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Macro Pulse Report

April 2025

From Acuité's Research Desk

Since our last update in Mar'25, the global trade landscape has undergone a sea of change. The 3rd Apr'25 tariff announcements by President Trump on a whole host of trading partners, though, stand temporarily suspended for a period of 90 days, have evoked irreversible changes. One, a full-fledged tariff war with China is now a reality, with action and counteractions leading to high punitive tariffs on both sides. Second, despite countries rushing to negotiate bilateral deals with the US, uncertainty with respect to the future course of global trade, supply chains, and financial flows has increased.

This combination of escalation of trade tensions as well as policy uncertainty is expected to have a significant impact on global economic activity. In its latest World Economic Outlook report, the IMF endorsed this view by revising lower its global growth forecast from 3.3% in 2024 to 2.8% in 2025, a downward revision of 50 bps vs its Jan-25 forecast.

In India's favour, the domestic growth pillars remain strong. FY26 growth is likely to draw strength from the government's capex spending and budget-induced recovery in urban consumption, amidst the prediction of a normal monsoon that could possibly keep the rural growth momentum going. Having said that, we have trimmed our FY26 GDP growth forecast by 10 bps to 6.5% in the backdrop of spillover risks of a hostile global environment. Domestic growth outlook will be continually reassessed to reflect emerging clarity on the contours of the India-US Bilateral Trade Agreement.

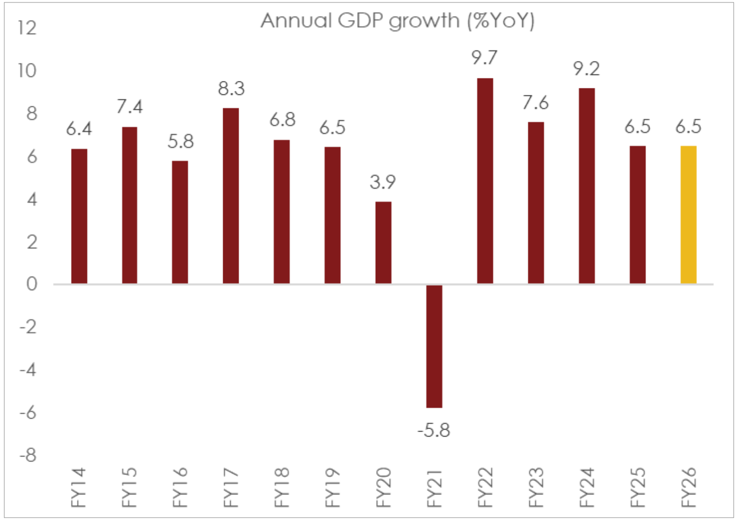
The macro comfort beyond growth continues to remain intact, with India's CPI inflation decelerating to a near 5-1/2 year low in Mar'25. Looking ahead, the anticipated alignment of inflation with its target and the emerging downside risk to growth have opened up further space for monetary easing. We revise our MPC call and now expect the RBI to cut the repo rate by an additional 50 bps cumulatively - this, along with the RBI's intent to keep liquidity surplus around 1% of NDTL, would help lower g-sec yields for the third year in a row. Although INR currently appears to be buoyed by the weakness in USD and front-loading of exports to the US, moderate depreciation pressures could resurface with the unwinding of the crowded short USD trade and realignment of FX rates with the new global trade paradigm.

Global uncertainty-driven downward revision to India growth outlook

Various global agencies over the last month, have revised lower India's growth outlook for FY26. This is broadly a fallout of escalation of global tariff war as well as uncertainty associated with its implementation; in line with downward revision to global growth outlook for 2025.

Acuite too had revised lower it's FY26 outlook, by 10 bps to 6.5% in first week of Apr-25. We believe that quick and fruitful negotiations in the Bilateral Trade Agreement between India and US may serve us well. Along with the strength in domestic growth drivers, India's economic growth will be cushioned well.

India FY26 growth downgrade owing to tariff war		
Agency	**Previous**	**Revised**
IMF	6.50%	6.20%
Moody's	6.6% (as of Feb-25)	5.5-6.5%
Fitch	6.30%	6.20%
World Bank	6.70%	6.30%



Trade Agreements: To take centre-stage

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While the reciprocal tariffs announced in early Apr-25 stand temporarily suspended for a period of 90-days, global trade continues to remain mired in uncertainty, especially with China facing high punitive tariffs and US having to negotiate bilateral trade deals with a large number of nations.

Country	Reciprocal tariff imposed*
Cambodia	49%
Vietnam	46%
Sri Lanka	44%
Bangladesh	37%
Thailand	36%
Taiwan	32%
Indonesia	32%
Switzerland	31%
S. Africa	30%
Pakistan	29%
India	26%
S. Korea	25%
Japan	24%
Malaysia	24%
EU	20%
Philippines	17%
UK	10%
Singapore	10%
Australia	10%

The final shape of India-US Bilateral trade negotiations and the revised tariff schedule, will have to be looked at closely for impact assessment at a product and/or sectoral level.

India and USA have finalized Terms of Reference (TOR) that will guide upcoming reciprocal trade negotiations.

The Bilateral Trade Agreement is part of the broader Catalysing Opportunities for Military Partnership, Accelerated Commerce & Technology (COMPACT) program, which began in Feb-25.

While there is no timeline yet for a final deal, both governments have signalled urgency **with US Treasury Secretary hinting at early closing of the bilateral deal**.

As per WTO, reactivation of the suspended "reciprocal tariffs" by US as well as the spread of trade policy uncertainty that could impact non-US trade relationships, poses significant risk to global merchandise trade outlook. If realized, reciprocal tariffs would reduce global merchandise trade volume growth by 0.6 pp in 2025 while spreading of trade policy uncertainty could shave off another 0.8 pp. As such, 2025 could record a 1.5% decline in world merchandise trade.

Domestic growth: Momentum remains intact

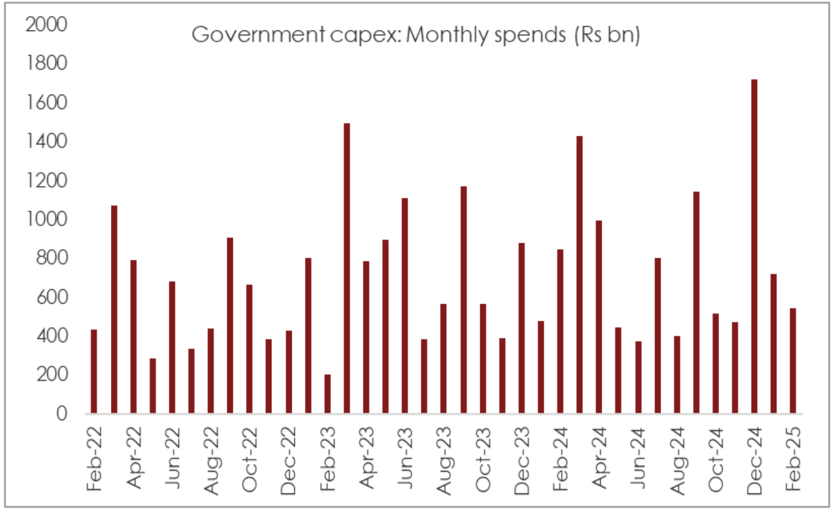
High frequency lead indicators paint a better growth picture for Q4 FY25, so far. Indicators such as E-way bills generation, steel consumption, cement production, PMI manufacturing as well as tractor sales have posted strong growth over the quarter.

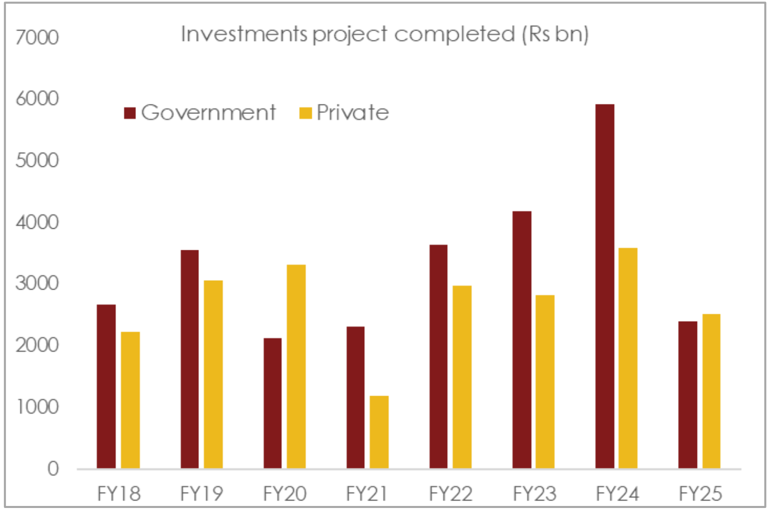
High frequency indicators	Monthly							
	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Passenger vehicle sales (%YoY)	-1.8	-1.4	0.9	4.0	10.0	1.6	1.9	3.6
Credit card spends (%YoY)	19.9	18.0	16.9	18.1	15.6	13.0	11.2	
Two wheeler sales (%YoY)	9.3	15.8	14.2	-1.1	-8.8	2.1	-9.0	11.4
Tractor sales (domestic, %YoY)	-5.8	3.7	22.4	-1.3	14.0	11.4	35.9	25.4
Port cargo traffic (%YoY)	6.7	5.9	-3.4	-5.0	3.4	6.2	7.4	13.3
Air Cargo traffic (%YoY)	12.5	18.0	14.5	9.7	8.0	7.0	-4.9	
Domestic air passenger traffic (%YoY)	6.7	7.4	9.6	13.8	10.8	14.1	12.1	
Intl Air Passenger traffic (%YoY)	11.1	11.2	10.3	10.7	9.0	11.1	7.7	
GST E-way bills (cr)	10.5	10.9	11.7	10.2	11.2	11.8	11.2	12.5
Steel consumption (%YoY)	10.0	11.8	8.9	9.5	5.2	10.9	10.9	13.6
Cement production (%YoY)	-2.5	7.6	3.1	13.1	10.3	14.6	10.8	11.6
Manufactruing PMI (index)	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1
Services PMI (index)	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5
Core industries (%YoY)	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	3.8
IIP (%YoY)	0.0	3.2	3.7	5.0	3.5	5.2	2.9	

FY26: Growth proponents Government capex to support

After a backloaded support to growth in FY25, as per media reports, Finance Ministry has already sounded out various ministries and departments to front-load their capital expenditure in FY26.

Pace of project completions by private sector saw a sharp deceleration (-30%YoY) in FY25. With global environment remaining highly uncertain with respect to both geopolitical as well as geoeconomic landscape, private capex could continue to remain subdued.





Budget's urban consumption bonanza

FY26 Budget provided a consumption stimulus by announcing a reduction in personal income taxes, that is likely to cost the exchequer Rs 1 tn. The improvement in disposable incomes of middle-income earners, can be expected to support urban consumption over the coming quarters.

The impact of the consumption stimulus could end up being longer, amidst the direct income cash transfers (at state-level) that are likely to playout fully in FY26, along with impending 8th Pay Commission to be implemented Jan-26 onwards and declining consumer inflation augmenting personal disposable incomes.

Consumption stimulus: Possible impact	
Staples	Food with higher nutritional value
Small-ticket discretionary goods	Home furnishings, Phone, Laptops etc.
Big-ticket discretionary goods	Auto and two-wheeler
Discretionary services	Air travel, Hospitality, Concerts

Tax reduction

-To cost exchequer ~Rs 1 tn

Direct cash transfer by the states

- Total outgo could be close to Rs 2 tn

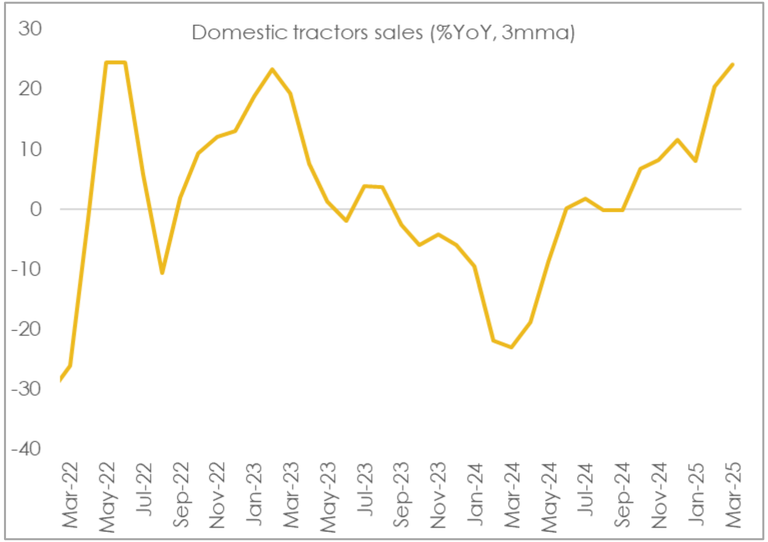
8th pay commission

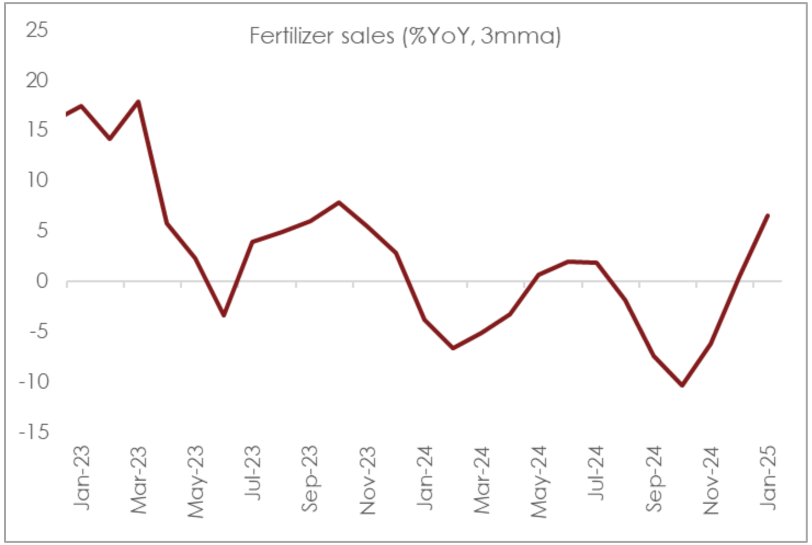
- To be implemented Jan-26 onwards

Rural recovery on track

Tractor sales have been fairly healthy over the last 2 quarters, owing to above normal monsoon in 2024 and healthy prospects of Rabi production. The sowing for summer crop, currently under way, continues to remain on track despite early onset of heatwaves.

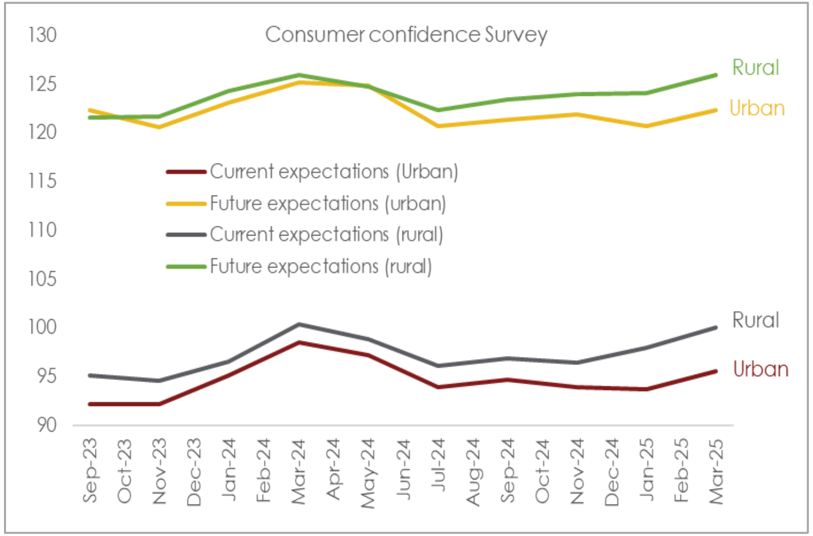
Fertilizer sales too have picked up in recent months to near 1-year highs. Keeping in mind the strength in demand, Government's imports of fertilizers too have ramped up in Jan-25.





Consumer sentiments perk up

From the newly released RBI's rural consumer confidence survey, we find evidence of rural sentiment continuing to remain above urban sentiment in the recent past, with the gap having widened in latter months.



Compared to a year ago, perception of spending has improved for both urban and rural consumers, with former outpacing the latter by a small margin.

Consumer spending current Perception: Urban				
Survey Round	**Increased**	**Remained Same**	**Decreased**	**Net Response**
Mar-24	73.1	3.8	23.1	**69.2**
May-24	76.2	3.8	20.1	**72.5**
Jul-24	78.9	3.1	18.0	**75.8**
Sep-24	80.4	2.7	16.9	**77.6**
Nov-24	80.9	1.9	17.2	**79.0**
Jan-25	79.3	1.3	19.4	**77.9**
Mar-25	80.1	1.2	18.8	**78.9**
% in last 1 year	**7.0**	**-2.7**	**-4.3**	**9.7**

Consumer spending current Perception: Rural				
Survey Round	**Increased**	**Remained Same**	**Decreased**	**Net Response**
Mar-24	82.5	14.4	3.1	**79.5**
May-24	85.0	12.3	2.7	**82.3**
Jul-24	86.2	11.5	2.2	**84.0**
Sep-24	87.9	9.7	2.5	**85.4**
Nov-24	88.5	9.6	1.9	**86.6**
Jan-25	87.9	10.3	1.9	**86.0**
Mar-25	90.5	7.3	2.2	**88.2**
% in last 1 year	**8.0**	**-7.1**	**-0.9**	**8.7**

FY26 growth outlook: GDP revised lower to 6.5%

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The slowdown in global trade and the associated uncertainties with respect to implementation of tariffs, is likely to shave off 20 bps of India's GDP growth, as per our first cut assessment. Domestic growth outlook will be continually reassessed as and when greater clarity on global tariffs and their implementation takes shape.

1) Global geopolitics and geoeconomic remain uncertain – to weigh on trade, and…

2) Private sector capex recovery timeline

3) Government's fiscal impulse remains lower

4) Early onset of summer remains on watch for any adverse impact on agri output

1) Outlook for Rabi positive/Sowing of summer crop on track

2) IMD forecasts an "above normal" monsoon for 2025

3) Rural demand witnessing a gradual recovery, should galvanize further

4) Tax reduction led upside to urban consumption

4) Front loading of government capex to offer support to growth

CPI inflation eases to a 5-1/2 year low

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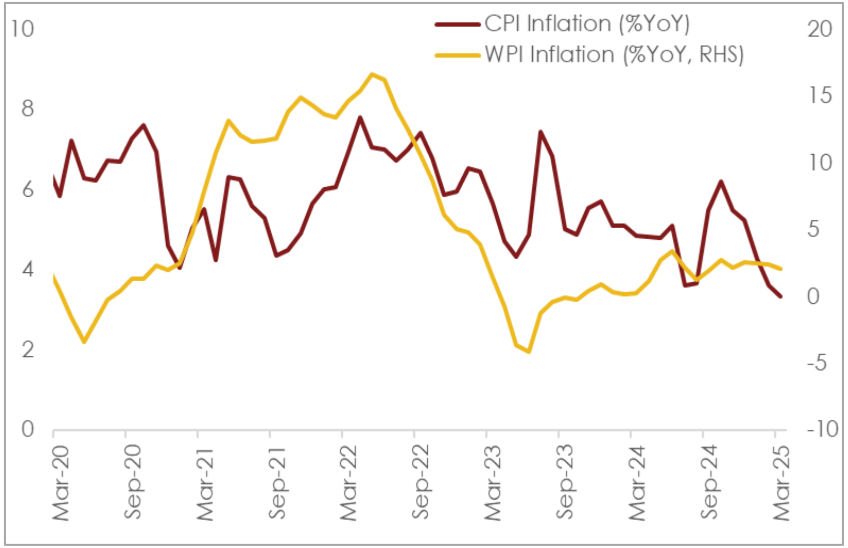
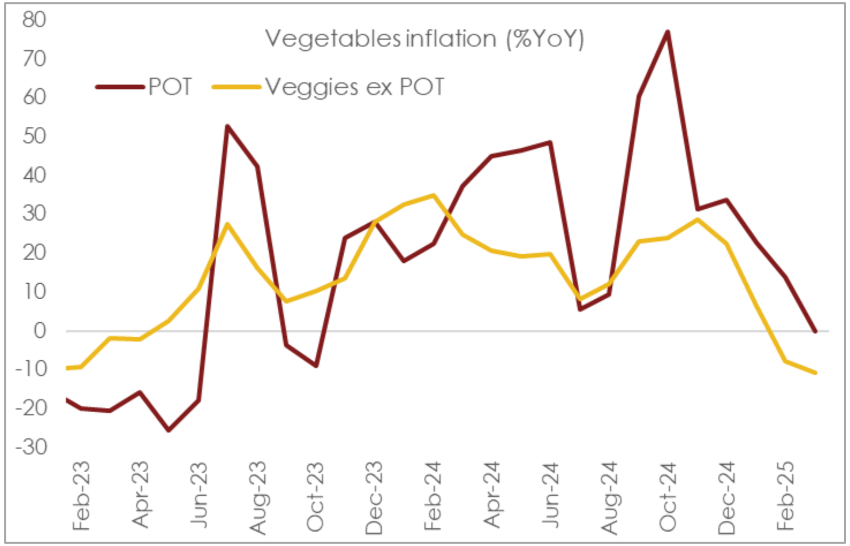
India's CPI inflation eased further to a near 5-1/2 year low in Mar-25, coming in at 3.34% YoY compared to 3.61% in Feb-25.

Annualized food inflation decelerated sharply to a 40-month low of 2.88% in Mar-25 from 3.84% in Jan-25.

Sequentially, food prices fell by 0.71% MoM, with dominant price correction seen in categories of Vegetables (-5.69% MoM), Eggs (-4.93% MoM), Pulses (-2.92% MoM) and Spices (-0.80% MoM)

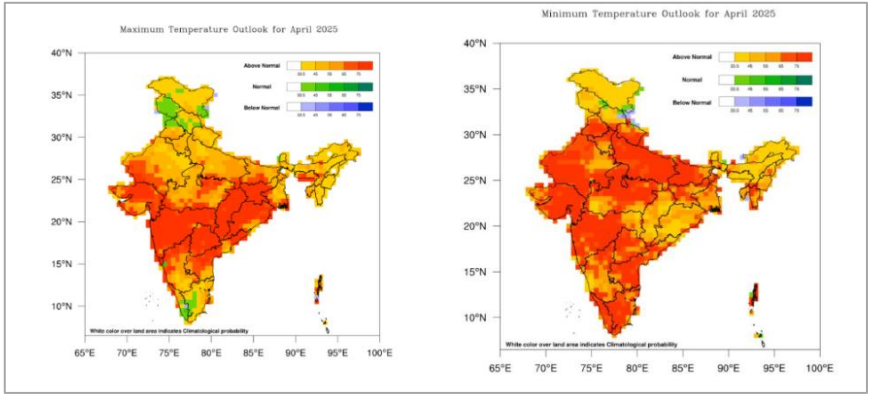




POT = Potatoes, Onion, Tomato,

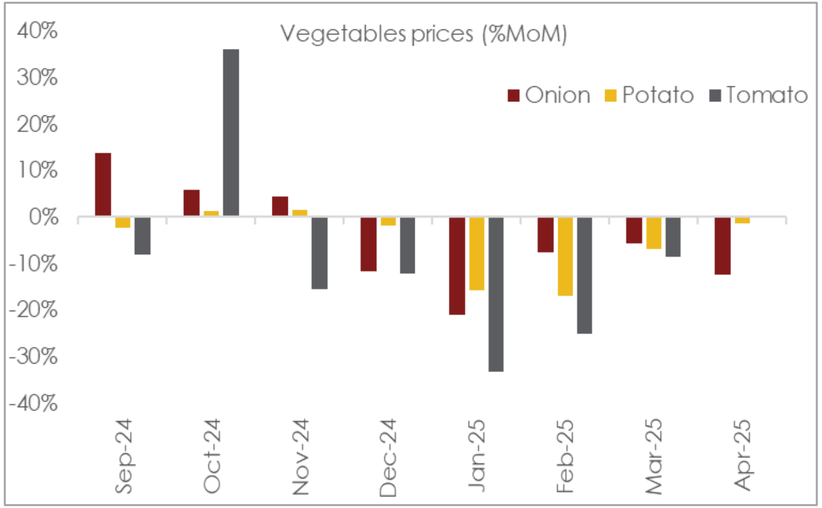
Despite abnormally early start to summer, risks contained

Despite an earlier than usual onset of summer with abnormally high temperatures, sowing of summer crops has remained on track, along with harvesting of Rabi wheat crop.



Progress of Area coverage under Summer crops as on 18th Apr-25				
Crops	Normal Summer	Area Sown (lakh ha)		% change vs. last year
		2024	2025	
Rice	30.8	27.6	31.6	14.4
Pulses	21.7	13.4	16.6	23.2
Coarse Cereals	11.0	9.9	11.5	16.0
Oilseeds	7.9	8.8	9.2	4.4
Total	71.3	59.7	68.8	15.2

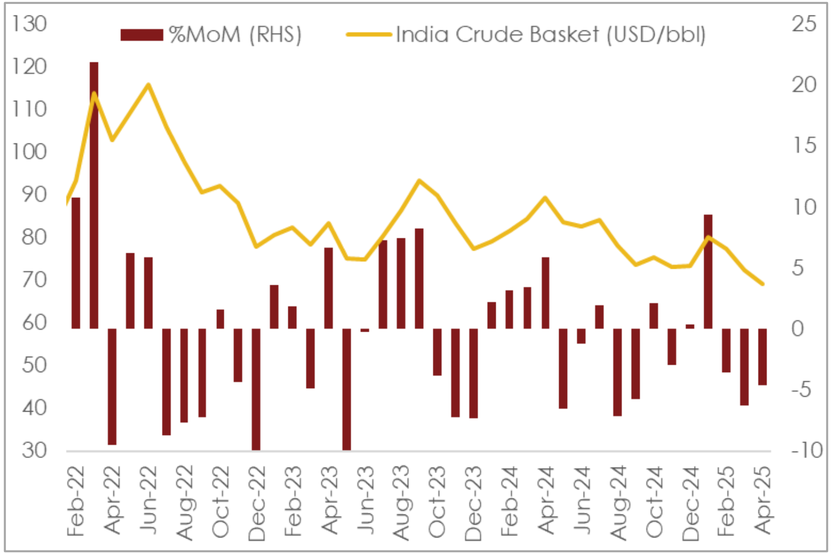
Perishable prices continue to trend lower in Apr-25, with onions recording a nearly 12.4% sequential correction as of 23rd Apr-25. This augurs well for Apr-25 CPI inflation reading.

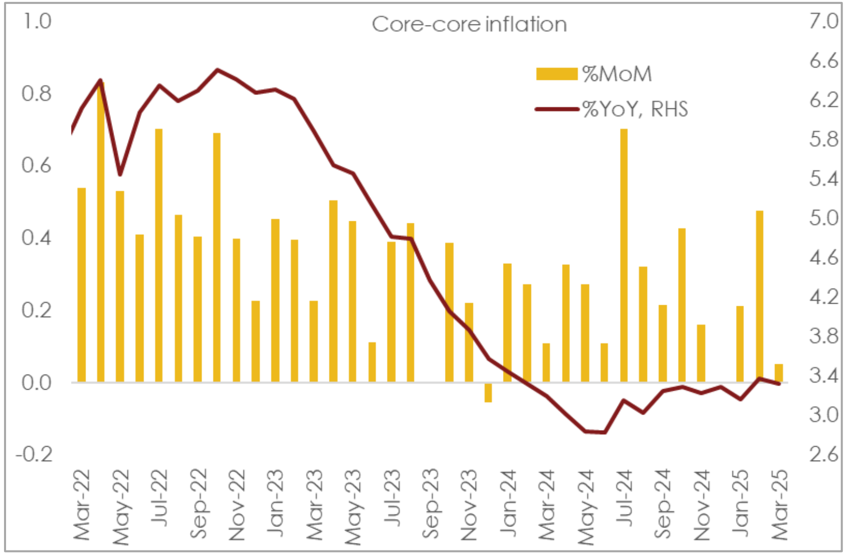


Crude and core inflation both offer comfort

Globally, the correction in crude oil prices has pushed ICB (India Crude Basket) average to a 4-year low of USD 69.1 pb so far in Apr-25

Core-core inflation too continues to remain ranged, broadly in the 3.0-3.4% range. The broad-based moderation in global commodity prices could offset the impact of imported inflation, owing to Rupee depreciation.





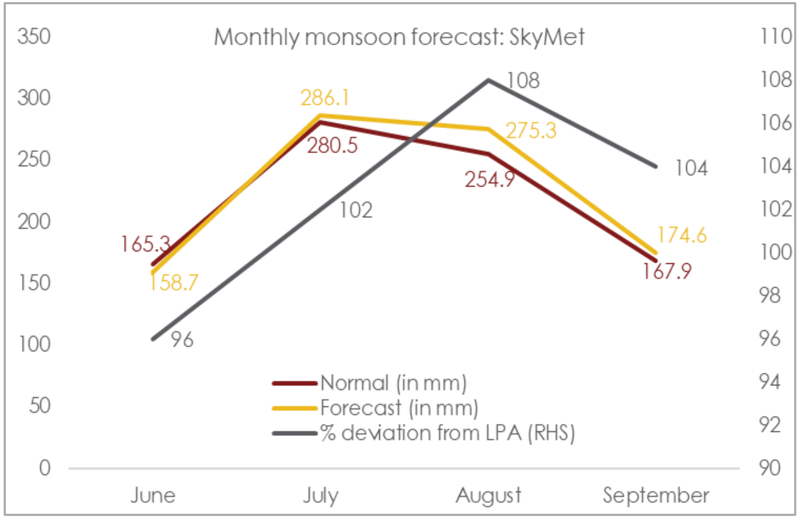
*As per the RBI, a 5% weakness in the rupee adds about 35 bps of upside to headline inflation.

2025 Southwest monsoon to be normal

Indian Meteorological Department (IMD) forecasts Southwest monsoon to be "Above Normal" in 2025. Numerically, it attaches a 59% probability to the "Above Normal" outcome, pegged at 105% of LPA with an error of +/-5%.

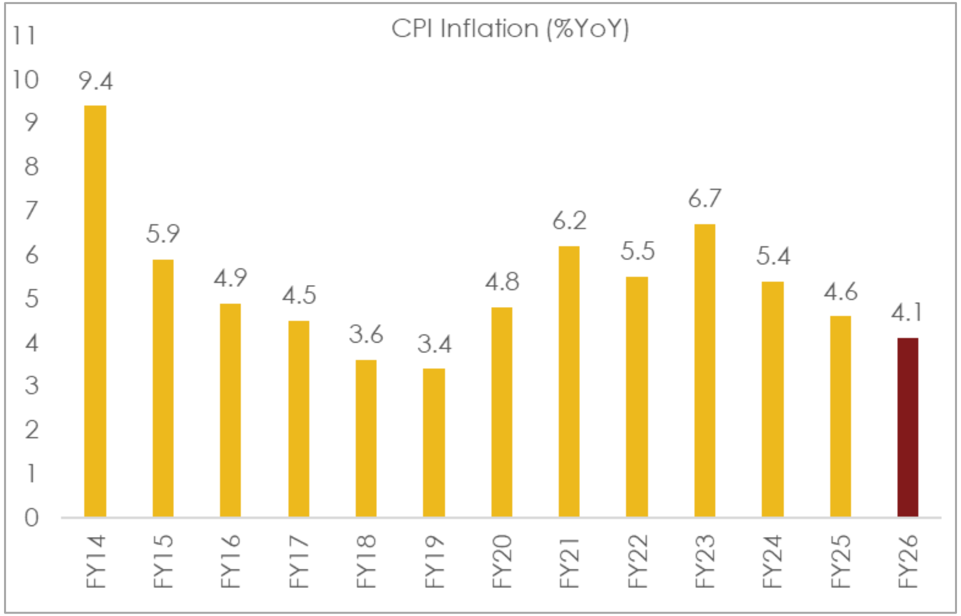
In comparison, Private agency SkyMet has projected Southwest monsoon to be a notch lower at "Normal" i.e., at 103% of LPA. Further, it expects rainfall to be at 96% in Jun-25, but to fare better in second half of the season

2025 Southwest Monsoon forecast			
Category	Rainfall (%of LPA)	IMD Probability	SkyMet Probability
Excess	>110	26	10
Above Normal	**105-110**	**33**	30
Normal	96-104	30	40
Below Normal	90-95	9	15
Deficient	<90	2	5



FY26 CPI inflation: To align with 4.0%

Against FY25 average CPI of 4.6%, we now estimate inflation to ease to 4.1% in FY26



Snapshot of Apr-Feb FY25 fiscal performance

The cumulative fiscal deficit for the period Apr-Feb FY25 stood at 85.8% of the revised estimate, lower than 90.8% of actuals in the corresponding period in FY24. This is predominantly on account of relatively lower pace of spending, while receipts at an aggregate level maintained a marginally higher relative run-rate.

Key Fiscal Variables (Cumulative position, as of February)				
	% of FY Actual/Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	81.0	81.2	11.6	13.5
Net Tax	79.5	78.8	6.8	9.0
Non-Tax	89.7	92.9	44.9	36.9
Non-Debt Capital Receipts	59.8	63.3	-38.6	3.4
Total Receipts	**80.5**	**80.9**	**10.1**	**13.4**
Revenue Expenditure	84.2	83.3	1.3	4.7
of which, Interest Payments	*82.8*	*83.7*	*10.2*	*8.2*
of which, Major Subsidies	*87.3*	*94.7*	*-21.4*	*0.6*
Capital Expenditure	84.9	79.7	36.5	0.8
Total Expenditure	**84.4**	**82.5**	**7.3**	**3.9**
Fiscal Deficit	**90.8**	**85.8**	**-**	**-**

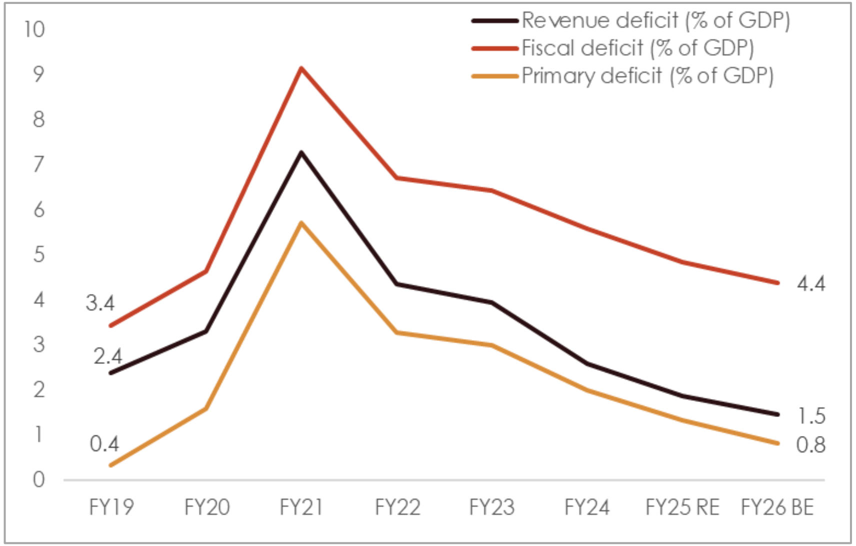
FY26 Union Budget: At a glance

The government revised lower its target for FY25 fiscal deficit to 4.8% of GDP from 4.9% earlier. For FY26, the Union Budget projects a fiscal deficit ratio of 4.4%, the lowest in the post-COVID phase. At a headline level, the entire compression in fiscal deficit in FY26 is budgeted to be driven by curbing revenue expenditure by 40 bps.

	In Rs bn			As % of GDP		
	FY24	**FY25 RE**	**FY26 BE**	**FY24**	**FY25 RE**	**FY26 BE**
Revenue Receipts	27,290	30,880	34,204	9.2	9.5	9.6
Gross Tax Revenue	34,655	38,535	42,702	11.7	11.9	12.0
Net Tax Revenue	**23,273**	**25,570**	**28,374**	**7.9**	**7.9**	**7.9**
Non-Tax Revenue	**4,018**	**5,310**	**5,830**	**1.4**	**1.6**	**1.6**
Dividends & Profits	1,709	2,893	3,250	0.6	0.9	0.9
Non-Debt Capital Receipts	**598**	**590**	**760**	**0.2**	**0.2**	**0.2**
Disinvestments	331	330	470	0.1	0.1	0.1
Total Expenditure	44,434	47,165	50,653	15.0	14.6	14.2
Revenue Expenditure	**34,943**	**36,981**	**39,443**	**11.8**	**11.4**	**11.0**
Interest Payment	10,639	11,379	12,763	3.6	3.5	3.6
Subsidy	4,349	4,279	4,262	1.5	1.3	1.2
Capital Expenditure	**9,492**	**10,184**	**11,211**	**3.2**	**3.1**	**3.1**
Revenue Deficit	7,652	6,101	5,238	2.6	1.9	1.5
Fiscal Deficit	**16,546**	**15,695**	**15,689**	**5.6**	**4.8**	**4.4**
Primary Deficit	5,908	4,316	2,926	2.0	1.3	0.8

FY26 revenue deficit to be below pre-COVID level; borrowings to remain ranged

Revenue deficit is budgeted to moderate to an 18-year low of 1.5% of GDP in FY26. Primary deficit is gradually getting aligned with its pre-COVID level.



The Budget pegs FY26 gross and net market borrowings at Rs 14.8 tn and Rs 11.5 tn respectively. The increase in net g-sec borrowing in FY26 is inorganic in nature due to higher than budgeted buybacks (GoI conducted Rs 882 bn worth of buyback in FY25 against its budgeted target of Rs 302 bn). Seen as a ratio to GDP, FY26 net g-sec borrowing stands at 4-year low of 3.0%.

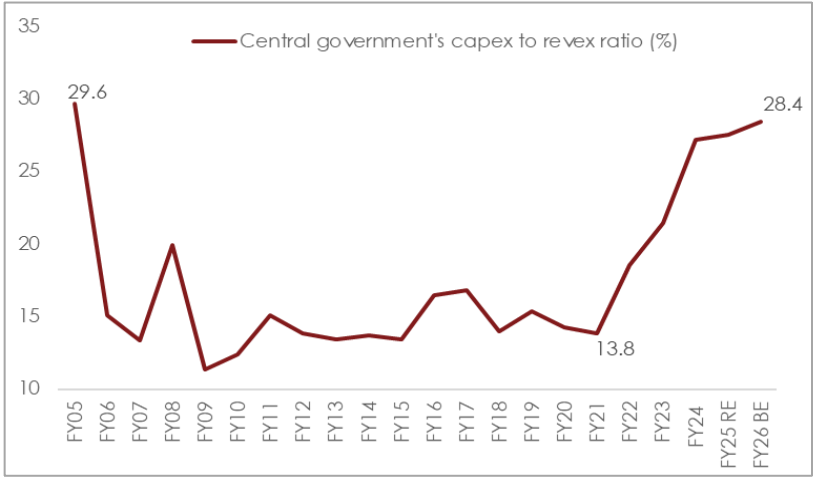
Key Sources of Financing Fiscal Deficit (Rs bn)			
	FY24	**FY25 RE**	**FY26 BE**
External Debt	551	320	235
Net Market Borrowing	12,261	9,851	11,538
G-Sec	**11,778**	**10,745**	**11,538**
T-Bill	483	-895	0
Small Savings	4,514	4,119	3,434
State Provident Funds	51	50	50
Others*	-838	-45	407
Cash Drawdown	8	1401	25
Total	16,546	15,695	15,689

* Includes Internal Debt and Public Account (other than SPF)

We expect the FY26 fiscal deficit target of 4.4% of GDP to be met.

Expenditure quality to get healthier in FY26; New operational target from FY27

Notwithstanding the pruning of overall expenditure, the spending mix is set to improve further in FY26, with the capex/revex ratio budgeted to increase to its highest level in 21-years.



The central government will switch to a debt targeting framework from FY27. As per the budget documents, the central government would endeavour to keep fiscal deficit in each year from FY27 such that the central government debt is on declining path towards the range of 49-51% of GDP by FY31 vis-à-vis 56.1% projected for FY26.

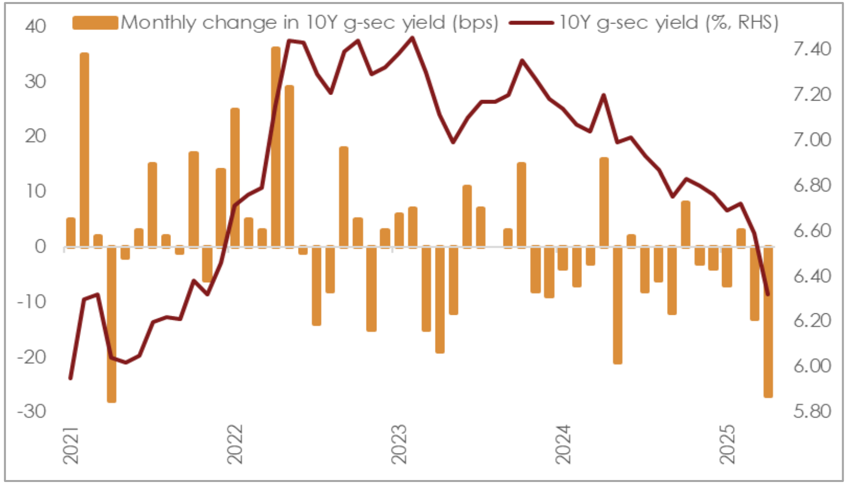
FY26 Union Budget's projection of central government's debt (% of GDP) by FY31

	Mild Case	Moderate Case	High Case
FY31 (Projected with 10.0% Nominal GDP growth)	52.0	50.6	49.3
FY31 (Projected with 10.5% Nominal GDP growth)	51.0	49.7	48.4
FY31 (Projected with 11.0% Nominal GDP growth)	50.1	48.8	47.5

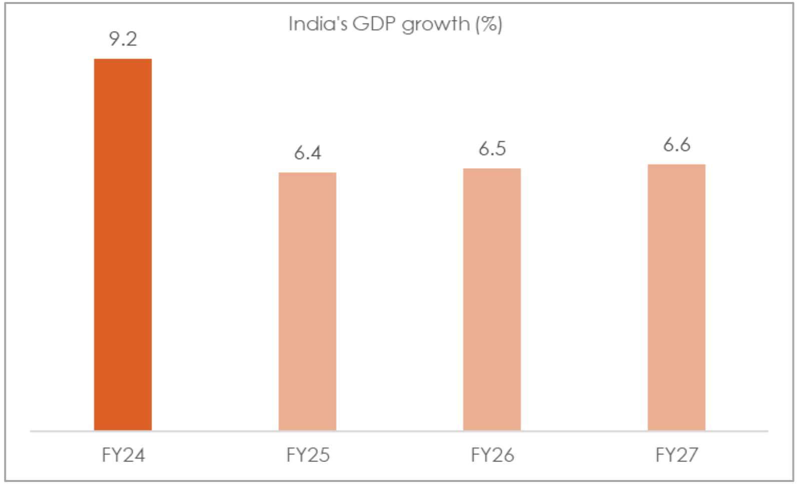
Note: Central government debt as per FY25 RE and FY26 BE is at 57.1% and 56.1% of GDP respectively.

Yields correct sharply…

The 10Y g-sec yield eased to a 41-month low of 6.37% in Apr-25. On monthly basis, the 10Y yield has fallen by 22 bps in Apr-25 so far, marking one of the sharpest correction in the post COVID phase.



While growth concerns are not alarming, there has been a sharp correction in activity momentum – after registering a robust expansion of 9.2% in FY24, market participants expect* GDP growth to remain in the 6.4-6.6% range between FY25 and FY27.

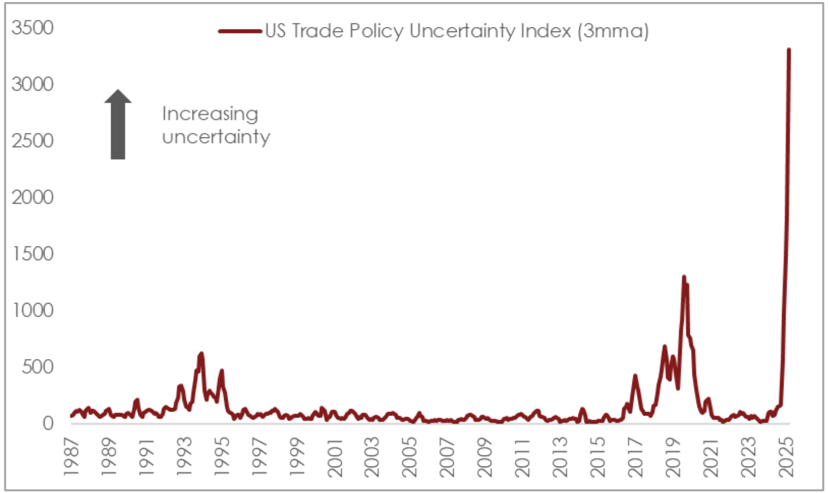


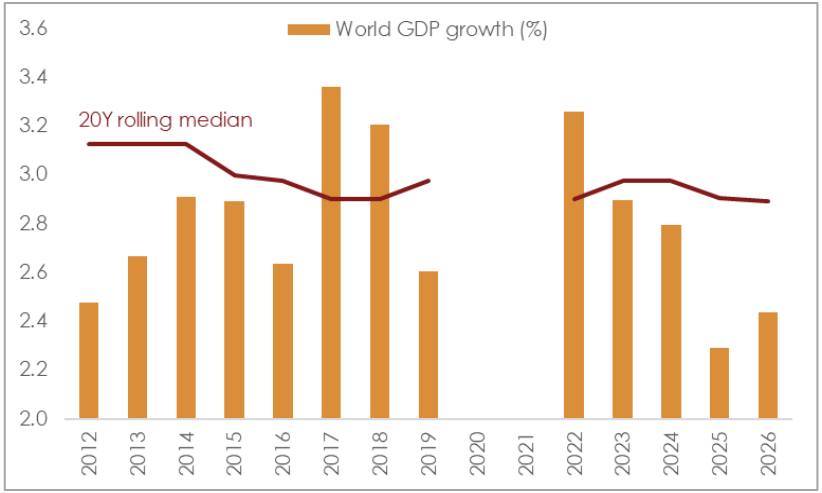
- Median values from RBI's Survey of Professional Forecasters (Apr-25). These estimates are likely to carry a downside risk as the survey was concluded before the imposition of tariffs by the US.

...on rising concerns on growth

Heightened uncertainty on account of US tariffs is likely to weigh upon global trade. The WTO expects the volume of world merchandise trade to contract by 0.2% in 2025 compared to 2.9% expansion in 2024.

As such, the IMF now projects global growth to decelerate to 2.8% in 2025 from 3.3% in 2024, with risks tilted to the downside. Notably, World GDP growth* has undershot its long term trend of ~3% in 2023 and 2024 – this underperformance is now projected to widen significantly in 2025 and 2026.



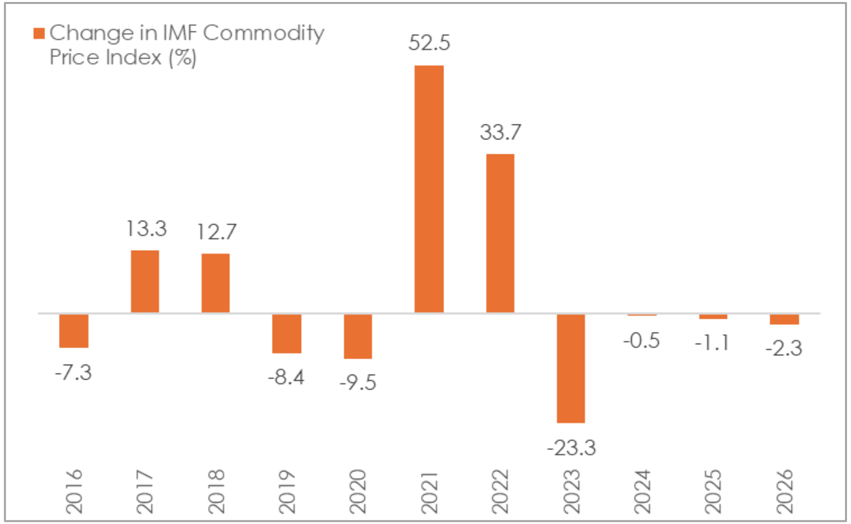


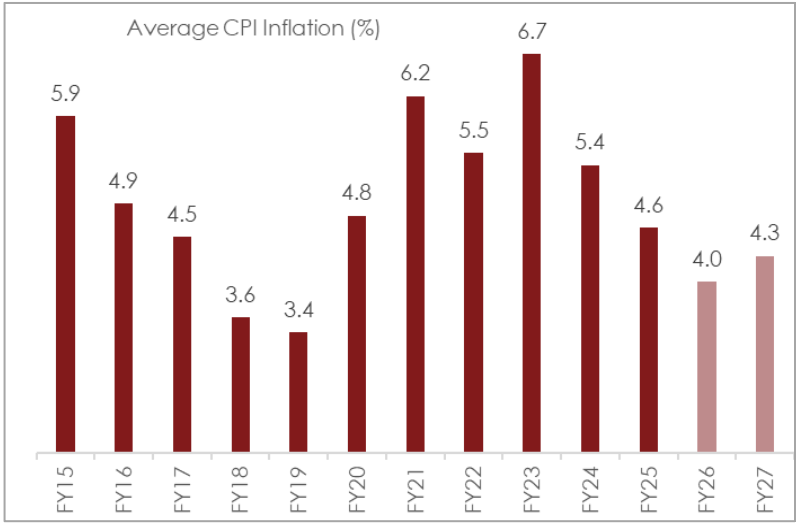
* As per market exchange rates provided by the IMF.

Inflation could reap the collateral benefits

With global growth momentum likely to decelerate, commodity prices could carry a downside. The IMF projects 1.1-2.3% fall in the price of its generic commodity price basket in 2025 and 2026. Specifically, Brent crude has eased to an average of USD 69 pb in Apr-25 so far from an average of USD 76 pb in Jan-Mar 2025.

The RBI expects CPI inflation to align with the target – and projects it at 4.0% and 4.3% in FY25 and FY26. In addition to the support from global commodity prices, IMD's forecast of 5% surplus rainfall in the southwest monsoon season would play a key role.



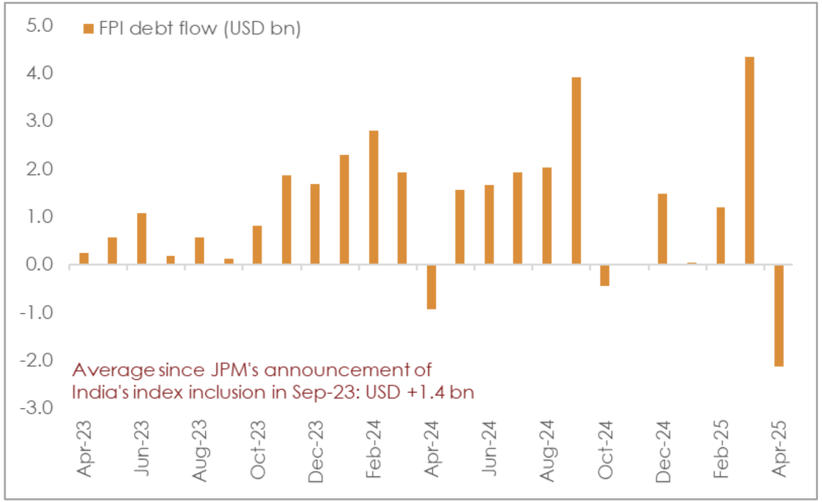


G-sec supply-demand situation continues to remain supportive

The RBI has also been conducting OMO purchases to infuse durable liquidity. Since Jan-25, the central bank has purchased Rs 4034 tn g-secs – this exceeds the cumulative net g-sec issuance of Rs 3920 bn over the corresponding period.

Notwithstanding the FPI debt outflow of USD 2.1 bn in Apr-25 so far, the FPIs have been active investors in India's g-secs since the announcement of the index inclusion in Sep-23. As global risk aversion moderates, FPI debt flow could regain its strength in the coming quarters.

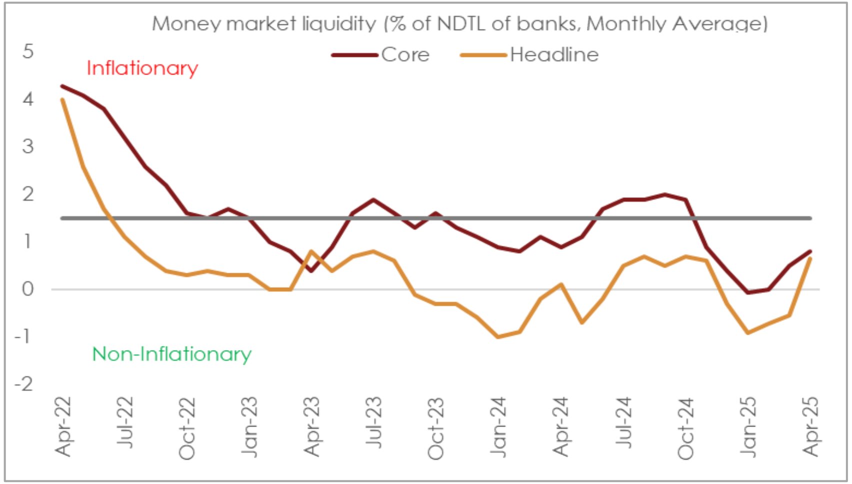
	Net g-sec issuance (Rs bn)	Net OMO purchase (Rs bn)	OMO purchase as % of issuance
Jan-25	1100	588	53.5
Feb-25	1250	800	64.0
Mar-25	320	1500	468.8
Apr-25	1250	1200	96.0

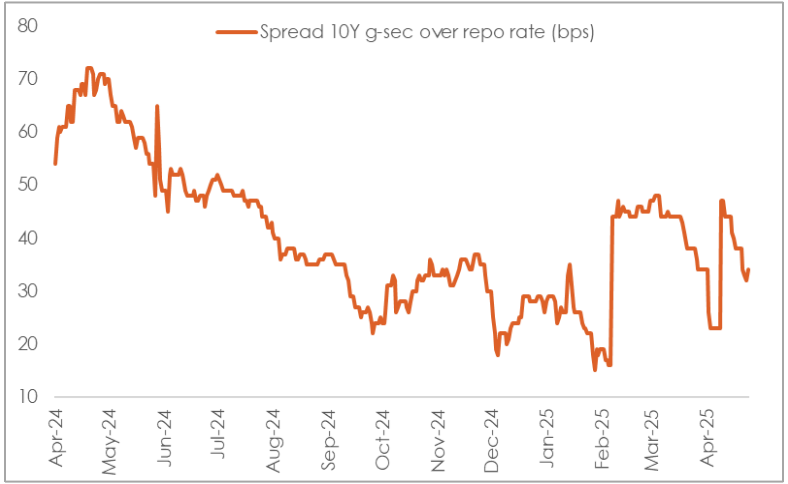


Rates outlook

The RBI has cumulatively infused Rs 7.12 tn of semi-durable/durable liquidity via CRR cut, OMO purchases, and buy-sell FX swap since Dec-24. This along with the expectation of record high dividend transfer (around Rs 2.5 tn) in May-25 will push core liquidity surplus towards Rs 4 tn by end Jun-25.

We expect the MPC to cut repo rate by 25 bps each in Jun-25 and Aug-25 policy reviews. This along with liquidity easing measures should help to curb the term premium.



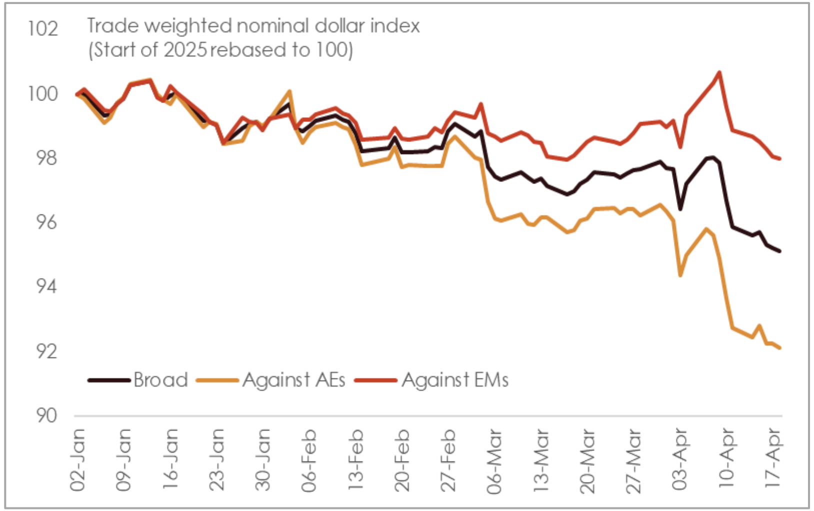


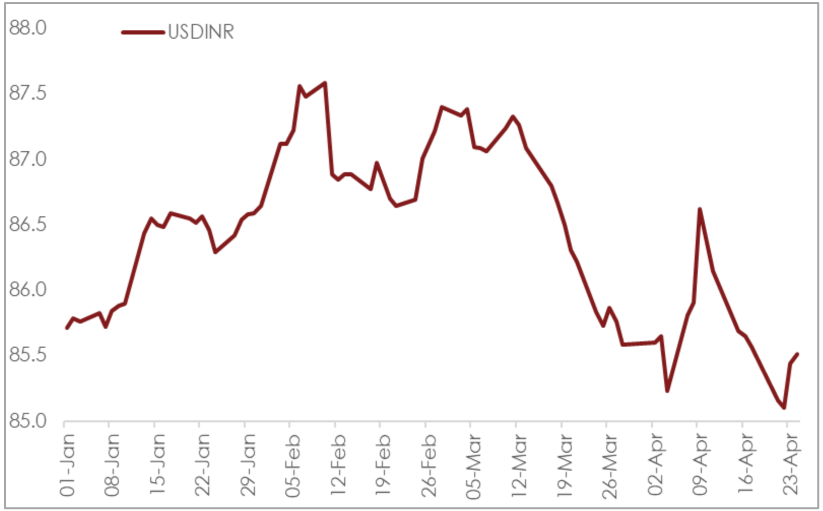
We expect 10Y g-sec yield to drift lower towards 6.20% before end Mar-26.

USD weakness helping INR

On a trade weighted basis, the dollar index has weakened by 4.8% in 2025 so far. The weakness is more pronounced against developed market currencies vis-à-vis emerging market currencies.

A gradual USD weakness until mid Feb did not have any impact on the INR. However, as the pressures on the USD picked up thereafter, INR started stabilizing, and in recent days has shown bouts of strength. Having said, INR remains one of the relative underperformers vis-à-vis major currency pairs on CYTD basis.

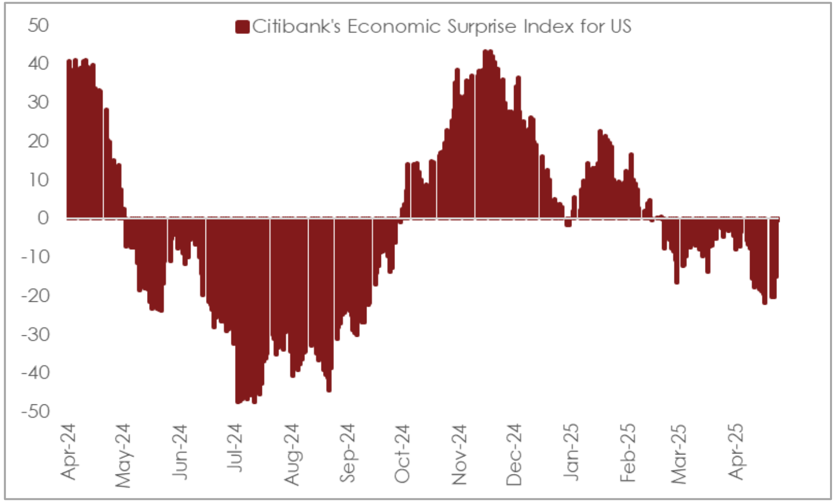


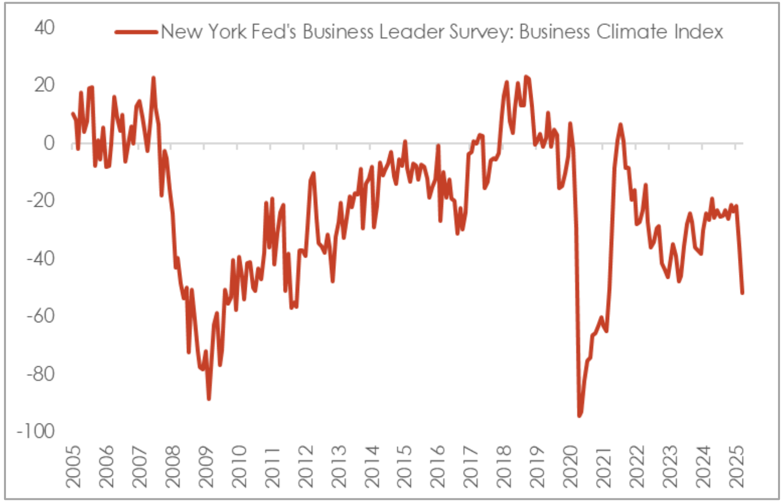


Headwinds for 'US exceptionalism'?

On an aggregate basis, downside surprises to US economic data have become prominent. The Citibank's Economic Surprise Index for the US has been in negative territory since mid Feb-25.

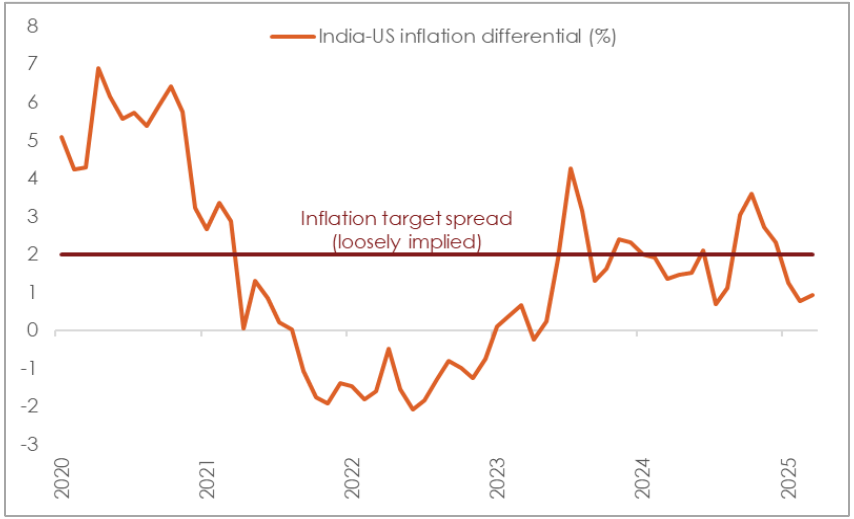
Most forward looking business sentiment indicators have tumbled sharply in last 3-4 months. Heightened uncertainty on trade, labour availability, and prices is dampening business risk appetite. If unaddressed, this could portend the beginning of a slowdown in the US.



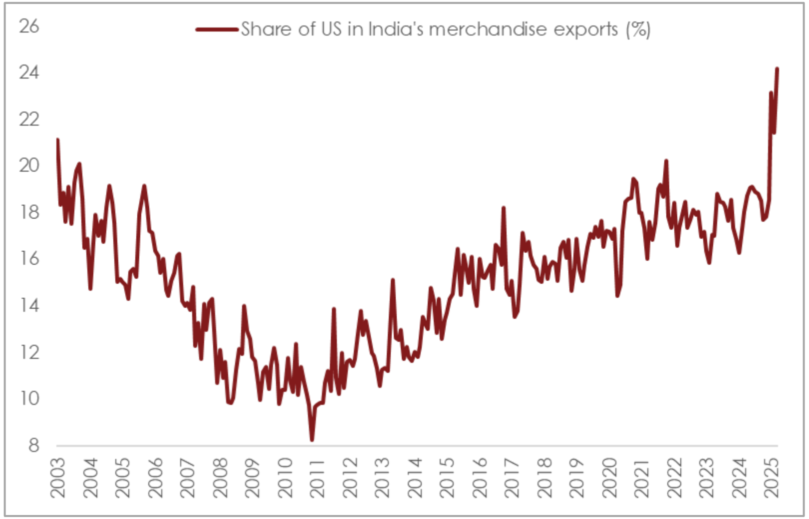


Meanwhile, INR enjoys strategic gains

Fast deceleration in India's inflation compared to US has turned the inflation spread in favor of India. CPI inflation spread between India and US has been under 2 percentage points over Jan-Mar 2025.



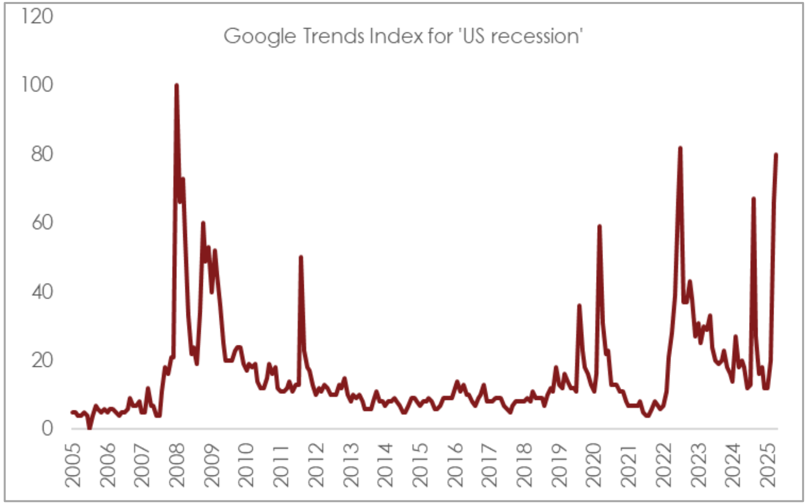
The anticipation of imposition of US tariffs, its eventual announcement, and the current temporary suspension window of 90-days, is resulting in front loading of shipments to the US. This could temporarily narrow India's merchandise trade deficit during Apr-Jun 2025, and thereby support INR.

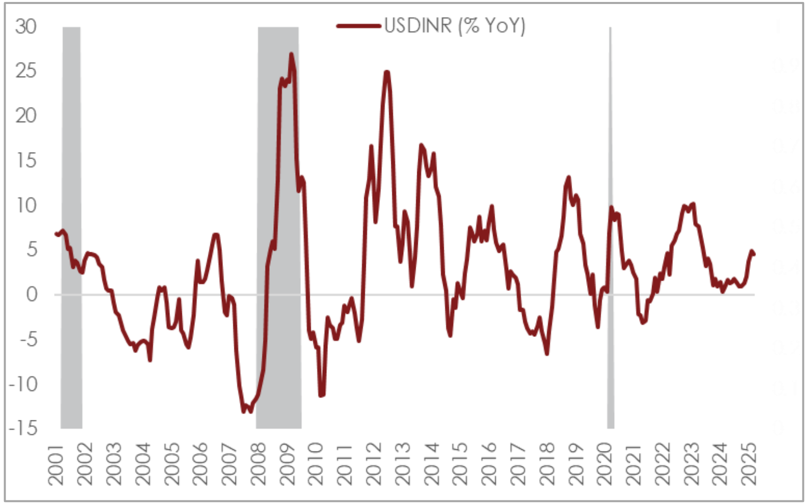


However, heightened global trade uncertainty could provide risk

The volatile communication around US tariffs and retaliation by China is stoking concerns over a potential sharp loss in US growth momentum.

Past episodes of US recession have coincided with INR depreciation pressures. Having said, it remains to be seen if the current unique position of loss in US economic credibility will cause a similar outcome in global FX market.





Foreign investment flows have been weak

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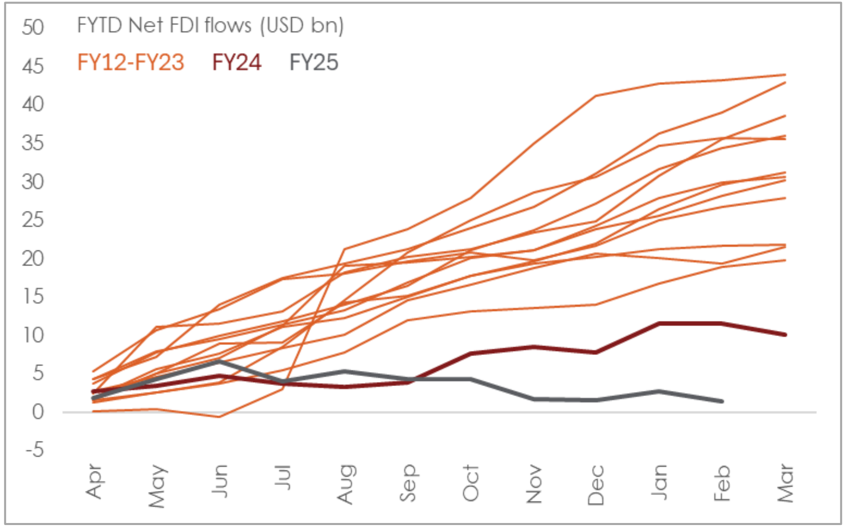
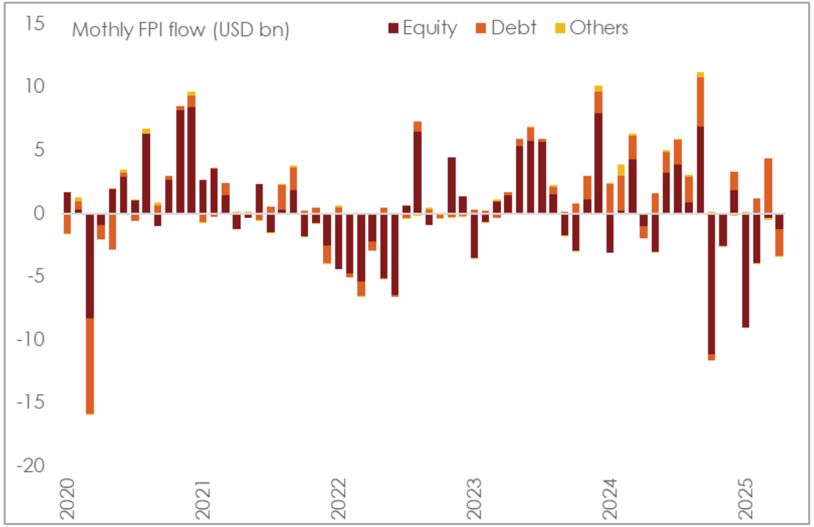
Weakness in net FDI flows has accentuated since FY24 on account of a pick-up in repatriation by MNCs/PE investors. In FY25, net FDI flows have plummeted to an anemic level of just USD 1.5 bn between Apr-Feb.

Meanwhile, FPI flows continue to remain weak as well as volatile on account of elevated geopolitical and geoeconomic uncertainties. After recording a subdued inflow of USD 2.7 bn in FY25, FPIs have sold USD 3.4 bn worth of domestic equities and bonds in Apr-25 so far.

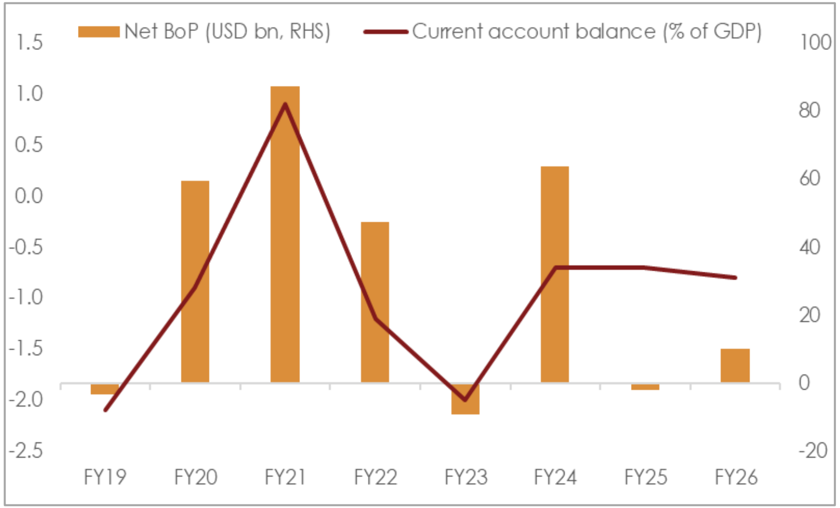


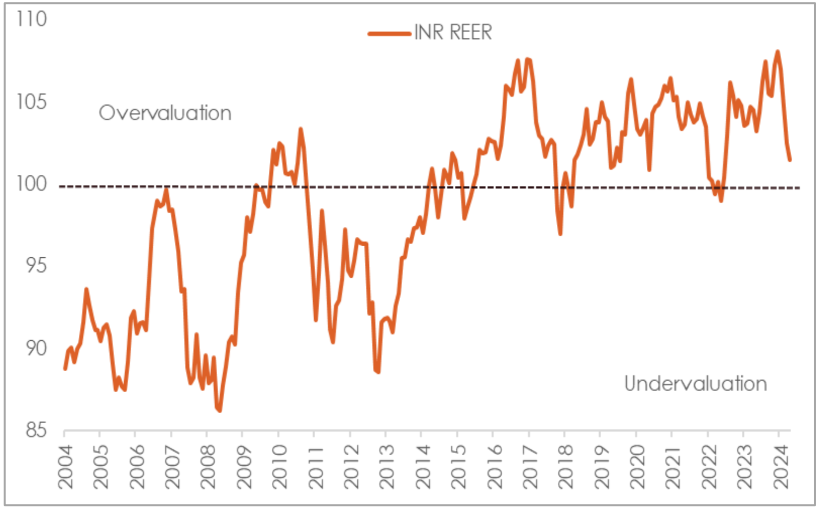


Rupee outlook

We expect FY25 current account deficit at 0.7% of GDP, accompanied by a BoP deficit of USD 2 bn. For FY26, we maintain our CAD forecast of 0.8% of GDP, accompanied by a BoP surplus of USD 10 bn.

Basis REER, we estimate INR to be ~3% overvalued (as of Mar-25) vis-à-vis its long period average. With this, INR overvaluation levels have dropped to a 22-month low and now no longer give an impression of being stretched. This will curb excessive incremental pressure for INR weakness.

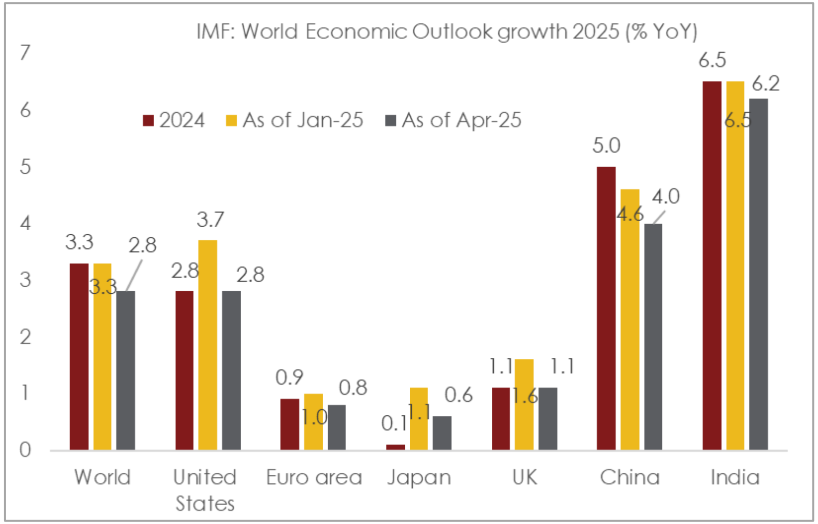




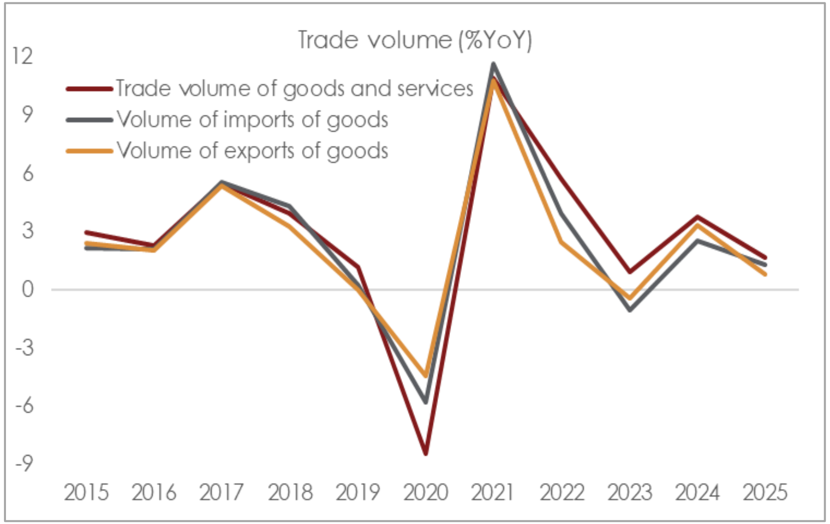
Considering the known-unknown geopolitical and geoeconomic risks, we maintain our USDINR call of 89.5 before end FY26.

IMF WEO: Tariff led global growth slowdown

Basis tariff announcements of 3rd Apr-25, IMF presented a revised global growth outlook in its latest World Economic Outlook (WEO) report. The agency now expects global growth to fall from an estimated 3.3% in 2024 to 2.8% in 2025 – a downward revision of 50 bps.



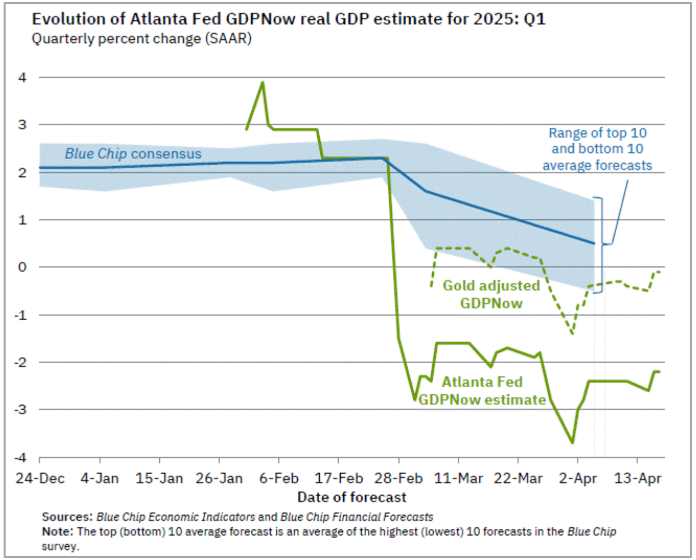
Global trade growth (volume) is expected to slow down in 2025 to 1.7%, a downward revision of 1.5% vs. Jan-25 forecast and an expansion of 3.8% in 2024. This reflects increased tariff restrictions affecting trade flows and, to a lesser extent, the waning effects of cyclical factors that have underpinned the recent rise in goods trade.

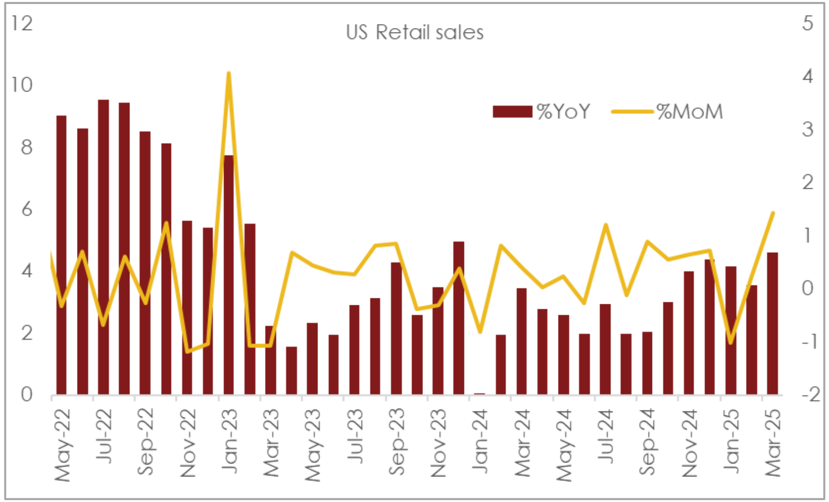


US economy: Slowdown underway

The GDPNow model estimate for US real GDP growth (seasonally adjusted annual rate) in the first quarter of 2025 stands at -2.2% (as on 17th Apr-25), underscoring the weakness in economic activity

Having said, retail sales rose a solid 1.4%MoM in Mar-25, in a broad-based increase across most segments. Granular details indicated auto sales and building material store sales both surging, possibly suggesting that consumers front-loaded spending ahead of tariffs.

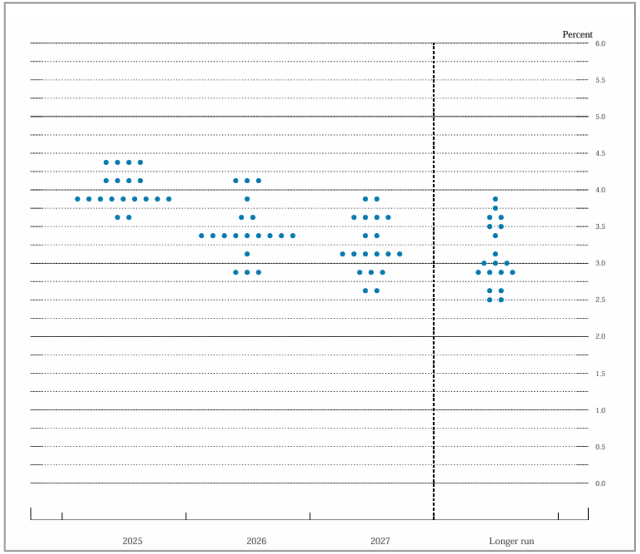


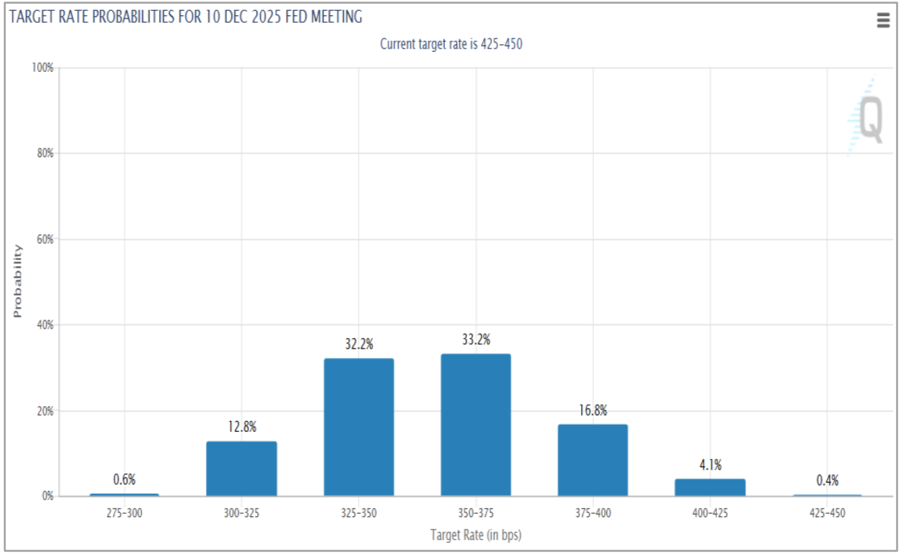


Fed rate cuts: 50 bps or more?

In a recent speech, Fed Chair Powell acknowledged that tariffs would likely lead to a one-time increase in the price level, slow economic growth and create tension between the Fed's dual mandate of promoting stable prices and maximum employment. He emphasized that the FOMC would be focused on keeping long-term inflation expectations anchored. However, there is a growing dichotomy between market and Fed's rate cut expectations. The former is pricing in 75-100 bps of additional easing here on vs. Fed's Mar-25 dot plot of 50 bps.

FOMC Dot plot





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