



Softening inflation poised to accelerate economic growth in India

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“The continuous decline in headline inflation has reached six months lows, from 3.65% in August 2024 to 3.61% in February 2025.”

The improved supply chains along with calibrated steps by RBI and Government of India, the headline inflation has come down drastically in the recent months; decelerating from 6.21% in October 2024 to 5.48% in November 2024, 5.22% in December 2024, 4.30% in January 2025 and 6.31% in February 2025.

The softening inflation trajectory will boost domestic consumption and production possibilities. Increase in capacity utilisation will create scope for private investments, deployment of more workers in factories and business establishments.

As inflation trajectory has come down below 4%, the stability below this level will create a great scope for further cut in the repo rate. The reduced rate of interest will support domestic consumption and producers' sentiments for production.

The price cost margins of producers will become competitive, enhancing their level playing field in the domestic market and competitiveness in the global markets. This will increase India's external sector resilience and attract foreign investments.

The Consumer Price Index (CPI) inflation softened to 3.6% in February 2025 as compared with 4.3% in January 2024. The decrease in CPI inflation is majorly caused by softening of prices of Food and Beverages from 5.6% in January 2025 to 3.8% in February 2025.

The rural CPI inflation has decreased to 3.7% in February 2025 from 4.5% in January 2025. The urban CPI inflation decreased to 3.3% in February 2025 as compared with 3.8% in January 2025.

All India sequential inflation rates (%) based on CPI (General) and CFPI: February 2025 over January 2025							
		February 2025 (Provisional)			January 2025		
		Rural	Urban	Combd	Rural	Urban	Combd
Inflation	CPI (General)	3.79	3.32	3.61	4.59	3.87	4.26
	CFPI	4.06	3.20	3.75	6.31	5.53	5.97

Source: Compiled from MoSPI

Both the rural and urban CPI inflation are deceleration significantly. The Year-on-Year (Y-o-Y) growth in rural CPI inflation in February 2025 is 3.7% as compared with 5.3% in February 2024. The Year-on-Year (Y-o-Y) growth in urban CPI inflation in February 2025 is 3.3% compared to 4.7% in February 2024.

All India year-on-year inflation rates (%) based on CPI (General) and CFPI: February 2025 over February 2024							
		February 2025 (Provisional)			February 2024		
		Rural	Urban	Combd	Rural	Urban	Combd
Inflation	CPI (General)	3.79	3.32	3.61	5.34	4.78	5.09
	CFPI	4.06	3.20	3.75	8.27	9.19	8.66

Source: Compiled from MoSPI

The key components of the CPI inflation including the food and beverages, Pan, tobacco and intoxicants, Clothing and Footwear, Housing have been below 4% Y-o- Y growth, Fuel and Light is in the negative trajectory only miscellaneous items are showing a growth of more than 4%.

This broad based deceleration in the headline inflation indicates an effective measures by the government and RBI. The softening inflation trend is expected to continue even in the coming months and rabi crops will the hitting the market in April 2025.

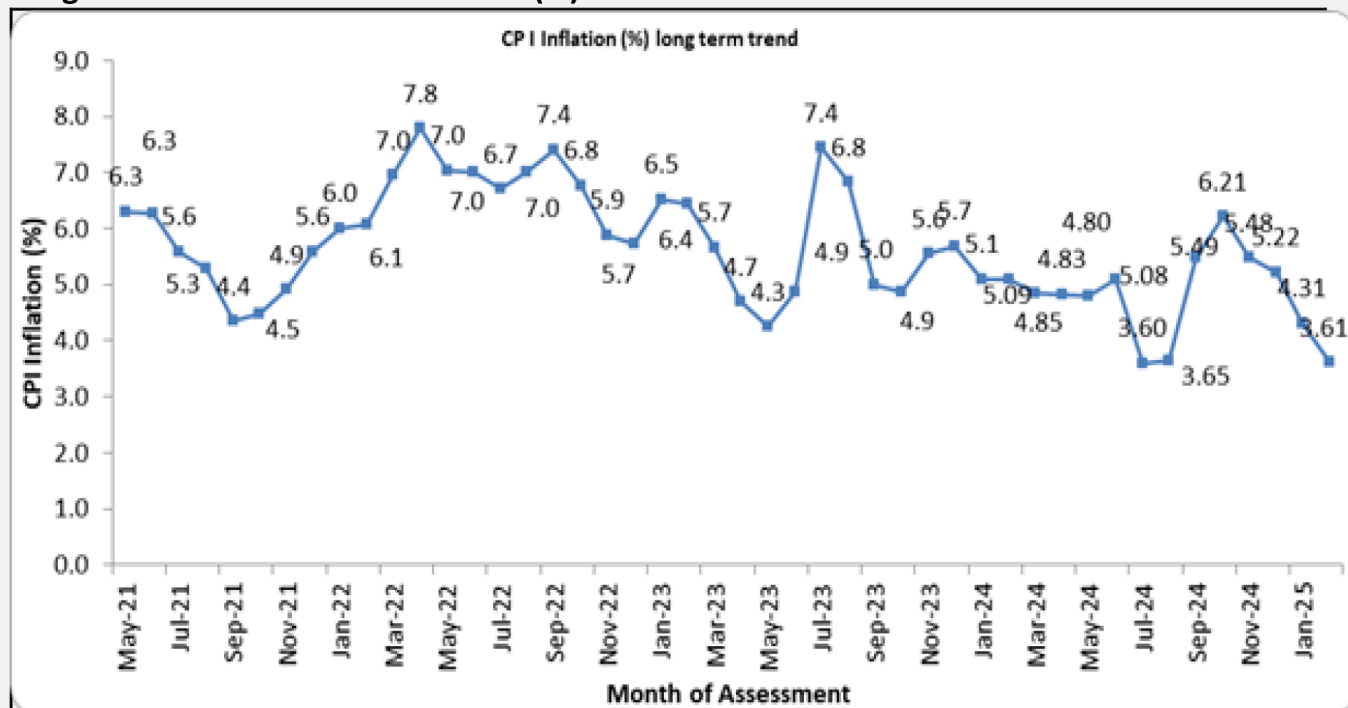
All India Consumer Price Indices and year-on-year Inflation rates (%) for February 2025 (Provisional)						
Category	Rural		Urban		Combined	
	February 2025 Index	Inflation Rate (%)	February 2025 Index	Inflation Rate (%)	February 2025 Index	Inflation Rate (%)
Food and Beverages	195.4	4.05	201.3	3.44	197.6	3.84
Pan, tobacco and intoxicants	209.0	2.60	213.2	1.77	210.1	3.84
Clothing and Footwear	199.8	2.57	188.6	2.84	195.4	2.68
Housing	-	-	183.7	2.91	183.7	2.91
Fuel and Light	182.8	-0.54	171.0	-2.62	178.3	-1.33
Miscellaneous	192.8	4.90	183.7	4.67	188.4	4.78
General Index (All Groups)	194.5	3.79	190.1	3.32	192.5	3.61

Source: Compiled from MoSPI

The long-term trend in the CPI inflation (%) since May 2021 is exhibiting a volatile inflation trajectory impacted by uncertainties caused by covid-19 and geo-political headwinds. India observed a decline in its CPI Inflation from May 2021 (6.3%) till September 2021 (4.3%) after which it increased significantly once again and reached its peak in April 2022 at 7.8%.

The values of CPI inflation witnessed a volatile trend once again and softened only at 7.4% in July 2023 and the value of CPI inflation in August 2023 was 6.8%. Presently the value of CPI stands at 3.61% for the month of February 2025.

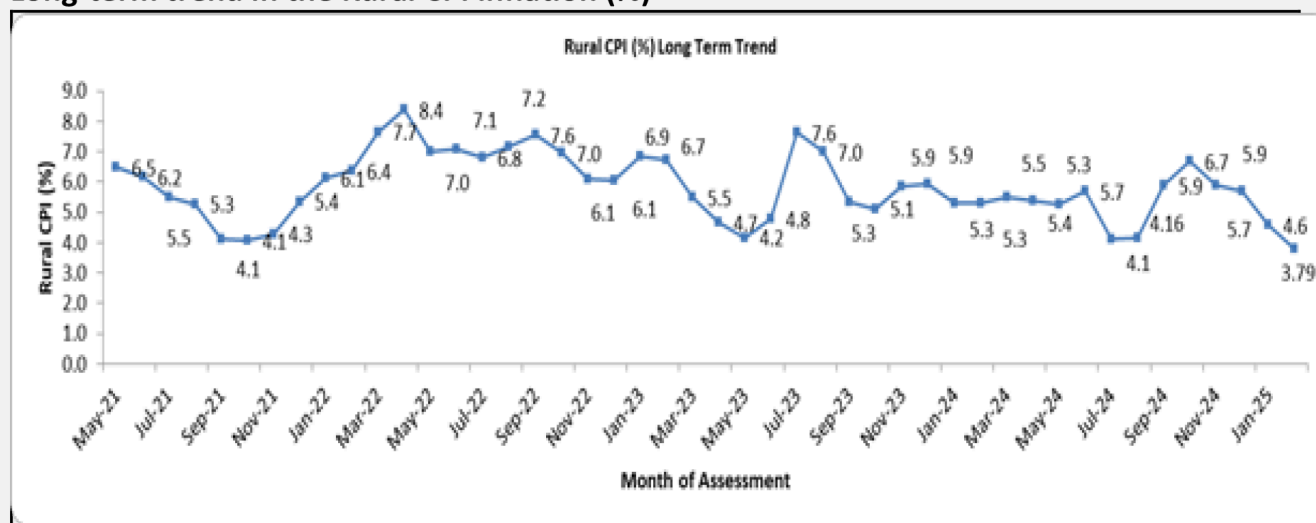
Long-term trend in the CPI inflation (%)



Source: Compiled from MoSPI

The long-term trend in Rural CPI inflation also witnessed a decline from 6.5% to 4.1% in September 2021. Thereafter, the rural CPI rose from November 2021 and reached its peak value of 8.4% in April 2022. Declining trend has been observed from November 2024, presently stands at 3.79%.

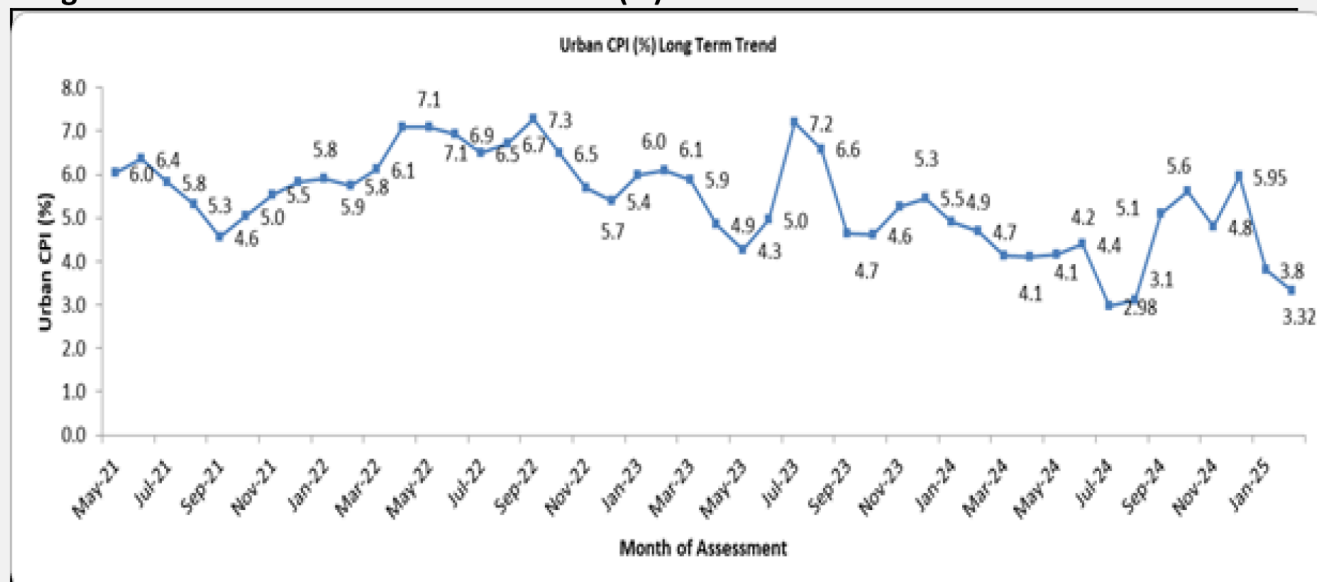
Long-term trend in the Rural CPI inflation (%)



Source: Compiled from MoSPI

The long-term trend in urban CPI, though started declining from 6.4% in June 2021 to 4.6% in September 2021, again rose to the level of 7.1% in April 2022 and attained a maximum of 7.3% in September 2022. The urban CPI increased to 7.2% in July 2023 and declined to 6.5% in August 2023 and in the recent months, it witnessed continuous deceleration from November 2024, resently, the value stands at 3.3% in February 2025.

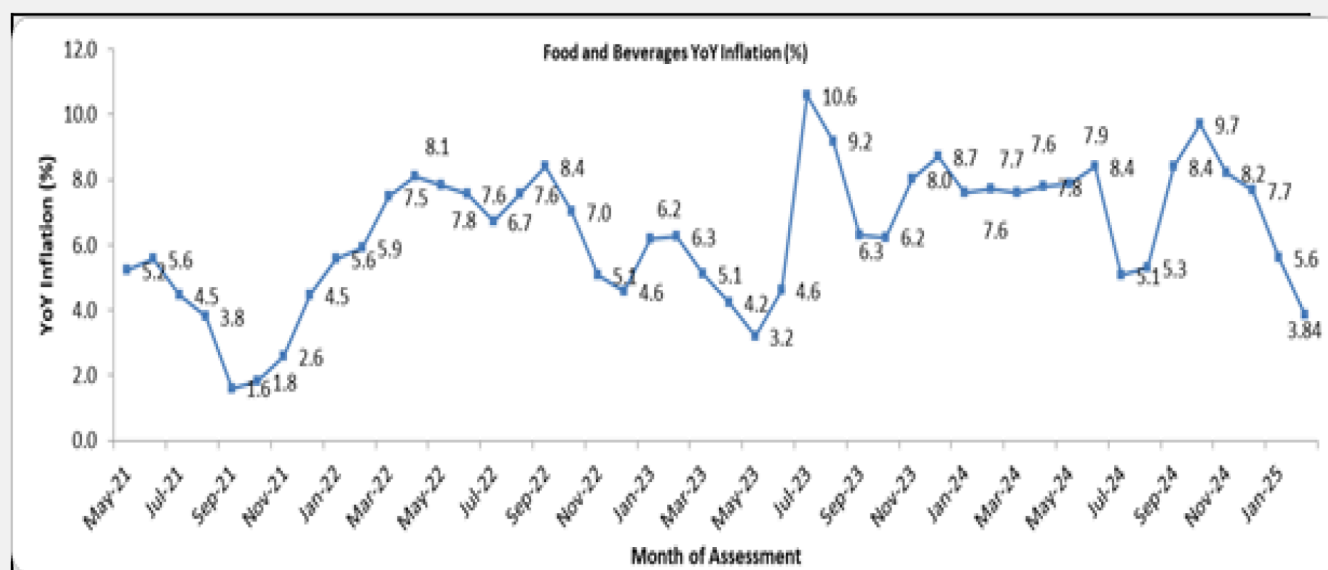
Long-term trend in the Urban CPI inflation (%)



Source: Compiled from MoSPI

The long-term trend in the inflation of food and beverages was also extremely volatile, declined from 5.6% in June 2021 to its minimum value of 1.6% in September 2021 after which it started increasing once again and reached at 8.4% in September 2022 and 10.5% in July 2023. It started decelerating from November 2024, presently, the value stands at 3.8% in February 2025.

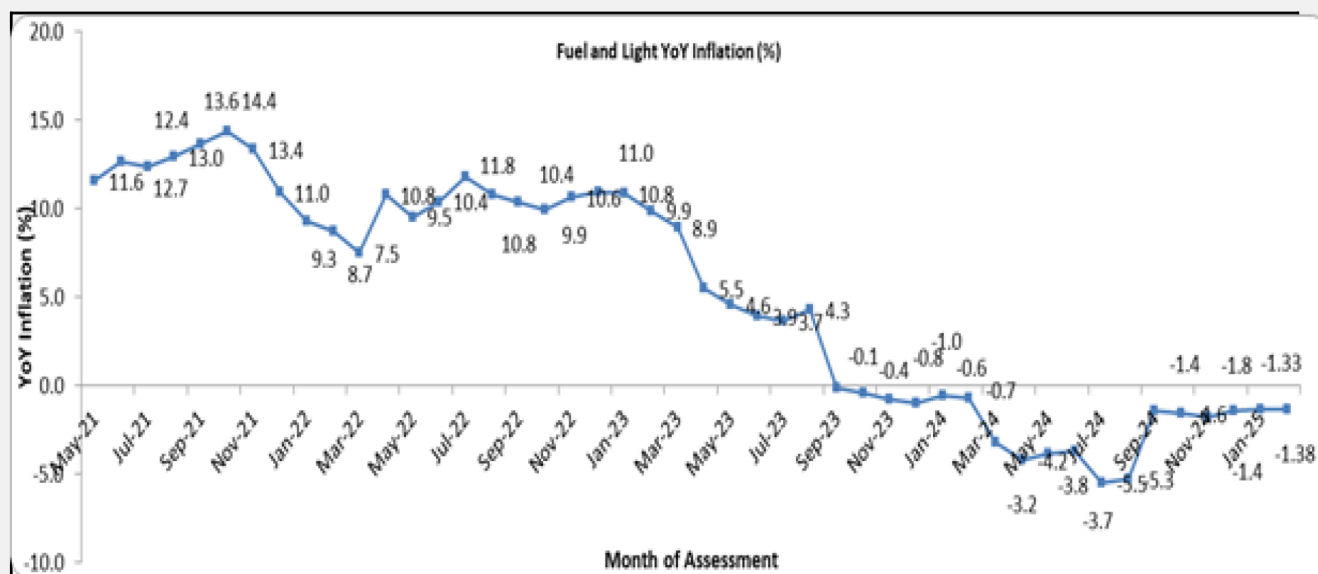
Long-term trend in inflation (%) of food and beverages



Source: Compiled from MoSPI

The long-term trend of inflation of Fuel and Light as observed from April 2021 also shows a volatile trend. The value rose to 14.4% in October 2021 from 7.9% in April 2021. It declined thereafter, at 7.5% in March 2022 4.3% in August 2023. It remains in negative territory since September 2023 and presently prevailing at -1.3% in February 2025.

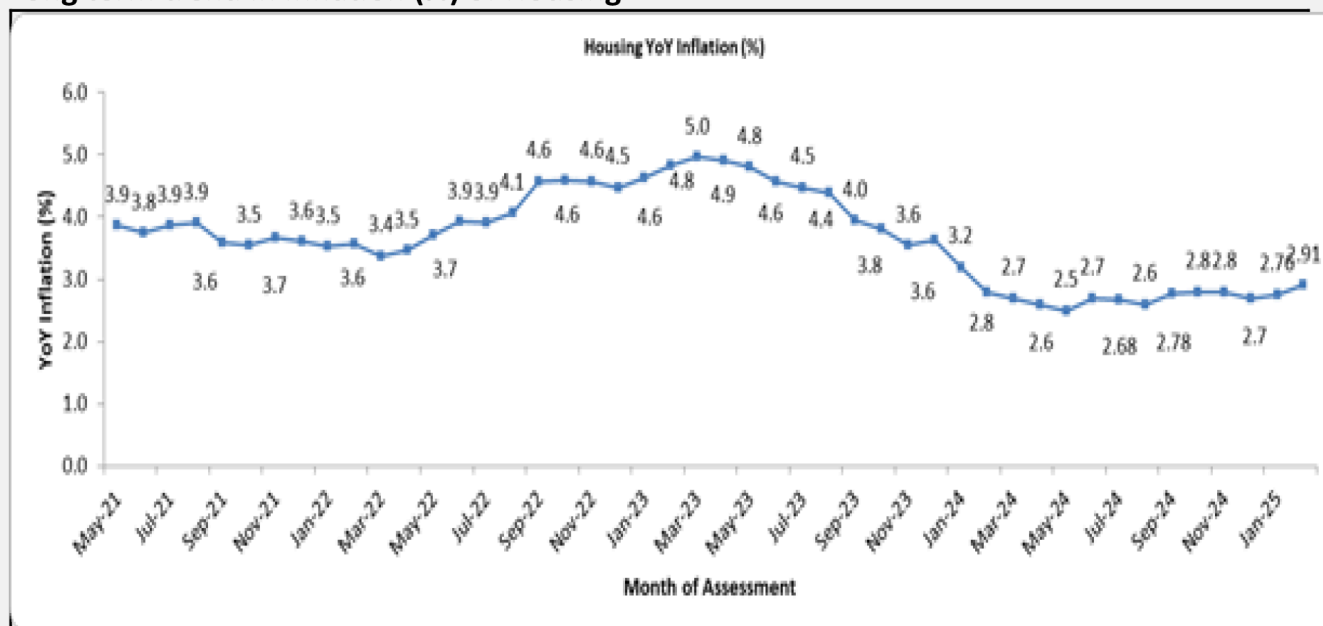
Long-term trend in inflation (%) of fuel and light



Source: Compiled from MoSPI

The long-term trend in YoY inflation of housing has almost stable, observing a growth to 4.6% in September 2022 and reaching a maximum value of 5% in March 2023. The value declined slightly in September 2023 to 3.9% and deceleration significantly at 2.9% in February 2025.

Long term trend in inflation (%) of Housing



Source: Compiled from MoSPI

India's economic activity, despite the global headwinds, remains intact. The key economic indicators are performing well. The GDP growth for FY 2024-25 is projected at 6.5%. During Apr-Dec 2024-25, IIP and core infra grew at more than 4%, exports grew at more than 6%, bank credit grew around 15%, and GST collections grew at more than 9%. Going ahead, continuous fall in headline inflation, improved supply chains and bumper rabi crops are expected to boost economic activity and demand trajectory which in turn will accelerate the economic growth in the coming quarters.

In conclusions, despite the global headwinds vis-à-vis deepening and spread geo political developments, India's economic activity remains intact, supported by steady growth of manufacturing, core infra and exports. Bank credit and GST collections remain robust. At this backdrop, the benign inflationary conditions with the support of improved

supply chains, expected bumper rabi crops will support the domestic demand, external competitiveness, and attractiveness towards global investments. The benign inflationary conditions are expected to create a great scope for further softening of the repo rate in the coming credit policy review by RBI, boosting overall economic activity in the country and acceleration to growth of GDP in the coming quarters.

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