

Quickonomics

June 2, 2026

From pumps to prices

How higher fuel prices can escalate inflation in India

Retail petrol and diesel prices have risen ~Rs 7.5/litre since May 15.

Further hikes are possible if crude prices remain elevated.

With oil marketing companies gradually paring their losses (or under-recoveries), cumulative hikes could move closer to Rs 10/litre in the near term.

The broader effect will reverberate across the economy through higher transport costs, pushing up both food and core inflation.

- The direct upside to inflation linked to the Consumer Price Index (CPI) is estimated at ~36 basis points (bps) with a hike of Rs 7.5/litre in petrol and diesel prices), rising to ~48 bps if the retail fuel prices increase by Rs 10
- **Producers face a dual cost shock, with higher prices of:**
 - Crude, petroleum products and gas raising manufacturing costs¹
 - Fuel increasing transport costs, which will add to final price paid by the consumer. We use the latest Supply and Use Tables for fiscals 2023 and 2024 to identify categories that are transport-intensive, which could see stronger price pass-through to retail prices in coming months

Why transport costs matter

Transport is a major channel through which fuel inflation radiates across the economy. While freight transport accounts for 54%² of India's logistics cost, road transport represents nearly 71%³ of total freight movement.

Fuel is the single largest component of road transport costs at ~42%, as per the NCAER study.

The increase in retail fuel prices will directly impact these freight costs structures and feed into prices across supply chains in coming months.

How the second round affects price transmission

Food inflation - The confluence of a low base and rising transport costs will quicken the pace of food inflation. Supply and Use Tables suggest transport costs contribute more to the prices of **dairy products, tea, coffee, fruits, pulses, spices, eggs, meat and fish**. These categories are more vulnerable to increases in fuel and transportation costs.

¹May 2026, 'Quickonomics: Input Costs on Fire', Crisil, https://www.crisilresearch.com/#/home/economythoughtcorner/5_44_20007

²September 2025, 'Assessment of Logistics Cost in India', Logistics Division, Department for Promotion of Industry and Internal Trade and National Council of Applied Economic Research

³June 2021, 'Fast Tracking Freight in India', Niti Ayog and RMI India

Core inflation – A sharp rise in transport costs, coupled with cost pressure from other commodities will raise core inflation.

Clothing, electronic products, wood products and housing-related construction materials (including cement, ceramics) are more transport-intensive than the national average. Rising transport prices will impact the final prices of these products.

Manufacturing inputs such as mining (iron, coal) and chemical products are also transport-intensive; thus, input cost pressure for manufacturers will likely increase.

Given broadly steady demand conditions so far, manufacturers are increasingly likely to pass on higher costs to consumers to protect profit margins. Alternatively, they can also resort to ‘shrinkflation’ — reducing volumes for a product at the existing price.

A counterbalance, but only partial

The goods and services tax (GST) rationalisation announced in September 2025 lowered inflation across several mass consumption items such as electronics, automobiles, clothing, fast-moving consumer goods, and processed foods. The GST rate was lowered on roughly 11 out of the top 30⁴ consumption items.

The action should continue for at least a year to provide a partial counterbalance, if not fully neutralise pressure from elevated energy costs.

RBI on watch

Crude prices have averaged ~\$112/barrel for the first two months of this fiscal, with our base case expectation at ~\$95/barrel for the full fiscal. The economy has only recently started facing retail fuel price hikes with some more in the anvil amplifying both the direct and indirect inflationary risks.

Though CPI inflation currently remains below the Reserve Bank of India’s (RBI) 4% target, it is projected to move up but not cross the upper limit 6% tolerance band.

We expect the RBI Monetary Policy Committee (MPC) to look through these supply-side impressions on CPI price inflation.

But it is likely to remain watchful of spillover risk to household inflation expectations, and the possibility of the second round leading to generalisation of price pressures.

The implications of expected below-normal monsoon and evolving El Niño conditions on food inflation will also be monitored.

⁴September 2025, ‘Crisil Insight: Goading Consumption’, <https://www.crisil.com/content/dam/crisil-intelligence/what-we-think/reports/2025/09/goading-consumption.pdf>

Analytical contacts

Dharmakirti Joshi

Chief Economist

dharmakirti.joshi@crisil.com

Dipti Deshpande

Principal Economist

dipti.deshpande@crisil.com

Pankhuri Tandon

Senior Economist

pankhuri.tandon@crisil.com

Bhavi Shah

Junior Economist

bhavi.shah@crisil.com

Media contacts

Ramkumar Uppara

Media Relations

Crisil Limited

M: +91 98201 77907

ramkumar.uppara@crisil.com

Roma Gurnani

Media Relations

Crisil Limited

M: +91 70662 92142

roma.gurnani1@ext-crisil.com

Sanjay Lawrence

Media Relations

Crisil Limited

M: +91 89833 21061

sanjay.lawrence@crisil.com

About Crisil

Crisil is a global, insights-driven analytics company. Our extraordinary domain expertise and analytical rigour help clients make mission-critical decisions with confidence.

Large and highly respected firms partner with us for the most reliable opinions on risk in India, and for uncovering powerful insights and turning risks into opportunities globally. We are integral to multiplying their opportunities and success.

Headquartered in India, Crisil is majority owned by S&P Global.

Founded in 1987 as India's first credit rating agency, our expertise today extends across businesses: Crisil Ratings, Crisil Intelligence, Crisil Coalition Greenwich and Crisil Integral IQ.

Crisil's global workforce operates in the Americas, Asia-Pacific, Europe, Australia and the Middle East, setting the standards by which industries are measured.

For more information, visit [Crisil.com](https://www.crisil.com)

Connect with us: [LinkedIn](#) | [Twitter](#)

Crisil Privacy

Crisil respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from Crisil. For further information on Crisil's privacy policy please visit <https://www.crisil.com/content/crisilcom/en/home/crisil-privacy-notice.html>.