

PRESSURE POINTS Many economists feel consumer price gauge will move significantly above RBI's 4.6% forecast; Cite El Niño risk, rupee decline and elevated crude prices as key factors

June a Hold Even as Inflation Heat Rises, Some Expect H2 Rate Hikes

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Mumbai: Three out of 12 economists said they expect the Reserve Bank of India (RBI) to raise policy rates this fiscal year itself on concerns of rising inflation amid the West Asia crisis, while the others believe policymakers would opt to see through near-term prints and vote in favour of a prolonged pause instead.

In their respective macro analyses published after the April inflation prints, many economists said they expect the consumer price gauge to move significantly above RBI's 4.6% forecast for FY27.

All 12 economists, however, expect the central bank to maintain the status quo on rates in its June 5 monetary policy meeting.

The consumer price index (CPI)-based inflation gauge in April stood at 3.48%, the highest since May 2023.

Between February and December last year, RBI lowered policy rate by 125 basis points to 5.25%. It has maintained a status quo since February.

Economists at ANZ Bank expect the central bank to raise rates twice in the second half of 2026, while Kotak Mahindra Bank said risks of an earlier-than-expected tightening cycle, potentially as early as October, are beginning to build. Economists from HSBC, too, expect two hikes in the second half of FY27.

Lenders' View

Status quo in June... but long-term expectations differ

Bank	Long-term (H2 FY27) expectations
HSBC	Two 25 bps hikes in FY27
ANZ Bank	Two 25 bps hikes in FY27
Kotak Mahindra Bank	Increased risk of hike in Oct
DBS Bank	Scope of rate hike (did not give a time)
Barclays	Pause, bar for hike is high
Piramal Finance	Pause in short term
Nomura	No hike this year
Bank of Baroda	Pause
SBI	Pause
ICRA	Pause
IDFC First Bank	Pause



Institutions like IDFC First Bank, Barclays and Nomura are among the nine economists who do not expect any hikes in rates this year.

Economists pencilling in rate increases in the latter half of the fiscal year said a resurgence in inflationary pressures would be the primary trigger for further tightening by RBI. They cited the risk of El Niño conditions disrupting food supplies, a depreciating rupee and elevated crude oil prices as the key factors likely to push inflation higher in the coming quarters.

TWO HIKES?

"Inflation is projected to rise broadly in the future, averaging 5% in FY27 overall and remaining persistently high for several quarters. To tackle this, we expect the MPC to increase the repo rate twice in Q4 2026 by 25 basis points each," Dhiraj Nim, economist and FX strategist, ANZ Bank, said in a report Tuesday. HSBC expects terminal inflation at 5.6% in FY27, thus factoring in two rate hikes of 25 basis points each for the repo rate to reach 5.75%.

On the other hand, economists ex-

pecting RBI to remain on pause argue that while inflation is likely to rise in the coming quarters, it is still expected to remain around RBI's comfort level and its FY27 projection.

"Unless the economy starts to showcase demand-driven inflation pressures, we expect the MPC to look through the imminently higher inflation outcomes, while keeping in mind the loss of economic growth amid the ongoing prolonged conflict in West Asia," Barclays said in a note.

Barclays expects FY27 inflation at 4.5%. IDFC First Bank expects the FY27 inflation at 4.9%.

"During past supply-side shocks, the central bank has raised policy rates only after headline inflation breached the 6% threshold for several months. Hence, RBI is expected to remain on pause," Gaura Sen Gupta, chief economist, IDFC First Bank told ET.

While economists remain divided, with a growing minority beginning to expect rate increases, the bond market has moved more decisively towards pricing in tighter monetary policy. The one-year overnight indexed swap (OIS), the most widely-tracked gauge of near-term interest rate expectations, is currently trading at 6.04%. Given that the one-year OIS typically trades around 25 basis points above the expected repo rate, markets are effectively pricing in a policy rate of about 5.80% over the next year.