ICRA

CONSUMER PRICE INDEX

CPI inflation expectedly rose to 1.3% in December 2025; MPC to pause in February 2026 to assess base revision in CPI and GDP series

JANUARY 2026

Highlights

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CPI inflation rose to 1.3% in Dec 2025 from 0.7% in Nov 2025, amid narrowing deflation in F&B and higher inflation in miscellaneous items.

A stringent measure of the core-CPI (excl. F&B, fuel and light, petrol, diesel, gold and silver) inflation remained unchanged at 2.4% in Dec 2025.

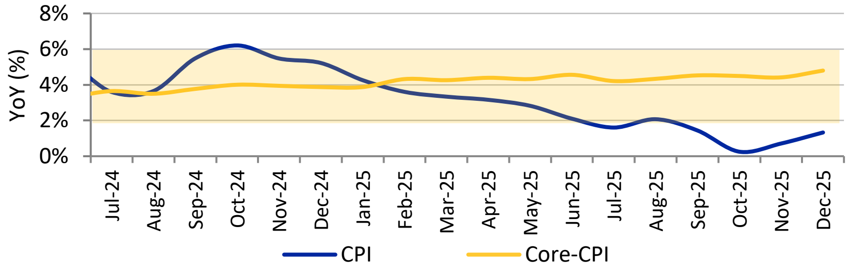
MPC likely to pause easing cycle in Feb 2026 to assess base year revision impact on growth-inflation mix.

The year-on-year (YoY) CPI inflation expectedly rose to 1.3% in December 2025 from 0.7% in November 2025 (ICRA P: +1.4%). The uptick was largely led by narrower deflation in food and beverages (F&B: to -1.8% from -2.8%) and hardening inflation in miscellaneous items (to +6.2% from +5.6%). Moreover, core inflation (CPI excluding F&B, fuel & light, and petrol and diesel for vehicles) jumped to a 28-month high of 4.8% in December 2025 (+4.4% in November 2025), driven by an uptick in precious metal prices; excluding gold and silver, core-CPI remained unchanged at 2.4%. Looking ahead, ICRA expects the F&B segment to revert to a YoY inflation in January 2026, pushing up the headline CPI print above the 2.0% mark, after a gap of four months. ICRA expects a pause in the Monetary Policy Committee's (MPC) February 2026 policy review, as it would be prudent to wait and assess the updated CPI (base: 2024) and GDP (base: 2022-23) series, which are to be released later in that month, since these will determine the current growth-inflation mix and aid in forming a fresh outlook.

- **CPI inflation expectedly rose in December 2025:** The CPI inflation hardened to 1.3% in December 2025 (ICRA's est.: +1.4%) from 0.7% in November 2025. The uptick was led by narrowing deflation in the F&B segment (to -1.8% from -2.8% in Nov 2025; led by hardening in YoY prints across 7 of the 12 sub-segments) and uptick in the inflation for miscellaneous items (to +6.2% from +5.6%).
- **CPI inflation to inch up above 2% mark in January 2026:** ICRA expects the CPI-F&B segment to revert to an inflation in January 2026 after remaining in the deflationary zone in six of the last seven months. This will push the headline CPI inflation print above the 2.0% mark after a gap of four months, crossing the lower end of the MPC's medium term target range of 2-6%. However, the December 2025 reading is the last print as per the current series (base year: CY2012) and the next print, which will be released on February 12, 2026, will be as per the new CPI series (base year: 2024), which would envisage a change in the weighing pattern and consumption basket as per the Household Consumption Expenditure Survey (HCES) results of 2023-24.
- **ICRA expects a pause in MPC's February 2026 policy review:** ICRA believes that it would be prudent to wait and assess the upcoming CPI (base: 2024) and GDP (base: 2022-23) series, which is to be released later in February 2026, as these will determine the current growth-inflation mix and aid in forming a fresh outlook.

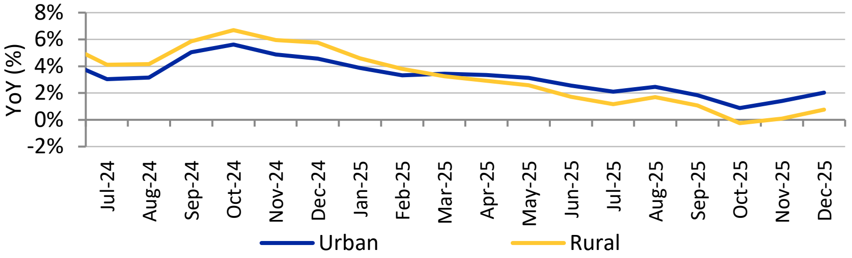
CPI inflation rose to 1.3% in December 2025, primarily led by F&B and miscellaneous items

EXHIBIT: CPI inflation rose to 1.3% in December 2025 from 0.7% in November 2025; core-CPI inflation also hardened to a 28-month high of 4.8% from 4.4%, largely led by elevated precious metals inflation



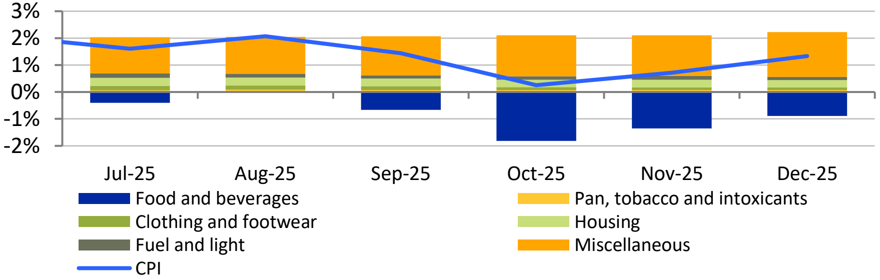
Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI in both rural (to +0.8% in Dec 2025 from +0.1% in Nov 2025) and urban (to +2.0% from +1.4%) areas rose in December 2025 for the second consecutive month



Source: NSO; CEIC; ICRA Research

EXHIBIT: The uptick in the headline CPI inflation between November 2025 and December 2025 was primarily driven by the F&B segment (46 bps of the total ~62 bps), followed by miscellaneous items (15 bps)

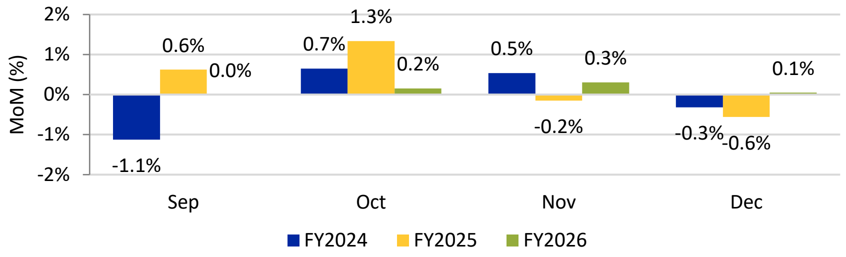


Source: NSO; CEIC; ICRA Research

- The uptick in the CPI inflation in December 2025 vs. November 2025 was largely led by the F&B segment, that recorded a narrower deflation (-1.8% in Dec 2025 vs. -2.8% in Nov 2025). This along with the sharper YoY inflation for miscellaneous items (35-month high +6.2% vs. +5.6%) in December 2025, relative to the prior month pulled up the headline print by as much as 62 bps between these months.
- In contrast, inflation in clothing and footwear (to +1.4% from +1.5%), housing (to +2.9% from +3.0%), fuel and light (to +2.0% from +2.3%) softened between these months.
- The inflation for pan, tobacco, and intoxicants remained unchanged at 3.0% in December 2025.

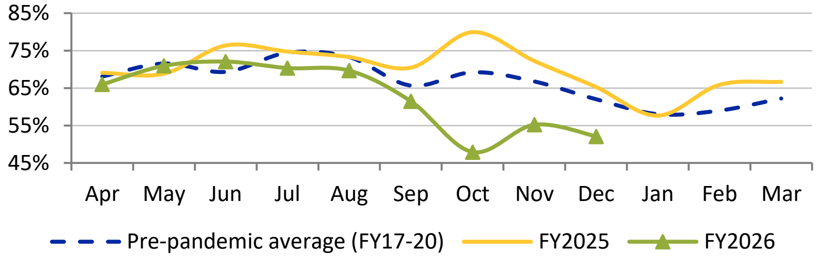
Diffusion trends in the CPI basket were benign in December 2025, despite uptick in headline CPI inflation vis-à-vis November

EXHIBIT: In sequential terms, CPI was up 0.1% in December 2025 as against the dip seen in December of FY2024-2025, largely reflecting the sharp rise in precious metal prices; CPI excl. gold, silver was down 0.1% in the month



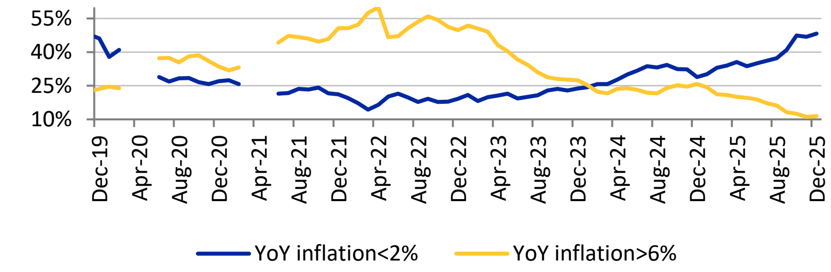
Source: NSO; CEIC; ICRA Research

EXHIBIT: However, the share of items in the CPI basket* seeing a MoM rise in prices eased to 52% in December 2025 from 55% in November 2025, printing much lower than the year-ago (65%) and historical (62%) levels



**Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research*

EXHIBIT: Likewise, the share of items in the CPI basket with YoY inflation of sub-2% rose to 48.3% in December 2025 from ~47% each in the prior two months; share of items with >6% print inched up slightly (11.5% vs. 11.1%)

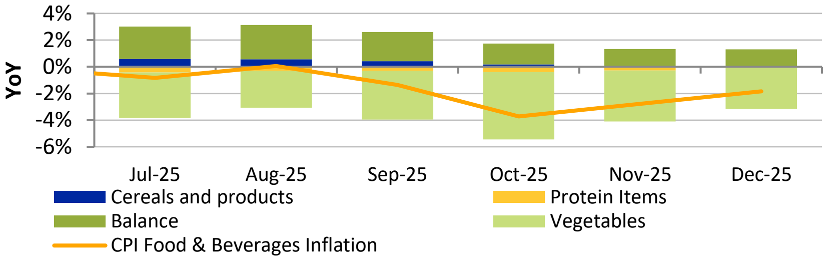


**Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research*

- The sequential build up in prices has been quite modest in the ongoing fiscal so far, with the headline index rising by 3.1% between March 2025 and December 2025 (+5.2% till Dec 2024). This has been aided by a relatively benign uptick in food prices, amid healthy crop output in the last two cropping seasons, as well as the YoY rise in kharif output in 2025.
- While the headline CPI inflation has risen in December 2025 from November 2025, the diffusion trends remained benign, with share of items in the CPI basket that saw a YoY inflation of sub-2% rising to 48.3% from 47%, respectively. Moreover, the share of items in the CPI basket that saw a MoM uptick in prices eased to 52% in December 2025 from over 60% levels seen in December 2024 as well as in pre-Covid period.

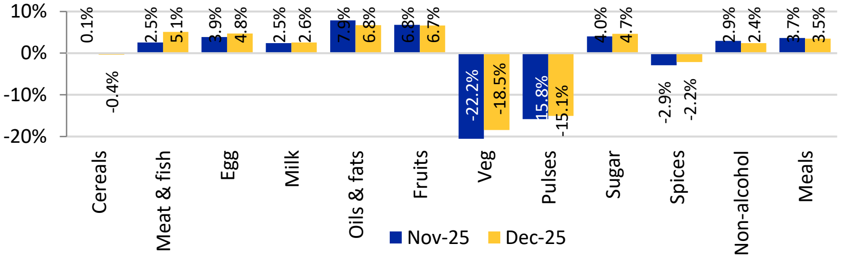
F&B deflation narrowed to 1.8% in December 2025 from 2.8% in November 2025

EXHIBIT: The deflation in the F&B index narrowed to 1.8% in December 2025 (+7.7% in Dec 2024) from 2.8% in November 2025 (+8.2% in Nov 2024), partly owing to the base effect; the disaggregated data revealed a mixed trend



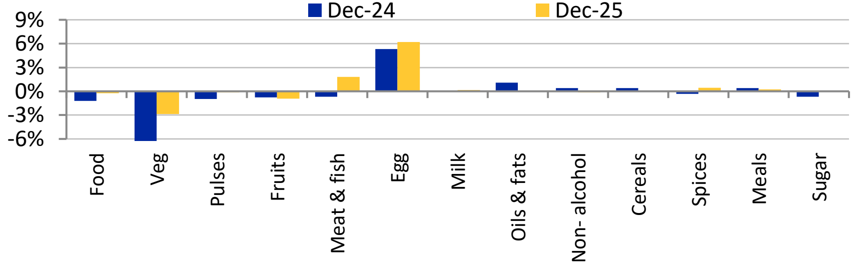
Proteins comprises meat & fish, egg, milk & products, pulses & products; Balance comprises oil & fats, fruits, sugar & confectionary, spices, non- alcoholic beverages, prepared meals, etc.; Source: NSO; CEIC; ICRA Research

EXHIBIT: The YoY inflation prints for seven of the 12 categories including vegetables, dairy and poultry items, pulses, sugar and spices hardened in December 2025 compared to the prior month



Source: NSO; CEIC; ICRA Research

EXHIBIT: In fact, on a sequential basis, the F&B segment fell by 0.2% in December 2025, albeit shallower than the 1.2% drop in the year-ago month, stemming from vegetables, pulses and sugar



Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non-alcohol: Non-alcoholic beverages; Meals; Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- Within the F&B segment, as many as 7 of the 12 sub-segments saw a higher YoY print in December 2025 vs. November 2025. While vegetables (to -18.5% from -22.2%) and pulses (to -15.1% from -15.8%) continued to witness double digit deflation for the ninth and seventh month, respectively, cereals and products (to -0.4% from +0.1%) entered the deflationary zone after a gap of 50 months. Spices (to -2.2% from -2.9%) also stayed in the deflationary zone for 18 consecutive months.
- In terms of the sequential performance, the sub-indices for vegetables (-2.9% in Dec 2025 vs. -7.4% in Dec 2024), meat and fish (+1.8% vs. -0.7%), eggs (+6.2% vs. +5.3%), non-alcoholic beverages (-0.1% vs. +0.4%), pulses (-0.1% vs. -1.0%), etc. witnessed higher MoM prints in December 2025, compared to the year-ago month.

Inflation in miscellaneous items rose sharply to 6.2% in December 2025, led by gold and silver

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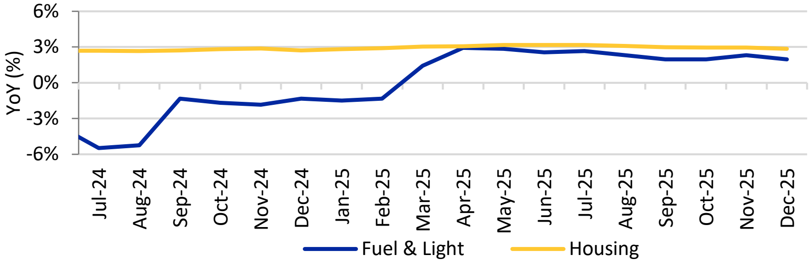
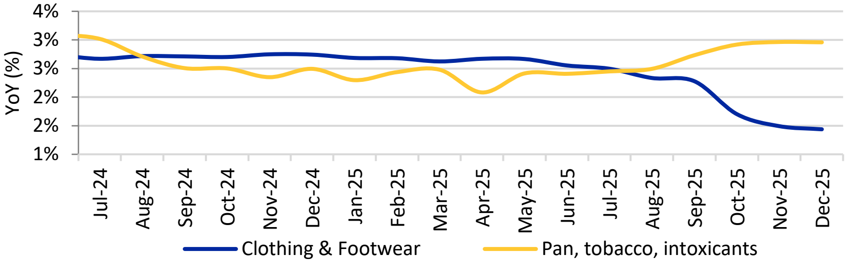
EXHIBIT: The inflation in housing eased slightly to 2.9% in December 2025 from 3.0% in November 2025; additionally, inflation in fuel and light eased (to +2.0% from +2.3%) between these months



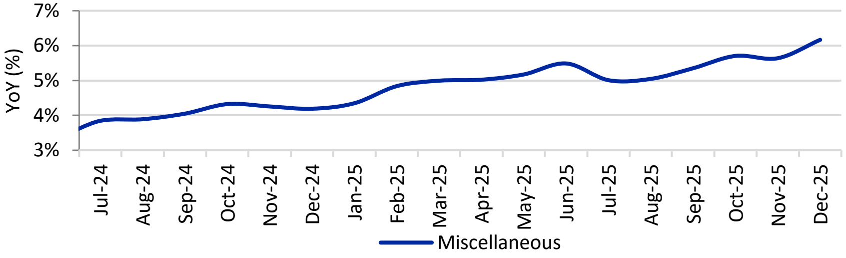
Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY inflation in clothing and footwear dipped to a 73-month low of 1.4% from 1.5% in November 2025; the print for pan, tobacco and intoxicants remained unchanged at 3.0%



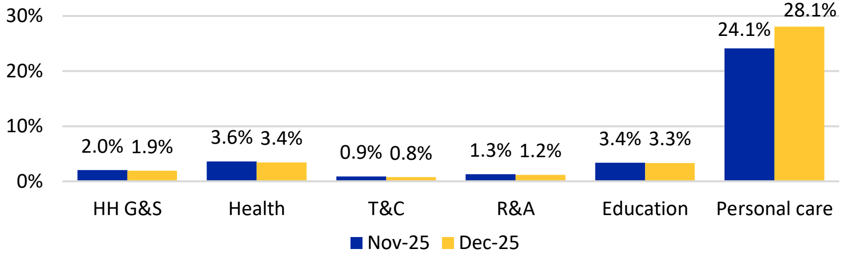
Source: NSO; CEIC; ICRA Research

EXHIBIT: Inflation in miscellaneous items rose steeply to 6.2% in December 2025 from 5.6% in November 2025, as hardening in precious metal prices outweighed softening in other categories like household goods, health, etc.



Source: NSO; CEIC; ICRA Research

EXHIBIT: Within personal care segment, inflation in precious metals like gold (to +68.7% from +58.6%) and silver (to +97.1% from +65.7%) hardened further in December 2025 vs. November 2025



HH G&S: Household Goods & Services; T&C: Transport & Communication; R&A: Recreation & Amusement; Source: NSO; CEIC; ICRA Research

Core-CPI inflation softened rose to a 28-month high 4.8% in December 2025; excluding gold and silver, core inflation stood at just 2.4%

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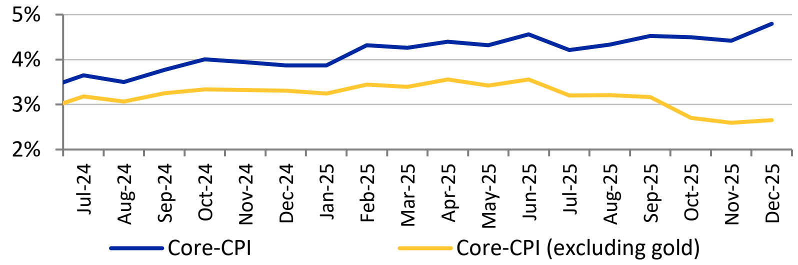
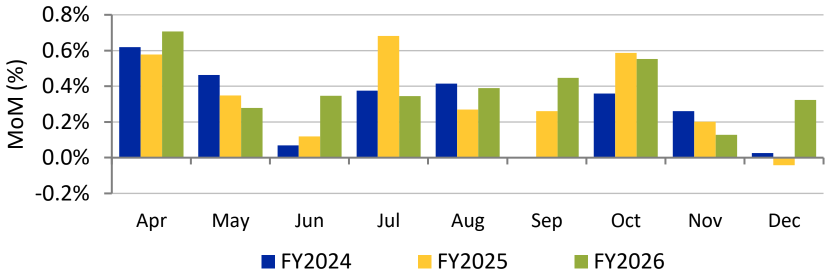
EXHIBIT: Core-CPI inflation jumped to a 28-month high of 4.8% in December 2025 from 4.4% in November 2025; excl. gold, core-CPI was quite benign at 2.7% (vs. +2.6% in Nov 2025)



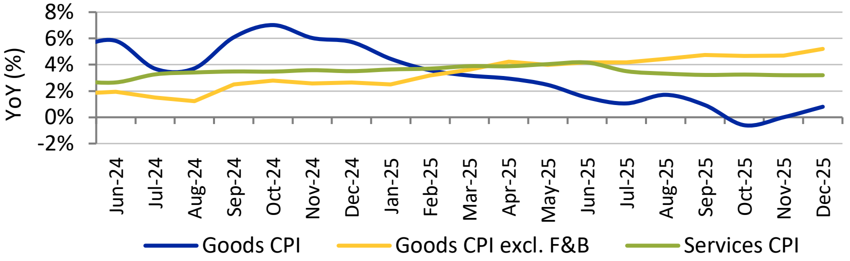
Core-CPI: CPI excluding food and beverages, fuel and light, petrol and diesel indices for vehicles; Source: NSO; CEIC; ICRA Research

EXHIBIT: In sequential terms, the core-CPI index rose by 0.3% in December 2025, higher than the uptick seen in December of the last two years



Source: NSO; CEIC; ICRA Research

EXHIBIT: Inflation for the services sub-group has remained unchanged at 3.2% in three of the last 4 months; while the goods segment reported a much lower inflation of 0.8%, it inched up compared to the previous month

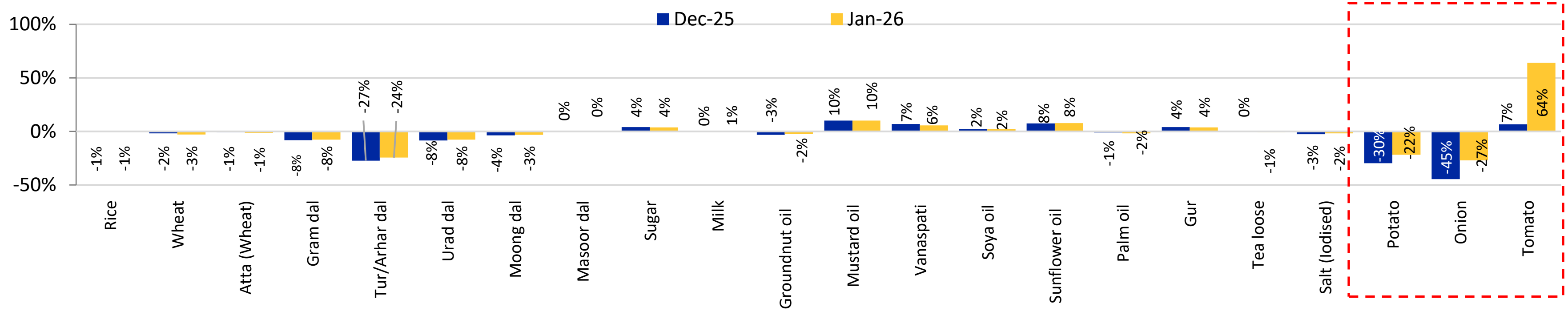


Services items constitute 23.4% weight in the CPI basket; Source: NSO; CEIC; ICRA Research

- Following a brief dip in November 2025 (to +4.4%), the core CPI inflation rose to a 28-month high of 4.8% in December 2025. However, this was largely led by precious metals like gold and silver. Excluding gold and silver, core-CPI remained unchanged at 2.4% between these months.
- Within the services segment (weight: 23.4% in the CPI), 20 of the 33 items (with a sizeable weight of ~18% in the CPI) saw lower inflation print in December 2025, as compared to the prior month.
- The uptick in the goods segment (+0.8% vs. +0.0%) in December 2025 vs. November 2025 was driven by narrower F&B deflation; excluding this, goods inflation rose sharply to 5.2% from 4.7%, respectively.

OUTLOOK: CPI inflation to cross 2.0% in January 2026, amid hardening YoY prints across most food items

EXHIBIT: YoY trends in retail prices December 2025 and January 2026*



**Till January 11, 2026; Source: DCA; CEIC; ICRA Research*

- The average retail price of as many as 23 of the 38# essential items softened sequentially during January 1-11, 2026 vs. December 2025, including rice, most pulses, sugar, milk, *gur*, loose tea, potato, bajra, *maida, sooji, besan,* butter, brinjal, bananas, and all spices.
- However, on a YoY basis, only 15 of the 38 items witnessed a softening during January 1-11, 2026 vis-à-vis December 2025, even as most of them continued to report deflation (23 of the 38 items). Notably, tomato retail prices surged by ~64% YoY (vs. +6.7% in December 2025) in the month. **Given these trends, ICRA expects the CPI in the F&B segment to revert to an inflation in January 2026 after printing in the deflationary territory in six of the last seven months.**
- **Owing to the turnaround in F&B inflation, the headline CPI inflation is expected to cross the 2.0% mark in January 2026, after a gap of four months. However, the December 2025 reading is the last print as per the current series (base year: CY2012) and the January 2026 print, which will be released on February 12, 2026, will be as per the new CPI series (base year: 2024), which would envisage a change in the weighing pattern and consumption basket as per the Household Consumption Expenditure Survey (HCES) results of 2023-24.**

#This includes the 22 items shown in the chart and 16 additional items including eggs, several spices, brinjal, banana, ghee, butter, etc. for which the DCA has only started releasing the data recently.

OUTLOOK: Rabi sowing exceeded 99% of normal area by early-January 2026

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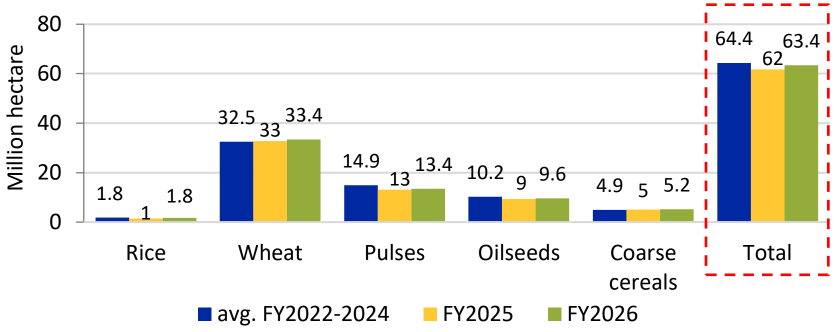
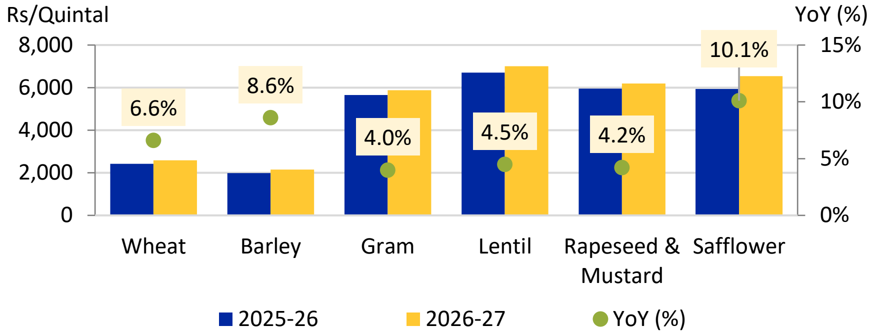
EXHIBIT: Trends in Rabi sowing as at early January over the last five years*



**corresponding period of FY2022-2024 has been used; Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research*

EXHIBIT: Trends in MSPs announced for rabi marketing season 2026-27



Source: Cabinet Committee on Economic Affairs, GoI, ICRA Research

- The area sown under rabi crops is up by 2.7% YoY to 63.4 million hectares as on January 2, 2026, driven by an uptick across all crops including wheat (+1.9%), rice (+17.9%), pulses (+2.6%), oilseeds (+3.2%), and coarse cereals (+2.2%), supported by elevated reservoir levels as well as a healthy average hike of 6.3% in the MSP for rabi crops in 2026-27 (highest in last seven years).
- Notwithstanding the YoY uptick, sowing as on January 2, 2026 trailed the corresponding average levels of 2022-2024 by 1.5%, amid a lower sowing for most crops like pulses (-10.1% vs. avg levels of 2022-24), oilseeds (-5.6%), and rice (-1.0%) while that for wheat (+2.7%) and coarse cereals (+5.0%) saw an uptick.
- Overall, rabi sowing has been completed on 99.4% of the season's normal acreage with wheat – the major rabi crop constituting ~53% of the overall rabi area sown this year, already exceeding its normal area (at 107%), along with oilseeds (share: ~15% of rabi area sown; 111% of normal area). This is followed by pulses (95.6%) and coarse cereals (93.6%) which are also close to their normal sown area. In contrast, the coverage under rice has remained limited at ~41%; sowing of rice typically picks up momentum in January.

OUTLOOK: MPC lowered repo rate by 25 bps to 5.25% in December 2025; ICRA expects a pause in February 2026 policy

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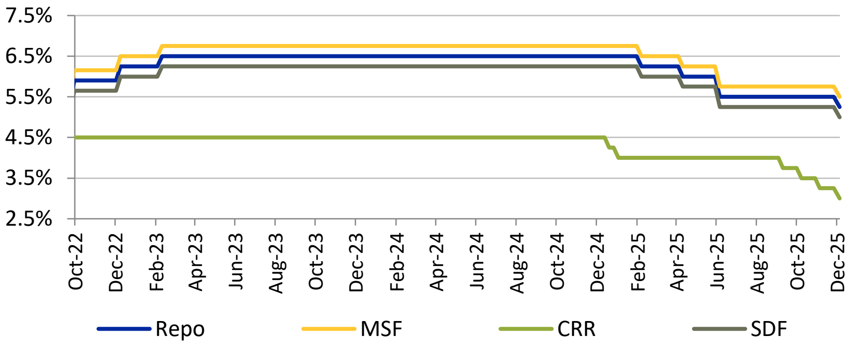
EXHIBIT: Movement in Key Rates



Source: RBI; ICRA Research

EXHIBIT: RBI's earlier and current GDP growth and CPI inflation forecasts

YoY (%)	CPI Inflation		GDP Growth (at constant 2011-12 prices)	
MPC Policy Reviews	**October 2025**	**December 2025**	**October 2025**	**December 2025**
Q3 FY2026	1.8%	0.6%	6.4%	7.0%
Q4 FY2026	4.0%	2.9%	6.2%	6.5%
FY2026	**2.6%**	**2.0%**	**6.8%**	**7.3%**
Q1 FY2027	4.5%	3.9%	6.4%	6.7%
Q2 FY2027		4.0%		6.8%

Source: RBI; ICRA Research

- The December 2025 policy minutes highlighted a dovish tone, with the statement clearly articulating that the benign inflation outlook on both headline and core, and the near completion of the 100 bps policy transmission undertaken between February and July 2025, provided additional policy space to support the growth momentum, particularly when the same is projected to decelerate going ahead.
- The external members were broadly of the view that the real policy rate is slightly more restrictive, with one member highlighting that a delay in the rate cut would hurt real GDP growth by keeping real interest rates unnecessarily above growth-supportive levels. The member stressed that given productivity gains and healthy prospects for domestic demand, the economy could sustain higher real GDP growth than what was seen in the past, likely above 7.5% without building up price pressure.
- **While the Dec 2025 MPC minutes suggest a possibility of another rate cut in February 2026, ICRA believes that a pause is warranted at the current juncture to assess the upcoming CPI (for Jan 2026 on Feb 12; base: 2024) and GDP (FY2024-FY2026 on Feb 27; base: 2022-23) data as per the new base years, which are due to be released at mid/end-February 2026. These data series will determine the current growth-inflation mix, and aid in forming a fresh outlook.**

Annexure A.1

Table A.1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base				M-o-M
		October-25	November-25	November-25	December-25	December-25
		Final	Provisional	Final	Provisional	Provisional
CPI (combined)	**100.00**	**0.3%**	**0.7%**	**0.7%**	**1.3%**	**0.1%**
Food and beverages	***45.86***	***-3.7%***	***-2.8%***	***-2.8%***	***-1.8%***	***-0.2%***
Cereals and products	9.67	0.9%	0.1%	0.1%	-0.4%	-0.1%
Meat and fish	3.61	1.7%	2.5%	2.5%	5.1%	1.8%
Egg	0.43	1.3%	3.8%	3.9%	4.8%	6.2%
Milk and products	6.61	2.4%	2.5%	2.5%	2.6%	0.2%
Oils and fats	3.56	11.2%	7.9%	7.9%	6.8%	0.1%
Fruits	2.89	6.7%	6.9%	6.8%	6.7%	-0.9%
Vegetables	6.04	-27.6%	-22.2%	-22.2%	-18.5%	-2.9%
Pulses and products	2.38	-16.2%	-15.9%	-15.8%	-15.1%	-0.1%
Sugar and confectionary	1.36	4.0%	4.0%	4.0%	4.7%	-0.1%
Spices	2.50	-3.3%	-2.9%	-2.9%	-2.2%	0.5%
Pan, tobacco and intoxicants	***2.38***	***2.9%***	***3.0%***	***3.0%***	***3.0%***	***0.2%***
Clothing and footwear	***6.53***	***1.7%***	***1.5%***	***1.5%***	***1.4%***	***0.2%***
Housing	***10.07***	***3.0%***	***3.0%***	***3.0%***	***2.9%***	***-0.8%***
Fuel and light	***6.84***	***2.0%***	***2.3%***	***2.3%***	***2.0%***	***0.3%***
Miscellaneous	***28.32***	***5.7%***	***5.6%***	***5.6%***	***6.2%***	***0.7%***
Household goods and services	3.80	2.3%	2.0%	2.0%	1.9%	0.2%
Health	5.89	3.8%	3.6%	3.6%	3.4%	0.2%
Transport and communication	8.59	0.9%	0.9%	0.9%	0.8%	-0.1%
Recreation and amusement	1.68	1.5%	1.3%	1.3%	1.2%	0.1%
Education	4.46	3.5%	3.4%	3.4%	3.3%	0.1%
Personal care and effects	3.89	23.9%	24.0%	24.1%	28.1%	3.3%
CPI-Food	***36.55***	***-5.0%***	***-3.9%***	***-3.9%***	***-2.7%***	***-0.2%***
CPI-Core	***44.97***	***4.5%***	***4.4%***	***4.4%***	***4.8%***	***0.3%***
CPI Rural		***-0.3%***	***0.1%***	***0.1%***	***0.8%***	***0.2%***
CPI Urban		***0.9%***	***1.4%***	***1.4%***	***2.0%***	***0.0%***

Source: National Statistical Office (NSO); CEIC; ICRA Research

Annexure A.2

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Table A.2: Sub-sectors with major contribution in CPI Inflation

Sub-Group	Item Description	Weight (%)	Sub-Group	Item Description	Weight (%)
Food and Beverages	Milk: Liquid	6.42	Housing	House Rent, Garage Rent	9.51
	Rice – other sources*	4.38		Residential Building and Land (cost of repairs only)	0.28
	Wheat/Atta – other sources*	2.56		Water Charges	0.16
	Cooked Meals Purchased	2.42		Watch man Charges	0.11
Pan, Tobacco and Intoxicants	Bidi	0.43	Fuel and Light	Electricity	2.26
	Foreign/Refined Liquor or Wine	0.40		Firewood and Chips	2.07
	Country Liquor	0.35		LPG (excluding conveyance)	1.29
	Other Tobacco Products	0.26		Dung Cake	0.44
Clothing and Footwear	Saree	0.90	Miscellaneous	Medicine (non-institutional)	4.01
	Cloth for Shirt, Pyjama, Kurta, Salwar, etc.	0.68		Tuition and Other Fees (school, college, etc.)	2.90
	Shirts, T-shirts	0.57		Petrol for Vehicle	2.19
	Shorts, Trousers, Bermudas	0.55		Telephone Charges: Mobile	1.84

**Sources other than PDS; Source: NSO; CEIC; ICRA Research*

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Thank You!