

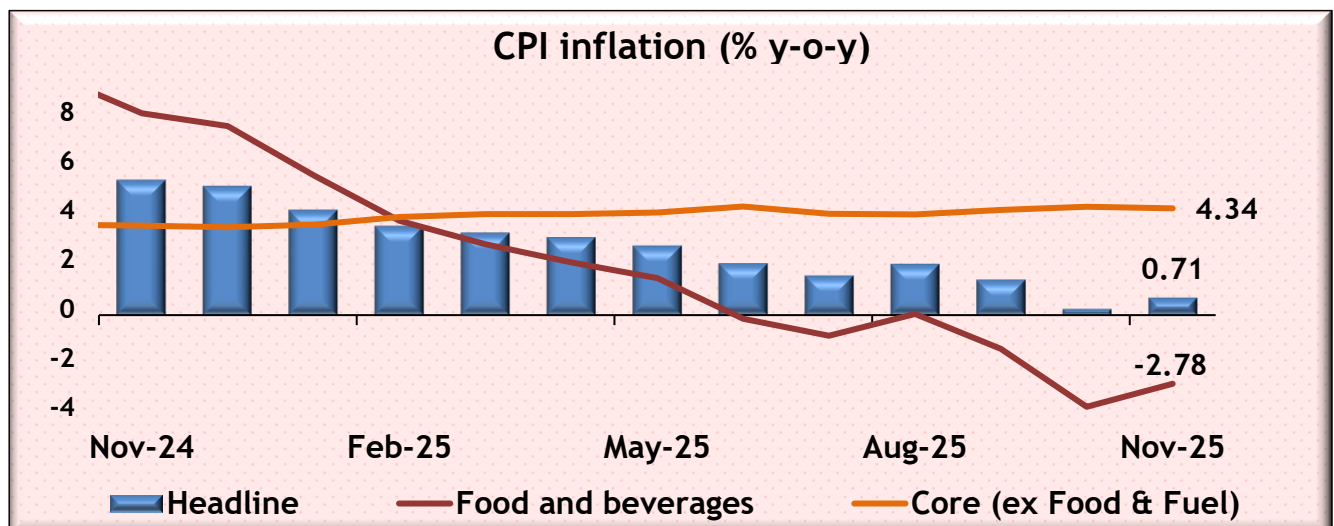
November CPI Inflation edges up to 0.71%

CPI inflation for November edged up to 0.71% compared to 0.25% in October, mainly attributable to base effect as the print was 5.5% in November 2024. However, core inflation is 4.3% driven by price pressure in housing, education, healthcare and personal care. Food & beverages with a weight of 46% in CPI will continue to be in deflationary territory. Gold prices increased by 58.5% in November 2025 over Nov'24 which contributed significantly to the headline even though its weight in the index is only 1.08%.

Retail inflation for the first two months of Q3 has averaged 0.48%, inflation in December is expected to be in the range of 0.85-1%. This implies that for 3 successive months retail inflation has been less than 1% and far below the lower tolerance band of 2%, opening up the possibility for further rate cuts.

Gold and silver with a weight of 1.08% and 0.11% had an inflation rate of 58.5% and 65% and contributed disproportionately to retail inflation. If both these are excluded, overall CPI inflation for November would be only 0.0068% or practically nil inflation. Due to continued geo political tensions and Federal reserve rate cut possibilities gold prices are likely to increase. Thus, excluding gold and silver retail inflation risks slipping into deflation in the coming months.

CPI Inflation (% y.o.y)					
	Weight	Nov-24	Mar-25	Oct-25	Nov-25
Headline	100	5.48	3.34	0.25	0.71
Food and beverages	46	8.20	2.88	-3.72	-2.78
Cereals and products	10	6.88	5.93	0.92	0.10
Protein	13	3.96	0.72	-1.46	-1.05
Fruits	3	7.68	16.27	6.69	6.87
Vegetables	6	29.37	-7.04	-27.57	-22.20
Fuel and light	7	-1.83	1.42	1.98	2.32
Core (ex Food & Fuel)	47	3.64	4.10	4.41	4.34
Pan, tobacco and intoxicants	2	2.35	2.48	2.92	2.96
Clothing and footwear	7	2.75	2.62	1.70	1.49
Housing	10	2.87	3.03	2.96	2.95
Miscellaneous	28	4.26	4.99	5.71	5.64
<i>of which: Transport & Comm.</i>	9	2.70	3.36	0.94	0.88



As real interest rates in India, considering 10 Yr Benchmark bond and CPI inflation, is among the highest, this also presents a case for more rate cuts. Higher real rates could hurt corporate capex and profitability. Even if CPI were to rise to 3.9-4% as projected in the December MPC, real interest rates would still be higher compared to most economies as shown below:

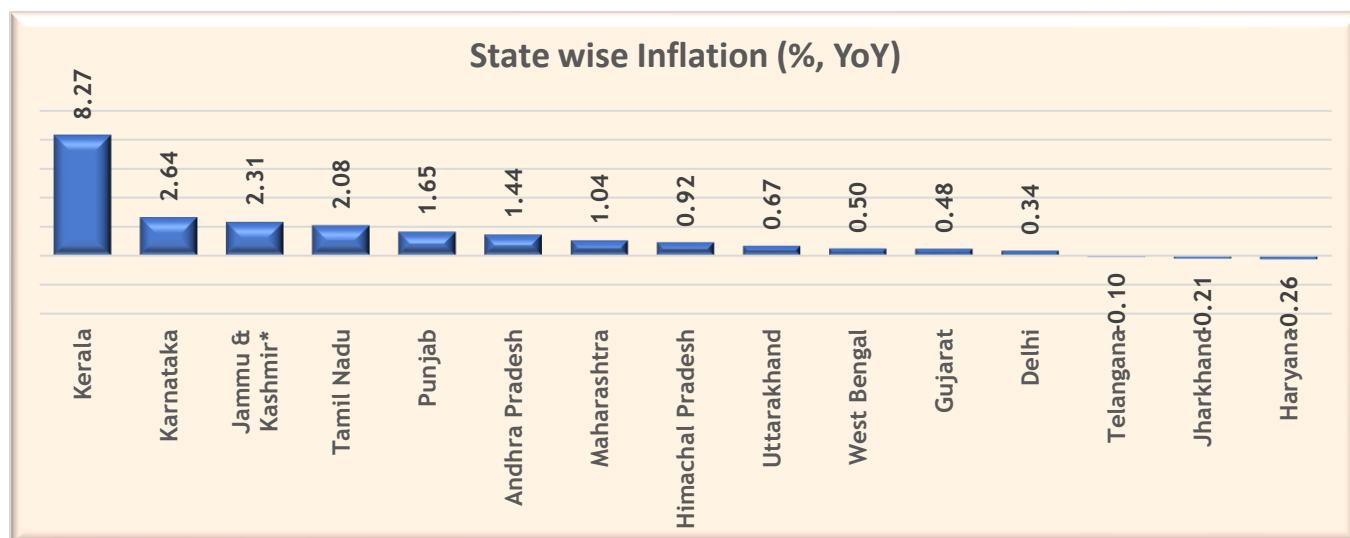
	10 yr G-Sec	CPI inflation	Real rate
United States	4.14	3.1	1.04
United Kingdom	4.48	3.6	1.28
Germany	2.85	2.3	0.55
Japan	1.94	3.0 (Oct)	-1.06
China	1.83	0.7	1.13
Indonesia	6.20	2.7	3.50
S. Korea	3.37	2.4	0.97
Singapore	2.29	1.2 (oct)	1.09
India	6.58	0.5 3.9 (est in Q4'FY26)	6.08 2.7

Further rate cuts look likely as that could push inflation higher by way of more demand and consumption. An inflation rate of 4% would be an 'ideal threshold' for India as it would be a win-win for both the producers and consumers. Consumers wouldn't be overburdened while producers would receive fair remuneration. A low inflation can also depress wage hikes. Very low inflation lowers nominal GDP growth and puts pressure on the fiscal deficit target due to lower tax revenue collections.

Despite benign inflation, bond yields are expected to stay elevated as factors like US yields exert a greater influence. Moreover, repo 10 Tyr G-Sec spread is currently 133 bps and this spread has been on similar lines in earlier scenario when repo rate was 5.25% levels as shown below.

	Average repo	Average 10 yr G Sec	Spread (bps)
Dec 2015-Dec 2025	5.82	6.95	113
Dec 2020-Dec 2025	5.54	6.80	126
Dec 2015-Dec 2020	5.81	6.94	113
Aug 2019-Mar'2020	5.25	6.53	128

As seen from the above table at the current repo rate the spread with G-Sec was 128 bps and by this logic the 10 Yr benchmark is not expected to soften below 6.50-6.53% levels. However, flows due to inclusion in the Bloomberg bond index could act as a cushion, if it materializes.



Among major states, Kerala has the highest inflation rate due to high consumerism especially the craving for gold. Moreover, the state has one of the highest wage rates, depends on imports from other states for most agriculture commodities including coconuts and has a higher purchasing power due to large of remittances, causing higher inflation in the state.

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Economic Research Vertical

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