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INDIA'S INFLATION BREACHES 6%

Key Drivers and RBI's Inflation Mandate

1. Latest Developments

In October 2026, India's household inflation crossed 6% for the first time in two years, touching the upper limit of the Reserve Bank of India's (RBI) legally mandated tolerance range.

This threshold matters legally: if average Consumer Price Index (CPI) inflation stays above 6% or below 2% for three consecutive quarters, the RBI is deemed to have failed its inflation-targeting mandate.

With economists warning that inflation could stay elevated until June 2027, understanding the drivers of this surge has become critical for policymakers and households.

2. The RBI's Inflation Mandate: Why 6% Matters

- Inflation is measured through the Consumer Price Index (CPI).
- By law, the RBI must keep average CPI inflation within a 2–6% tolerance band.
- Breaching this band for three consecutive quarters constitutes a formal policy failure under the RBI's mandate.
- Economists warned that inflation is "likely to print above 6% until June 2027", signalling a prolonged period of price pressure rather than a one-off spike.

3. Airfares: The Biggest Single Driver

- Average airfares rose 43% in October compared with the same month last year.
- Among all 358 goods and services in the CPI basket, airfares recorded the single largest month-on-month price increase (13.36%).
- Contributing factors: the West Asia war sharply raised jet fuel costs, compounded by seasonal festival-time demand.
- The issue reached the Supreme Court, with a plea seeking a cap on airfares ahead of the festival season. The Court declined an urgent hearing, with Justice Vikram Nath remarking, "Don't travel by air."

4. Chipflation: The Electronics Price Spiral

The rising cost of memory chips used in consumer electronics—termed "chipflation"—is increasingly driving household inflation.

- Pen drives: prices increased by 22% in October.

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- Phones and laptops: prices increased by 9%.
- Other major electronic appliances: prices increased by 4-5%.

A key concern for policymakers is that manufacturers indicate the global chip shortage is not expected to ease for several years, making this a structural rather than temporary inflationary pressure.

5. Food Inflation: The Most Visible Squeeze

- Food inflation jumped to 8.94% in October—the price rise households notice first and most directly.
- Dining out has also become costlier due to rising cooking gas prices for restaurants.
- Experts attributed the surge to a combination of weak monsoon impact and festival-season demand.

6. Core Inflation: Why the Underlying Picture Is Also Worsening

Food and fuel prices are volatile and can swing sharply due to temporary supply changes. To gauge underlying price pressure, economists track "core inflation"—CPI excluding food and fuel.

An even more refined measure, "core-core inflation", excludes food, fuel and jewellery as well.

- All underlying inflation measures are rising, not just the headline figure.
- The RBI had projected average core inflation at 4.4% for 2026-27.
- October's reading already stood at 4.5%, while the average for the first seven months was 3.9%, indicating inflation is running ahead of the RBI's own projections.

7. Inflation Is Not Just Rising—It Is Spreading Wider

- A total of 95 of the 358 items in the CPI basket recorded inflation of 6% or more in October, compared with just 40 items in January—more than double in less than a year.
- Experts noted that inflationary pressures are spreading beyond energy-related sectors, with pipeline price pressures from wholesale and producer levels likely feeding more visibly into consumer prices.
- With Wholesale Price Index (WPI) and Producer Price Index (PPI) inflation still in double digits and growth remaining resilient, further pass-through to consumer prices is highly likely.

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8. Conclusion

India's inflation challenge extends well beyond seasonal food-price swings. Rising airfares, a structural global chip shortage and broadening price pressures across the CPI basket point to a sustained, rather than transient, inflationary phase.

With core inflation also climbing and pipeline pressures from wholesale prices remaining elevated, the RBI faces a genuine challenge in steering inflation back within its mandated band over the coming quarters.

Source: The Indian Express (IE)

