India's CPI Inflation rises to 3.93% in May'26

India's year-on-year retail inflation, measured by the Consumer Price Index (CPI) with base year 2024, increased to 3.93% (provisional) in May 2026 from 3.48% in April 2026, indicating a further acceleration in headline inflation. The increase was primarily driven by higher food inflation, which rose to 4.78% in May 2026 from 4.20% in April 2026.

At the same time, major segments such as housing, health, information and communication, recreation and household furnishings continued to witness relatively moderate inflation, suggesting that broader underlying inflationary pressures remain contained. Transport inflation increased to 1.75% in May 2026 from (-0.01%) in April 2026, indicating some increase in transportation and logistics costs, although the overall level remains moderate.

Rural inflation remained higher at 4.25% compared to urban inflation at 3.53%, reflecting relatively stronger price pressures in rural regions, particularly in food-related items. Despite the increase, headline inflation continues to remain within the RBI's tolerance band of 2-6%, indicating overall macroeconomic stability.

Core CPI (Excluding Food and Fuel):

Core CPI is estimated at 3.83%, remaining below the headline inflation rate of 3.93%, indicating that underlying price pressures continue to remain well contained. The limited gap between headline and core inflation suggests that recent inflationary pressures are concentrated in food and precious metals rather than reflecting broad-based demand-side inflation.

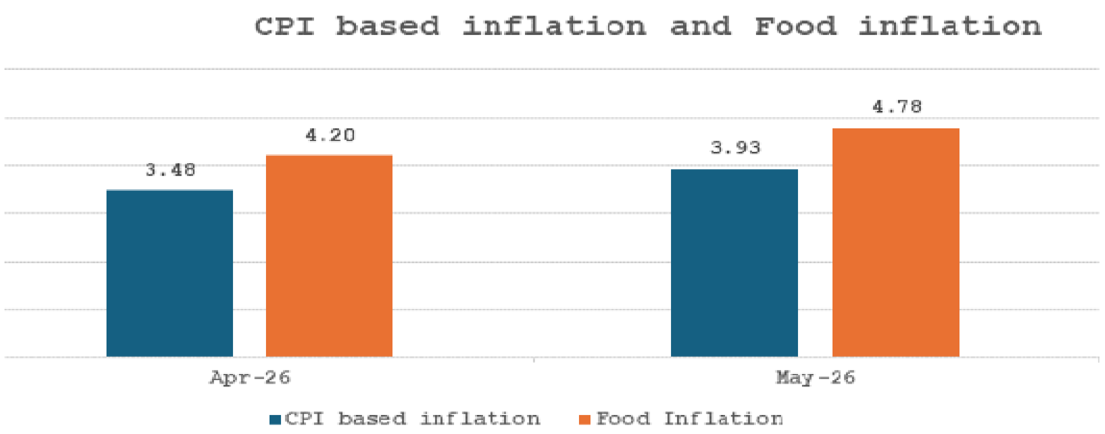
The stability of core inflation at 3.83% reflects anchored inflation expectations and contained pricing pressures across services and non-food categories. This reinforces the assessment that underlying inflation remains moderate and supports a comfortable monetary policy outlook.

CPI Excluding Gold and Silver

"The elevated inflation in personal care and miscellaneous goods continues to be largely driven by exceptionally high gold and silver prices. Excluding precious metals, inflationary pressures across most categories remain moderate and well contained."

Headline inflation excluding gold and silver is estimated at 3.22%, significantly lower than the overall CPI inflation of 3.93%. This highlights the disproportionate contribution of elevated precious metal prices to the current inflation print despite their relatively small weight in the CPI basket.

The sharp divergence between headline CPI (3.93%) and CPI excluding gold and silver (3.22%) indicates that bullion prices continue to distort the inflation reading. Excluding these volatile components, underlying inflationary conditions remain benign and supportive of a stable monetary policy environment.



CPI inflation May 2026 (3.93%) Vs MPC June 2026 forecast for Q1FY27 (4.2%)

The increase in CPI inflation to 3.93% in May 2026 compared to the MPC forecast of 4.2% for Q1FY27 indicates that inflationary pressures remain broadly in line with RBI's expectations. While inflation has moved higher due to food prices and elevated precious metal prices, the overall CPI print remains marginally below the RBI's projected trajectory, suggesting that underlying demand-side inflation remains moderate.

The rise in inflation is primarily being driven by food-related components and supply-side factors rather than generalized demand pressures. Geopolitical uncertainties, volatility in global commodity prices, weather-related disruptions and international trade developments continue to pose upside risks to inflation going forward. Additionally, elevated gold and silver prices continue to significantly influence headline inflation despite their relatively lower weight in the CPI basket.

May 2026 Inflation Snapshot (Base 2024=100)

All-India CPI Inflation (May 2026): 3.93% YoY (Provisional)	**Food Inflation (CFPI): 4.78%**	**Housing Inflation: 2.12%**	**CPI Index Level (May 2026)**
Rural: 4.25% Urban: 3.53%	Rural: 4.85% Urban: 4.66%	Rural: 2.73% Urban: 1.91%	Rural: 105.91 Urban: 105.66 Combined: 106.11

Key Driver of Inflation:

Food inflation increased to 4.78% in May 2026 from 4.20% in April 2026, contributing significantly to the rise in headline CPI. The increase was largely driven by sharp increases in prices of tomato, ginger and certain processed food products.

However, food inflation continues to remain relatively concentrated in select categories rather than broad-based across the entire food basket. At the same time, sharp deflation persisted in items such as potato and peas, partially offsetting upward pressure from other food components.

Top High Inflation Food/Commodity Related Items:
Tomato: 48.43%, Ginger: 32.49%, Silver Jewellery: 155.23%, Gold/Diamond/Platinum: 40.93%

Items witnessing sharp deflation:
Potato: (-23.71%), Peas: (-11.47%), Motor Car and Jeep: (-7.19%)

The food inflation trend suggests that supply-side factors, weather-related disruptions and seasonal price movements continue to influence food prices more than generalized demand pressures.

Paan, Tobacco and Intoxicants
Inflation in this segment increased to 4.83% in May 2026 compared to 4.76% in April 2026, reflecting continued price increases in tobacco-related products and taxation effects. This category continues to indicate policy-led inflation rather than demand-driven inflationary pressures.

Restaurants and Accommodation Services
Inflation in restaurants and accommodation services increased sharply to 5.75% in May 2026 from 4.20% in April 2026, reflecting strong services demand and continued pass-through of input and labour costs in urban consumption segments.

Transport inflation increased to 1.75% in May 2026 from (-0.01%) in April 2026, indicating a gradual pass-through of transportation and logistics costs. While purchase of vehicles continued to witness deflationary trends, higher inflation in goods transportation and operation of personal transport equipment contributed to the increase in overall transport inflation.

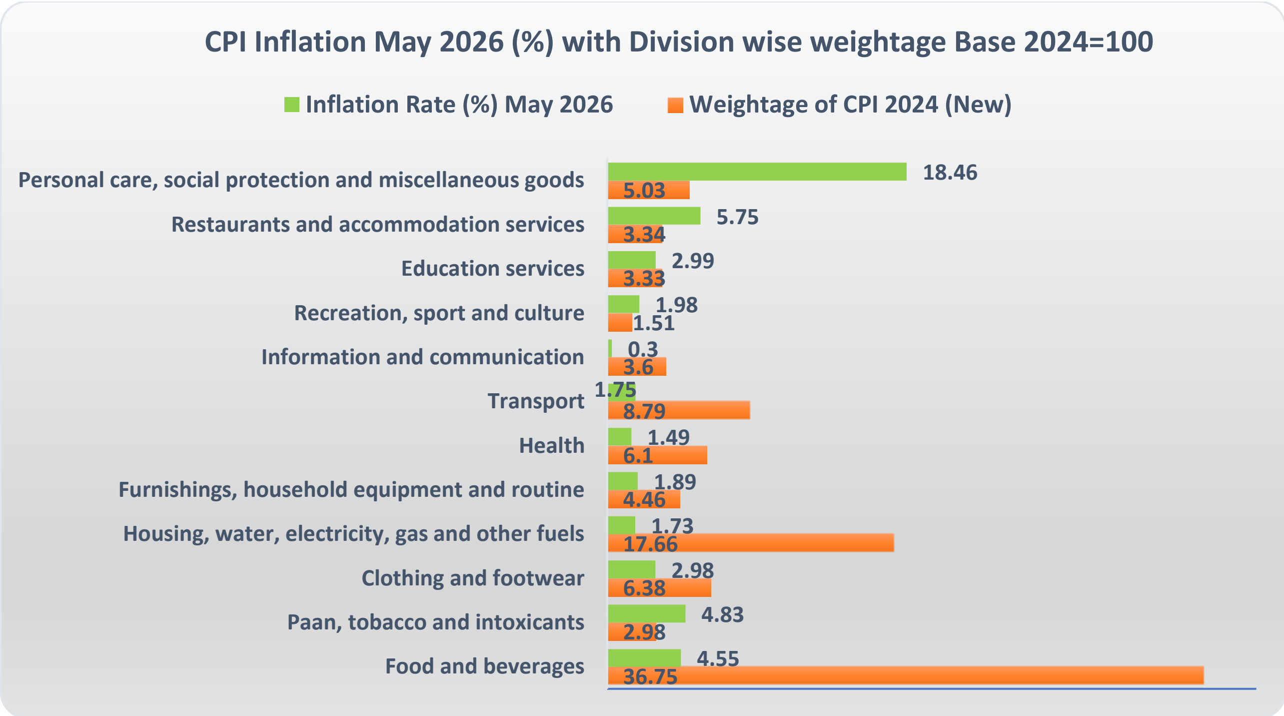
The moderate rise in transport inflation suggests that second-round inflationary effects remain limited but warrant monitoring going forward.

Personal Care and Miscellaneous Goods

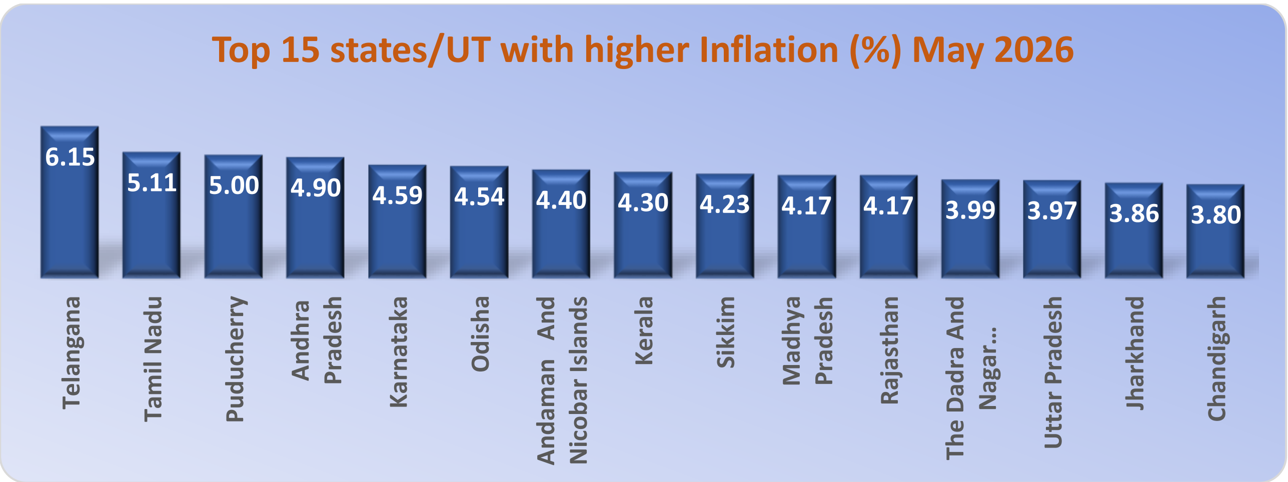
Inflation in personal care, social protection and miscellaneous goods & services remained elevated at 18.46% in May 2026, mainly driven by exceptionally high inflation in precious metals.

Despite their relatively low weight in the CPI basket, the extremely high inflation levels in gold and silver continue to significantly distort the headline inflation reading. This primarily reflects global safe-haven demand, geopolitical uncertainties and international commodity price movements rather than domestic consumption-driven inflation.

CPI Inflation and weight distribution across major categories (May 2026)



The state-wise inflation data for May 2026 indicates that price pressures remain concentrated in a few southern states and Union Territories. Telangana recorded the highest inflation at 6.15%, followed by Tamil Nadu (5.11%), Puducherry (5.00%) and Andhra Pradesh (4.90%), reflecting relatively stronger inflationary pressures in the southern region. Karnataka (4.59%), Odisha (4.54%), Andaman & Nicobar Islands (4.40%), Kerala (4.30%) and Sikkim (4.23%) also reported inflation above the national average, suggesting persistent food and services-led price pressures. Among other states/UTs, Madhya Pradesh and Rajasthan recorded inflation of 4.17% each, while Dadra & Nagar Haveli and Daman & Diu (3.99%), Uttar Pradesh (3.97%), Jharkhand (3.86%) and Chandigarh (3.80%) exhibited relatively moderate inflation levels. The wide variation across states highlights regional differences in consumption patterns, food price movements and local supply conditions.



CPI Index Trends and Month-on-Month Changes (Base Year 2024 Vs 2012)

MONTH	CPI INDEX 2024 BASE	MOM CHANGE (%)	CPI INDEX 2012 BASE	MOM CHANGE (%)
Jun-25	102.51	0.60%	194.20	0.62%
Jul-25	103.35	0.82%	196.10	0.98%
Aug-25	103.74	0.38%	197.00	0.46%
Sep-25	103.74	0.00%	197.00	0.00%
Oct-25	103.74	0.00%	197.30	0.15%
Nov-25	104.01	0.26%	197.90	0.30%
Dec-25	104.10	0.09%	198.00	0.05%
Jan-26	104.45	0.35%	-	-
Feb-26	104.57	0.11%	-	-
Mar-26	104.84	0.26%	-	-
Apr-26	105.12	0.27%	-	-
May-26	105.91	0.75%	-	-

Implications for the Economy and Banking Sector

- Although CPI inflation remains within RBI's tolerance band, the recent uptick indicates that inflationary pressures are re-emerging. RBI may adopt a cautious stance in the upcoming MPC meetings and is likely to closely monitor price trends before considering further policy easing.
- The moderation in monsoon progress (around 90% of LPA against earlier expectations of 92%) raises concerns regarding agricultural output and food prices. Any weather-related disruptions could lead to higher food inflation in the coming months.
- Rising food inflation, particularly in vegetables, pulses and protein-rich items, may keep headline inflation elevated and limit the RBI's room for aggressive rate cuts.
- If inflation continues to move upward, market expectations of future policy tightening could increase, leading to upward pressure on government bond yields and borrowing costs.
- Persistently high inflation may erode household purchasing power, especially in rural areas, potentially affecting discretionary consumption and demand growth.
- Elevated gold prices may encourage higher gold imports, exerting pressure on the Current Account Deficit (CAD) and external sector balances.
- Higher services inflation, particularly in housing, healthcare, transport and hospitality, suggests improving domestic demand but also indicates that inflationary pressures are becoming more broad-based.

- For banks, a higher interest rate environment could support Net Interest Margins (NIMs) in the near term however, prolonged inflation and higher borrowing costs may affect credit demand and asset quality in interest-sensitive sectors.
- Inflation risks arising from global crude oil prices, geopolitical tensions and supply-chain disruptions remain key factors that could influence future monetary policy decisions.
- The trajectory of inflation during the next two quarters will be crucial in determining whether RBI maintains its neutral stance or shifts towards a tighter monetary policy approach.

CPI inflation in May 2026 reflects a moderate but manageable inflation environment, with the increase in headline inflation primarily driven by food prices, services inflation and precious metals while broader underlying inflation remains relatively stable. Despite ongoing geopolitical uncertainties and volatile global commodity prices, inflation continues to remain within RBI’s comfort range.

Going forward, food price movements, monsoon conditions, geopolitical developments, global commodity prices, transportation costs and precious metal trends will remain key determinants of India’s inflation trajectory and monetary policy outlook.

Economic Research Vertical

Madhavankutty G (Chief Economist), Ankit Gupta (Senior Manager)

For Suggestions and views please contact, Economic Research Vertical