

India Economy Update: February 2026

Retail inflation: Core inflation moderates, but food accelerates

- CPI inflation moved higher to 2.75% YoY (est: 2.96%) as per 2024 base year (new series) compared with 1.3% in December (old series). The biggest surprise is the sharp drop in core inflation to 3.4% YoY (new series) as against 4.6% YoY in December (old series)
- The drop in core inflation is broad-based as seen across segments such as personal care, housing, health, restaurants, communication and transport. Clothing and recreation have seen an increase
- However, food inflation too has surprised on the other side with an increase of 2.1% YoY as against a print of -2.4% YoY (reclassified) in December 2025. The increase is broad-based led by protein items and lower contraction in vegetables
- Comparing the sequential momentum in the old versus the new series, the food index seems to show a higher momentum or upward bias as against core index which shows a lower bias
- This can be explained by wider coverage in markets, towns and platforms which depicts on the ground situation for food inflation. In case of core, the lower bias to an extent is explained by reclassification of gold and silver to jewellery made from these two metals along with lower weight
- Given higher weight for core in new series (57.9% vs 47.3% earlier*) and lower momentum, bias would be for headline inflation to be lower by ~35bps from earlier estimate (4% in H1FY27)
- However, given the higher momentum seen in food in new series and a low base, food inflation has the potential to be higher thus taking the headline upwards till December 2026

Inflation divisions: What has changed?

Division (As per new classification)	Weights			CPI %YoY(As per old weights)			CPI
	Old Weight	New Weight	Change	FY25	FYTD26	Dec-25	Jan-26
Food and beverages	42.27	36.75	-5.52	6.96	-1.26	-2.35	2.11
Paan, tobacco and intoxicants	2.38	2.99	0.61	2.66	2.60	2.96	2.86
Clothing and footwear	6.53	6.38	-0.15	2.72	2.18	1.44	2.98
Housing, water, electricity, gas and other fuels	16.91	17.66	0.75	0.65	2.85	2.59	1.53
Housing, water	10.07	12.3	2.23	2.76	3.05	2.86	2.04
Electricity, gas and other fuels	6.84	5.36	-1.48	-2.47	2.40	1.97	0.35
Furnishings, household equipment and routine household maintenance	3.80	4.47	0.67	2.63	2.37	1.91	1.45
Health	5.89	6.1	0.21	4.10	4.13	3.43	2.19
Transport	6.37	8.8	2.43	0.83	1.58	0.50	0.09
Information and communication	2.50	3.61	1.11	6.19	3.51	1.22	0.16
Recreation, sport and culture	2.35	1.52	-0.83	2.64	2.13	1.75	2.32
Education services	3.51	3.33	-0.18	4.16	4.32	3.90	3.35
Restaurants and accommodation services	3.59	3.35	-0.24	4.24	4.61	3.90	2.87
Personal care, social protection and miscellaneous goods and services	3.89	5.04	1.15	9.81	18.73	28.07	19.02
CPI Core	50.88	57.89	7.01	3.58	4.31	4.55	3.38
CPI Headline	100.0	100.0		4.62	1.72	1.33	2.75

Food and Beverages: What has changed?

Groups (As per new classification)	Weights			CPI %YoY(As per old weights)			CPI
	Old Weight	New Weight	Change	FY25	FYTD26	Dec-25	Jan-26
Cereals and products	9.35	5.95	-3.40	7.25	2.48	-0.35	0.12
Meat, fresh, chilled or frozen	2.35	2.52	0.17	4.47	0.28	5.27	8.52
Fish and other seafood	1.27	1.02	-0.24	4.79	2.93	4.94	6.74
Milk, other dairy products and eggs	7.89	7.28	-0.61	2.93	2.63	2.70	3.06
Oils and fats	3.56	2.74	-0.82	5.69	15.30	6.75	6.62
Fruits and nuts	2.89	3.70	0.81	8.75	10.60	6.66	7.87
Vegetables, tubers, plantains, cooking bananas and pulses	8.42	6.82	-1.60	17.19	-17.61	-17.76	-5.30
Sugar, confectionery and desserts	1.91	1.42	-0.49	3.25	3.78	3.98	3.37
Ready-made food and other food products	3.06	3.33	0.27	-1.63	-1.27	-0.78	0.81
Beverages	1.26	1.80	0.54	2.85	3.89	2.42	1.56
Services for processing primary goods for food	0.32	0.20	-0.12	2.84	3.25	3.13	3.42
Food and Beverages	42.28	36.75	-5.50	6.96	-1.26	-2.35	2.11

Note: For the old series, the weights have been adjusted as per the new classifications and divisions and accordingly the inflation numbers have been calculated for comparison with the new series (Jan 2026 print)

Source: MoSPI, PIB Press release, ICICI Bank Research

Wholesale price inflation: higher commodity prices drove wholesale prices higher

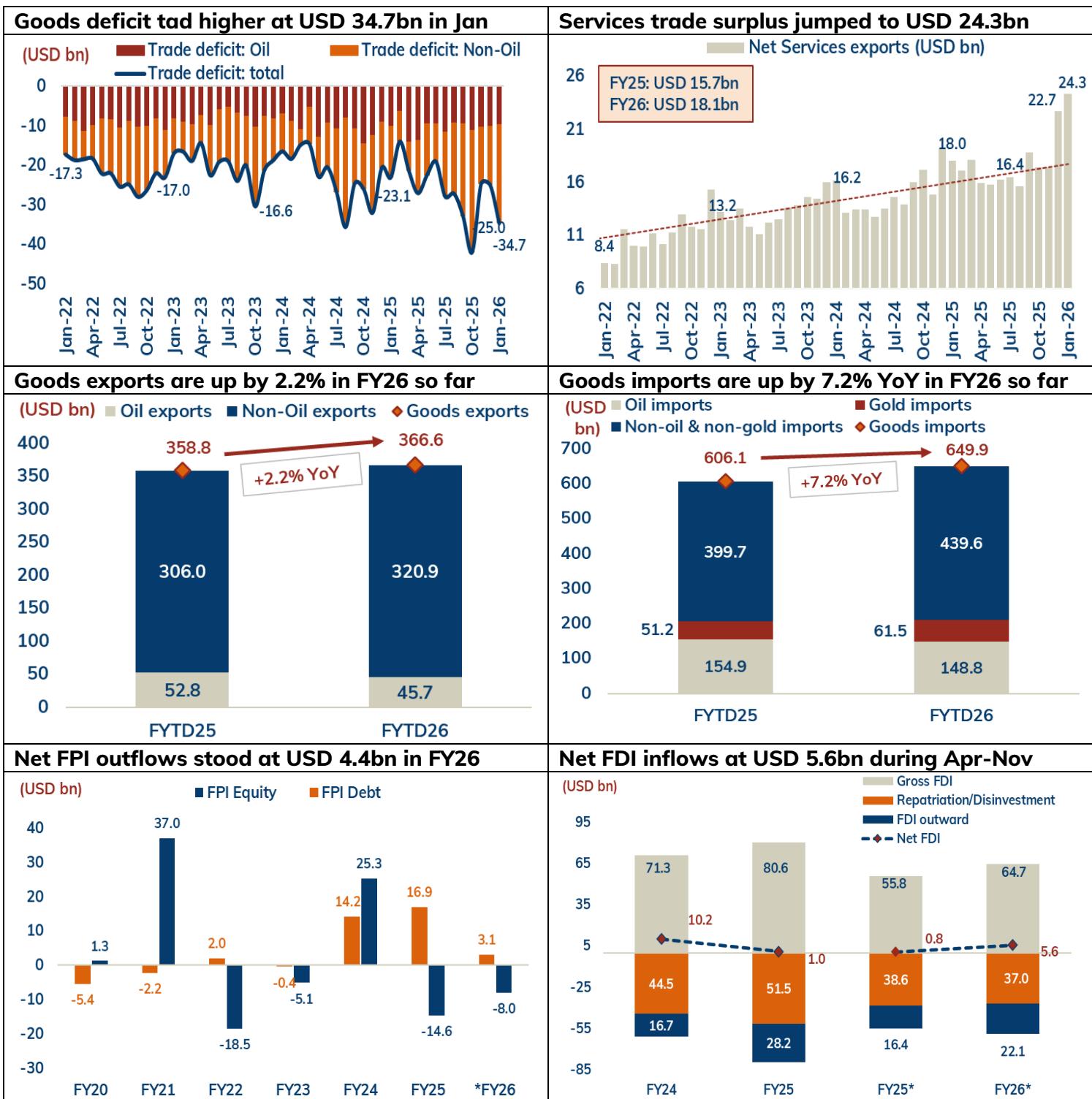
- Wholesale inflation moved higher to 1.8% YoY in January 2026 and marked a clear upward movement after a period of subdued or negative wholesale inflation in late 2025.
- Within WPI, primary articles inflation surged to a 11-month high mainly due to increase in both food and non-food components
- Manufactured products moved to a 10-month high of 2.9% YoY, led by increase in other manufacturing product prices (precious metals) along with a pickup in basic metal prices
- Fuel and power index recorded further contraction (-4% YoY), on the back of lower oil prices.
- While WPI inflation marked a phase of strengthening wholesale price momentum, largely driven by manufacturing and supported by primary articles, inflationary pressures remain contained. The near-term trajectory will now depend on volatility in commodity markets and domestic demand

(% YoY)	Weight	Dec-24	Jan-25	Dec-25	Jan-26
Headline	100.0	2.6	2.5	0.8	1.8
Primary articles	22.6	6.0	4.6	0.2	2.2
of which					
Food		8.5	5.8	-0.4	1.6
Non food		2.4	3.0	2.9	7.6
Minerals		5.7	1.6	11.9	12.8
Crude petroleum & natural gas		-6.8	-0.5	-6.0	-7.8
Fuel & Power	13.2	-2.6	-1.9	-2.3	-4.0
Manufacturing	64.2	2.1	2.6	1.8	2.9
Food index	24.4	8.9	7.5	0.0	1.4
WPI Core	54.2	0.6	1.1	2.0	3.3

India trade: Goods deficit, services surplus improved

- India's goods exports were more or less same as last year at USD 36.6bn in Jan 2026 even as oil exports rose (8.7% YoY). More importantly, net services exports accelerated to USD 24.3bn, up by 35% YoY
- Moderation in exports can be explained by dip in exports to US, but should pick-up in coming months as India and US have a trade agreement in place
- On the other hand, goods imports accelerated by 20% YoY to USD 71.2bn, driven by higher gold imports (+349% YoY). Non-oil non-gold imports (5.7% YoY) continued to see an increase given India's resilient growth
- Given sharply higher imports when exports were flat, trade deficit widened to USD 34.7bn in Jan and stood at USD 283bn during Apr-Jan 2026 (USD 247bn in same period last year). Given the much higher goods deficit, overall deficit for FY26 would be higher than earlier estimate
- However, with services exports too surprising positively (avg: USD 18bn/month), we believe that the CAD should remain the same as earlier estimate of USD 35bn (0.9% of GDP) in FY26 and USD 45bn (1.0% of GDP) in FY27
- On the capital account front, inflows into India have seen an improvement after India-US trade deal. Hence, INR is seen stable around current levels in the near-term

India Trade: January 2026								
(USD bn)	Jan-25	Dec-25	Jan-26	(% YoY)	(% MoM)	FYTD25	FYTD26	Growth (%)
Exports	36.3	38.5	36.6	0.6	-5.1	358.8	366.6	2.2
Of which								
Oil	3.5	4.4	3.8	8.7	-14.1	52.8	45.7	-13.4
Non-oil	32.9	34.1	32.8	-0.2	-3.9	306.0	320.9	4.9
Imports	59.4	63.6	71.2	19.9	12.1	606.1	649.9	7.2
of which								
Oil	13.4	14.4	13.4	-0.2	-6.9	154.9	148.8	-3.9
Gold	2.7	4.1	12.1	349.2	192.0	51.2	61.5	20.1
Non-oil non-gold	43.3	45.0	45.8	5.7	1.7	399.7	439.6	10.0
Trade Deficit	-23.1	-25.0	-34.7			-247.4	-283.2	



MPC Review: On an extended pause

- The MPC unanimously kept the policy rate unchanged at 5.25%, and the stance at 'Neutral' with a 5:1 majority (Prof. Singh favoured accommodation), given the improvement in growth prospects
- Growth projection for H1FY27 was revised higher to 7% (6.8% earlier), driven by private consumption, slower pace of fiscal consolidation and benign inflation
- Inflation projection for H1FY27 has been revised higher led by precious metals. But given the change in base year and methodology for growth and inflation, FY27 projections would be released in April
- With significant liquidity injection announced pre-policy, RBI did not announce any further durable liquidity measures which led to hardening of bond yields. However, Governor stated that RBI would provide adequate liquidity as and when required for transmission and meeting needs of the economy
- Most of the liquidity infusion has been back ended which has led to significant improvement in system liquidity and transmission recently. However, high credit-deposit ratio implies upward pressure on deposit rates should continue unless foreign inflows improve
- With real rate in the vicinity of ~1% next year, we believe policy rate should remain at current level. But RBI would have to continue to do liquidity intervention for transmission given elevated credit-deposit ratio along with large general government gross borrowing

Chart 1: MPC raised its inflation projections

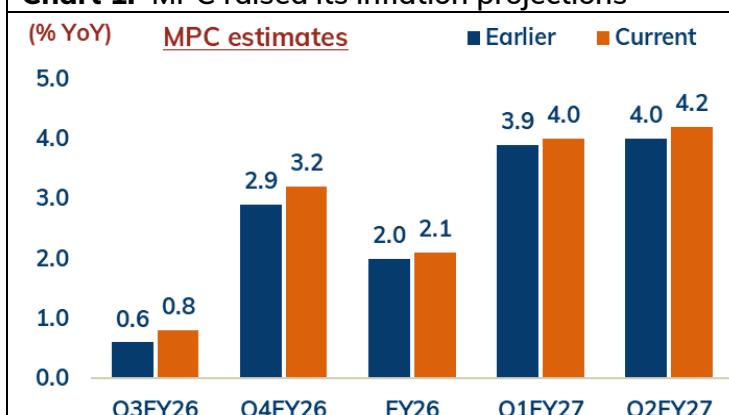


Chart 2: CPI to be near the 4% target next year

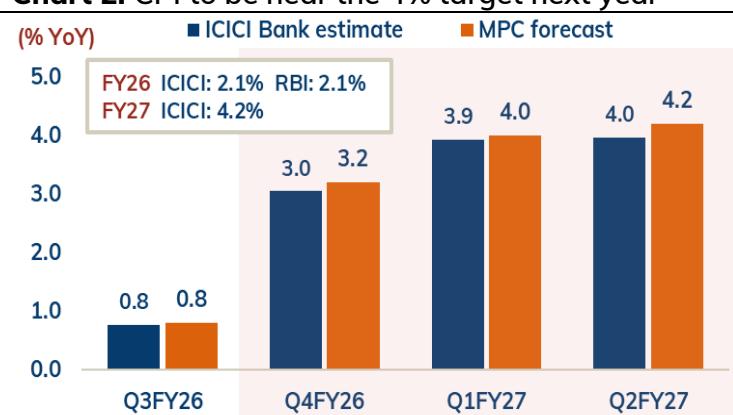


Chart 3: Growth forecasts for H1FY27 revised higher

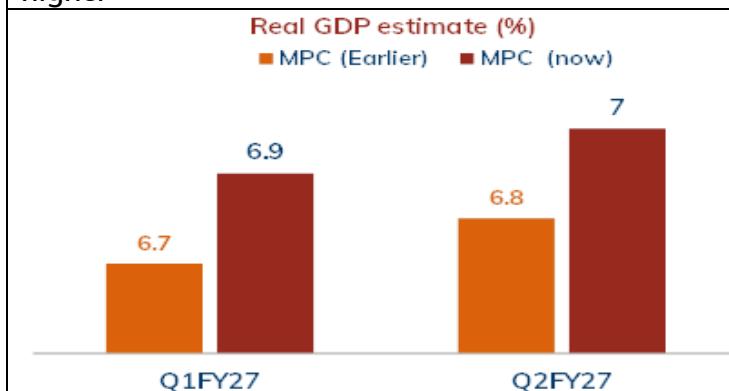
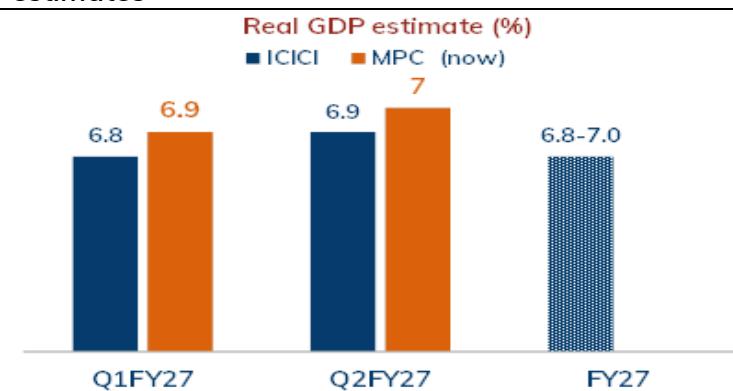


Chart 4: MPC estimates are higher than our growth estimates



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