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Inflation will continue to be below RBI's lower band

BoB Essential Commodities Index (BoB ECI) has been in deflation territory for 8th consecutive month in a row, declining by -3%, on YoY basis, in Dec'25 and by another -0.8% in Jan'26 (first 8 days). However, the pace of deflation is softening. This is on account of correction in Tomato price trajectory. It does not pose any immediate concern as wholesale price of Tomato is still lower, hence some passthrough might be visible. For Tomato, moderation in mandi arrivals was also visible in Dec'25. However, Q4 is the harvesting period for majority of TOP (Tomato, Onion and Potato) vegetables. Hence supply conditions are likely to be favourable. Further, new CPI series will provide clarity on distribution of weights of different components. For now, we feel inflation is in the comfort range and we expect CPI to settle at 1.4% in Dec'25.

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:

- BoB ECI remained in the deflation territory for 8th consecutive month in a row in Dec'25. On YoY basis, it declined by -3% in Dec'25, softer pace compared to decline of -3.6% in Nov'25. 10 out of 20 commodities in the index witnessed deflation at a moderate pace compared to Nov'25. The sharpest pace of deflation is observed for Onion and Potato, declining by -44.6% and -29.9%, respectively. For Tomato, there has been a reversal of the trajectory witnessing increase of 6.7% in Dec'25 compared to decline of -17.7% in Nov'25. Despite this, the CPI weighted trajectory for TOP in Dec'25 based on retail prices have fallen on an aggregate basis by -24.7%, supported by decline in Onion and Potato prices. Among other items, pulses (except Masoor dal), groundnut oil and cereals are also exhibiting loss of momentum in retail prices.
- **Sequential picture:** BoB ECI inched up by 0.1% in Dec'25. On a seasonally adjusted MoM, BoB ECI inched up by 0.7%. Thus, the moderation in Dec'25 is attributable to seasonal phenomenon. The sequential buildup of price was observed especially for Tomato.
- **Jan'26 trend:** For the first 8 days, the deflation trend continues at a softer pace as BoB ECI is tracking at -0.8%, on YoY basis. This is on account of an unfavourable statistical base. The deflationary spiral continues for Potato and Onion and majority of the pulses. The seasonality factor will persist in Jan'26 as well, which will be supportive of inflation.

Figure 1: On MoM basis, BoB ECI moderated by 0.1% in Dec'25 and declined by another -0.2% in Jan'26*

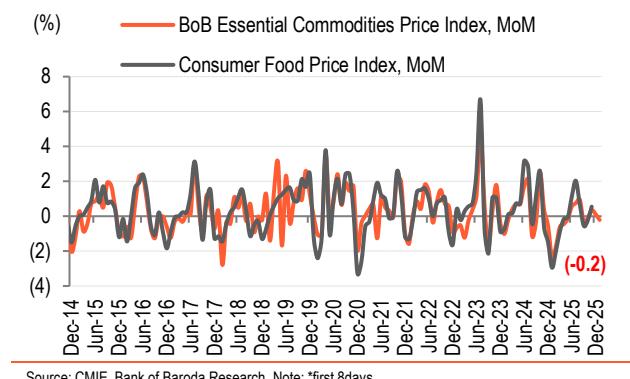


Figure 2: On YoY basis, BoB ECI declined by -3% in Dec'25 and by another -0.8% in Jan'26*

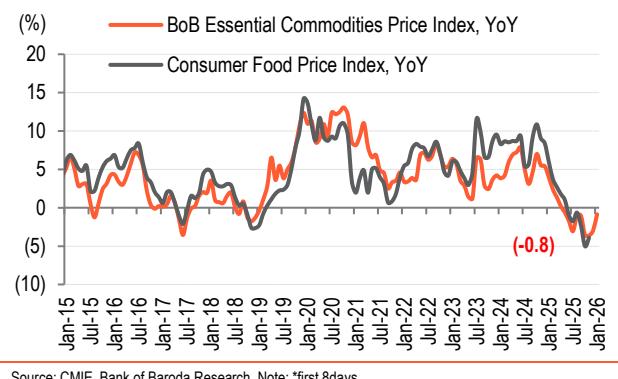


Table 1. Price moderation is seen in major items

Retail Price of major essential commodities, (% YOY)	Wts in CPI	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan'26*
Cereals							
Rice	4.4	-2.3	-1.2	-1.2	-1.6	-0.7	-0.1
Atta (Wheat)	2.6	3.4	3.3	1.9	0	-0.8	-1.5
Edible Oils							
Mustard oil (Packed)	1.3	34	29.8	16.1	11.5	10	10.2
Soya oil (Packed)	0.7	23.6	20.3	8.1	3.2	2.1	2.2
Sunflower oil (Packed)	0.7	34	30.7	17.1	10.7	7.6	7.7
Groundnut oil (Packed)	0.3	2.2	2	-2.5	-4.2	-3.2	-2.5
Vegetables							
Tomato	0.6	4.8	-8.3	-39.9	-17.7	6.7	65.7
Onion	0.6	-37.5	-46.2	-51.2	-52.9	-44.6	-26.9
Potato	1	-31.5	-30.9	-31.3	-29	-29.9	-20.9
Pulses							
Urad dal	0.3	-8.9	-8.4	-8.8	-9.1	-8.4	-7.8
Moong dal	0.3	-5.2	-4.4	-4.9	-5	-3.7	-3.1
Masoor dal	0.3	-1.4	-0.2	-0.6	-1.2	0.0	0.2
Gram dal	0.1	-2.9	-6.2	-8.3	-9.1	-8.2	-7.4
Tur/Arhar dal	0.8	-29	-29.3	-29.4	-28.7	-27.2	-24.4
Miscellaneous							
Salt pack	0.2	-4.1	-2.3	-2.7	-3.2	-2.7	-1.8
Vanaspati (Packed)	0.1	26.6	24.8	14.7	9.1	6.9	5.8
Gur	0.1	2.7	3.8	3.4	3.3	4.0	3.8
Milk	6.4	-0.2	0.9	0.7	0.9	0.3	0.6
Sugar	1.1	3.1	3.8	3.6	3.6	4.0	3.8
Tea loose	1	0.9	1.8	0.8	0.1	0.1	-0.6

Source: CMIE, Bank of Baroda Research, Note: Green represents deflation, *Data for Jan'26 is first 8 days of the month

TOP requires monitoring:

We expect CPI in Dec'25 to be at ~1.4% due to dilution of slightly favourable statistical base. The food driven downward spiral is getting arrested with the reversal in Tomato price trajectory. However, Potato and Onion prices are largely supportive, thus keeping the overall TOP trajectory in check. On supply side, the arrival statistics of TOP in Dec'25 showed moderation for Tomato and Onion. However, for Potato it is robust. One relief is that the trajectory of TOP prices is already in strong deflation territory and secondly Q4 also coincides with the harvesting period for majority of these vegetables. Further, government's astute supply management strategies will ensure that supply conditions remain favourable. The GST benefit has already kept a lid on inflation in the past two months.

The gap between retail and wholesale prices for tomato is still comparatively higher than historical average, indicating that some pass-through of lower wholesale prices will be visible in retail print. Hence, there are no immediate risks from the recent increase in retail prices of tomato.

How are the other risks distributed?

World Bank data has shown that food prices remained on the lower side. The energy prices also remained in favour. Even FAO data pointed out food prices are softening. The international prices of edible oils are also moderating due to improved supplies. This is positive for CPI since edible oil component have remained sticky. Thus, the outlook on food inflation remains favourable. Only monitoring is required with respect to the TOP trajectory. The new CPI series will provide further clarity on the same regarding the distribution of weights.

For core inflation, the increase in gold price (MoM: 5.4% in Dec'25, World Bank) will drive the personal care and effects component of core higher. Excluding Gold and pan and tobacco, core is largely to be in the range of 2.7-3.0%. Some upside risks also emanate from rising global metals and minerals prices. However, the impact will be on WPI which is already posting successively low prints.

Table 2. Arrival statistics in major TOP producing States for the past 6-months

Arrival, in tonnes	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26*
Tomato						
Andhra Pradesh	27,900	34,970	22,005	13,105	11,515	2,557
Gujarat	28,177	34,966	29,231	26,627	20,029	4,911
Karnataka	50,928	30,137	2,920	15,364	11,679	3,115
Madhya Pradesh	6,012	8,915	10,572	1,787	2,369	292
Odisha	3,634	4,185	3,443	7,148	5,802	919
Onion						
Gujarat	48,445	60,151	46,020	74,906	1,17,800	34,690
Karnataka	6,865	6,899	3,559	53,729	95,991	31,244
Madhya Pradesh	3,06,718	3,97,113	3,99,373	3,37,444	2,71,904	43,410
Maharashtra	6,90,103	6,69,704	5,37,709	3,98,322	4,35,124	1,88,173

Arrival, in tonnes	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26*
Rajasthan	29,738	27,457	26,291	37,693	12,228	3,664
Potato						
Bihar	3,545	401	646.9	3074.96	62779.59	698.15
Gujarat	64,996	68,092	58,489	56,395	63,586	13,185
Madhya Pradesh	22,015	24,672	26,393	7,074	9,436	6,868
Uttar Pradesh	9,20,288	9,38,339	9,84,898	8,45,504	12,03,505	3,69,325
West Bengal	48,964	46,154	46,320	40,758	35,044	8,808

Source: UPAJ, Bank of Baroda Research, Note: *Data for Jan'26 is first 8 days of the month

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