjab and Haryana have 80% share in basmati exports, while the remaining states like UP, Uttarakhand, etc. have just 20% share. In both the major exporter states, a farmer education programme has been going on for the past five years and now, it’s high time to scale up this programme, he said, adding that all the basmati-growing states must develop some model to keep the crop free from chemical usage.

“As agriculture is a state subject, primarily the state governments in association with exporters and farmers must work on a model to sensitize all stakeholders to the problems of usage of chemicals in the crop so that a trust relationship can be developed between farmers (seller) and exporters (buyer) to grow pesticide-free basmati,” Gupta said, adding that “here we need to practise better agriculture rather depending on a policy”.

Gupta says that there is a need to educate farmers on growing new varieties of basmati which are high in yield and resistant to several diseases. This can also reduce the usage of chemicals in the crop. A senior officer in the Punjab agriculture department says that if there is no trust between basmati growers and exporters, then even a ban on pesticides won’t work because farmers can procure these from any other state where they are not banned.

The former director of BEDF also said that basmati originates from a specific geographical area, as a result of which it possesses unique characteristics and qualities of GI (geographical indication) tag and it’s kind of trademark in the international market because of which it is always in high demand. “The only thing we need is a little good farming practice in it to enhance its export.”

The region located in Indo-Gangetic Plains (IGP) below the foothills of the Himalayas, spread across seven states – viz. Punjab, Haryana, Himachal Pradesh, J&K, Uttarakhand, Western UP (30 districts) and Delhi – falls under the GI area. India has exported basmati rice to the tune of $12 billion in the last three years, including $4.3 billion in 2019-20, $4.02 billion in 2020-21 and $3.5 billion in 2021-22.

Ashok Sethi, director, Punjab Rice Millers & Exporters’ Association, and a leading basmati exporter, Amritsar, said that the government must make Hi-tech Modern Pesticide Testing Laboratory at Amritsar more effective to check the pesticide residue at the farm level as it will help exporters test the residue level at the very beginning itself and it can sensitise such farmers to the pesticide problems as well.

He said that basmati rice shipments from India are getting rejected/returned for the pesticide residues which is causing a lot of problems to the exporters and “if we have a laboratory here, we can check it before exporting”. The commerce ministry had recently said that the exports of basmati rice rose by 25.54% in April-June this year to around Rs 9,160 crore ($1.15 billion).

Source: Indian Express, Tuesday, August 23, 2022
Water Policy 2022: Karnataka to restrict groundwater, penalty for water wastage

"The climate change studies of Karnataka have indicated that there is a long-term warming trend and negative trend in rainfall for Karnataka and the area affected by drought will increase."

Karnataka is one of the most water stressed states in India, with about 61 per cent of it in drought-prone region, and the state has much to worry as its new Water Policy 2022 cautions about the negative trend in rainfall and increase in area under drought in the days ahead.

Having suffered more than 15 drought years over the last two decades, things may be more challenging for the state in the future with its rapidly depleting groundwater and demand for water projected to increase significantly.

However, the policy promises measures to tackle the challenges ahead by proposing measures such as penalties for unwise use of water, restricting groundwater extraction, among others, as it aims to provide directions for strengthening water resources management and to optimise the use of the state's limited water resources, officials from the Water Resources Department said.

What does the policy read?

According to the policy cleared recently by the state cabinet, "The climate change studies of Karnataka have indicated that there is a long-term warming trend and negative trend in rainfall for Karnataka and the area affected by drought will increase."

"In the Kharif season, most northern districts are projected to have an increase in drought incidences by 10-80 per cent with some districts projected to have almost a doubling of drought frequency. Floods are becoming common every year due to heavy rainfall which is higher than the long-term average in some days and sometimes 10 to 20 times above the normal," it said.

Declining groundwater table and increasing contamination of groundwater is a major concern," a policy note by the department said. Further, pointing that agriculture accounted for about 84 per cent of water diversions and estimated water demand in the state may reach 1,591 tmc (thousand million cubic feet) by 2030 from 1,491 tmc in 2020, the policy states that agriculture will remain by far the largest water user and the major source of employment for about 55 per cent of the total population and about 75 per cent of the rural population.

Karnataka's current water resources

With 1,91,791 sq. km. covering 5.83 per cent of the country's area, Karnataka is the eighth largest in terms of population, which is projected to stand at 67.56 million in 2020 (UIDAI, May 2020), and has two main river systems - - Krishna and its tributaries in the north, and Cauvery and its tributaries in the south.

With a large area of the state in the drought prone area, the use of irrigation water is important as Karnataka has limited water resources (1,608 cubic metres/person/year overall and approximately 1,072 cubic metres/person/year in eastward flowing rivers). Of the total water usage, approximately 26 per cent is from groundwater.

However, the groundwater sources are "overexploited" in 52 taluks across 15 districts, while it is "critical" in 10 taluks of eight districts and "semi-critical" in 35 taluks of 17 districts. "Groundwater is the dominant form of irrigation in the state, with 56 per cent of the area of irrigation in the state coming from groundwater.

The relative importance of agriculture in the Gross State Domestic Product (GSDP) is reducing quite quickly and the demand for water by allied sectors such as livestock, fisheries and aquaculture and non-agriculture sectors is increasing rapidly and the demand from industry is expected to almost double from 2020 to 2030, it added.

Integrated Water Resources Management (IWRM)

Amid all these concerns, the policy that advocates for the Integrated Water Resources Management (IWRM), whose approach is to be adopted to improve water availability, water resource and environmental conditions and to improve water services and performance; the policy also proposes penalties for unwise use of water, restricting groundwater extraction, incentivising farmers to grow crops that use less water and harvesting flood water among several other measures.

It aims to achieve goals such as ensuring water security for the entire population, improving the efficiency of urban and rural water supply and also industrial water use; enhancing the productivity and efficiency of irrigation water in agriculture and livestock, improving the health of watersheds, water bodies and rivers, along with moving towards sustainable groundwater management, and improving water governance.
The policy notes that the state will undertake all the drinking water supply programmes to increase 24x7 supply of water of suitable quality for domestic water throughout urban and rural areas and also at times of water scarcity. It also proposes for groundwater extraction, other than for domestic use, to be restricted for commercial use depending on the degree and zone of exploitation, and user charge system to be implemented effectively through proper set of incentives and penalties, within the affordability of all societal sections.

Also, a system of motivational measures and incentives will be brought into place to encourage farmers to change from water intensive crops to 'water economic' ones and adopting measures, including growing less water demanding varieties of a crop, which reduce the requirements of water to produce the crop, the policy added.

**New age agriculture**
Karnataka will also provide incentives, financial as well as material, to promote natural farming/organic farming/zero budget natural farming and Integrated Farming System (IFS) in agriculture, horticulture and sericulture including aims to reduce evapotranspiration losses and enhance farmers' income. Other than recycling, reuse of treated waste water and rainwater harvesting, the policy also proposes to support industries to conserve water, increase water recycling and reduce discharge of polluted water into the environment.

The system of pollution discharge licensing will further be strengthened, it said. The policy also talks about constituting an inter-departmental 'State Water Resources Authority' involving all the water-related departments under the chairmanship of the Chief Minister. Also, a high-level 'Water Policy Committee' will be set up with the Chief Secretary as its chairperson and it will become the key body to coordinate among all the departments and will meet regularly to provide policy guidance, coordination and performance review of implementation of the Water Policy 2022 in the state.

*Source: Hindustan Times, Tuesday, August 23, 2022*
IGST on ocean freight likely to be scrapped

Experts said the move is likely to bring much needed relief to the importers, whose refund claims worth over ₹1,000 crore are stuck. "The importers must get their due after the Supreme Court order. There is still no clarity in this regard and a formal communication will help the early release of funds," said Abhishek Rastogi, partner at Khaitan and Co, who represented importers in the Mohit Mineral case.
Has inflation in India peaked?

LOKESHWARI SK

It's too early to conclude that inflation has peaked in India. While CPI inflation has been drifting lower since the April 2022 peak of 7.79 per cent, the decline has been very gradual. The July reading of 6.71 per cent is also well above the upper limit of the RBI's tolerance band of 2 to 6 per cent. Both the RBI and the Finance Ministry have adopted a cautious tone regarding inflation in their most recent economic reviews. But the level of panic among the people regarding soaring inflation seems to be receding.

The RBI's household survey of inflation expectations shows that households expect inflation to fall, first into the tolerance band of 2-6 per cent and then to the target of 4 per cent. Stock markets are also in a jubilant mood on account of the dip in inflation.

What is causing prices to cool?

Numerous factors have helped inflation cool slightly over the last few months. Brent crude oil price moved around 20 per cent lower from the peak of around $120 per barrel in March 2022 on easing supply along with fears of a global slowdown. Fall in crude prices has a cascading effect on other goods and services since it brings down the transportation cost.

Prices of steel and other metals also declined sharply since the first quarter due to slowdown in China as well as fears of global slowdown impacting demand. The CRB metal index is down over 26 per cent since April. Agri-commodity prices in India, especially imported oil and fats, have cooled down due to declining international prices as well policy measures such as export restrictions and tweaking of customs duties. Core inflation (excluding food and fuel) has plateaued over the last months around 6.2 per cent.

Is this reduction sustainable?

While there is some hope of inflation cooling further, it is too soon to get sanguine. One, reduction in CPI inflation in June was to a large extent due to favourable base effect; almost 86 bps. Two, while food inflation has declined due to relief in oil and fats prices, spike in inflation in cereals to 6.90 per cent in July from 5.66 per cent in June needs to be taken note of. Cereal prices could hurt in the coming months mainly due to increase in prices of wheat. Three, while global crude prices have cooled, any escalation in geopolitical tension can send prices upward. Demand from Europe which is yet to fully replace the shortfall created by Russian crude and higher winter demand is expected to retain crude oil prices at elevated levels in the coming months.

Is inflation cooling across the world? What are other central banks doing?

The situation is very similar in other countries as well. While inflation is down a tad, it still rules at multi-decade high. For instance, CPI inflation in the US moved lower to 8.5 per cent in July from 9.1 per cent in June. But this is still a 40-year high and far above the US Federal Reserve's target level of 2 to 3 per cent inflation. CPI inflation in the EU was the highest ever at 8.9 per cent in July. Other economies are also in similar straits. It is unlikely that global central banks will take their foot off the pedal in hiking interest rates to control inflation in the immediate future. With global growth beginning to shrink due to high inflation and monetary policy actions, recession or stagflation could well be around the corner.

Does this mean the RBI will reduce its pace of increasing interest rates?

The RBI also does not seem ready to let down its guard in the fight against inflation just yet. In the August bulletin, the RBI observed that though “inflation has edged down, its persistence at elevated levels warrants appropriate policy responses to anchor expectations going forward.”

The central bank is likely to keep a close watch on the incoming data on inflation and tailor its responses accordingly.

Source: The Hindu Business Line, Tuesday, August 23, 2022

Back to Headlines