



MACRO ECONOMICS

Inflation: types and causes

How prices are measured, why they rise, and why the aim is a low, steady rate rather than none

CPI figures up to August 2026, released by MoSPI on 14 September 2026

For training and education only. Not investment advice.

Inflation is a rise in the general level of prices. One price going up is not inflation.

It is measured as the change over twelve months in the cost of a basket of things households buy. In India the main measure is the Consumer Price Index, or CPI.

How CPI is built: the 2024 series

358



Items priced

Goods and services in the basket, up from 299 in the old series. The weights come from the Household Consumption Expenditure Survey 2023-24.

36.75%



Weight of food

Food and beverages, still the largest part. Old series (2012): 45.86%, but groupings changed, so the two are not like for like. A weight is a share of spending.

2024



Base year

The index is set to 100 for 2024. The first figures on this base came out on 12 February 2026. Each month's CPI is released around the 12th of the next month.

Source: MoSPI, First Press Release of Consumer Price Index on Base 2024=100, 12 Feb 2026 (including its technical note and FAQs).

Two causes: demand-pull and cost-push

Demand-pull

- Spending grows faster than the supply of goods and services.
- Price rises tend to be spread across many items.
- Higher interest rates act on it directly, by slowing borrowing and spending.

Cost-push (supply-side)

- Costs rise or supply falls: a weak monsoon, dearer fuel, a broken supply chain.
- Price rises tend to start in a few items, such as vegetables or fuel.
- Rates cannot grow food or produce oil. Policy mainly limits the knock-on effects.

In October 2026 RBI pointed to supply-side pressures and saw limited evidence of demand pressure.

Source for RBI's view: RBI Monetary Policy Statement, 7 Oct 2026, paragraphs 9, 12 and 13.

Imported inflation: two ways in

THE SET-UP

India buys a barrel of crude oil priced at \$80. One dollar costs ₹90.

Cost in rupees: $80 \times 90 = ₹7,200$.

All figures are assumed.

- 1 The oil price rises to \$100 and the rupee is unchanged: $100 \times 90 = ₹9,000$. The cost in rupees is up 25%.
- 2 The oil price stays at \$80 but one dollar now costs ₹99: $80 \times 99 = ₹7,920$. The cost is up 10%.
- 3 Both happen together: $100 \times 99 = ₹9,900$. The cost is up 37.5%, more than 25% + 10%.
- 4 Dearer fuel then raises the cost of transport and of making other goods, so the effect spreads beyond fuel.

Imported inflation arrives through the world price, the exchange rate, or both at once.

Illustration with assumed, round figures. Not actual oil prices or exchange rates, and not a forecast.

The wage-price spiral

A one-time price shock can turn into lasting inflation if wages and prices start to chase each other.

1

Prices rise

A shock, say dearer food or fuel, lifts the cost of living.

2

People expect more

RBI's September 2026 survey (19 cities): median expected inflation a year ahead, 10.0%.

3

Wages follow

Workers ask for higher pay to keep up. Firms that agree face higher costs.

4

Prices rise again

Firms raise prices to cover the wage bill, and the loop starts over.

In October 2026 RBI saw only limited signs of supply pressures becoming embedded in pricing behaviour.

Sources: RBI, Inflation Expectations Survey of Households, September 2026 round (7 Oct 2026); RBI Monetary Policy Statement, 7 Oct 2026, paragraph 12.

Why the aim is 4%, not zero

<2%



Too low

Contributors to RBI's 2021 currency report found a lower limit below 2% would hamper growth. When prices are expected to fall, people put off buying and debts get harder to repay.

5-6%



Too high

The same report put the level above which growth is clearly harmed at 5% to 6%. High inflation also eats into the buying power of savings and fixed incomes.

4%



Low and steady

The report found trend inflation of 3.8% to 4.3% and judged 4% the appropriate level. A steady, known rate lets households and firms plan.

Source: RBI press release on the Report on Currency and Finance 2020-21, 'Reviewing the Monetary Policy Framework', 26 Feb 2021. The findings are those of the report's contributors.

The base effect, with real numbers

JAN TO FEB 2026

CPI inflation compares the index with the same month a year earlier.

Index a year earlier: 101.67 in January 2025, 101.32 in February 2025.

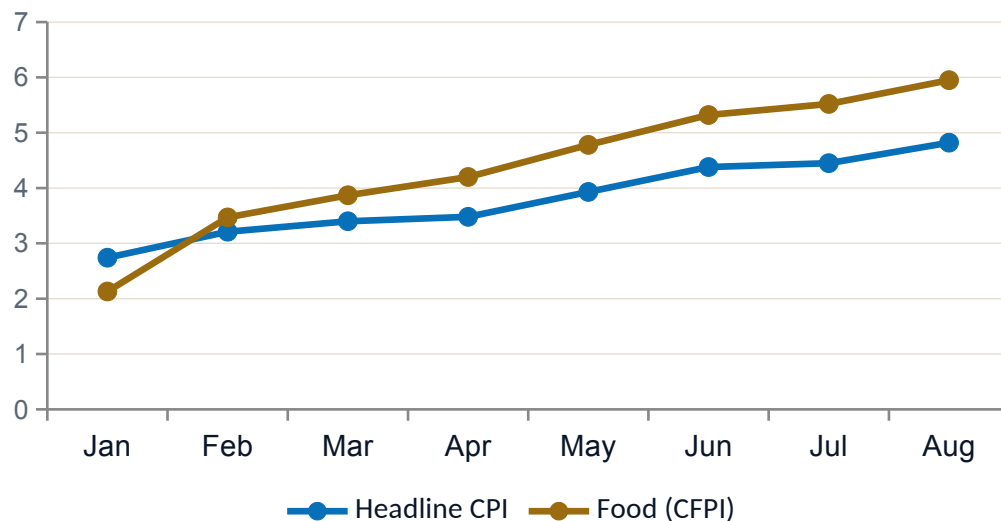
- 1 January 2026: the index is 104.45. Against 101.67 a year earlier, MoSPI's final inflation rate is 2.74%.
- 2 February 2026: the index is 104.57. Prices rose only 0.11% in the month ($104.57 \div 104.45$).
- 3 But the comparison month moved too. A year earlier the index had fallen 0.34%, from 101.67 to 101.32.
- 4 $104.57 \div 101.32 = 1.0321$, so inflation is 3.21%. It rose 0.47 of a point while prices hardly moved.

The rate can rise or fall because of what prices did a year ago. That is the base effect.

Actual figures: MoSPI CPI (base 2024=100), All India Combined; releases of 12 Feb, 12 Mar and 13 Apr 2026.

Headline and food inflation in 2026

Year-on-year inflation, per cent, 2026



Read the chart

- Headline is the whole basket: 4.82% in August 2026, up from 2.74% in January.
- Food prices swing more. Food inflation was 5.95% in August.
- Core leaves out food and fuel to show the underlying trend. RBI put it at 4.2% in August.
- The target is 4%, within a band of 2% to 6%.

Sources: MoSPI CPI press releases (base 2024=100), 12 Feb to 14 Sep 2026; August is provisional. Core inflation: RBI Governor's Statement, 7 Oct 2026.

If you learnt this from older material

What older decks say

- CPI has base year 2012, with food and beverages at 45.86% of the basket.
- The basket has six groups, and house rent is measured in towns only.
- Prices are collected from shops and markets only.

What holds now

- Base year 2024, with food and beverages at 36.75%, since February 2026.
- Twelve divisions. Rural house rent is included for the first time.
- Twelve online markets are added, and airfares and streaming are priced online.

Weights and rates on the two bases are not like for like: groupings changed.

Source: MoSPI, First Press Release of Consumer Price Index on Base 2024=100, 12 Feb 2026.

Four things people get wrong



'Inflation fell, so prices fell.'

A lower rate means prices are rising more slowly. Prices fall only when the rate is below zero.



'Higher rates cure any inflation.'

Rates act on demand. With a supply shock, RBI says policy works mainly by limiting second-round effects.



'My costs rose more than CPI.'

CPI is an average basket. In RBI's September 2026 survey the median perception in 19 cities was 8.4%; CPI showed 4.82% in August.



'Zero inflation would be ideal.'

The target is 4%. Contributors to an RBI report found a lower limit below 2% would hamper growth.

Check yourself

Q1

A barrel of oil costs \$80 and a dollar costs ₹90. The oil price rises to \$90 and the dollar to ₹92 (assumed figures). By how much does the rupee cost rise?

Q2

The CPI index is unchanged this month, yet the inflation rate goes up. How can that happen?

Q3

Vegetable prices jump after a weak monsoon. Is this demand-pull or cost-push, and what can interest rates do about it?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- CPI 2024 series (items, weights, base year, markets, rural rent, online prices): MoSPI, First Press Release of CPI on Base 2024=100, 12 Feb 2026.
- CPI and food inflation, January to August 2026, and index values: MoSPI monthly CPI press releases, 12 Mar to 14 Sep 2026.
- Core inflation, supply-side pressures, second-round effects, 5.2% projection: RBI Monetary Policy Statement and Governor's Statement, 7 Oct 2026.
- Households' inflation perception and expectation: RBI, Inflation Expectations Survey of Households, September 2026 round.
- Growth harmed above 5% to 6%; limit below 2%; trend inflation: RBI Press Release 2020-2021/1159, 26 Feb 2021.
- Indian basket crude price (in notes): RBI Governor's Statement, 7 Oct 2026, citing PPAC.

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