

# Inflation inches up to 2.07% in August

## Urban price rise outpaces rural with a 2.47% uptick

**SHIVA RAJORA**

New Delhi, 12 September

India's retail-inflation rate, based on the consumer price index (CPI), recorded a slight uptick in August to 2.07 per cent from an eight-year low of 1.61 per cent in July owing to a low base and reduced deflation in food prices.

The inflation data, released by the National Statistics Office (NSO) on Friday, showed retail prices rose 1.69 per cent in rural India and 2.47 per cent in urban areas.

Economists reckon while low prices bode well for consumers, with the recent cuts in goods and services tax (GST) rates expected to further lower the inflation print up to 90 basis points (bps) this financial year.

However, it is not good for the government's balance sheet with the impact of slower gross domestic product (GDP) growth visible and rise in tax collection trailing the FY26 Budget targets.

The latest inflation print is in sync with the downward revision in price projections by the Reserve Bank of India (RBI) in its bimonthly policy review last month, with the average pace for 2025-26 (FY26) estimated at 3.1 per cent from 3.7 per cent.

While consumer prices increased an average of 2.69 per cent in the first quarter this financial year (Q1FY26), the RBI expects Q2 price rise to average 2.1 per cent before reaching 3.1 per cent in Q3 and 4.4 per cent in Q4.

Madhavi Arora, chief economist, Emkay Global, said the continued spate of the inflationary undershoot versus the RBI's estimates would ensure that the FY26 inflation rate would likely be lower than the central bank's estimate by at least 50 bps.

Besides, the disinflationary bias may be increased further amid the domestic GST rate cuts.

"The RBI's focus on inflation one year ahead appears increasingly misplaced in an evolving world, particularly as the global landscape continues to shift toward a disinflationary bias in Asia. We think downside risks to growth would be increasingly evident with global resets and monetary easing led by Fed, and

could open up space for easing in the rest of the year, even though the Monetary Policy Committee seems to have raised the bar for further easing," she added.

Meanwhile, Paras Jasrai, associate director, India Ratings, said the full impact of GST rate rationalisation would start in October and the demand push due to this remained the key to monitor for a fiscal impact because a low inflation trajectory was "not so good" for the government's finances.

The data showed food prices recorded a reduced deflation rate in August (-0.69 per cent) as compared to minus 1.8 per cent in July. This was largely driven by a 16.92 per cent year-on-year (Y-o-Y) rise in tomato prices, the sharpest in seven months.

The prices of eggs (3.12 per cent), sugar (3.73 per cent), and meat (1.48 per cent), also increased during the month.

While pulses prices fell further by 14.5 per cent (Y-o-Y), the steepest dip in over seven years, edible-oil prices (21.2 per cent) continued to inch up and recorded a double-digit rise for the tenth consecutive month.

Though the rise in prices of fruit decelerated, they remained in double digits (11.6 per cent), marking the eighth consecutive month of over 10 per cent rise for the category.

Cereals, which have a 12.35 per cent weight in the CPI, saw prices decelerate 2.7 per cent.

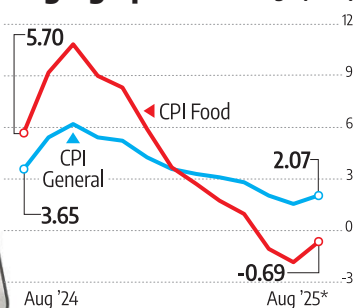
Rajani Sinha, chief economist, CareEdge Ratings, said food prices were likely to stay moderate, supported by healthy agricultural activities, a favourable base, a good progress in the monsoon, adequate water in reservoirs, and strong kharif sowing.

"That said, risks remain from the late withdrawal of the monsoon and heavy rain in certain regions, which could damage crops. Additionally, a persistently high double-digit rise in prices of edible oils warrants close monitoring, given weak sowing trends, import dependence, and elevated global edible oil prices," she added.

Echoing similar views, Icria Ratings Chief Economist Aditi Nayar said the sequential buildup in prices had been modest this financial year so far, aided by a relatively benign uptick in food prices.



**Edging up** Y-o-Y change (in %)



\*Provisional

Source: NSO