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Inflation is still expected to be below 4%

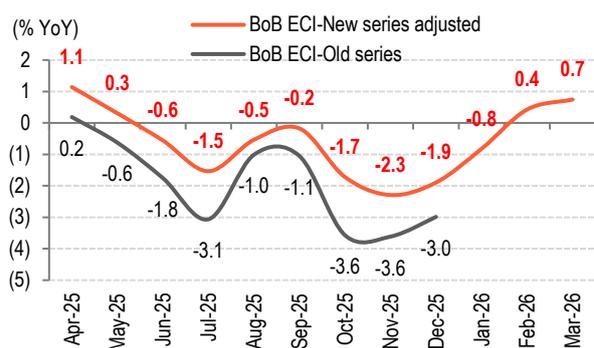
BoB Essential Commodities Index (BoB ECI) adjusted for the new series has reversed its deflationary trend as seen in the old series. In Feb'26, it rose by 0.4% and for the first 11 days of Mar'26 it rose by another 0.7%. The increase in retail price has been broad based, from cereals to edible oils. For edible oils, the increase is in line with international prices. In the current situation, food inflation is not much of a risk. However, for fuel inflation, the impact on LPG component of CPI needs to be closely watched as it has a higher weight in the new series. Regarding pass-through of higher international crude price, we believe for now, it will not be passed on to retail consumers as OMCs are expected to absorb most of the costs. However, a lot is contingent on the duration of the war and arrival of a formal peace deal. Weighing all the factors, we expect CPI to settle at 3.3% in Feb'26

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index-Adjusted for new base year:

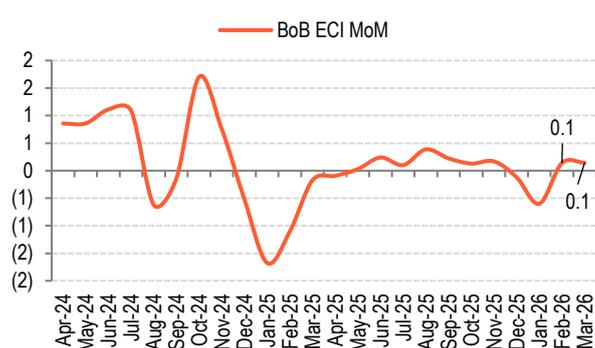
- The earlier BoB ECI was in alignment with CPI (2012=100) and had a weight of 22.8% in overall CPI basket. It captured 58.3% weight in the overall food basket of the CPI index. In line with base revision of CPI (2024=100), we have adjusted our BoB ECI for a better reflection of high frequency price data as a nowcast for CPI. The BoB ECI-New series adjusted has a weight of 16.7% and captures 45.6% of food and beverages basket of CPI. Earlier the weight was higher. The reduction in weight is in line with reduction in weightage of food and beverages in overall CPI.
- **Annexure 1** shows the detailed difference in weight of major items used in BoB ECI both for the new and old series. Essentially the new series has a lower weightage of cereals primarily reflecting the shift in consumption pattern. The reduction in weightage of Tomato and Potato in the TOP (Tomato, Onion and Potato) basket will also take care of the sharp volatility exhibited in the earlier series of CPI, due to these items.
- BoB ECI, which was in the sharp deflation territory under the old series, is exhibiting some momentum. It inched up in Feb'26 by 0.4%, on YoY basis. The retail price of edible oils and cereals inched up. This is in line with increase in international prices. For edible oils, increase in international prices is attributable to global demand and lower outputs in Southeast Asia (as per FAO report).
- **Sequential picture:** BoB ECI inched up by 0.1% in Feb'26. The increase in retail price is broad based, from cereals and pulses to edible oils.
- **Mar'26 trend:** For the first 11 days, BoB ECI has inched up at a faster pace by 0.7%, on YoY basis.

Figure 1: The new BoB ECI is elevated than the earlier series



Source: CMIE, Bank of Baroda Research, Note: *first 8days

Figure 2: On sequential basis (MoM), some momentum is seen



Source: CMIE, Bank of Baroda Research, Note: *first 8days

Table 1. Food inflation for majority of the items is still well below 4%

Retail Price of major essential commodities, (% YOY)	Jan-26	Feb-26	Mar-26*
Cereals			
Rice	-0.2	0.2	0.7
Atta (Wheat)	-1.3	-2.1	-2.4
Edible Oils			
Mustard oil (Packed)	10.0	10.4	10.0
Soya oil (Packed)	2.5	3.5	3.4
Sunflower oil (Packed)	8.9	11.4	11.0
Groundnut oil (Packed)	-2.1	0.2	1.9
Vegetables			
Tomato	50.7	42.8	37.5
Onion	-27.0	-24.5	-23.1
Potato	-23.5	-13.3	-9.9
Pulses			
Urad dal	-7.5	-4.8	-2.4
Moong dal	-2.9	-2.0	-1.5
Masoor dal	0.2	0.5	1.1
Gram dal	-7.5	-5.2	-3.4
Tur/Arhar dal	-24.0	-14.9	-9.3
Miscellaneous			
Salt pack	-1.8	0.5	1.3
Vanaspati (Packed)	5.8	4.6	2.9
Gur	4.6	4.8	5.5
Milk	0.9	1.2	1.3
Sugar	3.8	2.9	1.8
Tea loose	-0.2	0.2	0.2

Source: CMIE, Bank of Baroda Research, Note: Green represents deflation, *Data for Mar'26 is first 11 days of the month, green highlighted ones are prints below 4%

Ongoing risks and impact on supply chain:

We expect CPI in Feb'26 to be at ~3.3%. High frequency retail price data for major food items are showing pickup. Other than that, fuel prices pose a considerable risk amidst ongoing geopolitical crisis. For petrol and diesel, the increase in international crude price is expected to be absorbed by OMCs for now. However, a passthrough of direct and indirect impact of a 10% increase in oil prices on CPI inflation on a persistent basis, can range between ~30-40bps in the near term, if the situation doesn't normalise.

The weight of LPG Cylinder & Piped Natural Gas is higher at 1.98% in the new series than the earlier weight of 1.29%. Thus, even a 6% increase (in line with recent announcement of LPG cylinder prices) can impact the headline CPI number by another 12bps in the medium term.

How are the other risks distributed?

World Bank data has shown that food prices registered some increase in Feb'26. Especially, edible oil, some protein-based items and cereals. Energy prices also remain elevated in Feb'26 and risk will intensify on this front in Mar'26 in line with the heightening geopolitical risks. A lot is contingent on the arrival of a formal peace deal in place. Even FAO data mirrored the same trend of some momentum in food inflation.

For core inflation, the increase in gold price (MoM: 5.6% in Feb'26, World Bank) will drive the personal care and effects component of core higher, albeit reduction in weights of gold and silver in the new series. Excluding pan, tobacco, gold and other ornaments, core is largely to be in the range of 1.9-2.1%. Lower metal prices, as was visible in Feb'26 will further provide comfort. However, a lot impinges on how geopolitical risks will be tackled on global policy front in the coming days.

Annexure:

Table 1. Broad based reduction in weights of major food items

Wts of major product in BoB ECI (%)	Earlier series wt	New Series Wt	Difference in wts
Rice	4.4	2.1	-2.3
Wheat	2.6	2.6	0.0
Gram dal	0.1	0.2	0.1
Tur/Arhar dal	0.8	0.5	-0.3
Urad dal	0.3	0.2	-0.1
Moong dal	0.3	0.3	0.0
Masoor dal	0.3	0.2	-0.1
Sugar	1.1	0.5	-0.6
Milk	6.4	5.3	-1.1
Groundnut oil (Packed)	0.3	0.1	-0.2
Mustard oil (Packed)	1.3	1.0	-0.3
Vanaspati (Packed)	0.1	0.0	-0.1
Soya oil (Packed)	0.7	0.0	-0.6
Sunflower oil (Packed)	0.7	1.0	0.4
Gur	0.1	0.1	0.0
Tea loose	1.0	0.7	-0.3

Wts of major product in BoB ECI (%)	Earlier series wt	New Series Wt	Difference in wts
Salt pack	0.2	0.1	-0.1
Potato	1.0	0.8	-0.2
Onion	0.6	0.7	0.1
Tomato	0.6	0.5	-0.1

Source: CEIC, Bank of Baroda Research, Note: For Sunflower oil weight of refined oil is used in the CPI basket and for soya oil weight of other edible oil is used interchangeably due to missing of one to one mapping of items

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