

India's Inflation Conundrum Set to Worsen, RBI Survey Shows  
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By Anirban Nag

(Bloomberg) -- India's inflation problem is set to get worse in the coming months and consumers are not feeling happy about it.

According to a forward looking survey by the central bank, urban Indians expect inflation to gather pace in the coming months. The median inflation expectations for three months and one-year ahead rose by 90 basis points and 130 basis points, respectively, compared with the March survey. The proportion of respondents who see prices increasing at more than the current rate also rose.

That does not bode well for the bond market and will probably make the six-member monetary policy committee more vigilant about price pressures. It also sets the stage for more tightening in the near term.

On Wednesday, the Reserve Bank of India raised the repurchase rate to 6.25 percent from 6 percent - the first increase since 2014 -- as an economic recovery boost price pressure. It also revised its inflation forecast for fiscal year 2019, with the second-half estimate raised to 4.7 percent from 4.4 percent.

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"I believe there is more upside," Pranjul Bhandari, chief India economist at HSBC Holdings Plc told Bloomberg TV, referring to the inflation projections. She added the central bank hadn't factored in the impact of the government's planned purchase of agricultural produce from farmers later this year. That should have an impact on food prices and see second-half inflation accelerate toward 5.2 percent and force the RBI to raise again in October, she said.

India will release May inflation data on Tuesday and some economists expect it to come in at about 5 percent on the back of higher crude oil prices. That is above the central bank's medium-term target of 4 percent.

Consumers, of course, are becoming unhappy as prices rise. Households' sentiments on the general economic situation worsened in May with 48 percent of the respondents feeling that the situation had deteriorated, a separate RBI survey on consumer sentiment showed.

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