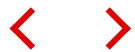


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Inflation above RBI's target for 5 months in a row, brace for more interest rate hikes, say experts

Retail inflation eased to 7.01% in June, from 7.04% in May and a 95-month high of 7.79% in April, but it still breached the upper band of the RBI's medium-term target of 2-6 per cent for a fifth straight month

Written by [Harshita Tyagi](#)

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RBI may raise the repo rate by 35-50 basis points in the upcoming August Monetary Policy Committee meeting

Retail inflation eased to 7.01% in June, from 7.04% in May and a 95-month high of 7.79% in April, but it still breached the upper band of the RBI's medium-term target of 2-6 per cent for a fifth straight month. Finance Minister Nirmala Sitharaman said the timely government assistance in the form of free ration and cash transfer amid the covid pandemic helped India minimise inflationary shocks to the poor and the vulnerable.

Experts said that inflation is likely to harden going forward when high crude oil prices and the impact of monsoon are fully factored in, adding that Ukraine and Russia tensions continue to loom. RBI may raise the repo rate by 35-50 basis points in the upcoming August Monetary Policy Committee meeting, economists said.

Food prices will continue to bite

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Retail inflation eases to 7.01% in June, short-term outlook mixed



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“CPI inflation was steady at 7.0% in June, as favourable base effects offset sequential price rises. We maintain that CPI will stay above 6% until October. We expect RBI to deliver a 35bp repo rate hike in its August MPC, said Rahul Bajoria, MD & Chief India Economist, Barclays. Meanwhile, “Food prices, which account for nearly half of the inflation basket, will remain high due to supply chain issues, crude oil price increases amidst geopolitical tensions. Commodity prices have risen, leaving businesses with no choice but to pass the increased costs onto end users,” D R E Reddy, CEO and Managing Partner, CRCL LLP, said.

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“India’s Jun ’22 inflation came in at 7% YoY, similar to that in May’22 and slightly lower than the consensus (our forecast of 7.3%). Lower inflation was primarily because of lower than expected food inflation (7.8% v/s our forecast of 8.8%). The core inflation was also down to 6.2% last month, slightly higher than our

ease towards 6.5% in 4Q (<6% in Mar'23). In contrast, IIP could grow in double-digit in Jun '22, before easing sharply in 2Q," said Nikhil Gupta, Chief Economist, Motilal Oswal Financial Services group.

Retail and wholesale prices to harden going forward

"The retail inflation for the month of June has clocked in at 7.01%. It is softening albeit at a slower pace over the past three months. However, it is still 3 straight months of inflation remaining above 7% and six straight months of inflation above the RBI's aim of 6%. The slight softening in inflation data is largely on account of a reduction in duties on fuel. We expect the inflation prices to harden going forward as high prices of crude and the impact of monsoon are factored in fully," said Nish Bhatt, Founder & CEO, Millwood Kane International.

Near-term consumer inflation outlook remains a little uncertain

"At 7% in June'22, headline consumer inflation continued to remain outside the RBI comfort zone with broad-based price rise across almost all the categories. Although elevated, various central government measures in the last two months such as reduction in petrol and diesel excise duties, cut in import duty on edible oils, curtailment measures on food exports, etc. helped contain inflation in June as seen in softened sequential price growth. The near-term consumer inflation outlook remains a little uncertain. The global commodity prices have started peaking out due to slowdown in global demand; however, the wide gap between wholesale and retail prices continues to indicate further

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Research, Knight Frank India.

RBI to stay on course to reach 5.75% repo rate by CY2022 end

"CPI inflation in June was in line with expectations at 7%. We have been expecting inflation to remain around the 7% handle for the rest of 1HFY23. Food

decline in 2HFY23. We continue to pencil in repo rate hike of 35 bps in the August policy and RBI should stay on course to reach 5.75% by end of CY2022," stated Suvodeep Rakshit, Senior Economist at Kotak Institutional Equities.

Inflation to average at 6.6% in FY23

"The CPI inflation print is broadly on expected lines as higher costs for cereals, vegetables and services were offset by the lower edible oils and fuel prices. This month's inflation data captures the impact of the excise duty cut on Petrol and Diesel announced by the Government. Going ahead, healthy monsoon progress and Kharif sowing will be crucial for containing food inflation. However, elevated Global crude oil prices and weakening of rupee against dollar pose threat to the near-term inflation outlook," said Rajani Sinha, Chief Economist, Care Ratings

"We expect consumer inflation to track back within the RBI's target range only in the fourth quarter of the current fiscal. For the full financial year, we project inflation to average at 6.6%. RBI's policy action will be contingent on volatility in global crude oil prices and the rate hike trajectory by the US Fed. We see a 50 bps rate hike in August policy followed by incremental hikes of 25 bps each in the next two meetings (till December) with terminal repo rate at 5.90%," she added.

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