

CPI Inflation – February 2026

Consumer Price Index (CPI) based inflation for February 2026 accelerated to 3.21% YoY (provisional), higher than the previous month's print of 2.74% YoY (final) and marginally higher than the market expectations of 3.10% YoY. This was the 13th straight month that inflation remained below the RBI's medium-term target of 4%. This was the second print under the new series with base 2024=100.

CPI inflation came in higher on the back of base effect, further and faster acceleration in food inflation, and an increase in the prices of Silver Jewellery, Gold/Diamond/Platinum Jewellery etc.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI), accelerated to 3.47% YoY in February 2026 from 2.13% YoY in the previous month. Tomato prices (0.50% weight in CPI basket) increased by 45.29% YoY and Cauliflower prices (0.23% weight in CPI basket) increased by 43.77% YoY in February 2026. On the other hand, prices of Garlic (0.38% weight in CPI basket) declined by 31.09% YoY and prices of Onion (0.70% weight in CPI basket) declined by 28.20% YoY during the month.

Core CPI inflation: (ex-Food and Fuel) remained stable at 3.40% YoY in February 2026 compared with previous month number.

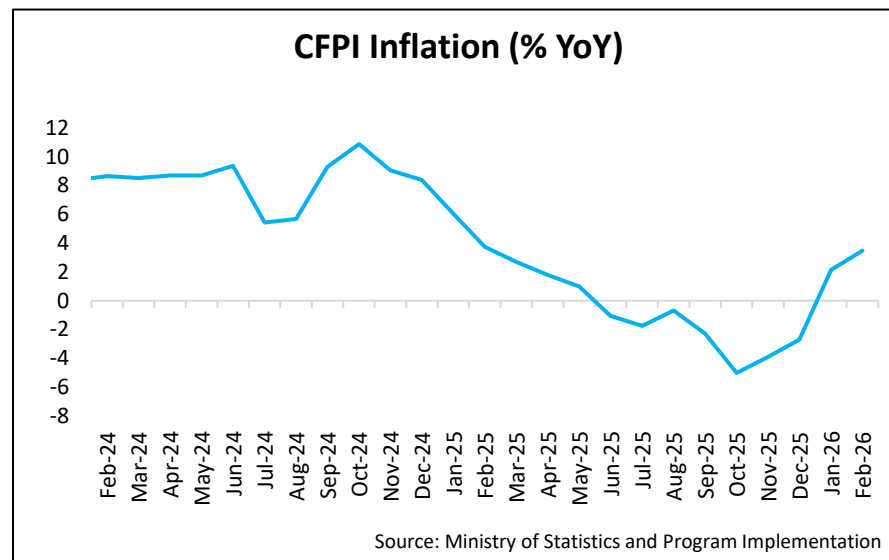
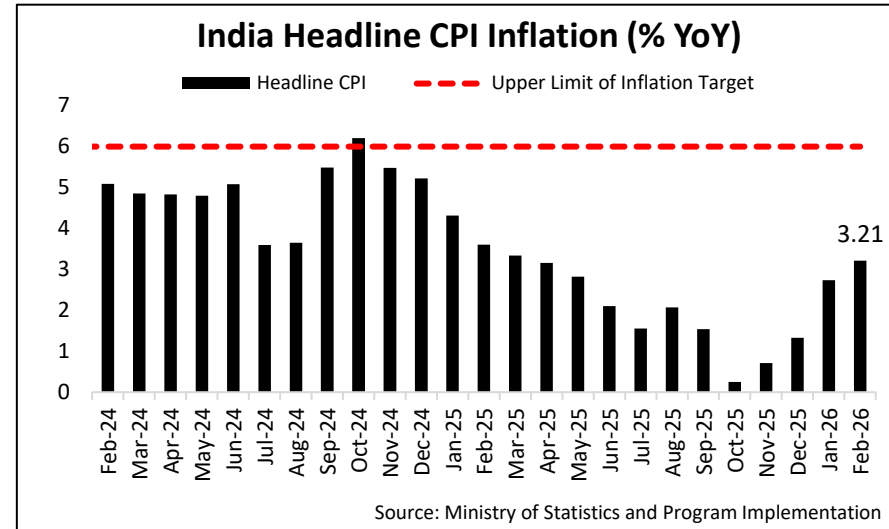
Expectations: The CPI inflation was higher than the previous month due to base effect playing out, a relatively sharper acceleration in food inflation, and an increase in the prices of Silver Jewellery, Gold/Diamond/Platinum Jewellery etc. Going forward, prices are expected to see a gradual uptick. However, in case of further escalation of the geopolitical conflict or a delay in de-escalation of the same, prices may see a sharper jump.

Implication on Monetary Policy: The recent rise in inflation prints on the back of adoption of a new data series, base effect, and probable adverse impact of escalating geopolitical tensions in Middle East which has pushed crude prices higher will remain a key monitorable for the RBI. If the trend persists, it can have an adverse effect on India's headline inflation, GDP growth, and Current Account Deficit and may impact the Central bank's reaction function. In absence of de-escalation of the geopolitical conflict, the Central bank may focus on providing liquidity support to continue the push for effective transmission of rate cuts. The headroom to cut policy rates further may be limited. Hence, we may be at terminal rates for now and are in for a long pause. The Central bank is also expected to revise their inflation estimates during subsequent policy announcements.

Implication on Markets: The inflation print continues to remain within RBI's target range. However, the Middle East conflict may put upward pressure on inflation. Also, the lower Nominal GDP values in the new series throughout FY23 to FY26 is expected to push both Fiscal Deficit to GDP and Debt to GDP ratios higher, implying a need for greater fiscal consolidation in subsequent years. This may result in near term volatility in bond yields. On the other hand, the probable inclusion of Indian G-secs in Bloomberg's index, persistent liquidity support, and government's continuous focus on fiscal consolidation may lead to favorable demand-supply dynamics, resulting in lower yields over the medium term.

Fixed Income Mutual Fund Investment Strategy: If India's nominal growth picks up, it will aid in tax collection. This, along with persistent liquidity support, robust FPI inflow and any positive effect of recently concluded trade deals, may aid in keeping liquidity condition comfortable and be a positive for debt yields during latter half of CY27. Thus, at this juncture, with lucrative yields, a case continues to exist for investment into corporate bond funds that are at the 1-4-year segment of the curve. Hence, investors can look at Corporate Bond Funds and Banking & PSU Debt Funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoF or consider Dynamic Bond Funds for tactical opportunity. As yields in the less than 1-year segment remain tight, investors can consider Money Market Funds for a horizon of 3 months and above. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors should invest in line with their risk profile and product suitability.

Note: Due to lack of historical data after a change in the base year for the Consumer Price Index (CPI) to 2024, we have used certain data points as standalone without comparative numbers from previous months as were made available by the Ministry of Statistics & Programme Implementation (MOSPI) on their website using the new methodology and the declared linking factor.



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