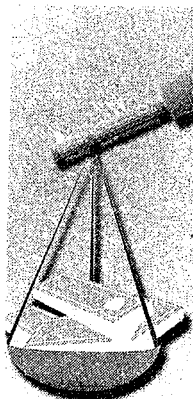


# No overheating, inflation will be kept under 4%



## SOME GOOD NEWS

- ▶ Council cautions against rising global oil prices
- ▶ With appropriate measures, inflation will continue to dip
- ▶ Economists say inflation should reach 4% in 3 months
- ▶ RBI raised rates five times last year to check inflation

### Economy Bureau

New Delhi, Jul 16

Allaying fears of overheating of the economy, the Prime Minister's Economic Advisory Council (EAC) has said it is possible to keep inflation at 4% or under in the current fiscal. But the council, in its Economic Outlook for 2007-08 released on Monday, cautioned that the rising international oil prices could affect prices.

"After factoring in the future correction in petroleum product prices, it should be possible to maintain the headline rate close to 4%," the report said.

Inflation has eased from a two-year high of 6.7% annually in January to 4.27% on June 30. The pressure from primary food articles seemed to have abated, the report noted.

But, in the light of the revised inflation estimates being higher than the provisional figures and a possible increase in petrol and diesel prices owing to high international oil prices, the mid-June inflation reading of 4.13% was likely to be closer to 4.7%, the report said.

International oil prices have already come close to their all-time high of \$78 a barrel, and oil companies are likely to push for a price hike.

"Having said this, the current situation is a big improvement on the scenario prevailing between December

and March 2006-07," it said.

With appropriate monetary management, headline inflation would continue to drop, it added.

The Reserve Bank of India had raised the repo rate, the reverse repo rate and the cash reserve ratio five times in the past year to check inflation.

Economists said, in the next three months, inflation should be 4% due to the impact of additional supply of goods from various sources, and policy measures.

Saumitro Chaudhuri, member, EAC, and economic advisor, Icra, "Inflation should be maintained at 4%. But the government needs to watch manufactured goods very closely as inflation here is above 5%. This is an important issue as it is not cyclical in nature and will have a permanent impact on inflation."

Rajiv Kumar, director and chief executive, Icrier, said, "It seems quite possible to maintain inflation at the 4%-5% level. But, any satisfaction on abatement of prices of primary products may be premature considering that the impact of the monsoon and availability of wheat is still not clear."

The central bank might also have to relax monetary measures, as growth was likely to slow and this might bring some pressure on the prices again, he added.