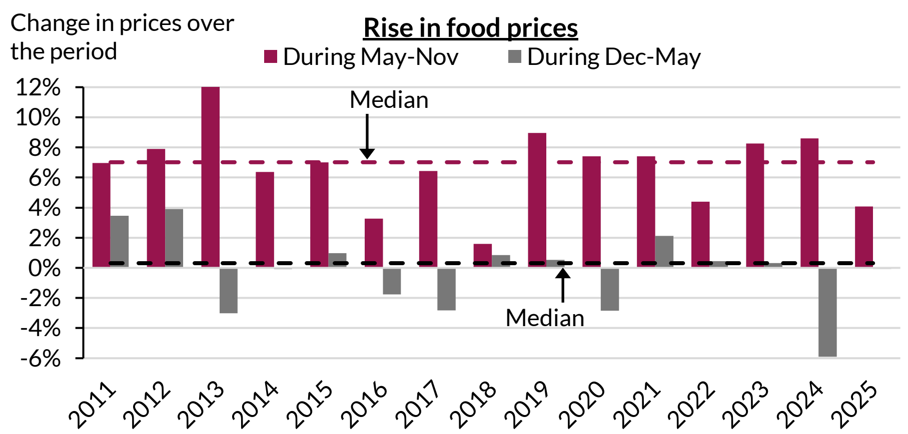
Economic Research | India

Muted inflation buys time for the RBI; food and fuel risks ahead

April CPI inflation remained muted at 3.5% YoY and was below expectations. The modest 8 bps uptick from March was driven by food. Core inflation stayed flat at 3.4%: higher restaurant prices offset easing housing and gold inflation. Our preferred demand led inflation measures show underlying inflation being sub-3%. Unless currency market pressures get hard to manage, we expect the MPC to stay on hold in June. That said, seasonality, weather risks, a weaker INR and a likely pending pass-through from fuel prices pose some upside risks going forward. While these one-time effects don't warrant tightening, headline inflation prints above 5% could revive rate-hike discussions.

12 May 2026
Inflation
Consumer inflation

Exhibit 1 - Food index to rise seasonally going forward, supply side shocks key



Source: MoSPI, Axis Bank Research

Apr CPI inflation remains muted (3.48% vs. consensus at 3.75%)

Headline inflation in Apr-26 rose slightly to 3.5% YoY vs 3.4% earlier (Fig 2) but 30bps below consensus expectations. The slight increase was led by an increase in food prices (Fig 5: 4% vs. 3.7% in Mar-26). Core inflation remained flat at 3.4% as the rise in restaurants' prices driven by lower supply of commercial LPG (4.2% vs. 2.9% in Mar) was offset by lower inflation in gold and 'electricity, gas and other fuels' (Fig 6). Seasonality (Fig 1) shows that food prices rise 7% (median) in the May-Nov period (FY26 an exception). While reservoir and groundwater levels remain above average, supply disruption needs to be watched.

Demand led inflation measures suggest underlying price pressures <3%

Our preferred core indicator suggests that demand side inflation is at 2.6% (Fig 4; Fig 8-9). The underlying price pressure captured by core goods (ex-gold and silver) and core services also remains muted (Fig 3). However, we expect our measures to converge to core inflation over time for two reasons: we are yet to see the retail fuel prices increase and higher than median food inflation will pull median like inflation measures higher.

Despite upside risks to inflation, MPC likely to stay on hold in Jun-2026

The MPC in April raised its FY27 inflation forecasts to 4.6% highlighting risks stemming from higher energy prices and weather-related disruptions (link). Given low inflation prints, we expect the MPC to stay on hold in Jun-26, unless the pressure to stabilize the currency becomes hard to manage without a hike. Upside risks to headline inflation do exist: if food prices grow by 7% (15Y median) from May to Nov, this will add 1.1pp to headline inflation. Further, if retail fuel prices rise by 10%, it will add another 45 bps to inflation. While this, and a weaker INR are one-time shocks, headline at 5.1% can trigger discussion of hikes.

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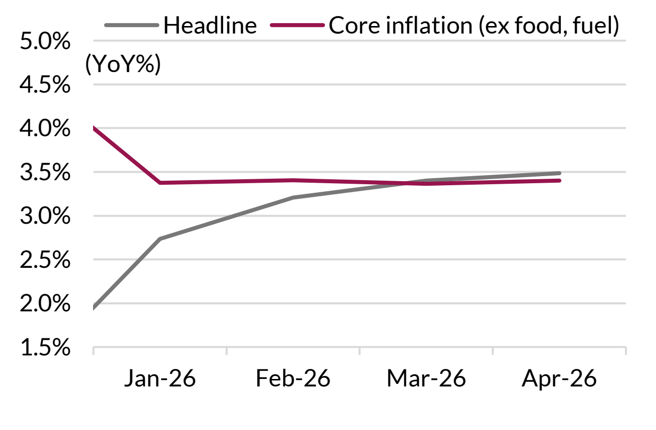
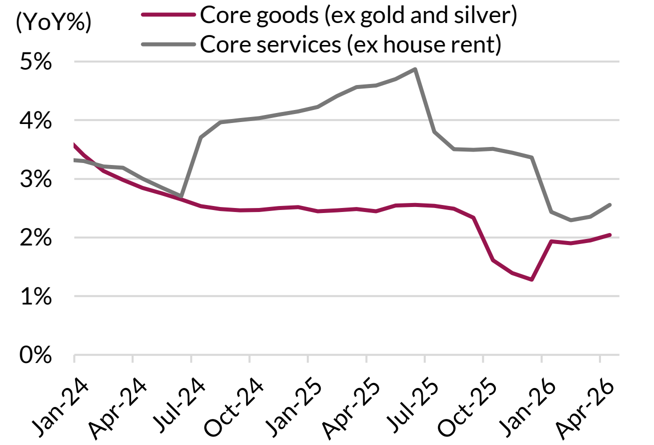
Exhibit 2 – Headline and core inflation remain muted in Apr-26 as well



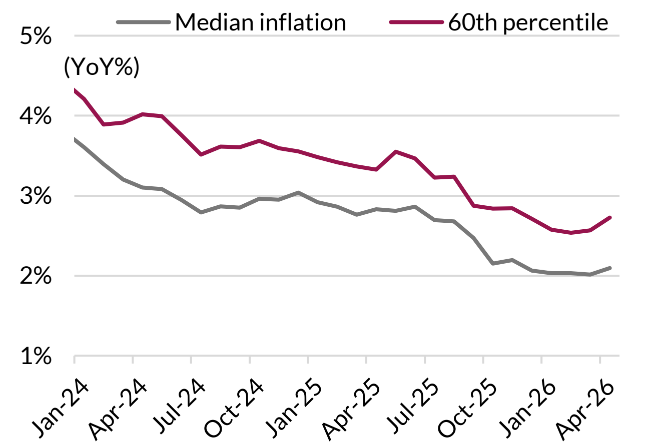
Source: MoSPI, Axis Bank Research

Exhibit 3 – Core goods prices (ex-gold and silver, food and fuel) rising at 2%, while core services inflation rose to 2.6%



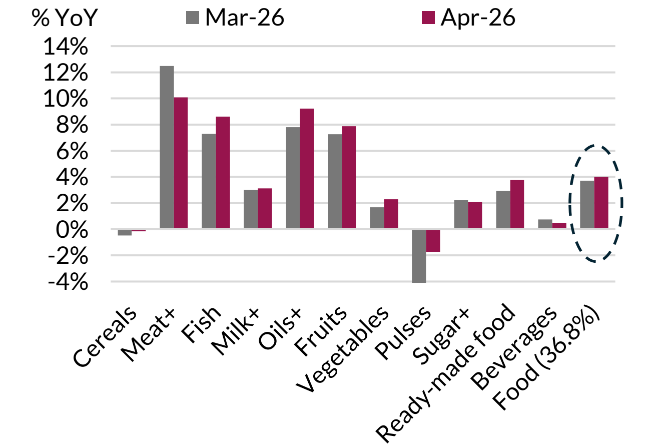
Source: MoSPI, Axis Bank Research

Exhibit 4 – Our preferred measure of demand inflation (link) suggests underlying price pressures growing at 2.6% pa



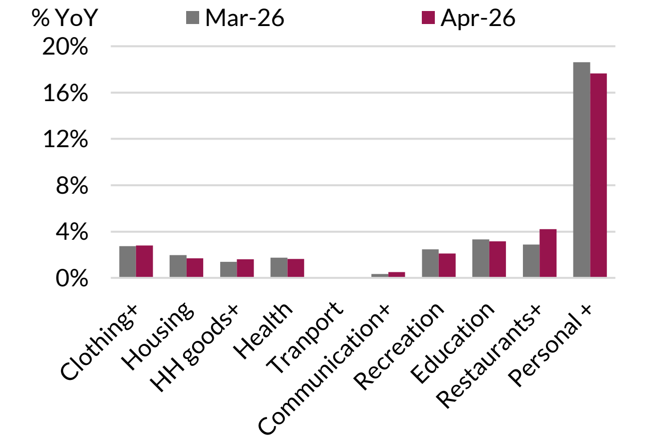
Source: MoSPI, Axis Bank Research

Exhibit 5- Higher food prices driven by meat, fish, pulses and edible oils and packaged foods



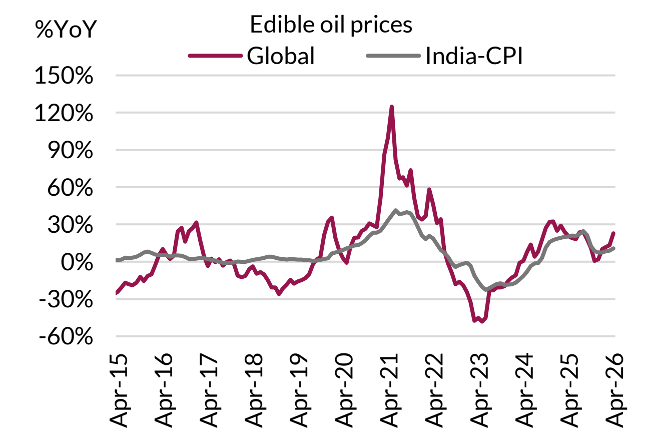
Source: MoSPI, Axis Bank Research

Exhibit 6 – Inflation in restaurant services shot to 4.2% likely due to energy disruptions driving costs higher



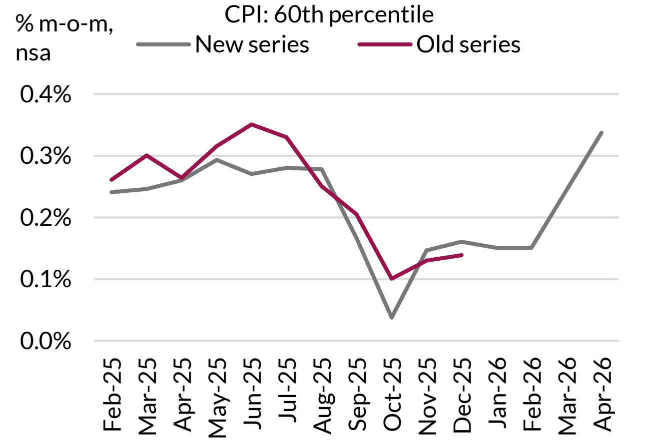
Source: MoSPI, Axis Bank Research

Exhibit 7 – India's edible oil prices track global prices closely; elevated global prices due to war to weigh on food CPI



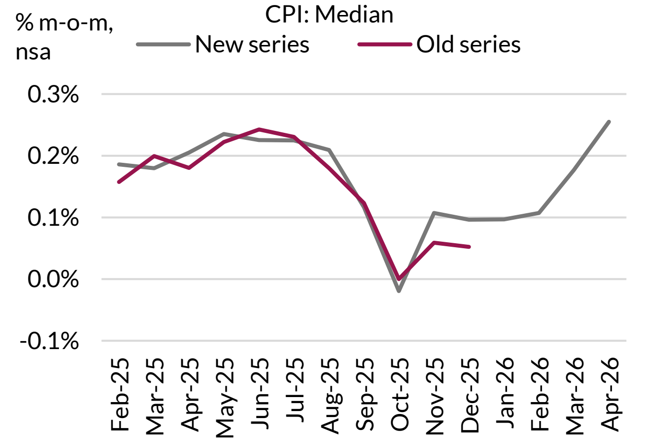
Source: MoSPI, Axis Bank Research

Exhibit 8 – Our measure of core inflation (60th percentile) in the new series moved largely in line with the old series…



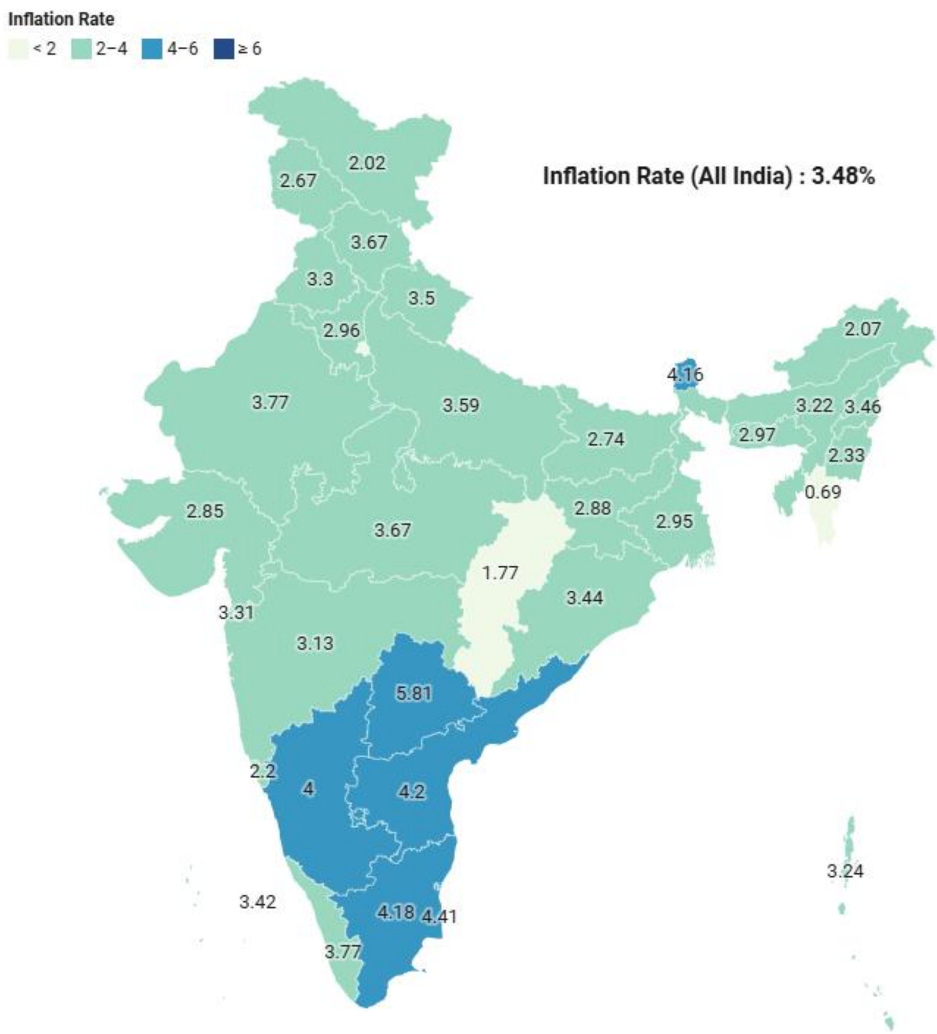
Source: MoSPI, Axis Bank Research

Exhibit 9 – … with a slight upward bias but the changes in the median measure are similar across the old and the new series



Source: MoSPI, Axis Bank Research

Exhibit 10 – State-wise inflation rates for April 2026



Source: MoSPI, India. Prepared by Data Informatics & Innovation Division (DIID) @GoIStats

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