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NEW DELHI: Retail inflation cooled to five-year low in January on the back of sliding vegetable and food prices but the lurking price pressure may prompt the Reserve Bank of India (RBI) to maintain a wait-and-watch policy on interest rate for now.

Data released by the Central Statistics Office (CSO) on Monday showed inflation, as measured by the consumer price index (CPI), rose 3.2% in January, slower than previous month's 3.4% and below 5.7% recorded in the same month a year earlier.

This is the slowest retail inflation reading in the current series, which was introduced in 2012.

Rural areas witnessed a slightly higher inflation rate at 3.4%, while in urban areas it was 2.9%. The consumer food price index slowed to 0.5% in January from previous month's 1.4%. In rural areas, food inflation was 1.1%, while in urban centres it fell 0.5% as prices of vegetables and food items softened.

Vegetable prices fell an annual 15.6% in January, while price of pulses contracted 6.6%. Pressure continued to mount on the sugar and confectionary sector where prices rose 18.7%. Economists expect retail inflation to inch upwards in the months ahead.

"A favourable base effect and sequentially softer prices of vegetables and pulses contributed to the decline in CPI inflation to

3.2% in January 2017, in line with our expectations.

A reversal in the base effect and the seasonal rise in prices of perishables are expected to push up the next two readings of CPI inflation. We continue to expect March 2017 inflation to exceed 4.5%," Aditi Nayar, principal economist at ratings agency Icra said.

Experts said the non-food components have shown higher price increases. For example Pan, intoxicants: 6.4%, clothing and footwear: 4.7%, Housing 5.0%, Fuel and light: 3.4% "Clearly the non-food components have registered an increase and would tend to be upward moving going ahead.

Higher global commodity prices will get ingrained in these components, while food items will be unaffected," Madan Sabnavis, chief economist at Care Ratings, said.

Earlier this month, RBI had surprised markets by holding rates, citing emerging inflationary pressures.

The monetary policy panel had projected inflation in the range of 4-4.5% in the first half of the financial year and in the range of 4.5-5% in the second half with risks evenly balanced around this projected path.

"In this context, it is important to note three significant upside risks that impart some uncertainty to the baseline inflation path — the hardening profile of international crude prices; volatility in the exchange rate on account of global financial market developments, which could impart upside pressure to domestic inflation; and the fuller effects of the house rent allowances under the 7th Central Pay Commission (CPC), which have not been factored in the baseline inflation path," RBI had said.

"The focus of Union budget on growth revival without compromising on fiscal prudence should bode well for limiting upside risk for inflation," the monetary policy panel had said.