

12 Sep 2025

Dipanwita Mazumdar
Economist

Inflation is still in a comfort zone

CPI got the sigh of relief in Aug'25 as well, broadly led by food. The food price index remained in the deflation territory for 3rd straight month in a row. The sequential loss of momentum also testified that the disinflation pace is gaining ground. The broad comfort came from vegetables and pulses. Our in-house BoB ECI is running at -0.9% in Sep'25 (first 10 days of the month). Even rain related disruption has not impacted the supply dynamics of TOP (Tomato, Onion and Potato). Core inflation has also remained stable. Core excl. gold is benign. Thus, we may see episodes of disinflation in the coming days as government support through lower indirect tax rates is likely to be passed on to actual numbers sooner, if not later. We expect CPI in FY26 to settle at 3.1%, with risks tilted to the downside.

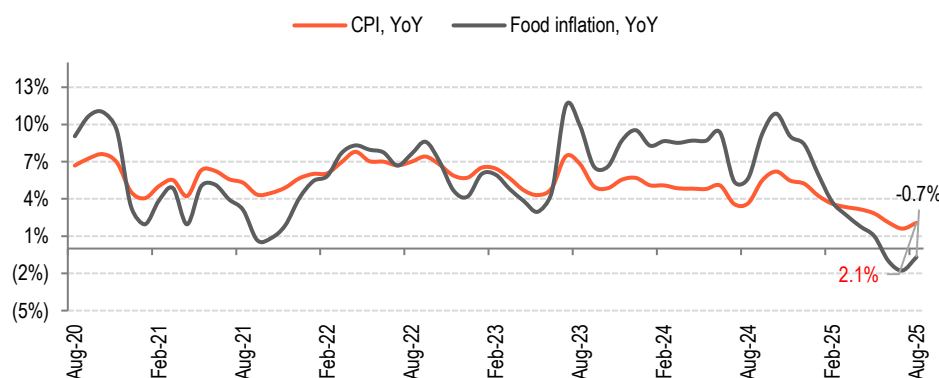
Food continued to keep headline rangebound

CPI remained comfortable: CPI inflation reading came in at 2.1% in Aug'25, on YoY basis (in line with BoB forecast of 2%), compared to 3.7% inflation seen in Aug'24. The print is comforting even when this month does not have the advantage of a higher base. The fine prints show that food index remained in deflation territory for 3 consecutive months in a row, falling by -0.7% in Aug'25 compared to 5.7% in Aug'24. The underlying components of food inflation showed that 5 out of 10 broad categories recorded disinflation, while 3 of them remaining in deflation territory (vegetables, pulses and spices, having a combined weight of 10.9% in CPI basket). The significant loss of momentum was also noticed in case of fruits, pulses and products. The outlook for food inflation seems favourable at the current juncture with supply dynamics remaining in favour. Cereals and pulses have already seen better sowing; thus prices would get the desired support from better production statistics.

The sequential picture of food inflation also shows loss of momentum for food inflation. The major softening is seen for vegetables, fruits, meat and fish and eggs. Even oilseeds whose prices used to be sticky due to higher international price has also moderated a tad. However, its domestic price needs to be monitored as sowing has moderated.

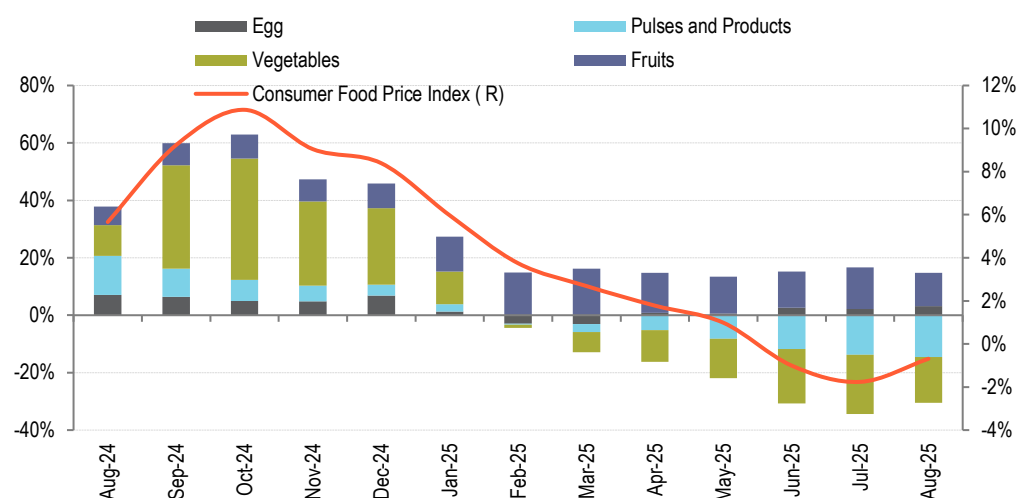
On a seasonally adjusted basis, consumer food price index rose by 0.8%, MoM, in Aug'25.

Figure 1: Food is providing the desired band of comfort to CPI



Source: CEIC, Bank of Baroda Research

Figure 2: ...Vegetables, pulses still in considerable deflation, albeit at a slower pace



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) remained steady at 4.1%, on YoY basis. Among major sub-components, broad-based disinflation is visible with education component moderating significantly. Apart from this, clothing and footwear also softened. Similar picture is reflected when looked at from the sequential pace. Within core, only personal care and effects are in double digits at 16.6% in Aug'25, on YoY basis and on a sequential basis have picked up by +0.5%. This is attributable to higher international gold price which rose by 0.8% in Aug'25, on sequential basis. In the coming days as well, this component of inflation is likely to exhibit volatility due to safe-haven demand for gold and frontloading of demand ahead of festive season.

Core excl. Pan Tobacco and Gold on the other hand is much lower at 3.1%.

Going forward, we expect core to come off. This will be on account of recent pruning off GST rates on a host of items that goes into the core basket (our assessment is that core inflation will be affected more compared to food basket). The demand side pressure from core is still contained and not likely to face any immediate shock in the coming days. We expect Core to remain in the range of 4-4.2% in the coming months.

Fuel and Light inflation reading came in at 2.4% on YoY basis and some sequential pickup was witnessed due to Kerosene prices showing some pick up, albeit at a softer pace.

Way forward: Headline CPI is getting the desired comfort from a benign food inflation. In the coming days as well, improved sowing especially for rice and pulses, above normal monsoon, comfortable reservoir level remains supportive of a further lower food inflation print. Apart from this, the transition of majority of food and beverage and core inflation items to lower GST bracket is likely to further bring down inflation. We expect that GST impact on CPI will be observable in the coming months, and it is likely to be in the range of 55-75bps in the near term. However, the crucial factor is how quickly the producers will pass on the benefit to consumers. News report suggested already in the auto sector it is visible. So, at this current juncture, risks are tilted to the downside for inflation and disinflationary pressure is likely to be pronounced. Q3 has also a favourable statistical base. This will also coincide with the quarter of fresh harvest.

For now, we do not see any major risks to inflation. In fact, the current uneven monsoon did not have significant impact on TOP (Tomato, Onion and Potato) prices. As per UPAJ data, arrivals in the current FYTD26 have in fact improved by 11.8% in FYTD26 (till 10 Sep) compared to -15.5% in the same period of the previous year. Thus, supply dynamics is also in favour of a lower inflation print in the near term. The gap between retail and wholesale prices for tomato and Potato is still higher than historical average, thus it indicates that some pass-through of lower wholesale prices will be visible in retail print. Even globally, energy, metal and metal prices were in favour. We expect some bit of undershooting of CPI compared to RBI's estimated trajectory. Our forecast for FY26 is at 3.1%.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com