



Research Unit

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Inflation and Economic Trends in India

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Inflation and Economic Trends

- *CPI inflation moderated to a 7-month low of 3.6% in February 2025, aided by a sharp decline in vegetable prices.*
- *Core inflation crossed 4% for the first time in 14 months, reaching 4.08%.*
- *Industrial growth strengthened, with IIP expanding by 5.0% in January 2025, led by manufacturing and mining.*
- *Rural inflation remains higher than urban inflation, influenced by food price trends.*
- *Imported inflation surged, rising from 1.3% in June 2024 to 31.1% in February 2025, driven by rising prices of precious metals, oils, and fats.*
- *RBI expected to implement at least 75 basis points of rate cuts in 2025, with successive reductions anticipated in April and August.*
- *Corporate performance remains strong, with revenue, EBITDA, and PAT growth of 6.2%, 11%, and 12%, respectively, in Q3FY25.*

The above are the major findings of the **SBI Ecowrap report**, published by the **State Bank of India's Economic Research Department**. SBI Ecowrap is a research report that analyzes the Indian economy, including GDP growth, agricultural reforms, and formal and informal economies. The latest edition of **SBI's Ecowrap**, released on March 12, 2025, provides a detailed analysis of **India's economic landscape** in February 2025. It focuses on **Consumer Price Index (CPI) inflation, industrial growth, imported inflation, and corporate performance**. The report highlights a **significant moderation in inflation**, particularly in food and beverages, while also **projecting future trends in monetary policy and industrial output**.

CPI Inflation Moderation

- India's **CPI inflation** fell to a **7-month low** of **3.6%** in February 2025 due to a substantial decline in food and beverage prices.
- **Food & Beverages inflation** eased by **185 basis points** (m-o-m) to **3.84%**, mainly due to a sharp decline in vegetable prices.
- **Vegetable CPI declined sharply**, entering negative territory (**1.07%**) for the **first time in 20 months**.
- Approximately **80%** of this decline was attributed to garlic, potatoes, and tomatoes.
- A notable drop in garlic prices is potentially linked to dietary changes during the Maha Kumbh, which may have led to reduced consumption of non-vegetarian food.
- **Fruit inflation surged to a 10-year high** of **14.8%**, potentially due to increased demand during fasting periods associated with the Maha Kumbh.
- **Fuel and light deflation** is still continued for **18 months**.
- **Non-vegetarian food inflation** (Egg/Meat/Fish) **decelerated**, possibly due to the Maha Kumbh period.
- While overall inflation moderated, the **core inflation** crossed the 4.0% mark after 14 months to **4.08%**. Core Inflation corresponds to the component of inflation that is likely to **continue for a long period**.

Thus, core inflation captures the **underlying trend of inflation** and is, therefore, **more stable**.

Top 5 Contributors in Vegetable deflation (weighted contribution%)				
Items	Weight in CPI	Jan-25	Feb-25	change in bps
Vegetables	6.0	0.7	-0.1	-79
of which ,garlic (gm)	0.3	0.2	-0.2	-36
potato	1.0	0.4	0.2	-18
tomato	0.6	0.0	-0.1	-11
peas	0.1	0.0	0.0	-3
cabbage	0.2	0.0	0.0	-3
Headline CPI	100.0	4.3	3.6	-65
Source: SBI Research				

Future CPI Inflation Trends

- **CPI inflation** is expected to **decline to 3.9% in Q4 FY25** and **average 4.7% for FY25**.
- **FY26 inflation** is projected in the range of **4.0-4.2%**, while **core inflation** may range between **4.2-4.4%**.
- The **Reserve Bank of India (RBI)** may implement **successive rate cuts** in April and August 2025, with an overall expected cumulative rate cut of **at least 75 basis points**.
- The cycle of rate cuts may continue from **October 2025**, following an intervening gap in August 2025.

State-wise Inflation Analysis

- **12 states** recorded **rural inflation above** the national rural average.
- **10 states** reported **urban inflation higher** than the national urban average.
- **Rural inflation** continued to **outpace urban inflation** due to higher food prices and a larger food basket share (**54.2% for rural areas vs. 36.3% for urban areas**).
- The **highest inflation rates** were recorded in **Kerala (7.3%)** and **Chhattisgarh (4.9%)**.

State	Rural Inflation (%)	Urban Inflation (%)	Overall Inflation (%)
Kerala	8.0	4.5	7.3
Chhattisgarh	5.6	3.3	4.9
Goa	6.2	1.5	4.8
Bihar	4.3	4.7	4.5
Karnataka	4.6	3.0	4.5

- The **lowest inflation rates** were recorded in **Telangana (1.3%)** and **Delhi (1.5%)**.

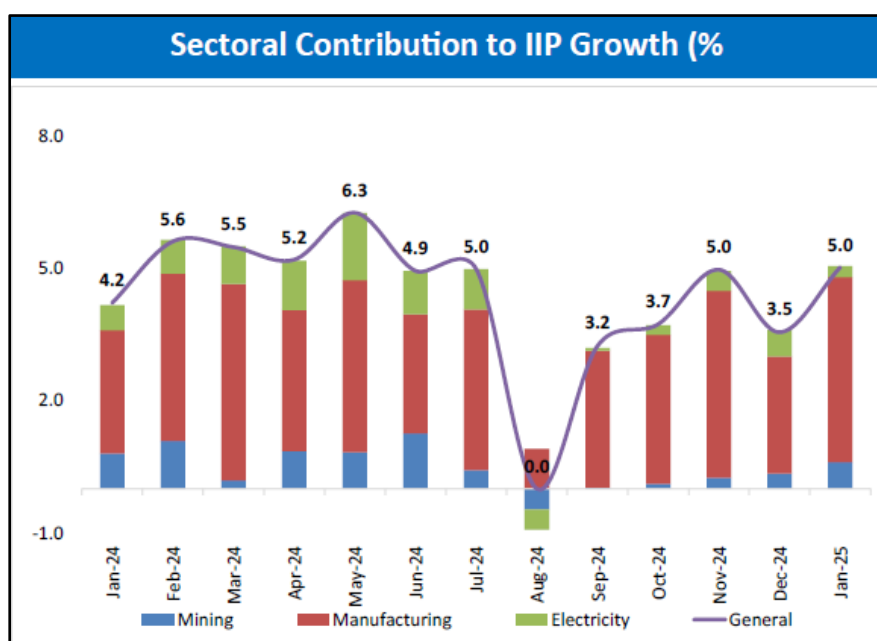
State	Rural Inflation (%)	Urban Inflation (%)	Overall Inflation (%)
Telangana	0.5	1.3	1.3
Delhi	2.6	3.5	1.5
Goa	6.2	1.5	1.8
Maharashtra	2.2	2.4	3.1
Himachal Pradesh	3.3	4.0	3.3

Rising Share of Imported Inflation

- Despite the overall decline in CPI inflation, the share of **imported inflation** rose from 1.3% in June 2024 to **31.1% in February 2025**.
- Key drivers include rising prices of precious metals, oils, fats, and chemical products.
- The contribution of **energy prices** to imported inflation remains **negative** and in **declining** in absolute amount.

Industrial Growth and IIP Expansion

- India's **Index of Industrial Production (IIP)** expanded by **5.0%** in **January 2025**, the **highest in eight months**, compared to 3.2% in December 2024.
- The growth was driven by:
 - Manufacturing sector:** 5.5% growth
 - Mining sector:** 4.4% growth
 - Primary goods:** 5.5% growth
 - Consumer Durables** (long-term consumption goods): 7.2% growth
 - Intermediate goods:** 5.23% growth
- Consumer Non-Durables** (immediate consumption goods) contracted by **0.2%**, indicating weak demand in that segment.



Sectoral Growth Trends

- Capital Goods, Consumer Durables, FMCG, Healthcare, and Pharmaceuticals** showed **strong year-on-year growth** in **Q3FY25**.
- The **Interest Coverage Ratio** of listed entities improved by **20 basis points** in **Q3FY25**, reflecting improved margins and financial stability.
- More than 4000 corporates** in the listed space reported **revenue growth** of **6.2%**, with **earnings before interest, taxes, depreciation and amortization (EBITDA)** and **profit after tax (PAT)** growing by **11%** and **12%**, respectively, in **Q3FY25** compared to **Q3FY24**.
- Corporate ex-BFSI (more than 3400 listed entities)** reported revenue and **PAT growth** of **5%** (recovering from negative growth in previous quarters) and **9%** in **Q3FY25**, respectively.

Monetary Policy Outlook & Corporate Capex Cycle

- The combination of a strong balance sheet, comfortable interest coverage, and a downward interest rate cycle is expected to support the next capex cycle for Indian industries.
- Improved corporate margins and liquidity conditions make Indian Inc. well-positioned for capital expenditure growth.
- The **aggregate EBITDA margin improved by 44 basis points** in Q3FY25, reaching **14.84%** from 14.4% in Q2FY25.

Conclusion

India's economic indicators for February 2025 reflect a **moderation in inflation, improved industrial output, and strong corporate earnings**. While inflation trends remain favorable in the short term, imported inflation risks and rupee depreciation pose challenges going forward. **The RBI's expected rate cuts could further bolster growth, providing a positive environment for capex expansion and industrial performance**. The evolving economic landscape suggests a cautious but **optimistic outlook** for the coming months.

References

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Annexure 1: State-wise Inflation Rates: February 2025

State-wise Inflation Rates: February 2025						
States	Rural	Urban	Overall	Urban minus Rural	Overall minus Rural	Overall minus Urban
Andhra Pradesh	2.1	3.0	2.4	0.8	0.3	-0.5
Bihar	4.3	4.7	4.5	0.4	0.1	-0.2
Chhattisgarh	5.6	3.3	4.9	-2.3	-0.7	1.6
Delhi	2.6	3.5	1.5	1.0	-1.1	-2.0
Goa	6.2	1.5	4.8	-4.7	-1.4	3.3
Gujarat	3.1	3.8	3.0	0.7	-0.1	-0.8
Haryana	4.5	2.8	4.3	-1.7	-0.3	1.4
Himachal Pradesh	3.3	4.0	3.3	0.7	0.0	-0.7
Jammu and Kashmir	4.8	3.2	4.3	-1.6	-0.5	1.1
Jharkhand	2.5	3.5	2.7	1.0	0.2	-0.8
Karnataka	4.6	3.0	4.5	-1.6	-0.1	1.5
Kerala	8.0	4.5	7.3	-3.5	-0.7	2.8
Madhya Pradesh	4.1	9.6	3.4	5.5	-0.7	-6.2
Maharashtra	2.2	2.4	3.1	0.2	0.8	0.6
Odisha	4.3	3.1	3.9	-1.2	-0.4	0.7
Puducherry	4.2	2.8	4.0	-1.4	-0.2	1.3
Punjab	4.3	3.9	3.5	-0.4	-0.8	-0.3
Rajasthan	3.4	2.6	3.0	-0.8	-0.3	0.5
Tamil Nadu	4.1	1.5	4.0	-2.6	-0.1	2.5
Telangana	0.5	4.0	1.3	3.5	0.8	-2.7
Uttar Pradesh	3.8	3.1	3.6	-0.7	-0.2	0.5
Uttarakhand	3.4	3.1	4.0	-0.3	0.6	0.9
West Bengal	3.1	5.0	3.1	1.9	0.0	-1.9
All India	3.79	3.32	3.61	-0.5	-0.2	0.3