

**CPI INFLATION AT 67-MONTH LOW AND A BENIGN PRICE TRAJECTORY
AUGURS WELL FOR RATE OUTLOOK: CORE INFLATION EXCLUDING GOLD
IS AT 3.22%...A HEAT WAVE MAY BE LOOKED THROUGH**

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CPI inflation moderated to 3.34% in Mar'25, a 67-month low due to sharp correction in food inflation. Food & Beverages inflation eased by 95 bps (m-o-m) to 2.88% in March owing to deflation in vegetable prices. Vegetable CPI, which had slid into negative territory in previous month further receded to -7.04% last March. However, fruits inflation still at elevated level and inched up slightly in March to 16.27%. Fuel & light deflation reversed the gear and moved into positive territory after 18 months, standing at merely 1.48% in Mar'24.

With the latest print, the annual CPI for FY25 reads 4.63% as against average CPI of 5.36% in FY24 and 6.66% in FY23. We, thus, expect average CPI inflation for FY26 in the range of 3.9%.

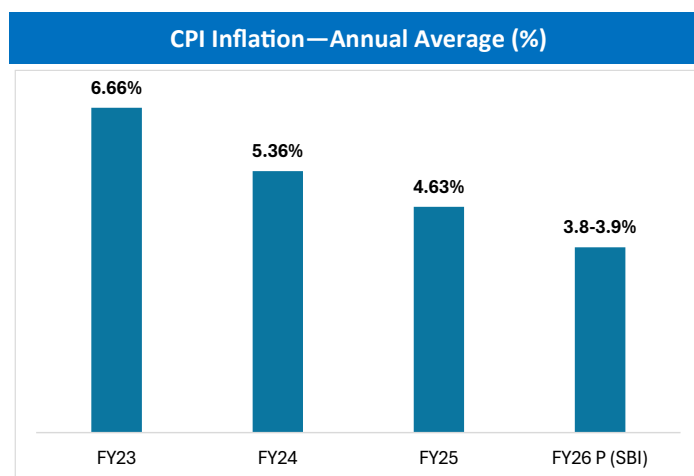
Core inflation (CPI excluding food and fuel) edged up from a low of 3.28% in August 2024 to 3.77% in October and remained steady around 3.6 - 3.7% during November 2024-January 2025. In February and March 2025, core inflation picked-up to 4.1% – the highest print in 15 months – driven primarily by a sharp increase in gold prices, a safe haven amidst the global tumult. **By excluding gold from core inflation, core CPI ex Gold has remained below both core and overall CPI numbers. Core inflation is at 3.2% excluding Gold.**

The India Meteorological Department defines average or normal rainfall as ranging between 96% and 104% of a 50-year average of 87 cm (35 inches) for the four-month season. This is important since the monsoon is crucial for India's agriculture sector, which supports the livelihood of about 42.3% of the population and contributes 18.2% to the country's GDP. Fifty-two per cent of the net cultivated area relies on the primary rain-bearing system. It is also critical for the replenishing of reservoirs ensuring availability of drinking water, apart from power generation.

With multi-year low inflation this month and benign inflation expectations going forward, we expect rate cuts of 50 basis points in June and August. We believe the cumulative rate cuts could be now more than 100 basis points with an increasingly uncertain growth environment. We forecast GDP growth in FY26 at 6.3% with a downward bias.

**CPI INFLATION MODERATED TO 67-MONTH LOW TO
3.34% IN MAR-25**

- ♦ India's CPI inflation moderated to 67-month low of 3.34% in Mar'25 due to sharp correction in food inflation. Food & Beverages inflation eased by 95 bps (m-o-m basis) to 2.88% in March owing to deflation in vegetable prices. Vegetable CPI, which was slide into negative territory in previous month further receded to -7.04% in March month.
- ♦ Fruits inflation still at elevated level and inched up slightly in March to 16.27%. Fuel & light deflation reversed its gear and moved into positive territory after 18 months. It stood at merely 1.48% in Mar'24.
- ♦ With the latest print, the annual CPI for FY25 came at 4.63% as against average CPI of 5.36% in FY24 and 6.66% in FY23. We expect average CPI inflation for FY26 in the range of 3.8-3.9%.



Source: SBI Research

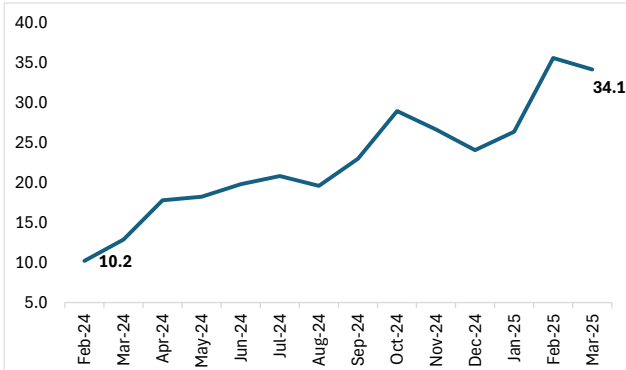
CPI CORE INFLATION REMAINS STICKY WHILE CORE EXCLUDING GOLD IS DECLINING

- ◆ Core inflation (CPI excluding food and fuel) edged up from a low of 3.28% in August 2024 to 3.77% in October and remained steady around 3.6 - 3.7% during November 2024-January 2025. In February and March 2025, core inflation picked-up to 4.1% – the highest print in 15 months – driven primarily by a sharp increase in gold prices.
- ◆ By excluding gold from core inflation, core CPI ex Gold has remained below of both core and overall CPI numbers.

'ABOVE NORMAL' MONSOON IN 2025 & RATE ACTION

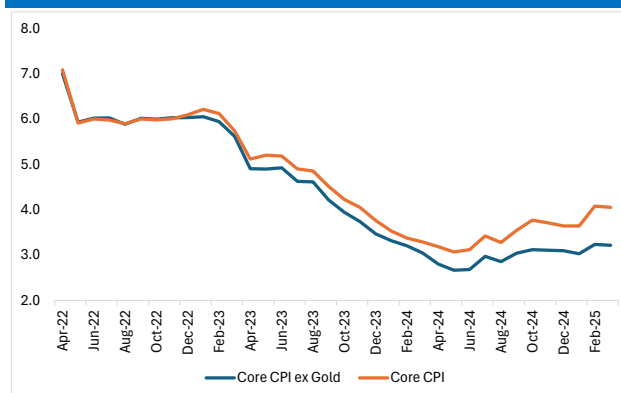
- ◆ The India Meteorological Department defines average or normal rainfall as ranging between 96% and 104% of a 50-year average of 87 cm (35 inches) for the four-month season.
- ◆ The monsoon is crucial for India's agriculture sector, which supports the livelihood of about 42.3% of the population and contributes 18.2% to the country's GDP.
- ◆ Fifty-two per cent of the net cultivated area relies on the primary rain-bearing system. It is also crucial for the replenishing of reservoirs critical for drinking water, apart from power generation across the country.
- ◆ **With multi-year low inflation this month and benign inflation expectations going forward, we expect rate cuts of 50 basis points in June and August. We believe the cumulative rate cuts could be now more than 100 basis points with an increasingly uncertain growth environment. We forecast GDP growth in FY26 at 6.3% with a downward bias.**

Gold Inflation (% YoY)



Source: SBI Research

CPI Core ex Gold (% YoY)



Source: SBI Research

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