

## Indian inflation still falling

Inflation in May fell further and is now only just above the mid-point of the Reserve Bank of India's 2-6% target range. We don't think inflation will fall much further, but this still means real policy rates are high, and that the RBI can start to think about reversing some of its tightening as early as 4Q23



Source: Shutterstock

**4.25** CPI inflation  
YoY%

As expected

### Further falls in inflation

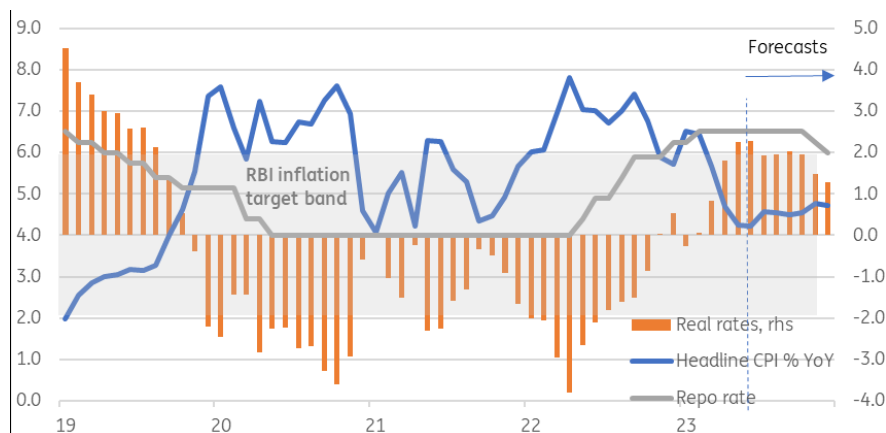
At 4.25%YoY, India's May inflation figures were close to expectations (consensus 4.31%, INGf 4.27%) but are nonetheless a welcome sight for policymakers and households alike.

Inflation has fallen a long way from its 7.8%YoY peak in 2022. But although we may get a further

month of falls in June, this may be as low as inflation gets for a while - unless we see some more moderation in the monthly run-rate. The CPI index has risen by 0.5% MoM in the last two months and if this persists, it will take inflation back up towards 5%YoY by the year-end. It will require a slowdown in the pace of CPI increase to between 0.3-0.4% MoM keep inflation close to the middle of the RBI target range.

This, and the fact that core inflation (ex-food and beverages, fuel and light) has only fallen to 5.0%YoY means that is still too early to say the inflation fight has been won.

## Inflation, policy rates and real rates



Source: CEIC, ING

## Real policy rates high

But even if further proof may be needed before declaring "job-done" on inflation, at 6.5%, the gap between the policy repo rate and current inflation is high, and that means that the RBI's tightening should be having the desired dampening effect on the economy and inflation.

It is too soon to be looking for the RBI to cut the repo rate. But rate cuts before the year-end are still possible. Rate cuts this year would be more likely if we were to see concrete signs that monthly inflation had eased, core rates continued to fall, or that the economy was showing some more obvious signs of a slowdown. So the next few months of data will be important.

We are currently pencilling in 50bp of easing by the RBI by the end of 4Q23. This is earlier than the consensus of forecasters. Though we may see the RBI adopting a neutral stance on policy at its next meeting on 10 August as a first step towards actual easing.

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).