

## **India's IIP grows 2% in February; CPI inflation eases to 4.83% in March**

[livemint.com](http://livemint.com), 12th April 2016

After three consecutive months of contraction, factory output grew 2% in February due to strong performance by mining and electricity sectors, while retail inflation moderated further in March.

Data released by the Central Statistics Office showed that during February, mining, manufacturing and electricity sectors grew 5%, 0.7% and 9.6%, respectively.

In March, retail inflation slowed down to 4.83% from 5.26% a month ago as food inflation fell to 5.21% from 5.3% during the same period.

The Reserve Bank of India (RBI), in its first bi-monthly monetary policy review on 5 April, cut policy rate by 25 basis points and announced several steps increase liquidity and facilitate transmission of the past rate cuts.

“The stance of monetary policy will remain accommodative. The Reserve Bank will continue to watch macroeconomic and financial developments in the months ahead with a view to responding with further policy action as space opens up,” it said.

The central bank said headline Consumer Price Index (CPI)-based inflation is projected to moderate in 2016-17 to around 5% and real gross domestic product (GDP) growth is projected to improve gradually to 7.6% in 2016-17, while heightened global financial market volatility continues to pose major risks to these projections. RBI has set the retail inflation target at 5% for March 2017.

However, the Asian Development Bank in its outlook released last month projected retail inflation to accelerate to an average of 5.4% in 2016-17 and 5.8% in 2017-18 as global oil prices firm up and domestic demand strengthens.

RBI said there are uncertainties over the inflation projection from recent unseasonal rains, the likely variation in distribution of monsoon, the low reservoir levels by historical averages, and the strength of the recent upturn in commodity prices, especially oil.

“The implementation of one-rank-one-pension (OROP) for retired defence employees and the 7th Central Pay Commission (CPC) award, particularly with regard to house rent allowances, poses upward risks to the baseline inflation path, especially as state governments also start implementation,” it added.

RBI said the uneven recovery in growth in 2015-16 is likely to gain strength in 2016-17, assuming a normal monsoon, the likely boost to consumption demand from the implementation of the 7th Pay Commission recommendations and OROP, and continuing monetary policy accommodation. “After two consecutive years of deficient monsoon, a normal monsoon would work as a favourable supply shock, strengthening rural demand and augmenting the supply of farm products that also influence inflation. However, the fading impact of lower input costs on value addition in manufacturing, persisting corporate sector stress and risk aversion in the banking system, and the weaker global growth and trade outlook could impart a downside to growth outcomes going forward,” RBI added.

