13 Oct 2025

Dipanwita Mazumdar
Economist

Inflation: a persistent sigh of relief

CPI got the sigh of relief in Sep'25 as well, broadly led by food. The headline print had slightly undershot RBI's projection (by 10bps) in Q2. We expect further moderation in coming months as fresh harvest kicks in and generally seasonality adjustment of vegetable prices in Q3 become pronounced. The persistent pace of disinflation is welcoming from monetary policy standpoint. The sequential loss of momentum in inflation also testified that the disinflation pace is gaining entrenched. Our in-house BoB ECI is running at -3.8% in Oct'25 (first 12 days of the month). The arrival statistics of TOP (Tomato, Onion and Potato) have also been favourable albeit unseasonal retreating monsoon, speaking of better supply management policies of the government. Core inflation has the usual gold-driven upheaval. Excl. gold and pan & tobacco it is lower at 3.1%. Thus, we expect downside risks to CPI is more pronounced. We expect it to settle at 2.8% in FY26.

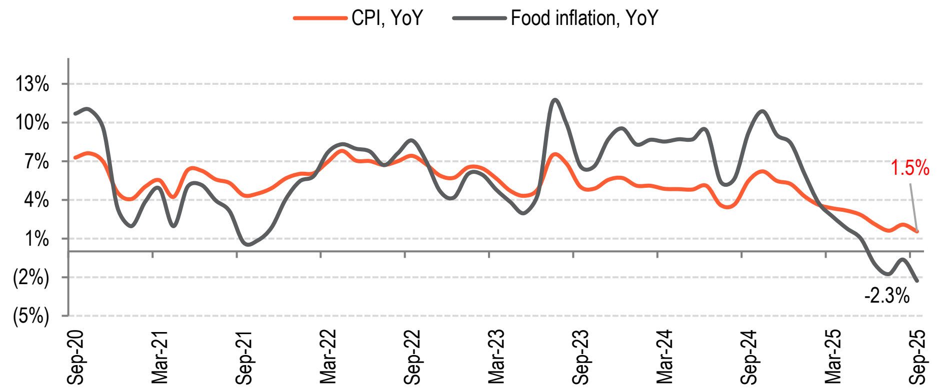
Food continued to support CPI

CPI remained comfortable: CPI inflation reading came in at 1.5% in Sep'25, on YoY basis (BoB est.: 1.2%). However, the progressive pace of disinflation is for the 11th month in a row which is comforting from the monetary policy standpoint. Food inflation remained in negative territory for 4 consecutive months recording -2.3% print in Sep'25. A desirable statistical base also acted in favour. Among 10 broad items, 7 of them showed moderation in inflation. The major comfort came in from vegetables whose deflation has been the sharpest since Feb'25. Other than these oils & fats, fruits, pulses and cereals showed some softening momentum. For oils and fats, the comfort came in from a fall in international price on account of improving supplies. The outlook for food inflation seems favourable at the current juncture with supply dynamics remaining in stride. However, some monitoring is required on account of diverse production picture of pulses and some retreating unseasonal rains.

The sequential picture of food inflation also showed loss of momentum. It also mirrored the YoY data. The major softening came from vegetables, fruits, oils & fats and cereals. In Oct'25 as well, majority of the vegetable prices are losing steam.

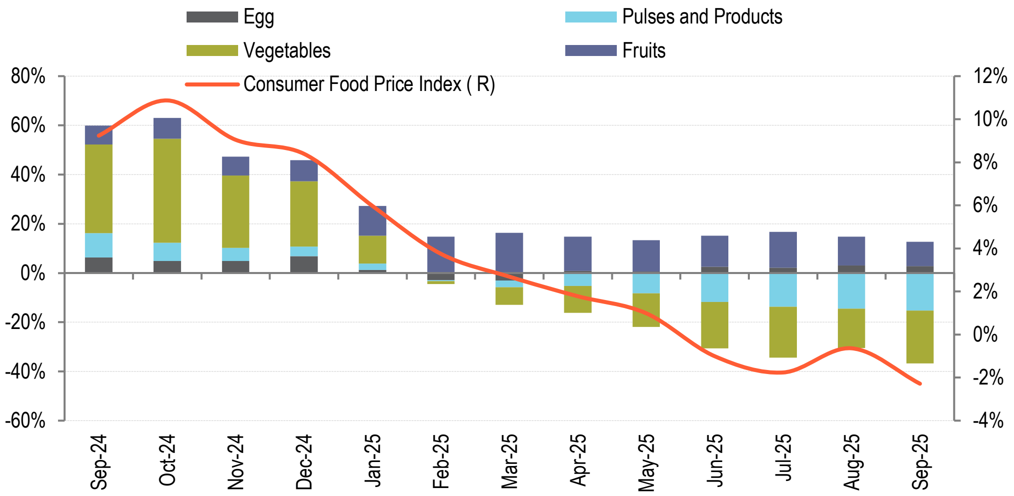
On a seasonally adjusted basis, consumer food price index declined by 0.4%, MoM, in Sep'25. Thus, disinflation pace is getting entrenched even on a seasonally adjusted basis.

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



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) picked up to 4.5%, on YoY basis. However, Core excl. Gold Pan Tobacco and Gold on the other hand, is much lower at 3.1%. Thus, volatility of international gold price (8.9% & 36.3%, MoM & YoY, respectively) has contributed to some stickiness of core inflation. Core services inflation is also lower at 3.4%. The demand driven component of core inflation such as household goods and services and clothing & footwear also had come down. Other components of core inflation such as transport & communication, recreation and amusement and education remained comforting. Health inflation also remained broadly aligned.

The sequential picture also remained the same. Only for clothing & footwear some front loading of festival demand was seen in the sequential data. For housing, some momentum was seen for house rent, garage rent component.

Going forward, we expect gold-driven volatility of core inflation to persist amidst global political and trade related uncertainty. However, the broader comfort from GST will somehow negate the impact. 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% on YoY basis and some sequential moderation was witnessed due to softening of Kerosene prices.

Way forward: Headline CPI continued to be a breather for monetary policy space. The food-based comfort reigned it. In the coming days as well, improved sowing and adequate reservoir level remain supportive of a benign food inflation print. However, one needs to be watchful of the impact of the retreating monsoon on Kharif crops in States such as Maharashtra, Punjab and Rajasthan, as highlighted in major news reports. Apart from this, majority of the auto, FMCG and e commerce platforms have already announced the same, albeit in media reports issues regarding low-priced packs migrating to lower rates remaining problematic has been highlighted. We expect the coming months would give clarity on the extent of pass through of GST on CPI. For now, we believe the tail of CPI is heavily titled on the downside. Dec quarter generally coincides with arrival of fresh harvest for vegetable, and it has the usual seasonal downtrend.

For now, we do not see any major risks to inflation. In fact, vegetable price deflation is expected to be sharper in the coming months. As per UPAJ data, arrivals in the current FYTD26 have in fact improved by 13.8% in FYTD26 (till 12 Oct) compared to -15.4% in the same period of the previous year. Our in-house BoB ECI is running at -0.3% on MoM basis and by -3.8% on YoY basis for the first 12 days of Oct'25. The gap between retail and wholesale prices also speak of some pass-through to retail print. However, one needs monitoring of global energy and metal prices which is exhibiting some bit of stickiness on account of elevated tariff rates. Our forecast of headline CPI for FY26 is at 2.8%.

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com