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Dipanwita Mazumdar  
Economist

## **Inflation is still in good books**

*CPI got the food driven sigh of relief in Jul'25 as well. The broad comfort came from vegetables, pulses and cereals. The sequential picture showed some reversal in trajectory of Tomato and Onion led by rain-related disruption. Our BoB ECI is running at -1.1% in Aug'25 compared to -3.1% in Jul'25. So, some loss of momentum in deflation is happening. The build-up in prices needs to be monitored carefully. For now, we do not see any immediate shock in CPI from elevated tariff rates as our study has shown that CPI basket is broadly cushioned from imported inflation. At the current juncture, the downside risks to inflation are expected to be more pronounced emanating from elevated risks to growth.*

## **Food continued to pull down headline**

**CPI reached its lowest since Jun'17:** CPI inflation softened significantly to 1.55% in Jul'25 (in line with BoB forecast of 1.5%), on YoY basis compared to 3.6% inflation seen in Jul'24. The fine prints show that food index remained in deflation territory for 2 consecutive months in a row, falling by -1.8% in Jul'25 compared to 5.4% in Jul'24. The underlying components of food inflation showed that 5 out of 10 broad categories remained in deflation and the pace was sharper compared to last month. The significant loss of momentum was noticed in case of vegetables (-20.7% in Jul'25 compared to 6.8% in May'24), pulses and products (-13.8% compared to 14.8%, during the same reference period), cereals and product (3% compared to 8.1%) and eggs (2.3% compared to 6.8%). The outlook for food inflation seems favourable at the current juncture with supply data remaining in favour. Cereals, especially rice, is supported by better production data. Some stickiness is visible in case of international price of oilseeds led by robust global import demand. Even the sowing pattern of oilseeds on domestic front has been weaker.

The sequential picture of food inflation shows some buildup especially for vegetables. A stickier tomato price trajectory coupled with some firmness in onion prices might have attributed towards the same. This was also on account of rain related disruptions. Other than this, sequential increase was seen in fruits and oils and fats.

**Core CPI (excl. food and fuel) also softened to 4.1%**, on YoY basis. Among major sub-components, transport and communication (led by favourable base) and education have been the major drag down. However, some consumer-oriented services such as household goods and services maintained momentum. Core excl. Transport and Communication have remained sticky at 4.5%.

The sequential picture shows considerable loss of momentum for personal care and effects and education. For personal care and effects, the MoM drop in international gold prices by -0.4% have supported the print.

Going forward, we expect core to remain in the range of 4.2-4.5%. Some support will come in H2 in the form of pickup in government spending, buoyancy in rural demand on account of higher MSP and benign food inflation. On the other hand, downplay may be on account of elevated risks to growth from exorbitant tariff rates imposed by the US on India. Some bit of loss in global demand might be

compensated for by domestic demand. However, one needs to be vigilant about how the commodity matrix will play out in case of higher intermediate input cost. Our analysis shows that imported inflation has little risks to headline CPI. Some pass through might be visible through the WPI channel. But in the wake of a benign growth and commodity price cycle, the impact would be largely capped.

**Fuel and Light** inflation rose to 2.7% on YoY basis and some sequential pickup was witnessed due to slight pickup in Kerosene prices.

**Way forward:** Headline CPI is getting the handholding from softening food inflation supported by better supply dynamics. In the coming days as well, robust sowing, especially for rice, would further lent support. However, one needs to be watchful for any reversal in trajectory of vegetable and fruit prices. The Tomato and Onion overshoot is again happening. However, proactive Government measures have already started coming up. For Onion, the buffer stock release has already been announced. However, from Sep-Dec, we have the advantage of a favourable statistical base. Hence inflation is expected to be broadly in stride. The current cycle is acting in favour of us when inflationary impact from tariff is the centre point of global discussions. We expect the downside risk to global growth will largely keep international commodity price in check. This is expected to partly negate the higher tariff rates in place. However, one needs to be watchful of the impact of complete ban on Russian oil. In this case, some diversification towards Kuwait and Iraq would also lend support.

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**For further details about this publication, please contact:**

Economics Research Department  
Bank of Baroda  
[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)