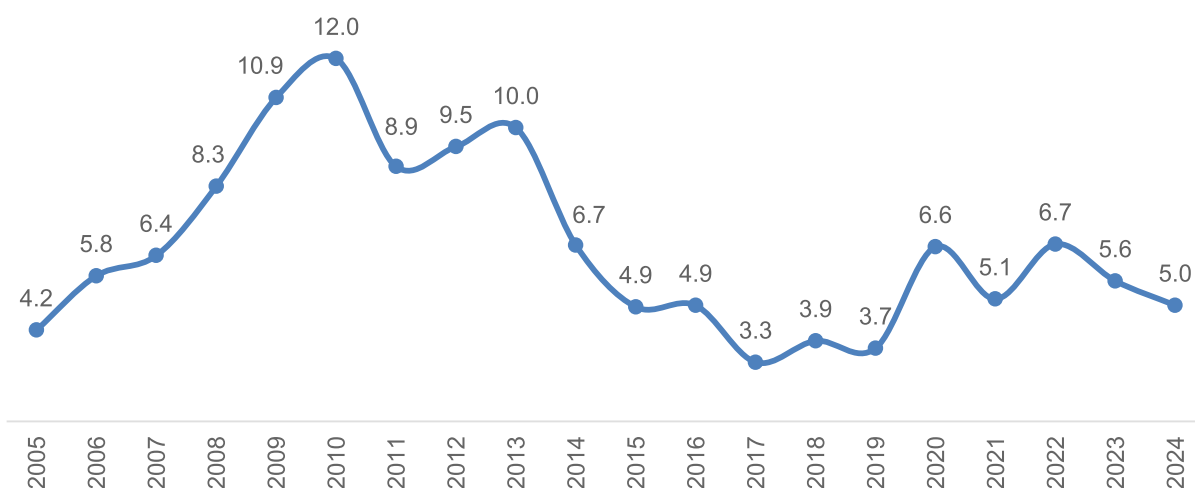




INFLATION TRENDS AND CONSUMER PRICE INDEX INSIGHTS FOR THE ECONOMY OF INDIA

Over the past decade, India has transformed its inflation landscape, evolving from a high-inflation environment in the early 2010s to one characterized by stability and moderate price rises. Through a combination of prudent monetary policy, targeted fiscal measures, and structural reforms, the country has managed to maintain inflation largely within the Reserve Bank of India's 2-6% target range, even amid global supply shocks, commodity price spikes, and domestic challenges. This consistent control over price growth has bolstered consumer confidence, preserved purchasing power, and enhanced macroeconomic stability, creating a favourable environment for investment and sustained growth. Coupled with landmark initiatives like GST 2.0, India's approach demonstrates how carefully calibrated policies can turn inflation management into an opportunity for broader economic resilience and development.

Inflation, consumer prices (annual %) - India



Source: World Bank

India's inflation trajectory in recent years underscores a story of stability and effective management. Between 2009 and 2013, the country grappled with persistently high inflation as annual consumer inflation averaged in double digits, severely eroding purchasing power. However, the adoption of a formal inflation targeting framework in 2016 (with a 4% target \pm 2%) marked a turning point. Over the decade from 2015-16 to 2024-25, the average inflation rate moderated to about 5%, a significant decline from the previous decade's 8.2% average. This steady downward path is evidenced by retail inflation easing from 6.7% in 2022-23 to 5.4% in 2023-24, and further to 4.6% in 2024-25. The consistency in maintaining inflation near the target band highlights the success of

coordinated monetary and fiscal efforts. It also demonstrates that even amid events like the COVID-19 pandemic and the Russia-Ukraine war (which sent global commodity prices soaring), India managed to contain inflationary pressures better than many peers. In fact, by 2023, India's inflation rate was not only within the 2-6% target range but stood 1.4 percentage points lower than the global average.

Crucially, India's inflation has stayed within the RBI's tolerance band for the bulk of the post-2016 period, barring a few transient breaches during crises. As of late 2025, inflation even fell to multi-year lows. Headline Consumer Price Inflation (CPI) eased to 0.25% YoY in October 2025, the lowest since the current CPI series began in 2015. This record-low inflation was driven by a sharp correction in food prices and one-off tax cuts, underscoring the temporary nature of the dip. Nonetheless, it marked the fourth consecutive month of inflation below the RBI's 4% midpoint target, and the seventh month under the upper 6% ceiling. Such a benign inflation environment, combined with India's post-pandemic economic recovery, showcases a stable trajectory that contrasts with the volatile price swings of the past. It is a trajectory that reinforces macroeconomic stability and investor confidence, paving the way for sustainable growth. Any



challenges along the way, for instance, a surge in food or fuel costs, have been met with policy action that turned potential crises into opportunities for reform, as discussed next.

CPI TRENDS AS AN INDICATOR OF GROWTH AND DEMAND

The Consumer Price Index is not just a measure of inflation; it also offers a window into the economy's health by revealing consumption patterns and demand strength. India's CPI is a composite of various components such as food and beverages (about 46% weight), housing (about 10%), fuel and light (about 7%), clothing and footwear (about 6%), and others. Trends across these components provide valuable insights. For example, when food prices climb sharply, it can indicate supply-side disruptions such as poor harvests or global commodity shocks. In contrast, a rise in core inflation, which excludes food and fuel, often signals robust underlying demand in the economy.

In recent years, India's CPI data has told a tale of two influences: supply shocks versus steady demand. During FY23, headline inflation was largely propelled by higher food prices due to factors like an

extreme summer and uneven rainfall domestically, which hurt crop yields, and war-driven global price pressures. Meanwhile, core inflation covering items like housing, education, healthcare, and recreation remained moderate in that period, suggesting that demand-pull pressures were not the primary driver of inflation and that it was more of a supply story. This distinction is important because it guides policy. The RBI can be less aggressive on interest rates if inflation is supply-driven and expected to be temporary. In contrast, persistently high core inflation would call for demand management.

Starting in mid-2023 and into 2024, the CPI's composition began to shift. Food inflation receded significantly. By March 2025, India's food inflation was just 2.7% year on year, the lowest since late 2021. Good harvests and proactive supply measures discussed later turned food from an inflation pain point to a source of relief. Conversely, core inflation proved stickier, hovering in the 4 to 5% range. Notably, housing inflation picked up to a two-year high by late 2025, reflecting increased urban rents and real estate demand. Also, prices of certain services and goods, such as personal care, remained buoyant, partly due to rising gold prices embedded in that category. Economists pointed out that even



as vegetables and pulses saw outright deflation in late 2025, core inflation's firmness suggested sustained domestic demand. In other words, Indian consumers were spending more on housing, healthcare, recreation, and other non-food items, which is a sign of resilience and improving living standards.

Intriguingly, the household consumption basket is evolving alongside these inflation trends. The latest Household Consumption Expenditure Survey for 2023 to 2024 showed that the share of food in the average household's budget has declined. This indicates that families are allocating relatively more to non-food expenditures like education, travel, and consumer goods, which often accompany rising incomes and urbanization. Such shifts bolster core CPI relative to food CPI and signal strengthening discretionary consumption. Policymakers view this positively. A lower proportion spent on food essentials means better nutrition and productivity, and more spending on goods and services that spur growth.

Overall, dissecting the CPI has allowed observers to gauge the economy's momentum. When core inflation is comfortably moderate, as it has been at around 4 to 5%, it implies domestic demand is growing at a healthy, non-overheating pace. When food and fuel inflation eases, it boosts real incomes, which then feed back into higher demand for other sectors. Thus, the CPI trends in India, from the volatile food prices to the

steady uptick in housing costs, collectively narrate a story of recovery and growing consumer confidence, with more on that below. By watching these components, India's policymakers can differentiate whether inflation signals a need to rein in demand or to support supply, enabling a more nuanced, growth-friendly approach to price stability.

EFFECTIVE POLICY RESPONSE BY THE RBI AND THE GOVERNMENT

Maintaining a stable inflation trajectory amid global and domestic shocks did not happen by luck. It was the result of effective, calibrated policy responses from both the Reserve Bank of India and the government. India's inflation management can be seen as a coordinated two-pronged strategy: monetary policy actions to tame demand-side and expectations-driven inflation, and fiscal and administrative measures to alleviate supply-side pressures.

On the monetary front, the RBI has been proactive yet measured. After inflation targeting was formally adopted (with 4% 2% goal), the RBI's Monetary Policy Committee showed resolve in anchoring expectations. For instance, when inflation started climbing above 6% in early 2022, partly due to post-pandemic demand revival and supply snarls, the RBI shifted decisively from an ultra-loose pandemic stance to tightening. It hiked the policy repo rate by a cumulative 250 basis points, from 4.0% to 6.5%, between May 2022 and February 2023 in a calibrated manner. These rate hikes, along with liquidity normalization, helped douse demand-pull inflation and signaled the central bank's commitment to the target. By mid-2023, as inflationary pressures started receding, the RBI paused further hikes, thereby balancing growth considerations. The effectiveness of this approach is evident. Core inflation,



which excludes food and fuel, remained contained at around 4 to 5%. By late 2025, headline inflation undershot the target midpoint, giving room for potential rate cuts to support growth. The RBI has emphasized that maintaining price stability is a precondition for sustainable growth, and its nimbleness in policy, including the willingness to cut rates when inflation is durably low, has supported India's recovery without letting inflation expectations unmoor.

Equally important has been the government's role through fiscal and supply-side interventions. A host of measures were deployed to tackle sources of inflation and cushion consumers directly:

- **Bolstering buffer stocks & open market sales:** India scaled up buffer stockpiles of essential foods (e.g. doubling or tripling the stock of onions, pulses, etc.) and released them strategically to cool down prices. For example, when prices of pulses or onions spiked, agencies like NAFED offloaded reserves in the open market, increasing supply and tempering price surges. This prevented temporary shortages from snowballing into prolonged inflation.

- **Import duty reductions and import facilitation:** To counter domestic scarcities, the government eased import restrictions and slashed import duties on key commodities at critical times. Notably, import tariffs on edible oils were

cut and quotas relaxed when global edible oil prices soared, and imports of pulses were liberalized to augment domestic availability. These steps quickly increased supply and lowered costs for consumers on items of daily need, from cooking oil to lentils.

- **Fuel tax cuts:** Recognizing the outsized impact of fuel on overall inflation (fuel prices affect transport costs of all goods), excise duties on petrol and diesel were cut multiple times. In 2022, for instance, the central excise duty was reduced significantly (by Rs. 8 per litre on petrol and Rs. 6 on diesel) to bring down pump prices immediately. This helped moderate inflation in the transport category and eased input costs economy-wide, demonstrating an opportunity to support consumers even as crude oil prices fluctuated globally.



- **GST and tax relief on essentials:** The government also tweaked indirect taxes to make essential goods cheaper. GST rates on several everyday items were reduced, as noted in recent reforms (detailed in the GST 2.0 section). Even



before that, items like certain food grains and COVID-related medicines were temporarily put under lower GST slabs or exempted to prevent inflation in those categories. State governments pitched in too, for example, by capping VAT on fuel or providing power tariff relief, showcasing a whole-of-government approach.

- **Targeted subsidies and support:** To ensure that vulnerable sections are protected from inflation, welfare schemes were leveraged. The Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) provided free food grains to millions of poor households during the pandemic and beyond, insulating them from food price spikes. Similarly, subsidies on LPG cooking gas (especially under the Ujjwala scheme for low-income households) were enhanced when fuel prices rose. These measures kept the purchasing power intact for the most impacted citizens and maintained consumption levels, turning a potential social challenge into an opportunity to strengthen safety nets.

Thanks to these interventions, inflation has been brought under control without derailing growth. In fact, the Ministry of Finance lauded the synergy between RBI and government actions, noting that retail inflation’s steady decline over 2022-2025 “highlights the combined impact of the

RBI’s calibrated monetary policy and the Government’s focused interventions to ease supply-side constraints and stabilise prices of essential commodities”. By treating supply shocks with supply-side tools and demand issues with monetary tools, India avoided the need for draconian interest rate hikes that could choke growth. Instead, it contained price pressures pragmatically. Every challenge, whether a surge in vegetable prices or a spike in global oil prices, was met with a specific policy response, turning the situation into an opportunity to refine India’s inflation-fighting toolkit (be it creating an onion buffer or streamlining import logistics). This effective response has laid the groundwork for the resilient economy.

RESILIENT DOMESTIC ECONOMY SUPPORTING PRICE STABILITY

A key factor behind India’s successful inflation control is the inherent resilience of its domestic economy. Robust agricultural output, improving supply chains, and stable input costs have together created an environment conducive to price stability. Rather than succumbing to global turbulence, India’s domestic strengths have allowed it to absorb shocks and even capitalize on them to make the economy more self-reliant.





1. Strong agricultural production:

Agriculture remains the backbone of India's price stability, given the large weight of food in CPI. In recent years, India has reaped successive record harvests. For instance, the country achieved an all-time high foodgrain production of about 354 million tonnes in 2024-25, about 6.5% higher than the previous year. Major staples like rice, wheat, and maize saw bumper outputs. This ample supply softened food inflation considerably, and by March 2025, food inflation was running under 3%, marking a sharp turnaround from earlier spikes.

Good monsoons and effective farming support policies have kept granaries full. Even when certain crops suffered, such as wheat during the 2022 heatwave or vegetables during unseasonal rains, India's diversified agri basket and strong distribution networks helped cushion the impact. This resilience turned potential volatility in food prices into an opportunity, allowing for exports in surplus years and stock building in lean periods.

In the future, policymakers aim to raise crop yields, especially in pulses and oilseeds, where India relies heavily on imports, so that domestic output can meet rising demand without adding to inflation. The average farm sector growth of over 4% in recent years has not only supported rural incomes but also acted as

a stabilising force for food prices, reinforcing how a strong primary sector underpins overall price stability.

2. Improving logistics & supply chain efficiency: India has turned the logistics challenge into an opportunity by investing heavily in infrastructure and process reforms, which in turn helps moderate inflation. The introduction of the Goods and Services Tax in 2017, along with initiatives such as the National Logistics Policy and the GatiShakti multimodal infrastructure plan, has already begun to reduce transit times and costs. India ranked 38th out of 139 countries in the World Bank's Logistics Performance Index for 2023, which reflects steady improvement since 2018.



Faster and cheaper movement of goods lowers spoilage of perishables, cuts fuel use in transport, and reduces unnecessary cost mark-ups for consumers.

Improved highway connectivity and dedicated freight corridors for rail are streamlining the movement of food grains and manufactured goods across the country. This has reduced supply bottlenecks and helped maintain stable prices in different regions. The strength of these supply chains was evident in late 2023 when, despite crop damage in some states, food supplies were quickly rerouted from surplus to deficit regions, preventing major spikes in prices.

The push to modernize logistics, from building large warehouses to digitizing

freight management, is creating a more resilient economy that can hold inflation in check even as demand increases. As Prime Minister Modi noted, an efficient logistics sector not only makes life easier for citizens but also enhances the dignity of workers by reducing waste and improving access to markets.

3. Stable Input Costs and External Factors: Another pillar of resilience has been the relative stability (or timely mitigation) of key input costs. Global commodity prices, which spiked in 2022, eased considerably by 2023 - crude oil, for instance, saw a cooling off. By mid-2025, inflation in India's fuel basket had dropped sharply; wholesale fuel prices were actually in YoY decline, with petrol and diesel prices even registering modest contractions. This provided broad-based relief, as energy is an input for almost all industries. Moreover, India's diversification of energy imports (such as buying oil from multiple sources at negotiated discounts) and build-up of strategic petroleum reserves helped buffer domestic fuel prices from extreme volatility. Similarly, international prices of metals and industrial raw materials have been relatively range-bound, aiding stable manufacturing costs. When global fertilizer prices shot up, the government increased subsidies to keep farmers' input costs stable, ensuring that didn't translate into higher food prices - another example of converting a challenge into an opportunity to reform subsidies for efficiency. Additionally, India's exchange

rate policy and ample foreign exchange reserves (over \$670 billion in 2024, a record high) have helped keep imported inflation in check by preventing excessive currency depreciation during turbulent times.

All these factors - ample domestic supply, better logistics, and managed input costs - have combined to make the Indian economy more inflation-resilient than many others. Instead of supply shocks causing prolonged price spirals, the economy has adjusted and even leveraged these situations to implement structural improvements (like boosting local production of commodities that saw global shortages). As a result, India managed to sustain strong growth alongside moderate inflation. By FY25, the economy expanded by 8%+ in real terms while inflation fell to multi-year lows. This enviable mix validates the emphasis on domestic resilience. The takeaway is clear: a robust, self-reliant domestic economy is the best defence against imported inflation and the best assurance of continued price stability. What could have been headwinds became tailwinds for reforms, leaving India better positioned for the future.

MODERATE INFLATION AND CONSUMER CONFIDENCE

Low and stable inflation has direct positive effects on consumer sentiment and spending, which in turn supports economic growth. In India, moderate inflation in recent years has preserved purchasing power and strengthened consumer confidence, creating a virtuous cycle where price stability fuels demand and demand supports growth. This has been one of the key drivers of India's post-pandemic recovery.

When inflation is predictable and contained, households feel more secure about their finances. They are more



willing to spend, including on big-ticket items. As inflation began easing from late 2023 onward, several indicators pointed to rising optimism among consumers. The RBI's September 2025 Consumer Confidence Survey showed an improvement in sentiment: the Current Situation Index for urban consumers increased to 96.9. It moved further into the optimistic zone in rural areas, while the Future Expectations Index reached 125. Fewer households expected prices to rise in the coming year, reflecting softer inflation expectations and a stronger sense of financial stability.

This shift in sentiment has supported steady consumption. Despite global uncertainties, private consumption in India grew by 6.8% in FY23. After a brief slowdown during the inflation peak, it is projected to grow around 5-6% in the years ahead as prices remain stable. Festivals in 2024 and 2025 saw strong sales across retail, automobiles, housing, and travel, underscoring how easing inflation encouraged spending. Rural demand, which had weakened during periods of high food inflation, rebounded as essentials became more affordable, allowing households to spend more on lifestyle upgrades. With inflation moderating, households effectively experienced an income boost because their earnings held value. Urban real wages also improved once inflation cooled, further supporting consumption.

The improvement in sentiment also



creates room for supportive policy. With inflation on a benign path, the RBI signalled that it could consider rate cuts to stimulate demand. Lower interest rates would reduce borrowing costs for home and auto loans, potentially accelerating consumption further. Businesses react to this environment as well: when consumers feel confident and spending improves, firms invest more in production, inventory, and capacity. This has contributed to higher manufacturing output and increased real estate activity in 2023-24, helped by lower input cost uncertainty.

Beyond economics, controlled inflation has eased anxieties about the cost of living. In earlier high-inflation periods, households were primarily concerned about rising prices of essentials. Today, with inflation moderate, attention has shifted to broader opportunities such as employment and investment. Stable prices allow households to plan long-term expenditures like housing, education, and durable goods with greater certainty. India's recent experience highlights a clear lesson: stable inflation is supportive of both household welfare and economic growth. By preserving the real value of incomes and reinforcing confidence, low inflation strengthens the foundations of sustained and inclusive expansion.



GLOBAL POSITIONING: INDIA'S INFLATION CONTROL IN COMPARATIVE PERSPECTIVE

In a world recently beset by high inflation, India's success in controlling prices stands out. While major economies from the US to the UK and EU saw inflation surge to multi-decade highs in 2021-2022, India kept inflation closer to its target and brought it down faster, enhancing its appeal to investors and businesses seeking macroeconomic stability.

The Economic Survey 2023-24 highlights India's outperformance. In 2023, inflation remained within the 2-6% target range, with one of the lowest deviations among advanced and emerging economies. India's inflation was 1.4 percentage points below the global average, a notable achievement given pandemic disruptions and commodity spikes. This reflects the efficacy of India's inflation-targeting framework and timely policy interventions.

India's inflation volatility has also declined, providing predictability for international investors. Businesses can be confident that input costs and consumer prices will not spiral, reducing the risk premium. In 2023-2024, robust foreign portfolio inflows and rising foreign exchange reserves reflected

this confidence.

Stable inflation has strengthened India's sovereign credit metrics and global standing. Multilateral institutions and rating agencies cite it as a strength, and it signals that India can achieve high growth without triggering runaway inflation. Geopolitically, stable prices make India attractive for manufacturing and investment, avoiding the cost-of-living crises that affected other nations.

India's inflation achievements are a global outlier, offering an opportunity to market itself as a macro-stable economy. Continuing this record will cement global confidence and support India's goal of becoming a top-three economy in the coming decades.

GST 2.0 REFORMS AND THEIR IMPACT - INDIA'S TAX REBOOT

No discussion of India's recent inflation and policy landscape is complete without mentioning the GST 2.0 reforms, a landmark revamp of the Goods and Services Tax implemented in late 2025. In September 2025, India's GST Council approved a sweeping rationalization of GST rates, widely dubbed "GST 2.0". These reforms not only simplify the tax structure but also provide a direct boost to consumers by making many goods and services cheaper, thereby influencing



GST, benefiting consumers and small manufacturers alike.

► Encouraging a Healthy and Modern Lifestyle: Services like gym/fitness centers had GST cut from 18% to 5%, promoting affordable fitness. Emerging tech items, such as drones, got a uniform 5% rate to support startups and innovation. Even eco-friendly choices are incentivized; for instance, certain renewable energy devices or EV components received favourable rates.

The overall theme of GST 2.0 is “Lighter on the pocket, brighter for the future”, as the government framed it. By addressing long-standing demands for rationalizing GST and lowering taxes on necessities, these reforms are expected to benefit consumers directly through lower prices. Indeed, the effect was almost immediate: the record-low CPI inflation of Oct 2025 (0.25%) was partly attributed to the full-month impact of the GST rate cuts, which reduced prices of items ranging from cars to daily groceries. In essence, GST 2.0 delivered a one-time downward shift in the price level for many goods. This has been a boon for controlling inflation in the short term.

Over the medium term, GST 2.0 is seen as an opportunity to spur consumption-led growth without stoking inflation. With a simplified two-rate system, compliance is expected to improve, potentially widening the tax base. Higher compliance means more revenue without raising rates, giving the government headroom to maintain fiscal prudence even as taxes on items are lower - a win-win. Investors view these reforms positively as well; a simpler GST means reduced business costs and fewer tax disputes. Logistics and supply chains will also benefit because a uniform lower tax reduces the cascading of taxes on transport and storage.

One challenge is to ensure that producers

and retailers pass on these tax cuts fully to consumers to realize the inflation moderation. The government’s price monitoring cells and anti-profiteering measures are in place to oversee this. Early indications are that many companies did cut prices or launch discounts post-GST cuts; for example, automobile makers announced price drops for models now in the 18% GST bracket. From an “India-positive” lens, the GST 2.0 reform converts the challenge of complex taxes into an opportunity for economic stimulus: it simplifies the regime, boosts ease of doing business, and directly curtails inflation on essential goods, thus supporting households.

In sum, GST 2.0 is a significant structural reform aligning with the broader narrative of controlled inflation and strong growth. Reducing the tax burden on consumers and businesses reinforces the low-inflation environment and aids consumption. It exemplifies India’s approach of continually refining policies to seize opportunities, using tax reform to both make life easier for citizens and keep the economy’s momentum up.

CONCLUSION

India’s recent experience with inflation offers a compelling case study of prudent economic management and resilience. Despite global supply chain disruptions, commodity spikes, and domestic weather shocks, the country has kept inflation largely under control while sustaining growth. By maintaining a stable inflation trajectory, India has preserved macroeconomic stability, creating a favourable environment for investment and long-term prosperity. Challenges on the inflation front were treated as opportunities to improve policy tools, invest in infrastructure, and reform the tax system, yielding lower inflation, higher consumer confidence, and enhanced global credibility.

Looking ahead, moderate inflation provides room for supportive monetary policy if needed. CPI trends will continue to guide policymakers in fine-tuning actions, whether addressing supply bottlenecks or managing core demand. Record agricultural production, improving logistics, and effective supply management strengthen the economy against shocks. Reforms like GST 2.0 further reduce structural inflation and boost efficiency.

India's journey from double-digit inflation a decade ago to around 4% today illustrates the impact of sustained reform and stability. Controlled inflation benefits all citizens by protecting purchasing power, fostering job creation, and encouraging investment. By turning hurdles into opportunities, India has crafted a positive inflation narrative that supports its goal of becoming both a fast-growing and stable economy in the years ahead.

