

CPI continues to be favourable for monetary easing

CPI continued to provide comfort led by favourable food inflation. Even sequential data showed loss of momentum for vegetables. The recent trajectory of retail prices of Tomato is witnessing some upward correction. However, the gap between retail and wholesale prices of Tomato is higher than historical average which shows some passthrough of lower wholesale prices is yet to show its effect. Further Q4 is the harvesting period of majority of these vegetables. Thus, mandi arrivals are likely to be supportive. For core inflation, the usual gold-driven increase in inflation persisted. However, Core excl. Gold and Pan Tobacco, is much lower at 2.6%. The coming quarter might witness some momentum in headline CPI due to the usual reversal of favourable statistical base factor. However, the new CPI series is expected to show more light regarding distribution of weights and inclusion of new parameters. For now, we see risks to inflation are on the downside and provides space for RBI for one more rate cut in the current cycle.

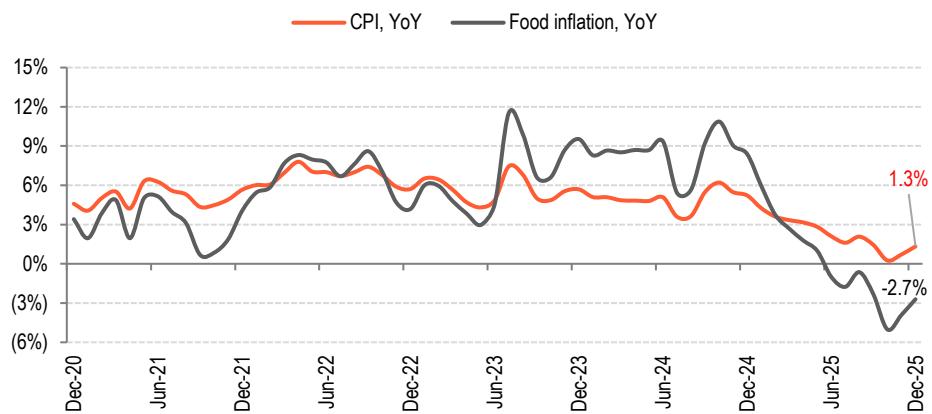
Food continued to support CPI

CPI continued to be below the lower band of RBI's target: CPI inflation reading came in at 1.3% in Dec'25 compared to 5.2% in Dec'24, on YoY basis (BoB est.: 1.4%). The below 2% headline print has continued for 6 months in a row despite slightly unfavourable base for the month. This is led by food driven deflation at -2.7% in Dec'25, albeit at a slower pace compared to Nov'25. Among major items, sharp pace of deflation continued for vegetables (-18.5% in Dec'25) and pulses (-15.1%). This is driven by better production data. CPI excl. vegetables and pulses is also lower at 3.6%. Notably, 5 out of 10 broad items of food are still tracking below 4% inflation. Some stickiness is noticed for eggs, meat and fish. For oils and fat, inflation is seeing some moderation at 6.8% in Dec'25 compared to 14.6% in Dec'24.

The sequential picture of food inflation also showed loss of momentum especially for cereals, vegetables and pulses. For Eggs and meat and fish, some increases were visible. For Eggs seasonal factor came into play. On a seasonally adjusted basis, consumer food price index has inched up by 1%, MoM, thus some seasonality has pulled down inflation for this month.

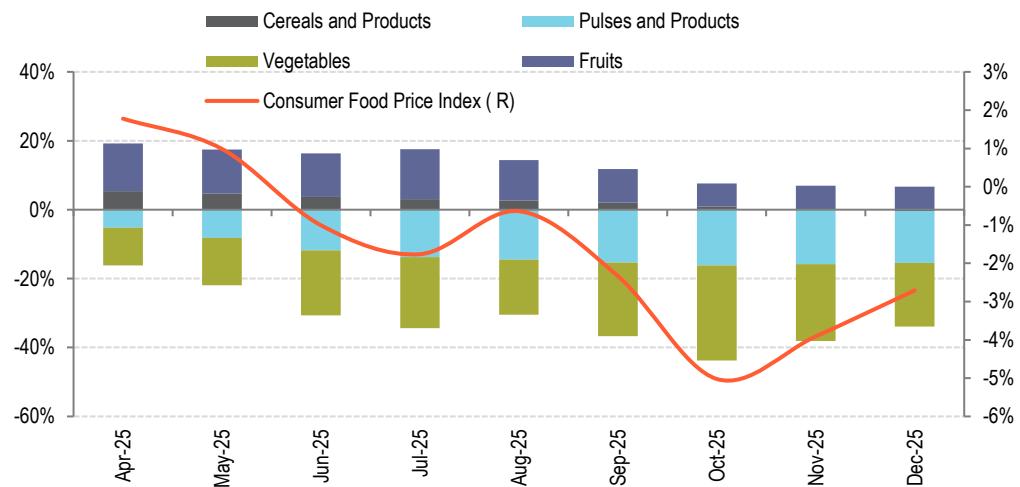
Going forward, the outlook for food inflation does not seem to be much of a worry. For TOP (Tomato, Onion and Potato), we have witnessed slight momentum in prices in Jan'26 with Tomato trajectory witnessing upward correction. However, potato and onion prices have remained supportive which is likely to pull down the overall TOP trajectory. The mandi arrivals statistics have also not posed much of a supply concern. Further, government food management policies, whether releasing buffer stock or timely procuring and providing at a subsidized rate in future, will provide the desired band of comfort to food inflation, if any risks emerge. Q4 also coincides with the harvesting months especially for TOP vegetables, which generally go with higher arrivals. Hence the recent increase in Tomato price, is not much of a worry.

Figure 1: Food is providing comfort to CPI



Source: CEIC, Bank of Baroda Research

Figure 2: ...Vegetables, pulses still in deflation



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) is at 4.6%, on YoY basis. However, Core excl. Gold, Pan Tobacco on the other hand, is much lower at 2.6%. Thus, volatility of international gold price (5.4% & 63%, MoM & YoY, respectively) has been a major driver for core inflation. It is to be mentioned that this month as well, gold prices have the upside risk due to ongoing geopolitical tensions and increased safe-haven demand. The GST driven fall has increasingly impacted core services inflation which has come off from 3.1% in Sep'25 to 2.6% in Dec'25. Thus, broadly core inflation is likely to be capped.

The sequential picture also mirrored the same trend. Only notable change was visible for personal care and effects due to increase in international gold prices. Housing witnessed decelerating seasonal trend.

Going forward, gold-driven volatility is expected to keep core inflation in the 4-4.5% range. Some upside risk may emanate from volatile minerals and metal prices globally. However, the impact will be more on WPI which is already posting a lower print. Hence CPI is well insulated.

Fuel and Light inflation reading came in at 2% on YoY basis and some sequential momentum was witnessed as Kerosene prices inched up in Dec'25.

Way forward: Headline CPI continued to be below RBI's lower tolerance band for 6 months in a row. Lower food inflation is driving down headline CPI. In Q4 we have slightly unfavourable base. Apart from this, TOP trajectory especially Tomato prices is witnessing some momentum. However, for Tomato, the gap between retail and wholesale prices is still above its historical average. Thus, the pass through of lower wholesale prices is yet to show its effect. Further retail prices of Potato and Onion is also on the lower side. The arrival statistics do not pose much of a risk. Q4 also coincides with arrival of fresh harvest. Hence, for food inflation we do not see much of an upside risk apart from the usual base driven push factor. Our in-house BoB ECI is running at -1% on YoY basis for the first 11 days of Jan'26.

Our Q4 estimate is at 2.5-3.0%. On core inflation front, apart from the gold-driven volatility, we expect it to be rangebound.

To conclude:

- CPI inflation reading came in at 1.3% in Dec'25 in line with BoB estimate of 1.4%.
- The below 2% headline print has continued for 6 months in a row despite slightly unfavourable base for the month.
- This is led by food driven deflation at -2.7% in Dec'25.
- Core inflation which is excluding food and fuel is at 4.6% in Dec'25.
- However, Core excl. Gold Pan Tobacco and Gold is much lower at 2.6%.
- Thus, volatility of international gold price (5.4% & 63%, MoM & YoY, respectively) has been a major driver for core inflation.
- In Q4 we expect headline CPI to be at 2.5-3.0%.
- The repeated favourable inflation print gives more scope for RBI for another rate cut in the current cycle.
- Upcoming budget and new CPI series would further shed light on the same.

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