

CPI INFLATION AT ALL TIME LOW OF 0.25%
EX-GOLD, IT SLIPS INTO NEGATIVE TERRITORY AT -0.57% ..FY26
INFLATION AVERAGE NOW AT 1.7-1.8% (RBI AT 2.6%)
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India's CPI inflation moderated to all-time low of 0.25% yoy in Oct'25, helped by decline in food & beverages inflation as prices of vegetables, pulses and spices continue to decline and fruits inflation and oil & fat inflation moderated. **While CPI inflation increased in case of personal care and effects owing to higher gold prices at 57.8%, excluding gold from headline CPI turns the print negative at -0.57% yoy. We believe, given the current trend, CPI excluding gold would remain negative even in the next two months.** Meanwhile, core CPI didn't change much and came at 4.33% in October compared to 4.36% in September, with gold price playing spoilsport as Core CPI excluding gold comes at 2.6%.

GST rationalization has also led to reduction in CPI inflation. We earlier estimated that CPI will moderate by around 65-75 bps owing to GST. **However, the decline in CPI inflation due to GST has been higher at around 85 bps.**

Turning to State-wise inflation, Kerala inflation is highest at 8.56%, followed by 2.95% in J& K, and 2.34% in Karnataka . Out of the 22-States, inflation in 12-states is in negative zone, all other states inflation below 3%, except Kerala.

India's CPI inflation trajectory calls for a **strong case for decisive actions. The higher growth numbers for Q2 and the October inflation print will pose a serious dilemma for the RBI for a rate action in December. Even for February policy there are many moving parts. For example, the full year GDP forecast for FY26 that could come well over 7% and the inflation prints for Nov and December (both months at below 1%) will continue to pose the same (if not more) dilemma in February policy. Post February policy, the new GDP series and new CPI series will be released, as well as the Q3GDP numbers. While Q3GDP numbers could be even higher than Q2GDP numbers, the new CPI series could strip off 20-30 basis points from headline numbers and the new GDP series because of more formalization of the economy that was not previously accounted for could also move even higher.**

The decisively low inflationary imprint at less than 4% from Feb 25 and likely to continue for most of FY27 put forth a perplexing dilemma, a kind of double whammy for the MPC right through its ensuing February meet as the tactical flexibility to take a considered view, balancing the risks evenly, gets squeezed further. **Missing the benefits of a pre-emptive action (August/Oct policy), the Inflation Targeting Framework thus could have achieved its mandate but was constrained to deliver such with the inflation forecasting one year ahead (Q1FY27) being put at 4.9%, only to be revised downwards later to 4.5% in October policy. Given this backdrop, specifically, the RBI's October decision to maintain status quo on policy rates now appears to have substantially narrowed its tactical flexibility. Interestingly, Q1FY27 inflation forecast is currently trending at below 3% as per SBI estimates.**

Subsequently, sporadic talks of rate hikes in future, hinged to likelihood of prices rising in a not so distant time do not factor in the veritable constraints of forecasting subjugated to host of uncertainties in a multi polarized world. With inflation forecasting on monthly basis remaining a difficult task, the audacity of long term forecasting can only weaken central bank's communication with market forces, an agent that holds utmost importance in these trying times we believe.

Under these circumstances, we believe December rate cut is a close call and not a given. It will entirely depend on how RBI is able to communicate to the market a rate cut when growth numbers are in excess of 7%. Does the central bank talk about an aspirational growth rate? It remains to be seen, but central bank communication could take interesting turn in December policy if RBI had to cut rates. Anyway, as an inflation targeting central bank, the primary responsibility of RBI is to always cut rates first! **Also, liquidity needs to be better calibrated going forward for smooth transition and transmission as credit demand looks set to trump deposit growth.**

The House can not be left divided on the critical aspect of policy pivot which can enable the MPC to cross the chasm decisively.

CPI INFLATION AT 0.25% IN OCTOBER 2025

- ♦ India's CPI inflation moderated to all-time low of 0.25% yoy in Oct'25 due to decline in food & beverages inflation, whose deceleration has increased to -3.7% compared to -1.4% in Sep'25.
- ♦ Prices of vegetables, pulses and spices continue to decline in October. Fruits inflation and oil & fat inflation moderated to 6.69% and 11.17% respectively in Oct'25.
- ♦ On the other hand, CPI inflation increased in case of personal care and effects owing to higher gold prices. Inflation in gold remains high at 57.8% in October. If we exclude gold from headline CPI, it turns negative at -0.57% yoy. We believe given the current trend then CPI excluding gold will remain negative in the next two months.
- ♦ Meanwhile, core CPI didn't change much and came at 4.33% in October compared to 4.36% in September, with gold price reflected in higher personal care and effects inflation driving it. Core CPI excluding gold is lower at 2.6%.
- ♦ GST rationalization has led to reduction in CPI inflation. **We earlier estimated that CPI will moderate by around 65-75 bps owing to GST. However, the decline in CPI inflation due to GST has been higher at around 85 bps.**

REGIONAL TRENDS IN INFLATION

- ♦ Turning to State-wise inflation, Kerala inflation is highest at 8.56%, followed by 2.95% in J& K, and 2.34% in Karnataka . Out of the 22-States, inflation in 12-states is in negative zone, all other states inflation below 3%, except Kerala.

IMPACT OF UNSEASONAL RAINS

- ♦ It is expected that post monsoon unseasonal rainfall will result in a damage to crops across the states. For example, a primary estimate in Gujarat suggested that unseasonal rainfall has caused damage in more than 42 lakh hectare (ha) agriculture land in more than 16,000 villages in the state. The situation may be similar for other states also as key foodgrain producing states exhibited rainfall of more than 100% above the normal level, as against the all-India level of 35%. We expect not much impact as off now.

CPI Inflation Declined to All Time Low of 0.25% YoY in Oct'25

Group	Oct-25	Sep-25	Oct-24
Food and beverages	-3.72	-1.37	9.69
Fruits	6.69	9.77	8.43
Vegetables	-27.57	-21.42	42.23
Pulses and products	-16.15	-15.32	7.38
Pan, tobacco and intoxicants	2.87	2.73	2.50
Clothing and footwear	1.70	2.28	2.70
Housing	2.96	2.98	2.81
Fuel and light	1.98	1.98	-1.67
Misc	5.71	5.35	4.32
Personal care and effects	23.88	19.39	10.99
CPI Inflation (Combined)	0.25	1.44	6.21
Rural Inflation	-0.25	1.07	6.68
Urban Inflation	0.88	1.83	5.62
Core CPI Inflation	4.33	4.36	3.77

Source: MOSPI, SBI Research

State-wise Post Monsoon Rainfall (01 Oct to 12 Nov)

Major State	% Departure from Normal
Rajasthan	358%
Gujarat	298%
Punjab	214%
Bihar	198%
Haryana	188%
Uttar Pradesh	125%
Himachal Pradesh	116%
Madhya Pradesh	108%
Telangana	64%
Andhra Pradesh	41%
West Bengal	39%
J&K	38%
Odisha	35%
Maharashtra	9%
Karnataka	2%
Tamilnadu	-3%
Kerala	-27%
All India	35%

Source: IMD; SBI Research

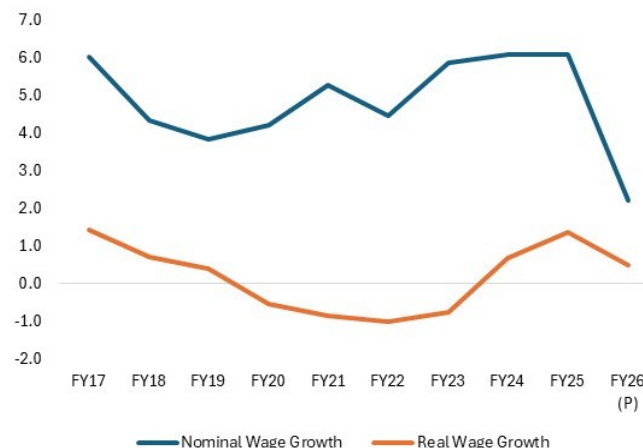
REAL WAGE GROWTH RATE

- ◆ The declining nominal wage growth is offset by declining inflation and growth of real wage is in positive territory for the third consecutive year after remaining in the negative territory for (FY20 to FY23). This along with GST rationalization will give necessary fillip to the purchasing power of consumers.

WAY FORWARD

- ◆ We estimate real GDP to expand by 7.5% in Q2 FY26, keeping the full-year growth trajectory around 7.2%-7.3%
- ◆ RBI's estimate of inflation is always on a higher-side and now forecasted 2.6% for FY26, which seems to be 70/80 bps higher.
- ◆ **Given this backdrop, the RBI's October decision to maintain status quo on policy rates now appears to have substantially narrowed its tactical flexibility.**
- ◆ The Feb'26 policy , which many viewed as the next plausible window for a rate cut, is unlikely to offer the same freedom of action. By that time, several macroeconomic variables will be in motion simultaneously- the First Advance Estimates of GDP, the Union Budget, and the inflation prints along with GDP quarterly numbers will all feed into the policy calculus. **Such an environment will be challenging to engineer a decisive policy pivot. In effect, the optimal policy window for a calibrated easing the one that could have been executed preemptively may have already closed. In sum, by deferring rate action earlier, the moment for policy pivot appears to have passed.**

Nominal and Real Wage Growth (%)



Source: SBI Research

RBI's Inflation Projections

MPC Meeting	Q2 FY26	Q3 FY26	Q4 FY26	FY26	Q1 FY27
Oct'25	1.8	1.8	4	2.6	4.5
Aug '25	2.1	3.1	4.4	3.1	4.9
Jun'25	3.4	3.9	4.4	3.7	-
Apr'25	3.9	3.8	4.4	4.0	-
Feb'25	4.0	3.8	4.2	4.2	-

Source: RBI, SBI Research

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