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Expert Group Report on CPI Base change

MOSPI have come up with recommendations for the new base year for CPI estimation in order to enhance credibility and comparability with the global standards. The revised base year aims to capture the changing household patterns, given the digital and service-related growth in a more robust manner. The new series will iron out the volatility and form the basis for GDP estimation which has been relying on GDP deflators based on old estimates. It will also provide finer outlook for monetary policy decisions in the near term.

Major Recommendations

- Base year for the new CPI series has been revised to the year 2024=100 from 2012 previously. For reference, the base year prices for Jan'24 to Dec'24 has been collected.
- The item basket will comprise of over 358 items which has been mapped to 12 divisions and 43 groups. This has been done in accordance with the COICOP-2018 (classification of individual consumption according to purpose) classification.
- The new framework is expected to be more in line with the international standards, given the new Jevon short chain formula which will now be used for estimation.
- Number of goods (314 from 259) and services (50 from 40) in items basket will be much higher. The data will be collected across 1465 rural and 1395 urban markets.
- Notably, the estimation will now incorporate pricing from ecommerce (12 online markets) and digital platforms for items such as OTT subscription, airfares, telecom plans. This will capture price variation across 12 towns with more than 2.5 mn population.
- Under the new framework, it has been proposed the weightage of food and beverages will be reduced to 36.75% from 45.86% previously.
- The weightage of housing is expected to be higher at 17.66% as the new series will include utilities such as water, electricity, gas and other fuels. The house rent coverage has also been expanded to rural areas. This category will have the second highest weight in the new CPI basket.
- CPI data due to be released on 12 Feb will capture the estimation under the new base year and will provide further clarity on detailed weighing structure.

Weighing diagram

- Major change is expected in the food and beverage component weighing structure. This is in line with household consumption expenditure survey (HCES Survey).
- Apart from transportation, information and communication group has also witnessed major change. The proposed increase in weight of information and communication is more pragmatic as India is witnessing major digital revolution.

- The expected increase in weight of restaurants and accommodation services also explains the higher aspiration of Indian consumers.
- We expect CPI to face upward bias of ~25-40bps in the new series. However, the current average run rate of 1.7% (FYTD26) is already below the lower range of RBI's FIT framework. Hence, we do not see any immediate risk to CPI trajectory. Further, the gradual GST passthrough and astute supply side measures of the government will be supportive of a favourable inflation going forward.

Fig 1. The weight of food and beverages has been significantly reduced in the new series

CPI components	Old Weight	New Weight	Difference
Food and beverages	45.86	36.75	-9.11
Paan, tobacco and intoxicants	2.38	2.99	0.61
Clothing and footwear	6.53	6.38	-0.15
Housing, water, electricity, gas and other fuels	16.91	17.66	0.75
Furnishings, household equipment and routine household maintenance	3.80	4.47	0.67
Health	5.89	6.10	0.21
Transport	6.37	8.80	2.43
Information and communication	2.22	3.61	1.38
Recreation, sport and culture	1.68	1.52	-0.16
Education services	4.46	3.33	-1.13
Restaurants and accommodation services	0.01	3.35	3.34
Personal care, social protection and miscellaneous goods and services	3.88	5.04	1.16
Total	100.00	100.00	-

Source: MOSPI, Bank of Baroda Research

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