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India's retail inflation jumped further in May to a four-month high, primarily driven by a surge in energy prices, according to a Reuters poll of economists, suggesting more policy tightening from the central bank is coming. On June 6, the Reserve Bank of India raised the repo rate for the first time since 2014, by 25 basis points to 6.25 percent, as recent data showed significant increases for both inflation and growth. But the central bank kept its "neutral" policy stance unchanged. Mounting price pressure is a concern for the [RBI](#), with its own projections for inflation raised compared with the ones made in May.

The poll of more than 30 economists taken June 4-8 showed annual consumer price inflation likely increased to 4.83 percent last month, the highest since January and above April's 4.58 percent. If that predicted pace is realised, May will be the seventh month in a row with inflation higher than the RBI's medium-term target of 4 percent. "Consumer price inflation is likely to have accelerated in May, due in large part to a rise in fuel inflation," noted Shilan Shah, a senior India economist at Capital Economics. "Core inflation will also have remained elevated, and this is likely to be the case for some time."

Poll forecasts for the data, due to be released on Tuesday June 12 at 1200 GMT, ranged from 4.1 percent to 5.7 percent. Oil prices hit a 3-1/2-year high last month, led by increasing

worries of supply constraints from U.S. President Donald Trump's decision to withdraw from the 2015 Iran nuclear agreement. India imports almost 80 percent of its oil needs and that surge poses a threat not just to inflation but also to the recovering economy, which still is the fastest-growing major economy.

“Rising crude prices would not only impact headline inflation but would also put pressure on price levels as the twin deficit goes up,” noted Kunal Kundu, an economist at Societe Generale, referring to India's budget and current account gaps. The government's plan to increase rural spending and the minimum support price for farmers ahead of general elections next year will exacerbate price pressures, and is likely to blow out the fiscal deficit target. What has also not helped is the weakening rupee, which has shed 5.7 percent against the dollar this year. The currency's fall is also inflationary, and increases concern about capital outflows from Asia's third-largest economy – another reason that some expect more rate hikes by the RBI.

The poll also showed the wholesale prices index likely hit a six-month high of 3.82 percent in May. “The outlook for core inflation suggests that (the June 6) rate hike by the central bank marks the start of a modest tightening cycle rather than being a case of a one-off move,” noted Shah. “We are penciling in two further 25 basis point increases in the repo rate over the next six months or so.” The poll also predicted industrial output to have risen 5.2 percent in April from a year earlier, up from 4.4 percent in March. That was likely driven by the increase in output of eight core factories – which account for nearly 40 percent of total industrial production – by 4.7 percent in April from a year earlier. The March increase was 4.4 percent.

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