Inflation likely to rise from here as food prices remain key risk: Experts

Food prices may push inflation higher, but it will remain below RBI's upper tolerance band: Experts

New Delhi: India's retail inflation is expected to rise from current levels in the coming months, driven mainly by food prices but it will likely remain below the Reserve Bank of India's (RBI) 6 per cent upper tolerance limit, as per analysts.

India's retail inflation rose to 4.45 per cent in July from 4.38 per cent in June, on the back of higher food prices, -- particularly onion, ginger and garlic, according to data released by the Ministry of Statistics and Programme Implementation on Wednesday.

Food inflation, measured by the Consumer Food Price Index (CFPI), increased to 5.52 per cent in July from 5.32 per cent in June, with rural food inflation at 5.79 per cent and urban food inflation at 5.05 per cent.

Vikram Chhabra, Senior Economist, 360 ONE Asset, noted, while inflation is likely to edge up from current levels over the coming months, primarily on account of food prices, it should remain below the RBI's upper tolerance band of 6%.

"Against this backdrop, we expect the RBI to stay on an extended policy pause," Chhabra said.

As per Debopam Chaudhuri, Chief Economist, Piramal Group, the rise in retail inflation during July was largely driven by anticipated supply-side factors, including tomatoes and onions, transport costs, cooking fuel and restaurant prices.

However, she noted, these appear to be transitory in nature rather than reflective of stronger underlying demand.

If geopolitical tensions in West Asia continue to ease over the coming weeks, there is a reasonable probability that retail inflation could undershoot the RBI's projected peak of 5.9% for the December 2026 quarter. Such an outcome would support a more favourable interest rate environment, helping sustain consumer demand while also improving the viability of leveraged private sector capex," she said.

According to Aditi Nayar, Chief Economist, ICRA Ltd, CPI inflation is expected to average 5% in FY2027, in line with the MPC's forecast, with the prolonging of tensions in West Asia and monsoon outturn posing risks to the upside.

"While immediate policy tightening is unlikely, elevated inflation projections for Q3 FY2027 through Q1 FY2028, suggest that the next move on rates is going to be a hike. Evidence of a generalisation in inflationary pressures in the next few months could result in a rate hike in the December 2026 meeting," she noted.

On the other hand, Rajeev Sharan, Head of Research, Brickwork Ratings, noted, "For Q2 FY27 (July-September 2026), we expect headline inflation to average around 4.5-4.7%, with a mild uptick likely in September as base effects turn less favourable. Going forward, food will remain the key swing factor amid uneven monsoon and El Nino-related uncertainty."