

Economy

Prices

April 15, 2025

Inflation under control for a deeper rate cut cycle

CPI inflation remained comfortable at 3.3% in March with continued moderation in food prices. We expect inflation to remain around the RBI's 4% target for most of FY2026. Based on our growth-inflation mix and the RBI's shift in stance to accommodative, we continue to factor in another 75-100 bps of rate cuts by end-FY2026E.

Food price inflation moderates to 2.7%

March CPI inflation moderated to 3.3% (Kotak: 3.5%; Consensus: 3.6%; February: 3.6%). Headline CPI fell by 0.3% mom, led by a decline in food prices. Food inflation fell to 2.7%, led by a sharp decline in prices of vegetables, eggs, pulses and spices. Both durable and volatile food inflation remained benign at 2.5% and 3.8%, respectively. CPI excluding vegetables was stable at 4% (see Exhibits 1-4). High-frequency data for April shows a mixed picture across categories. Inflation has likely bottomed out in March but will remain around the RBI's 4% target in the near term. Urban and rural inflation have eased; however, rural inflation has eased more than urban inflation in March (see Exhibit 5).

Core inflation gradually inches higher

Core inflation (CPI excluding food, beverages and fuel) inched up to 4.1% (Kotak: 4.3%; February: 4%). Core inflation increased 0.2% mom, driven by a sharp increase in personal effects prices (mostly gold). Gold prices increased 2.7% mom in March, and the momentum is expected to continue in April. Various core inflation metrics indicate similar hardening (see Exhibit 6).

Comfortable inflation dynamics through FY2026

We expect inflation to remain benign for most of FY2026 given muted growth and expectations of favorable monsoons. Global trade disruptions, while posing downside risks to growth, may impart disinflationary pressures worldwide as export-oriented countries push excess production. IMD's forecast of an "above normal" monsoon supports the declining inflationary path. Meanwhile, core inflation is likely to inch marginally higher on the back of base effects and a pickup in gold prices. We expect the FY2026 average headline inflation estimate to be 4% and expect the quarterly inflation to range between 3.6% and 4.4% (see Exhibits 7-8). We estimate average core inflation at 4.2% in FY2026E.

Continue to pencil in another 75-100 bps of repo rate cuts

As the inflation trajectory remains well anchored below 4% (see Exhibit 9) over the next 2-3 quarters while downside risks to growth persist, we see enough room for the RBI to prioritize growth. The RBI's shift in stance to accommodative, along with proactive liquidity infusion, signals a willingness to continue monetary easing. We continue to expect another 75-100 bps of repo rate cut to 5-5.25% by end-FY2026E given our FY2026E growth-inflation mix (GDP: 6%, CPI inflation: 4%) and the RBI's tolerance for two-way INR moves. We expect the RBI to keep banking system liquidity in surplus, at least over the next few months, to ensure a smooth policy transmission and avoid any credit squeeze in the event of any global trade-led disruption.

Summary of key macro metrics for India

	2023	2024	2025E	2026E
Real economy				
Real GDP growth (%)	7.6	9.2	6.5	6.0
Nominal GDP growth (%)	14.0	12.0	9.9	9.5
CPI Inflation (avg., %)	6.7	5.4	4.7	4.0
Public finance				
Center's GFD/GDP (%)	6.4	5.6	4.8	4.4
Monetary policy				
Repo Rate (% eop)	6.50	6.50	6.25	5.00
SDF Rate (% eop)	6.25	6.25	6.00	5.75
CRR (% eop)	4.5	4.5	4.0	4.0
External sector				
Current Account Balance (% of GDP)	(2.0)	(0.7)	(0.6)	(1.0)
Brent crude oil price (avg., USD/bbl)	95.4	82.9	78.9	70.0
USD/INR (avg.)	80.3	82.8	84.6	86.3

Source: CEIC, Bloomberg, RBI, Kotak Economics Research estimates

Quick Numbers

March headline CPI inflation at 3.3%; core CPI inflation at 4.1%

Revise our FY2026 average headline inflation estimate at 4%

We expect another 75-100 bps of repo rate cuts by end-FY2026E

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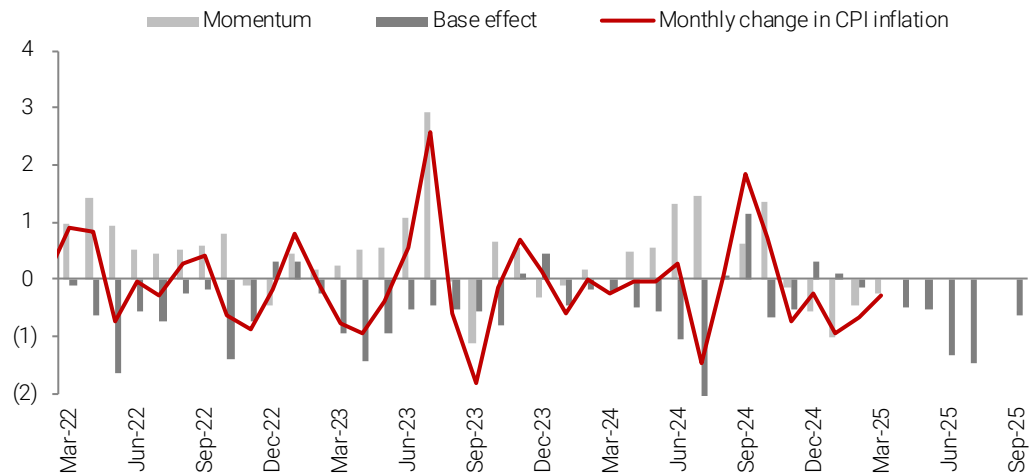
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Inflation declines sequentially in March

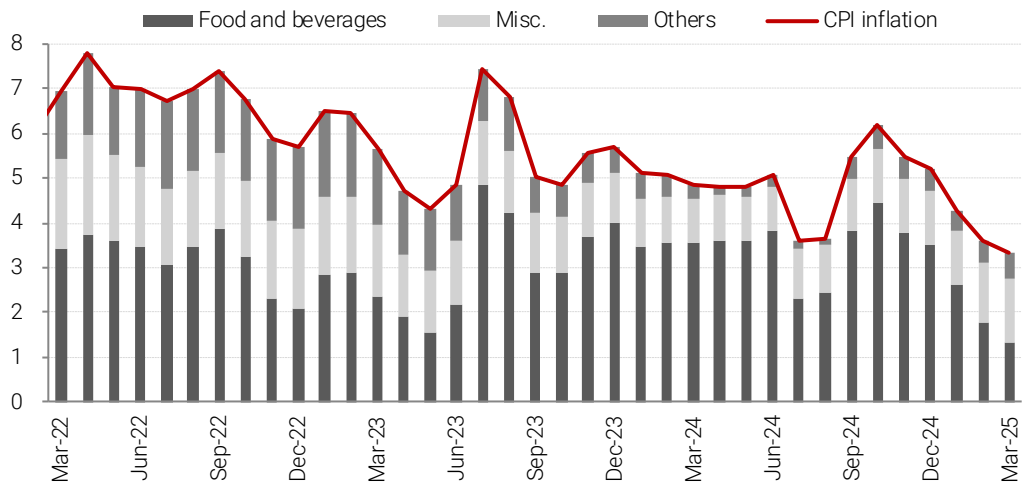
Exhibit 1: Trend in momentum, base effect, and monthly change in CPI inflation (%)



Source: CEIC, Kotak Economics Research

Headline inflation softening led by moderation in food prices

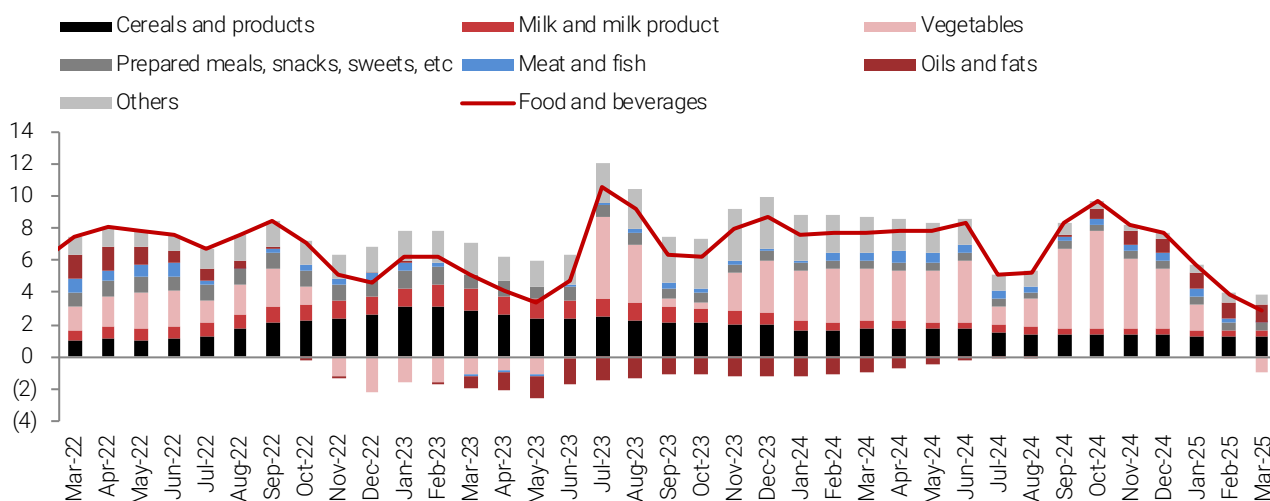
Exhibit 2: Contribution to CPI inflation by major segments (%)



Source: CEIC, Kotak Economics Research

Food inflation moderates due to decline in prices of vegetables, eggs, pulses, and spices

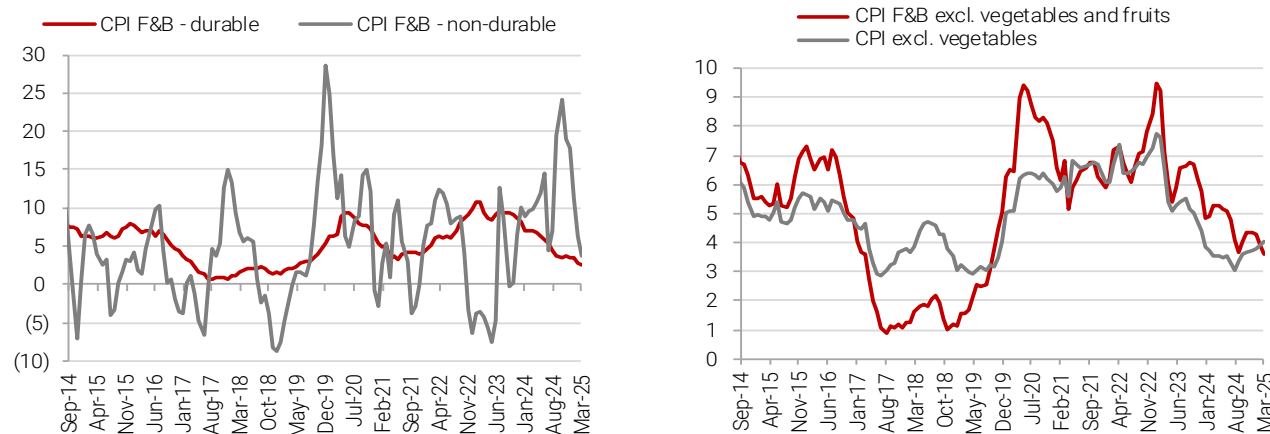
Exhibit 3: Contribution to CPI food inflation by major segments (%)



Source: CEIC, Kotak Economics Research

Both durable and volatile food inflation decelerated

Exhibit 4: Trend in various measures of food inflation



Notes:

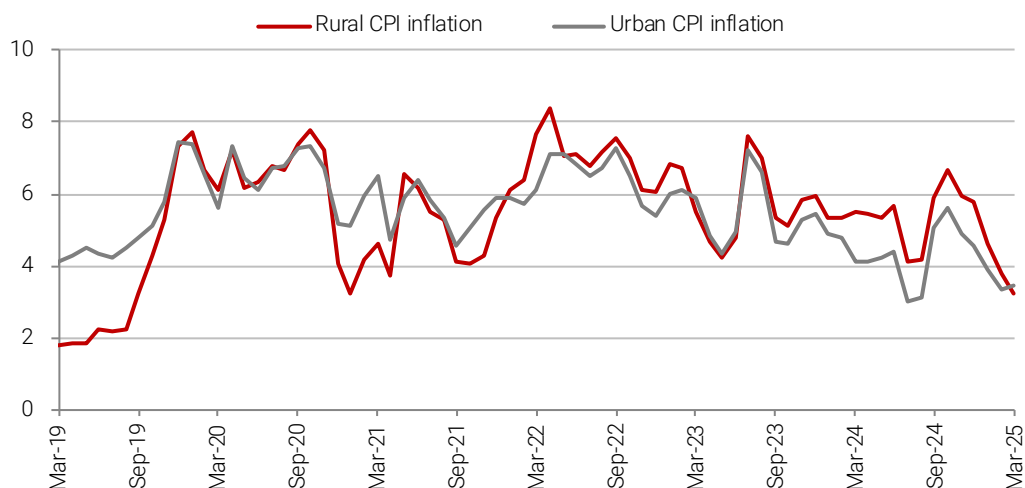
(a) F&B represents food and beverages.

(b) Durable food items include cereals, pulses, milk, meat & fish, spices, non-alcoholic beverages, and prepared meals & snacks. Non-durable are the remaining items including vegetables, fruits, etc.

Source: CEIC, Kotak Economics Research

Rural inflation eases more than urban inflation

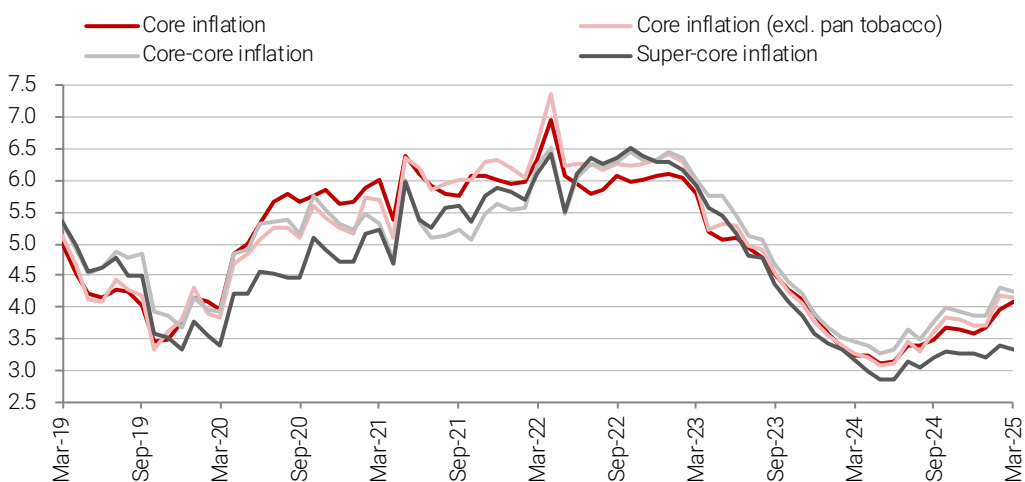
Exhibit 5: Rural and urban CPI inflation (%)



Source: CEIC, Kotak Economics Research

Core inflation continues to inch up

Exhibit 6: Trend in various measures of core CPI inflation (%)



Notes:

- (a) Core is defined as headline excluding food and fuel.
- (b) Core-core is defined as core excluding petrol and diesel.
- (c) Super-core is defined as core-core excluding gold and silver.

Source: CEIC, Kotak Economics Research estimates

CPI inflation estimate revised down to 4% in FY2026

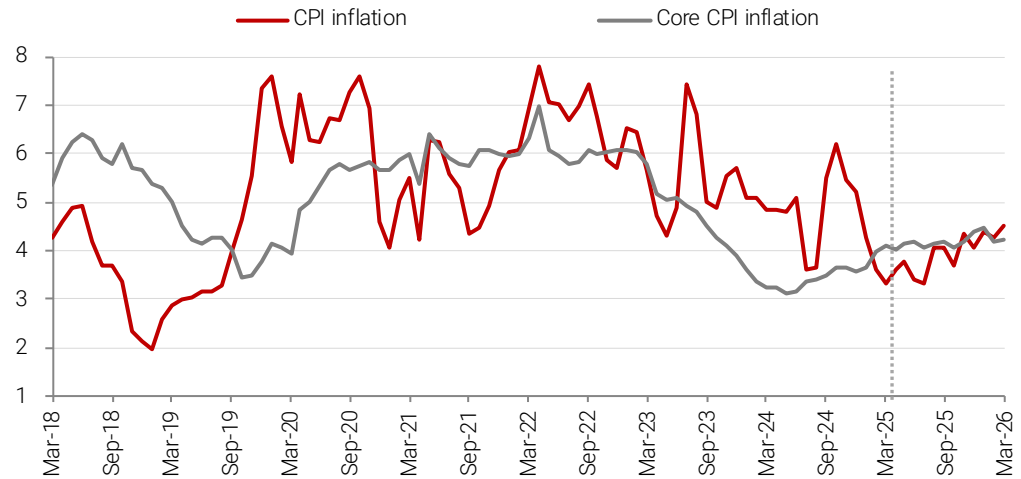
Exhibit 7: RBI's estimates for CPI inflation across various policies, March fiscal year-ends (%)

	CPI inflation estimate in RBI policy (%)					Kotak
	Aug-24	Oct-24	Dec-24	Feb-25	Apr-25	
1QFY26	4.4	4.3	4.6	4.5	3.6	3.6
2QFY26			4.0	4.0	3.9	3.8
3QFY26				3.8	3.8	4.0
4QFY26				4.2	4.4	4.4
FY2026				4.2	4.0	4.0

Source: RBI, Kotak Economics Research estimates

We estimate FY2026 average headline inflation at 4%

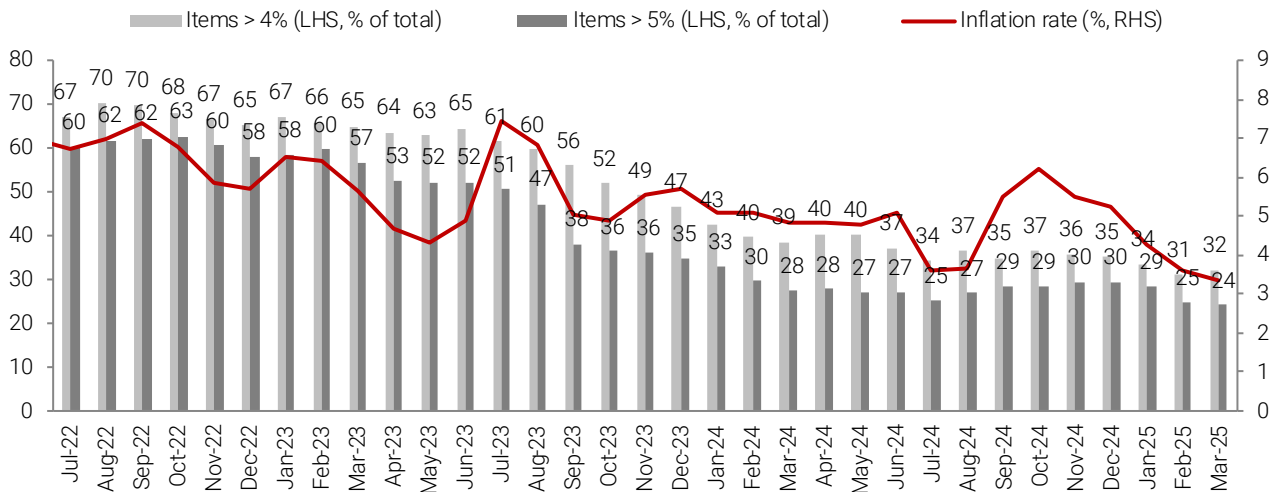
Exhibit 8: Trend in headline CPI and core inflation (%)



Source: CEIC, Kotak Economics Research estimates

Majority of sub-components exhibit inflation below 4%

Exhibit 9: Number of items in CPI inflation above 4% and 5% (% of total sub-components)



Source: CEIC, Kotak Economics Research

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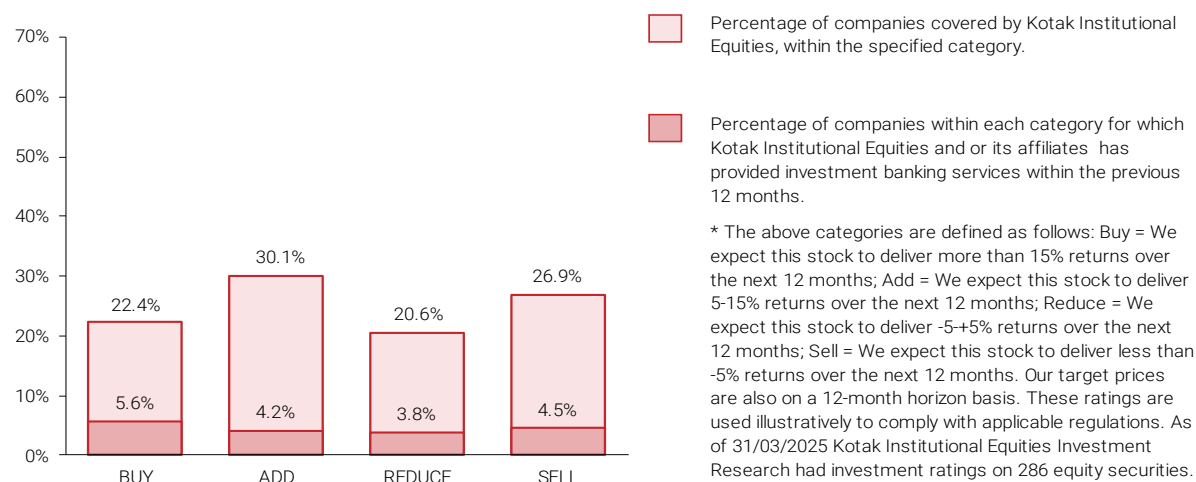
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