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The moderation in retail inflation number is largely in line with the market expectation. The favourable base has masked a sequential rise in prices across the categories. Core inflation also eased, however, was still close to the 6% mark, indicating that inflation has become broad-based. For the next few months, we expect CPI inflation to remain sharply above RBI's upper tolerance limit owing to elevated crude and commodity prices. Also, with expected improvement in the employment situation, there is a risk of a wage-price spiral setting in, which would make the task of reining in inflation even more difficult.

In the second half of the fiscal, we could see some cooling of price pressures due to the control measures taken by the RBI and the government. Robust Kharif output, helped by a conducive monsoon, could ease food prices to a certain extent. A likely slowdown in the global economy will also limit the upside to inflation. Considering all these factors, we estimate the CPI inflation to average around 6.5% in FY23, with an upward bias.

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