MACRO PULSE
REPORT

January 2025

From the desk of the Chief Economist

Dear Readers

As we release the first edition of Macro Pulse for CY2025, we have two big events coming up in a few days – the Union Budget 2025-26 and the RBI MPC meeting of Feb'2025.

The expectations from the businesses and the communities run high on either tax cuts or higher budgetary allocations before the Union Budget. The first advance estimates for India's GDP growth at 6.4% for FY25 point to a moderation in economic momentum after the strong post Covid revival when the economy grew by 8.3% (FY 21-24) on an average. With Q2FY25 growth reported at 5.4%, the signs of a slowdown have been distinct. While the latter can be partly attributed to the election factor and the weather-related disruptions, a weakness in urban demand and the lack of a pickup in private sector investments have played a major role. A good monsoon has led to stronger agricultural growth and improved rural demand in the current year; however, stagnant inflation-adjusted urban incomes along with a slower pace of retail lending may have limited the rise in private consumption.

There is, therefore, a fairly strong case for a consumption stimulus that will lead to broad-based consumption demand in the economy. This apart, the other budgetary priorities of the government are expected to be the following: (ii) Step up in private sector investments particularly in manufacturing which can generate employment (iii) Steady pace of sustainable infrastructure development (iv) longer term measures or reforms to improve the output and efficiency of the agricultural sector, amidst persistently high food inflation in India (v) last but not the least, the government is likely to reiterate its commitment to fiscal discipline while balancing growth; it may target even lesser than 4.5% of GDP for FY26 with greater focus on asset monetization, improved tax compliance and tax reforms to widen coverage.

On the other hand, there is a strong clamour for a cut in interest rates by RBI MPC in the forthcoming meeting amidst the growth slowdown and the tight liquidity scenario. We continue to put a low likelihood of a rate cut by RBI although it will continue to take steps to ease the liquidity scenario which may also include a further 50 bps cut in CRR. The volatile external scenario and the headline inflation still above 5% may make RBI wait a little longer for the much-awaited pivot! Surely, interesting time ahead! Cheers,

- Suman Chowdhury, Chief Economist and Executive Director

GDP first advance estimates: Attesting the moderation

As per First Advance Estimates, India's real GDP growth for FY25 is projected at 6.4%, down sharply from 8.2% in FY24. The estimated deceleration is primarily on account of investments, capturing the moderation in government capex. The lack of broad-based recovery in private capex may likely have also contributed to this.

On the other hand, there is a notable improvement expected in private consumption growth, which is slated to recover to a 3-year high of 7.3%. On the external front, exports are estimated to clock a moderately higher expansion. We believe signs of recovery in rural demand are buoying estimates of consumption while a healthy growth in services exports is boosting overall export estimates.

	FY23	FY24	FY25	H1 FY25	H2 FY25
GDP	7.0	8.2	6.4	6.0	6.7
Private Final Consumption Expenditure	6.8	4.0	7.3	6.7	7.8
Government Final Consumption Expenditure	9.0	2.5	4.1	2.0	6.1
Investments	6.6	9.0	6.4	6.4	6.4
Exports	13.4	2.6	5.9	5.6	6.2
Less Imports	10.6	10.9	-1.3	0.7	-3.5

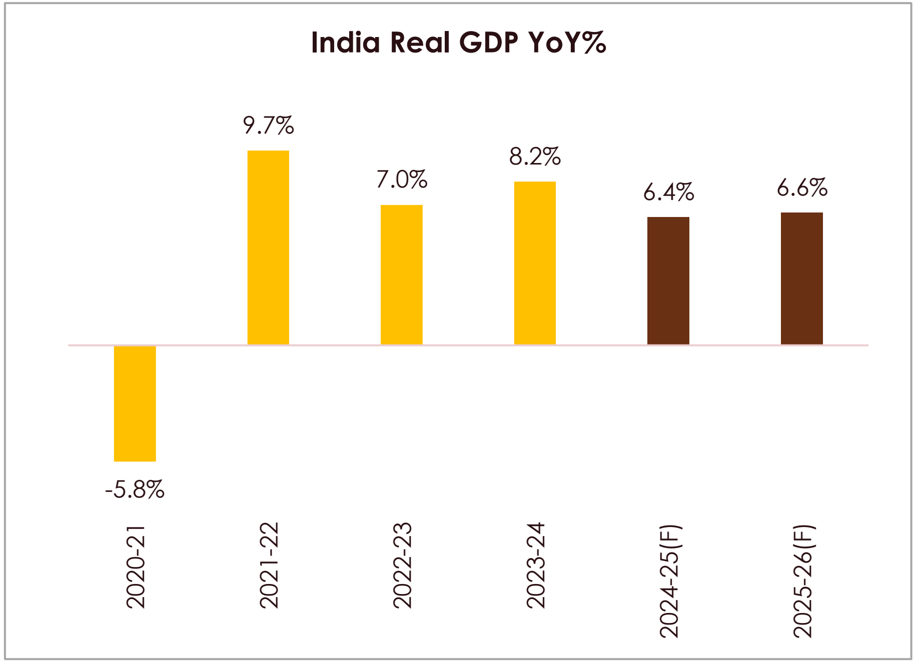
	FY23	FY24	FY25	H1 FY25	H2 FY25
GVA	6.7	7.2	6.4	6.2	6.6
Agri and allied	4.7	1.4	3.8	2.7	4.5
Industry	2.1	9.5	6.2	6.0	6.5
Manufacturing	-2.2	9.9	5.3	4.5	6.1
Construction	9.4	9.9	8.6	9.1	8.1
Services	10.0	7.6	7.2	7.1	7.3
Trade, Hotels, Transport, Communication	12.0	6.4	5.8	5.9	5.8
Financial, Real Estate & Professional Services	9.1	8.4	7.3	6.9	7.7
Public Administration, Defence	8.9	7.8	9.1	9.3	8.9

Growth expectations now converge lower

Growth expectations for FY25 from various agencies, including RBI has converged lower, broadly at around ~6.5% now.

We continue to expect a moderate growth outlook for India for the upcoming years, with FY25 to match the first advance estimate and FY26 to inch up higher to 6.6%.

India GDP growth revisions: For FY25			
Agency	Timeline	Revision	Latest forecast
ADB	Dec-24	-50 bps	6.5
OECD	Dec-24	+10 bps	6.8
IMF	Jan-25	No change	6.5
World Bank	Jan-25	-10 bps	6.5
RBI	Dec-25	-60 bps	6.6



Q3 FY25 lead indicators: Present a mixed bag

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Against a growth of 6.0% in H1 FY25 – weighed down by the timing of national elections, intense heatwaves as well as excessive rainfall in some parts of the country, H2 FY25 GDP growth is expected to fare better at ~6.7%

The timing of the festive season, coinciding with Q3 FY25, is likely to have offered support. Having said that, looking at the growth momentum of some of the key lead indicators – it appears that the quarter gone by was likely to have been a mixed bag. While some indicators, such as E-way bills, PV and tractor sales, cement production, etc., did see an improvement, there was also a deterioration in other indicators, such as two-wheeler sales, steel consumption and PMIs.

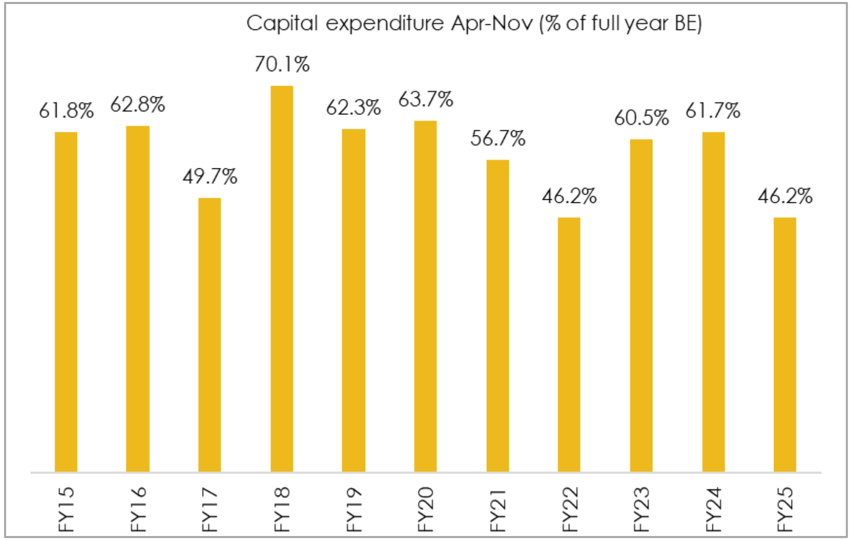
High frequency indicators	Quarterly				
	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Passenger vehicle sales (%YoY)	25.5	28.3	2.8	-1.9	5.0
Credit card spends (%YoY)	31.6	29.3	24.2	23.6	17.5
Two wheeler sales (%YoY)	22.5	25.4	20.7	12.5	1.4
Tractor sales (domestic, %YoY)	-5.9	-23.0	0.2	-0.2	11.7
Port cargo traffic (%YoY)	10.5	3.1	3.9	6.2	-1.7
Air Cargo traffic (%YoY)	10.2	18.5	13.8	16.2	12.1
Domestic air passenger traffic (%YoY)	9.2	5.2	5.6	7.2	11.7
Intl Air Passenger traffic (%YoY)	18.5	17.1	15.9	10.3	10.5
GST E-way bills (cr)	9.4	9.9	10.0	10.6	11.0
Steel consumption (%YoY)	14.5	10.6	15.0	12.1	7.2
Cement production (%YoY)	5.3	7.5	0.5	3.2	8.1
Manufactruing PMI (index)	55.5	57.5	58.2	57.4	56.8
Services PMI (index)	58.1	61.2	60.5	59.6	58.7
Core industries (%YoY)	8.6	5.8	6.3	2.4	4.0
IIP (%YoY)	6.2	5.1	5.4	2.3	4.5

H2 FY25: To see growth fare better

Strength in agri sector is likely to remain intact, on the back of a bumper Kharif harvest and healthy rabi sowing. This is likely to cement rural consumption recovery further, well into FY26.

A back-loaded pick up in capex spending, is likely to offer support to growth in Q4 FY25. Having said that, the pace of capex spending on an FYTD (Apr-Nov) basis at 46.2% of BE has been lacklustre.

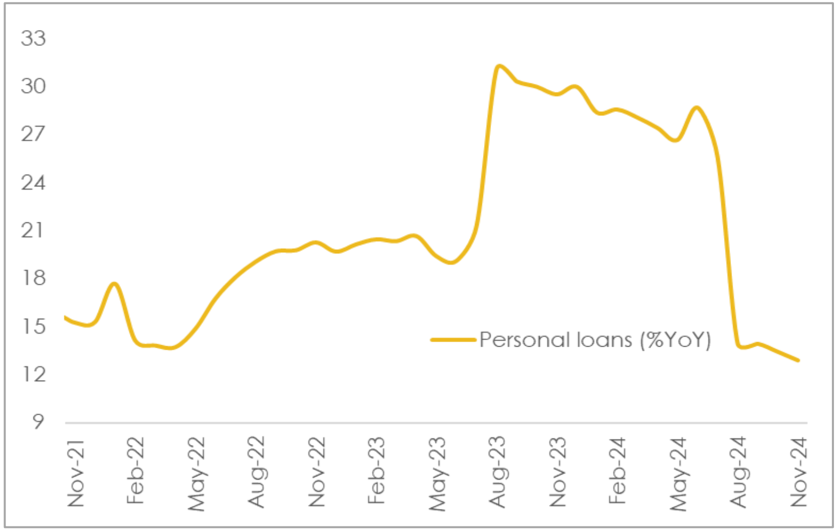
First advance estimate for Kharif (in Mn tons)			
Crop	**2023-24**	**2024-25**	**Increase**
Rice	113.26	119.93	5.9
Maize	22.24	24.54	10.3
Pulses	6.97	6.95	-0.3
Coarse cereals	35.5	37.8	6.5
Total oilseeds	24.16	25.74	6.5
Sugarcane	453.16	439.3	-3.1
Cotton	32.52	29.92	-8.0

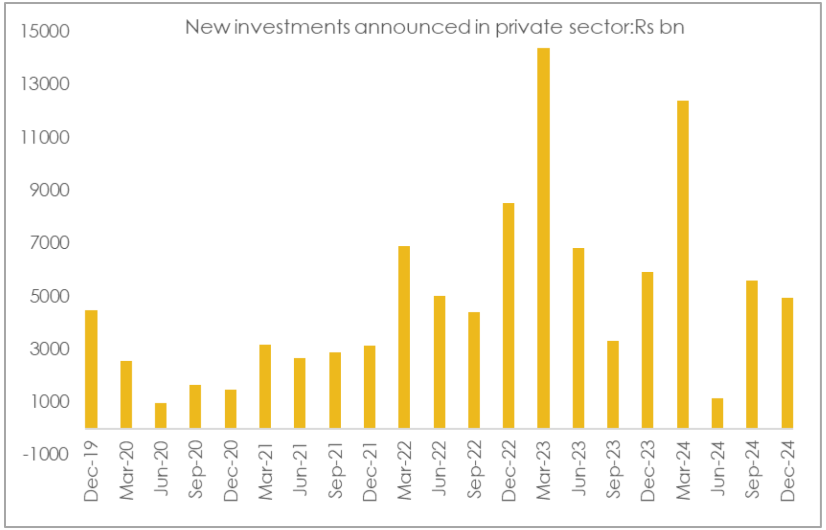


Urban consumption and private capex to weigh on growth

Growth in personal loan growth has decelerated sharply in the last 6 months, amidst the lagged impact of monetary as well as regulatory tightening from the central bank. Urban consumption, which was being driven by leverage, has shown signs of weakening, as urban jobs and income growth continue to remain subdued accompanied by elevated consumer inflation.

Amidst domestic growth concerns and heightened global uncertainty, the private capex recovery timeline looks in jeopardy; likely to get pushed further by at least 2-3 quarters possibly to H2 FY26





Outlook: We maintain our FY25 GDP growth forecast at 6.4%

The downward surprise in Q2 FY25 GDP data, had prompted us to revise our FY25 GDP growth forecast lower to 6.4% (vs. RBI's estimate at 6.6%). We continue to hold on to our view, with risks to our growth being evenly balanced.

1) An adverse base

2) Moderation in urban consumption to continue

3) The government's fiscal impulse remains lower

4) The global economic environment remains vulnerable and fraught with geopolitical tensions and Trump 2.0 on anvil

5) Swing in input price inflation from negative to positive to weigh on manufacturing value-added

1) Above-normal monsoon led to bumper Kharif output

2) Outlook for Rabi positive

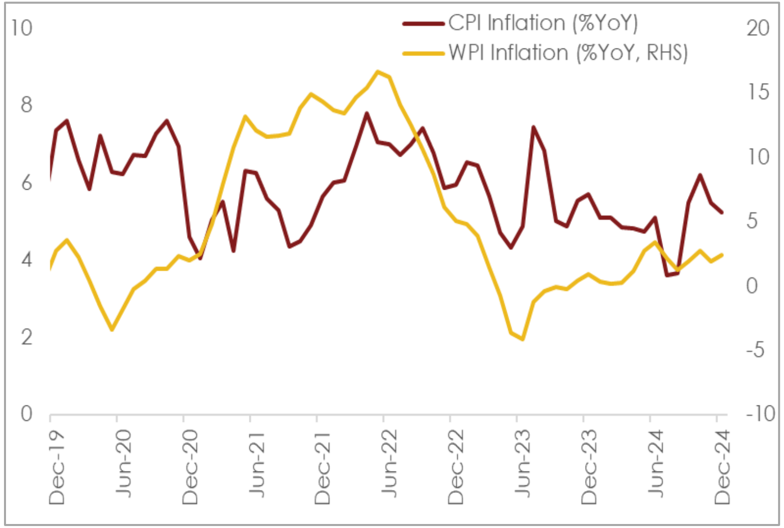
3) Rural demand, witnessing a gradual recovery, should strengthen further

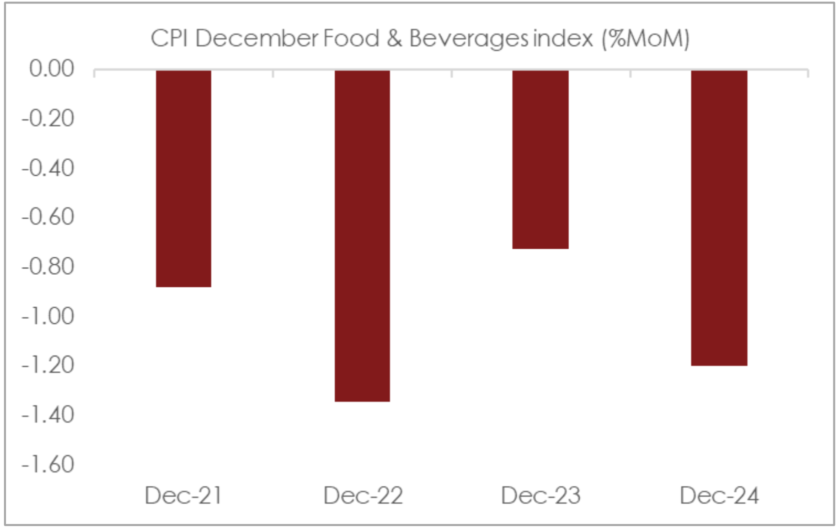
4) Government capex to offer backloaded support to growth

CPI inflation decelerates further in Dec-24, albeit remains above 5.0%

India's CPI inflation moderated to 5.22% YoY in Dec-24 from 5.48% in Nov-24. The deceleration in the headline inflation print was broadly in line with market consensus expectation of approximately 5.3%.

Annualized food inflation moderated to a 2-month low of 7.7% in Dec-24, on account of sequential easing of price pressures in the month (sequential contraction in index was marginally higher than past 3 year trend, on avg.)

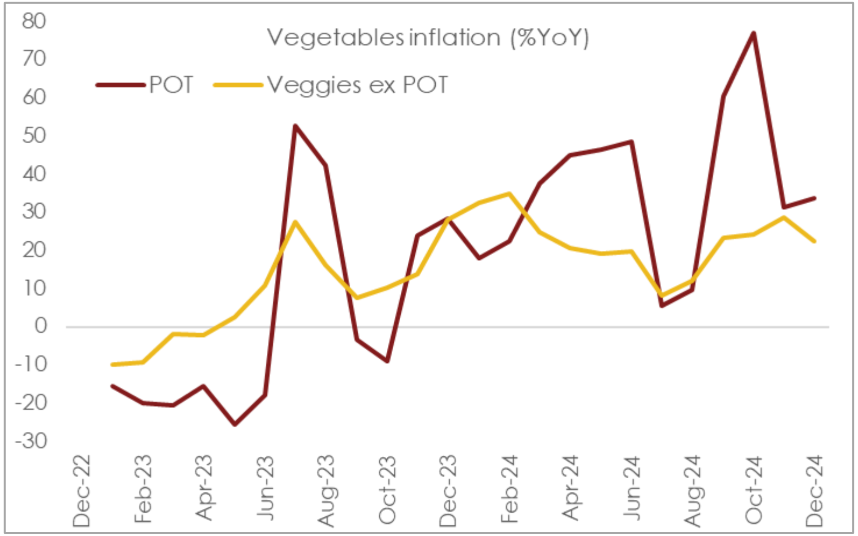


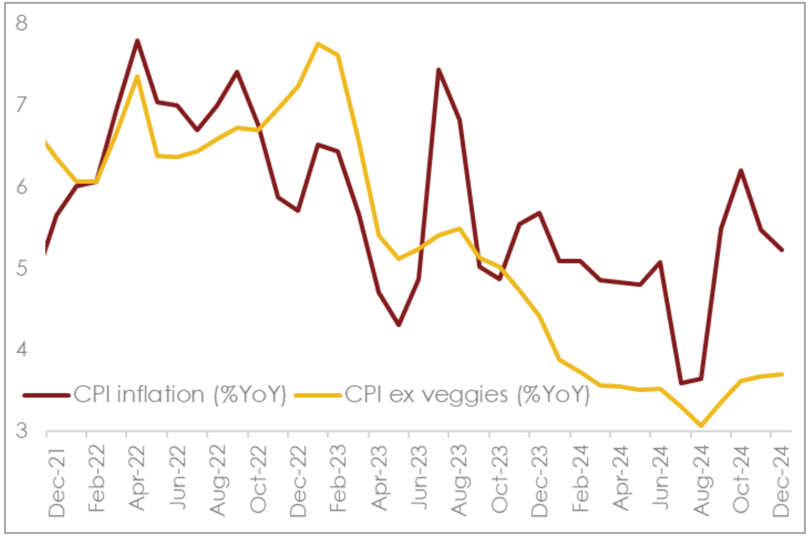


Veggies remain a pain point

The vegetables index did undergo a sequential correction in Dec-24, albeit lower than the seasonal trend typically seen at the beginning of the winter season. As such, POT* inflation actually rose, while veggies ex POT inflation moderated marginally.

CPI ex. Veggies inflation has remained largely well-behaved over the last 1 year, clocking at 3.7%YoY as of Dec-24. High volatility/spike in vegetable prices has been a key factor that has lent a persistent upside to headline CPI inflation.





POT = Potatoes, Onion, Tomato,

Jan-25 could see strong downdraft in food prices

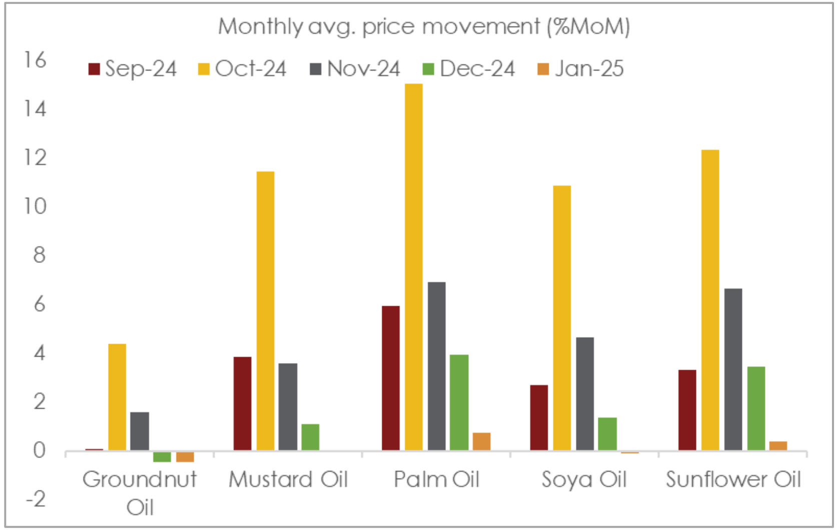
Vegetable prices have corrected at a much sharper pace in Jan-25, so far (up to 18th Jan-25). This is likely to translate into a meaningful deceleration in headline inflation.

Price momentum for edible oils has also been easing after the Sep-24 revision in customs duty led to a spike seen in the months of Sep-Oct-24. High frequency data for Jan-25, indicates that price adjustment appears to be near complete.

High frequency prices (%MoM)

Vegetables (%MoM)	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25*
Bitter Gourd	1.2	-12.6	0.7	-7.2	-4.6	-2.1	21.3
Brinjal	15.3	-3.5	-9.6	23.7	-18.5	-10.9	-24.3
Cabbage	28.0	-12.3	-3.9	4.3	0.6	-10.8	-40.0
Cauliflower	9.3	-12.9	16.3	1.0	-14.5	-32.5	-36.9
Chilly	22.8	-15.8	0.2	18.0	-24.1	-10.3	4.0
Garlic	1.2	4.8	11.1	7.7	0.3	6.8	-4.8
Ginger	-3.8	-10.0	-4.0	-2.3	-23.1	-12.7	-11.9
Okra	10.2	-12.1	-8.6	-0.7	4.1	4.5	23.4
Onion	7.6	11.7	19.0	6.2	7.5	-13.6	-20.3
Peas	25.6	-39.6	89.9	14.4	-47.8	-45.8	-32.3
Potato	7.6	1.4	1.5	6.8	1.5	-5.8	-23.6
Tomato	61.8	-30.6	1.6	39.8	-27.9	-11.5	-38.4
All Vegetables	**13.8**	**-8.3**	**6.2**	**10.0**	**-9.0**	**-8.4**	**-14.8**

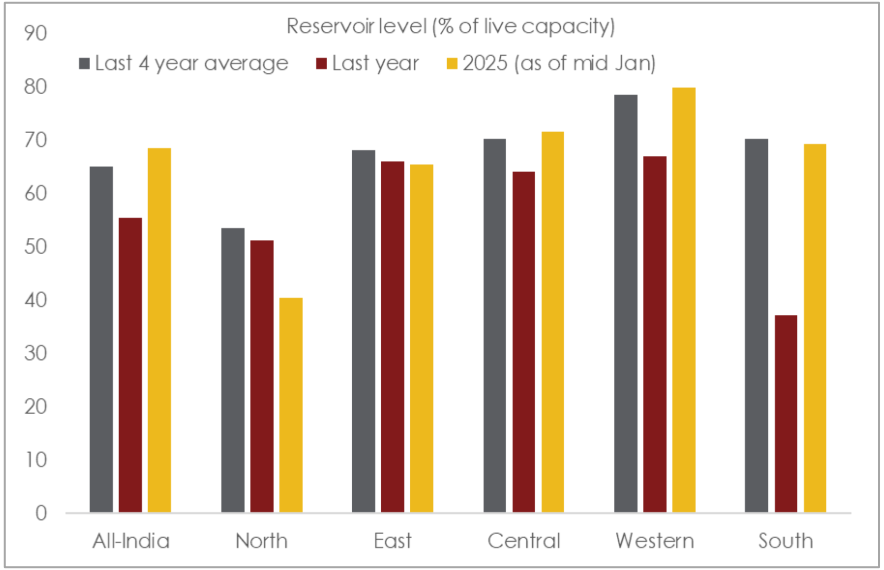
*up to 18th Jan-25



Prospects for Rabi season remain strong

While food price pressures have shown signs of dissipating since Nov-24 amidst a supportive winter seasonality kicking in, healthy reservoir levels and expectation of a favourable Rabi output later on in the year should keep price pressures in check over the next 4-6 months. La Niña conditions are expected to persist through Feb-Apr-25 with a 59% probability, augurs well for Rabi prospects.

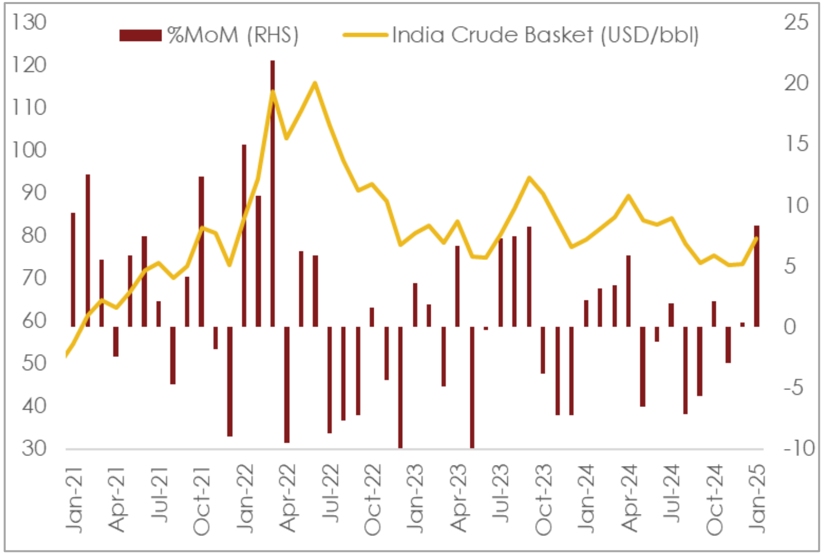
Crops	Area Sown (in lakh ha, as of 20th Jan-25)		%YoY
	FY24	FY25	
Wheat	**315.6**	**320.0**	1.4
Rice	**26.1**	**26.2**	0.2
Pulses	**139.3**	**141.7**	1.7
Gram	95.9	98.3	2.5
Lentil	17.8	17.4	-1.9
Fieldpea	9.0	8.9	-0.4
Coarse cereals	**54.6**	**54.5**	-0.3
Jowar	25.8	24.0	-7.0
Maize	21.3	22.9	7.4
Oilseeds	**101.8**	**97.6**	-4.1
Rapeseed & Mustard	93.7	89.3	-4.7
Total Crops	**637.5**	**640.0**	0.4

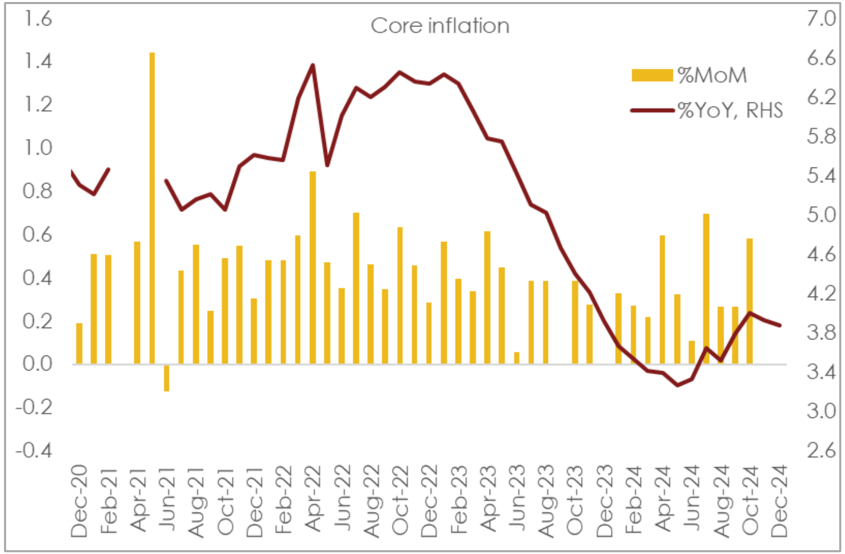


Upside risks manifest

Crude oil prices have once again come under pressure (Brent is trading above USD 80 pb) due to the imposition of renewed sanctions on Russian oil exports by the US. If prices were to remain elevated, it could derail the ongoing disinflationary impulse.

In addition, the sharp pace of recent rupee depreciation also poses further upside risk to inflation*. This risk needs to be assessed in conjunction with the expected disruption to global trade under the likelihood of President Trump pressing tariffs on most of the countries in 2025.

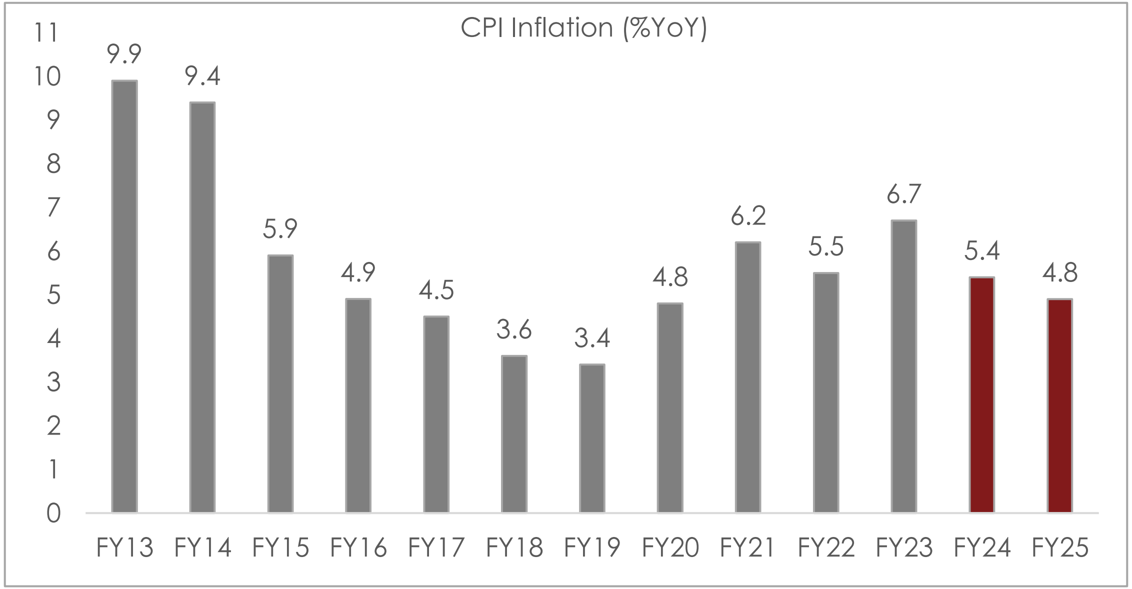




*As per the RBI, a 5% weakness in the rupee adds about 35 bps of upside to headline inflation.

We hold our FY25 CPI inflation forecast to 4.9%, risks remain to upside

Overall, we now foresee a minor upside risk to our FY25 CPI inflation estimate of 4.9%, mainly emitted from vegetable prices and the decline of the rupee.



Snapshot of Apr-Nov FY25 fiscal performance

The cumulative fiscal deficit for the period Apr-Nov FY25 stood at 52.5% of the budget estimate, lower than 54.8% of actuals in the corresponding period in FY24. This is predominantly on account of the relatively lower pace of expenditure disbursal (esp. capital), notwithstanding the lower pace of revenue accretion.

Key Fiscal Variables (Cumulative position, as of November)				
	% of FY Actual/Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	63.0	59.8	20.9	8.7
Net Tax	61.7	55.9	17.2	0.5
Non-Tax	70.8	78.3	43.4	50.2
Non-Debt Capital Receipts	42.1	30.7	-38.6	-5.9
Total Receipts	**62.6**	**59.1**	**19.2**	**8.5**
Revenue Expenditure	59.1	60.1	3.6	7.8
of which, Interest Payments	*57.1*	*56.6*	*11.5*	*8.3*
of which, Major Subsidies	*58.7*	*73.3*	*-19.4*	*15.0*
Capital Expenditure	61.7	46.2	31.0	-12.3
Total Expenditure	**59.7**	**56.9**	**8.6**	**3.3**
Fiscal Deficit	**54.8**	**52.5**	**-**	**-**

Despite some moderation, overall revenue collection remains on track

On an aggregate basis, gross tax collection is maintaining the budgeted run rate. However, there are internal variations. While the upside (vis-a-vis the budgeted growth) is being led by income tax and customs, corporate tax, excise, and GST collections are trailing their respective budget estimates.

Growth in key tax categories	Apr-Nov FY24 (% YoY)	Apr-Nov FY25 (% YoY)	FY25 BE (% change)
Gross Tax	**14.7**	**10.7**	**10.8**
Corporate Tax	20.1	-0.5	12.0
Income Tax	29.4	23.5	13.6
Customs	0.3	8.7	2.0
Excise	-7.9	-0.6	4.5
GST	10.3	9.8	11.0
Net Tax	**17.2**	**0.5**	**11.0**

Divestments made a beginning with a modest FYTD collection of Rs 90 bn from SUUTI remittances and stake dilution in GIC, Cochin Shipyard, and HZL. The likelihood of disinvestment undershooting the budgeted target remains high.

In contrast, strong momentum in non-tax revenue is seen beyond the outsized support from record-high RBI dividends. The collection of dividends and profits from PSEs is growing at its fastest pace in the post-COVID phase so far.

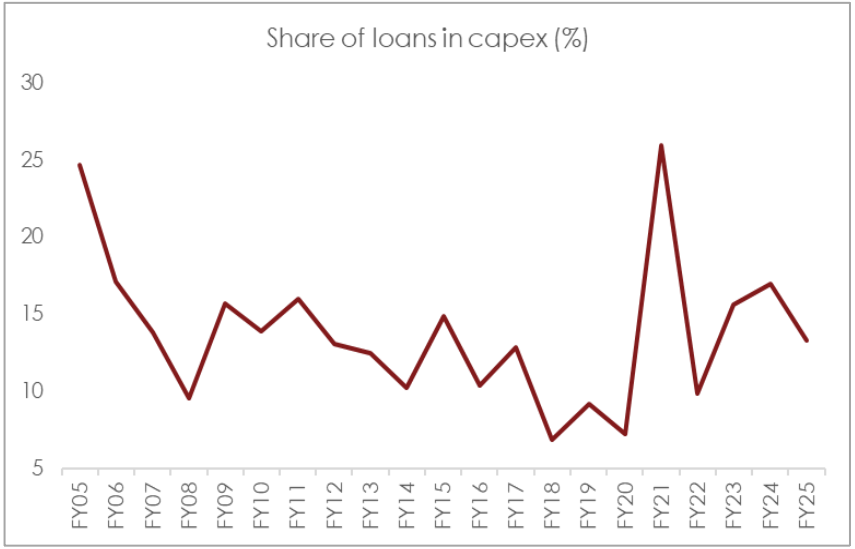
Dividends and Profits excluding RBI	Amount (Rs bn)
Apr-Nov FY21	135
Apr-Nov FY22	288
Apr-Nov FY23	380
Apr-Nov FY24	437
Apr-Nov FY25	682

Would capex disbursal fall short of its budgeted target?

Election and the government formation thereafter resulted in a slowdown in capex disbursal over Apr-Nov FY25. If the government follows the median statistical trend of capex disbursal over Dec-Mar, then this could result in Rs 500-600 bn undershooting of the budgeted capex target.

	Quantum (Rs bn)
FY25 capex target	11111
Out of which capital infusion in BSNL	829
FY25 capex target excl. BSNL capital infusion	10282
Capex disbursed so Apr-Nov)	5135
Remaining capex (excl. BSNL capital infusion)	5147
Proj. capex during Dec-Mar FY25 assuming avg. run rate	4565
Shortfall in FY25 capex (excl. BSNL capital infusion)	582

The composition of capex has tilted modestly towards incrementally higher long-term loans to states (tied to specific policy objectives).



Note: FY25 depicts the cumulative trend for Apr-Sep period

We expect FY25 fiscal deficit to be 4.8% of GDP.

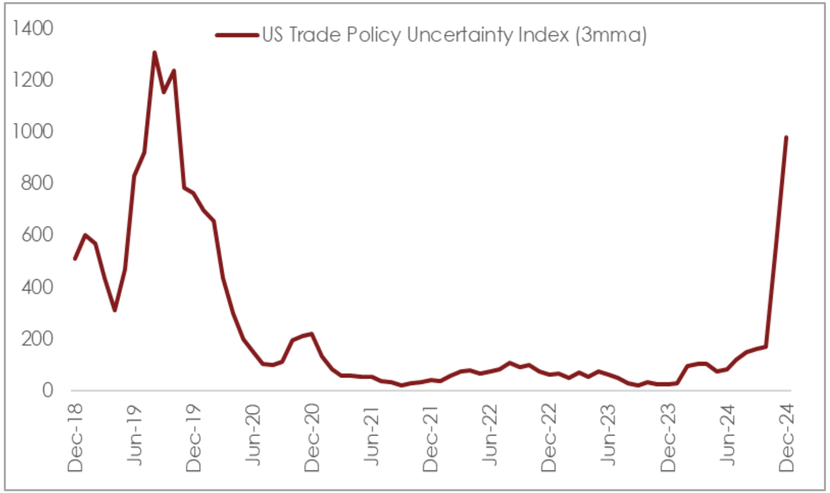
US fiscal and trade policy will shape the global sentiment in 2025

The IMF projected (in Oct-24) a mild improvement in the US fiscal profile over the course of the next 5 years. Despite the projection of consolidation, the average fiscal deficit was likely to be higher vis-à-vis the pre-COVID average. Under the Trump 2.0 regime, there is now a likelihood that the US fiscal deficit profile could potentially worsen than projected earlier.

Trajectory of fiscal deficit in the US (net borrowing as % of GDP)	
Pre COVID average (2015-19)	4.8
COVID years (2020-22)	9.6
Post COVID average (2023-24)	7.3
5Y forecast average (2025-29)	6.5

Note: Data for 2024 and beyond are estimates by the IMF

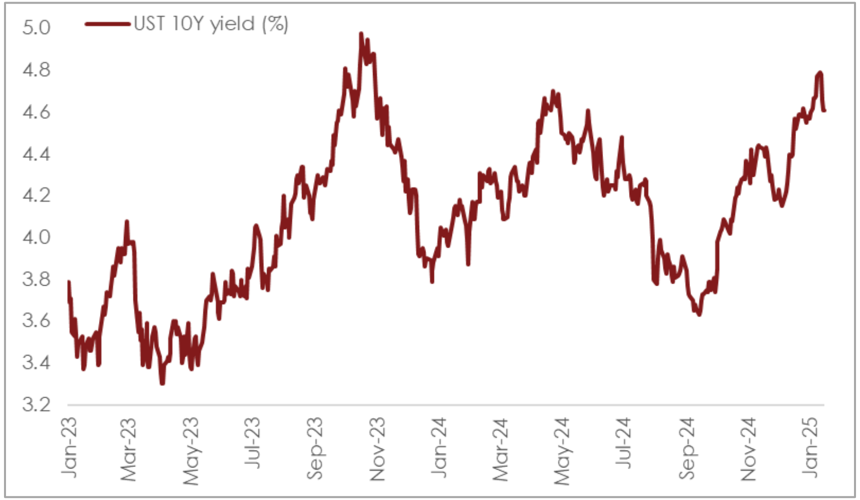
Elevated trade uncertainty does not augur well for global manufacturing, esp. if countries are compelled to get into an unproductive tariff war.

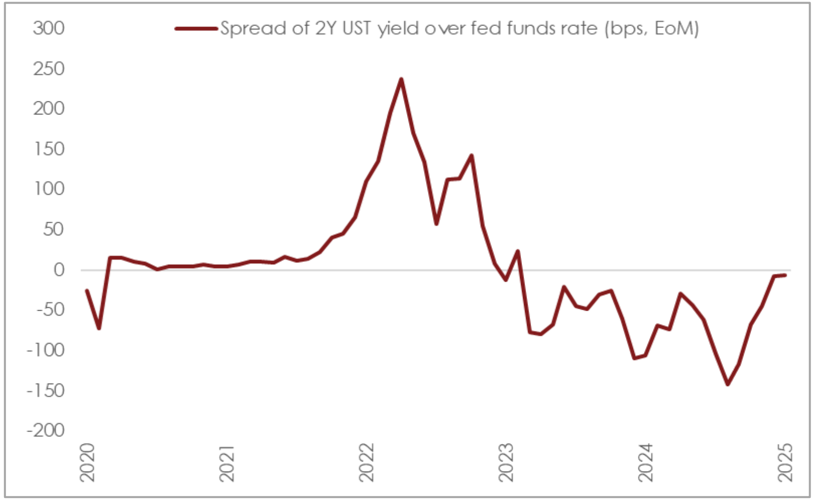


US rates aligning with the new political-economic reality

The UST market has staged a massive turnaround, with the 10Y yield climbing by 98 bps to 4.61% since its Sep-24 lows. A low of 3.63% seen in Sep-24 was led by market sentiment turning exceptionally dovish post the Sep-24 FOMC outcome.

The term premium for the 2Y bond (captured by the spread of the 2Y UST yield over the fed funds rate) is now close to zero, a sharp reversal from -142 bps seen in Aug-24. This reflects the likely combination of pressures on both US fiscal (expansionary) and monetary (non-expansionary) policies.

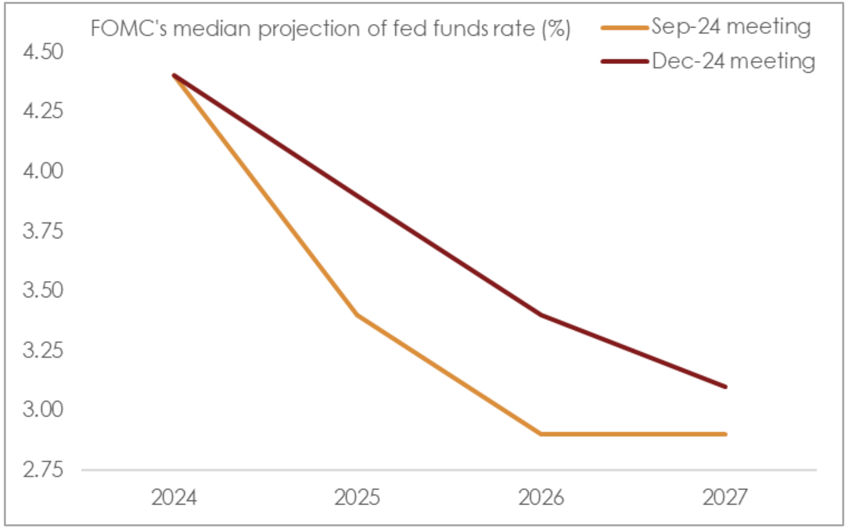


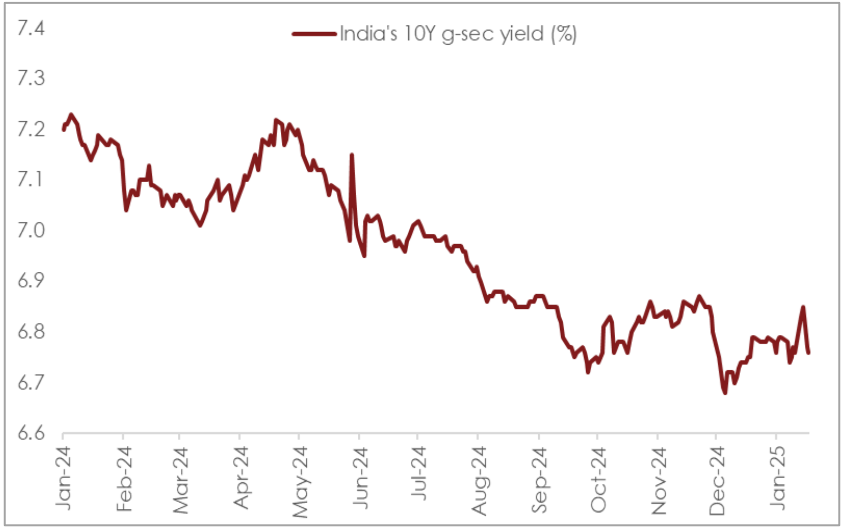


Implications for Fed's monetary policy and its impact on India

Although the US Fed delivered the anticipated 25 bps rate cut at the Dec-24 policy review, it raised the projection for the Fed funds rate for the end of 2025 and 2026 by 50 bps each, respectively. This implies just a 50 bps rate cut in the whole of 2025 compared to the Sep-24 projection of a 100 bps rate cut.

Fed's hawkish cut in Dec-24 has weighed upon global rates sentiment. This could potentially limit the space for monetary easing by EM central banks (including the RBI) in 2025. However, we believe this will have a minimal impact on the Indian g-sec market, which currently has a supply tailwind. The 10Y g-sec yield is currently trading at 6.76%, up 4 bps since Dec-24 FOMC policy outcome.

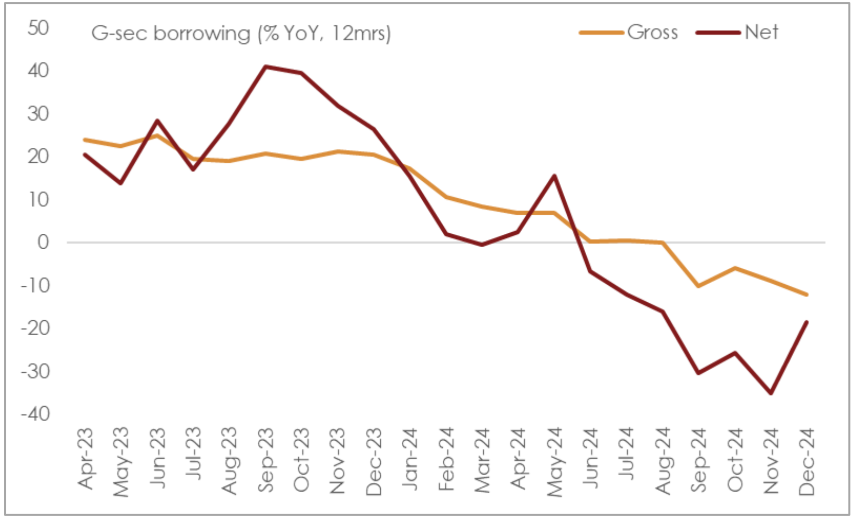


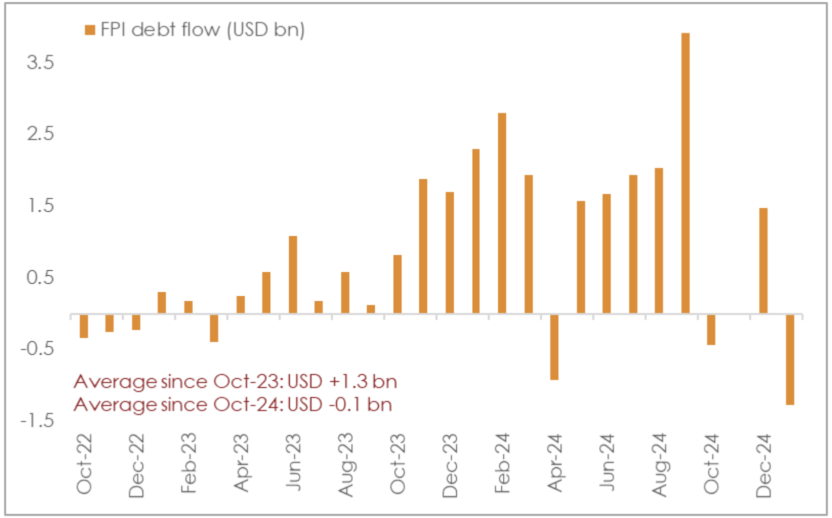


G-sec supply-demand situation continues to remain supportive

Benefit of fiscal consolidation is manifesting in the form of annualized contraction in g-sec supply. In addition, the central government has been conducting g-sec buybacks to infuse liquidity (as of date Rs 785 bn worth buybacks have been concluded for g-secs maturing in FY26).

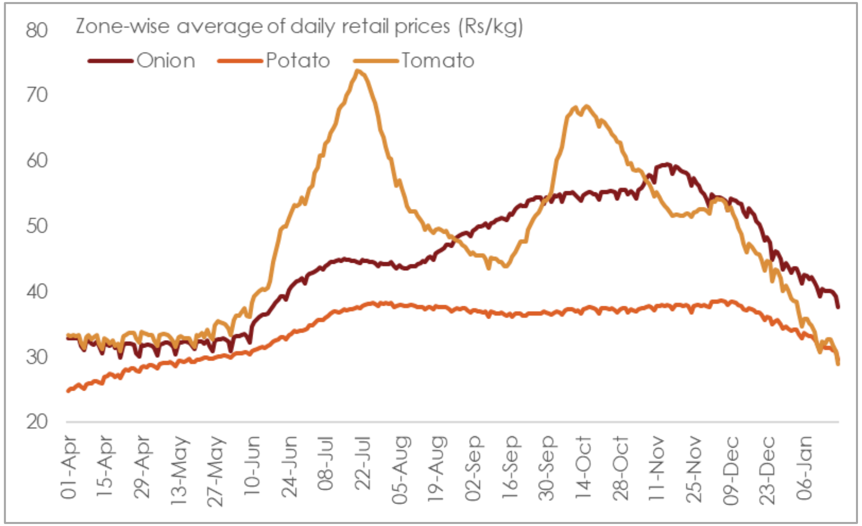
Post the announcement of India's inclusion in the JPM EMBI in Sep-23, monthly FPI debt flow has averaged at USD 1.3 bn. The inclusion in the EMGBI by FTSE Russell from Sep-25 could attract USD 4.5 bn of additional inflow. However, due to recent global uncertainty, FPI debt has seen a monthly average outflow of USD 0.1 bn since Oct-24.





Inflation: As old concerns begin to fade, new ones emerge

Food inflation has moderated to a 2-month low of 7.7% in Dec-24 from 9.7% in Oct-24. Incremental information depicts sharp correction in mandi prices for key vegetable prices like Tomato, Onion, and Potato. This could potentially help nudge headline CPI inflation below 5% levels after a gap of four months.



A pick-up in the pace of rupee depreciation since Oct-24 could add upside to inflation. While the RBI assumed an average USDINR rate of 83.5 for H2 FY25 (Monetary Policy Report, Oct-24), the current spot rate is much higher, around 86.5-86.6 levels. A 5% depreciation in INR adds about 35 bps to CPI inflation, ceteris paribus.

Hence, we roll over our first-rate cut expectation from Feb-25 to Apr-25. This will provide the RBI some clarity on Trump's policies. The expectation of continued fiscal consolidation in the FY26 Union Budget (with the expectation of the fiscal deficit target being lowered to 4.5% of GDP) and the ongoing correction in food inflation will also be supportive.

RBI's assumption of USDINR for inflation forecasting

	Apr-24 MPR	Oct-24 MPR
Assumption	83.0 in FY25	83.5 in H2 FY25
Actual/ Projected	84.5 in FY25	85.4 in H2 FY25

Note: Actual data is until Jan 20th. Full year actual is imputed assuming Jan 20th level of USDINR remains constant until Mar 31st.

Rates outlook

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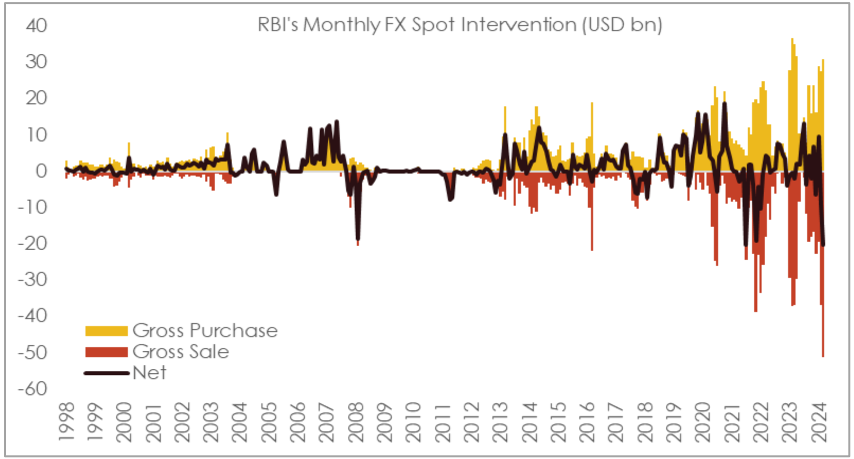
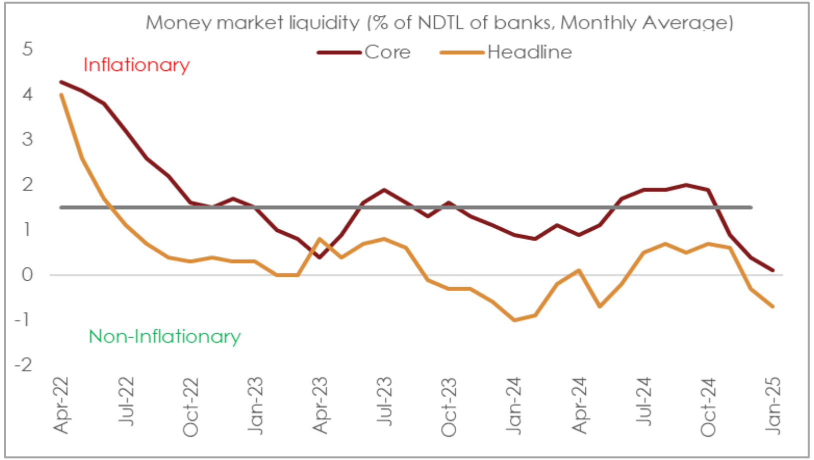
The RBI sold a record-high amount of USD 20.2 bn (net) from its reserves in Nov-24 to curb currency volatility. We suspect the intervention to have remained sizeable in Dec-24, thereby impinging upon rupee liquidity.

Despite the 50 bps CRR cut, the core liquidity surplus has dropped to 0.1% of NDTL (lowest in the current tightening phase) – thereby negating MPC's 'neutral' policy stance. We expect RBI to go beyond daily VRR auctions and start infusing durable liquidity to offset incremental tightness in money market rates.

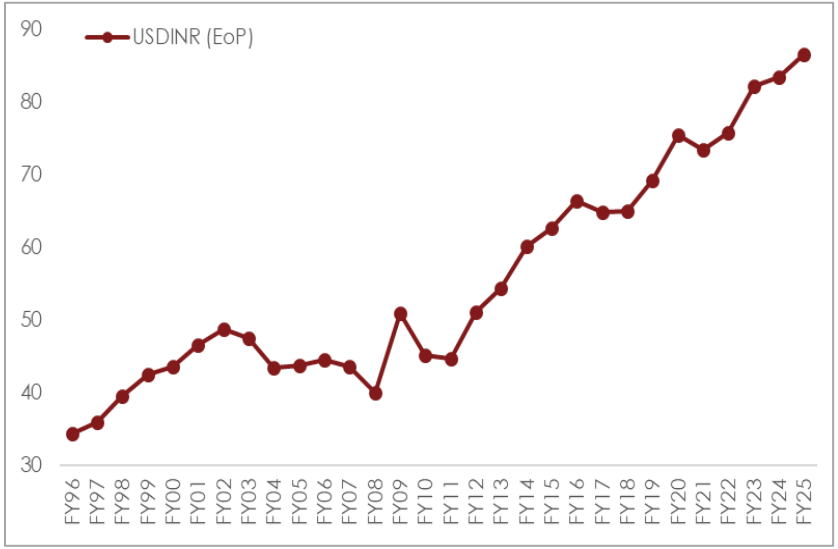




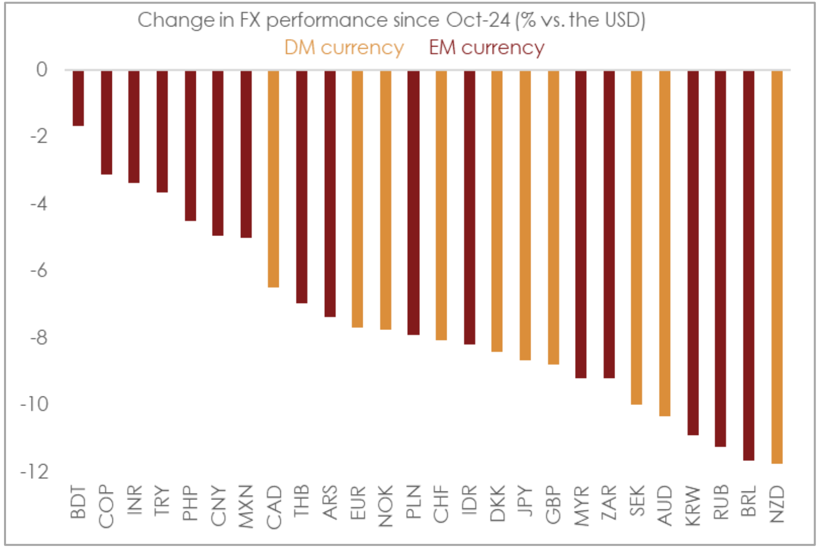
We maintain our 10Y g-sec yield forecast of 6.50% for Mar-25 on visibility of RBI's rate pivot, infusion of durable liquidity, and continued fiscal consolidation. However, deferment of proposed LCR guidelines and INR depreciation poses a risk.

INR touches a new low, but volatility remains contained

The rupee created a fresh all-time low in Jan-25, breaching the 86 level for the first time against the US dollar.



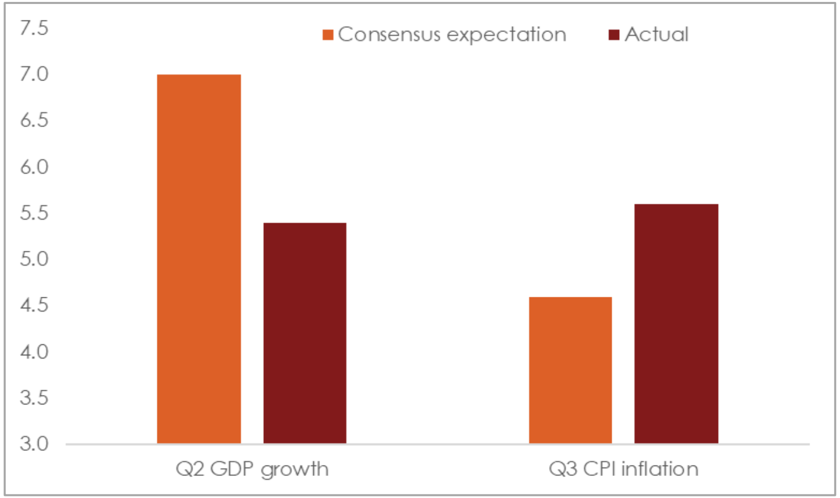
Despite a pick-up in INR depreciation (3.4% since Oct-24), its realized volatility has been one of the lowest amongst key DM and EM currencies.



Concerns over near-term domestic macro composition is weighing upon INR

A sharp negative surprise in Q2 GDP growth, along with a higher-than-expected CPI inflation outturn in Q3 FY25, has led to a reassessment of the growth-inflation balance for FY25.

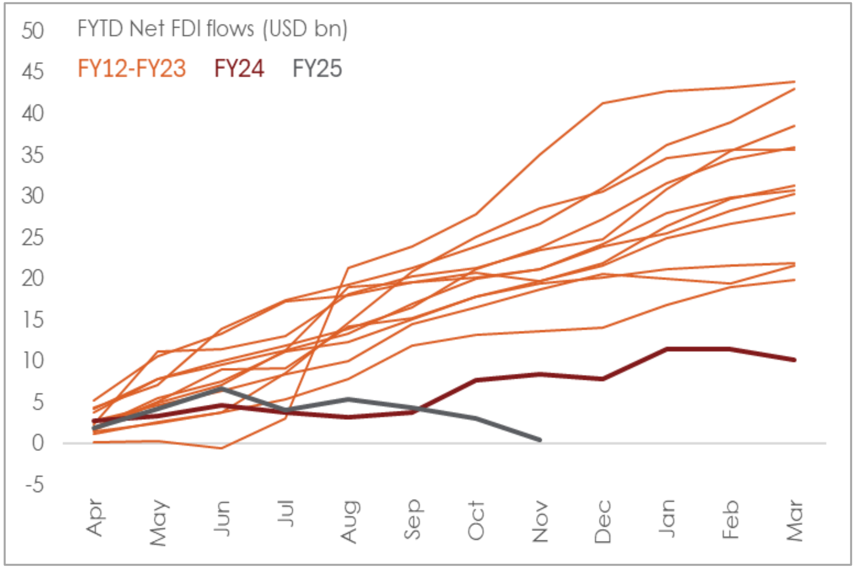
Gold imports have shot up significantly in last 4-months. While the initial spike can be attributed to the relaxation of custom duty in the Jul-24 Union Budget, the recent spurt is likely on account of seasonal demand playing out amidst record high international prices.



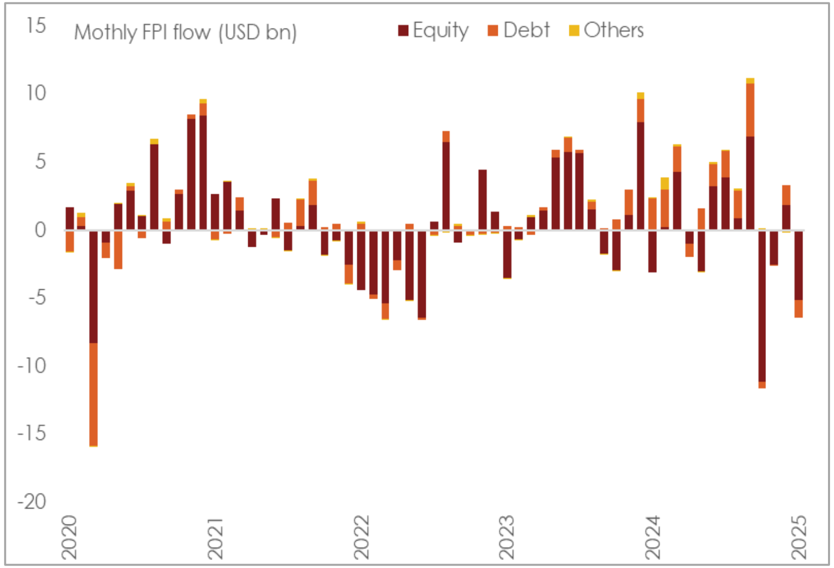
Note: Consensus expectation is based on the median value form 1-quarter ahead Survey of Professional Forecasters conducted in Sep-24.

Meanwhile, foreign investment flows have been weak

Weakness in net FDI flows has been accentuated since FY24 on account of a pick-up in repatriation by MNCs/PE investors. In FY25, net FDI flows plummeted to an anemic level of just USD 0.5 bn between April.



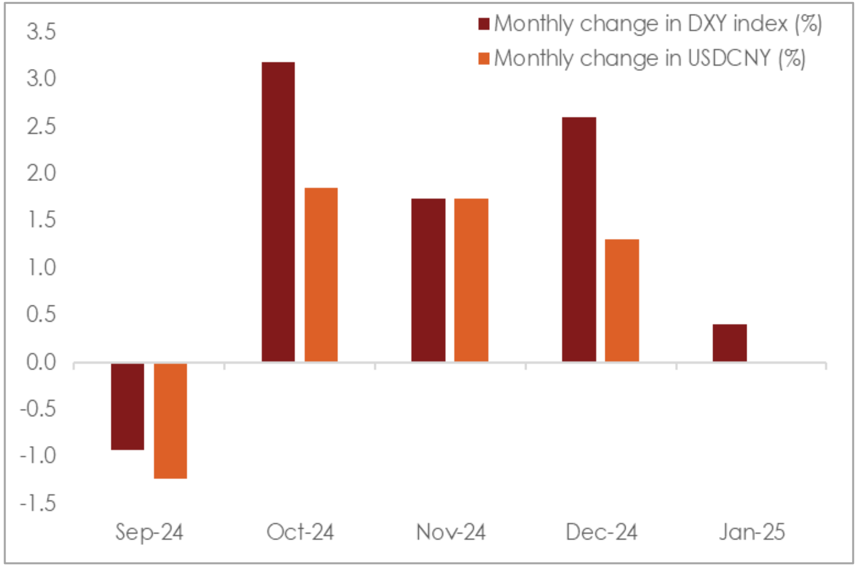
Meanwhile, FPI flows continue to remain weak as well as volatile on account of elevated geopolitical and geoeconomic uncertainties. The cumulative FYTD portfolio flows currently stand at USD 3.9 bn.

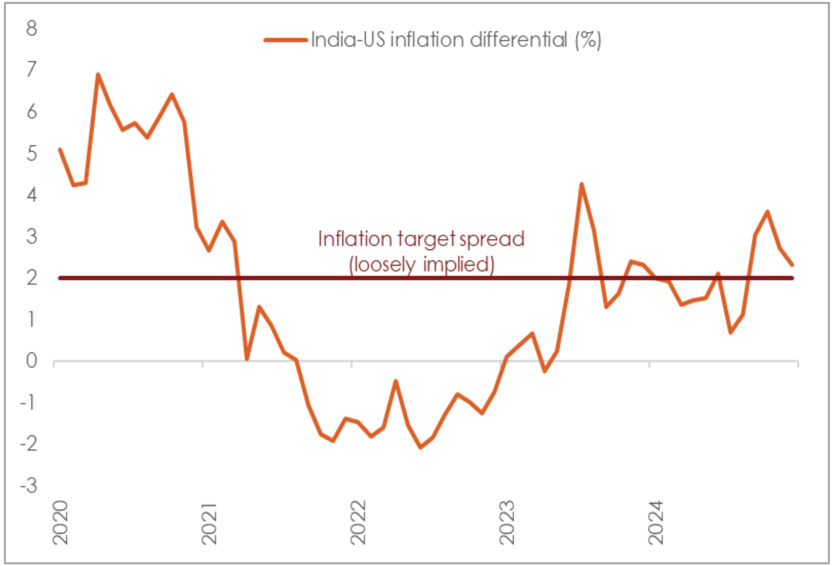


Although global backdrop stays adverse, there are early signs of moderation in pressure

In last 4-months, the broad-based strength in the USD coupled with weakness in CNY has been weighing upon EM currencies, like the INR. However, incremental strength in DXY (and incremental weakness in CNY) is showing early signs of levelling off.

Although India's inflation differential vs. the US remains higher than the implied target, there is moderation amidst cooling off of food inflation pressures in India.

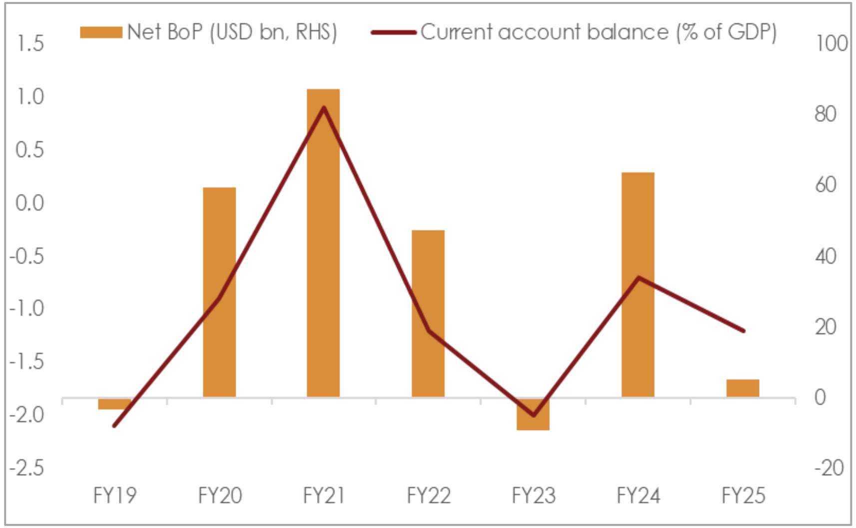


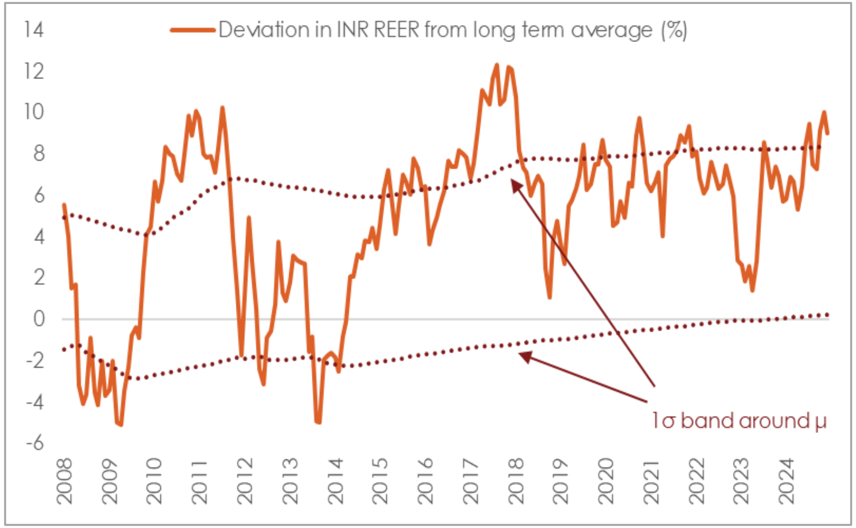


BoP reflecting the pressures, while stretched overvaluation persists

While we maintain our FY25 current account deficit forecast of 1.2% of GDP, we revise our BoP surplus estimate to USD 5 bn from USD 35 bn earlier (with downside risk) on account of sharp weakness in foreign investment flows.

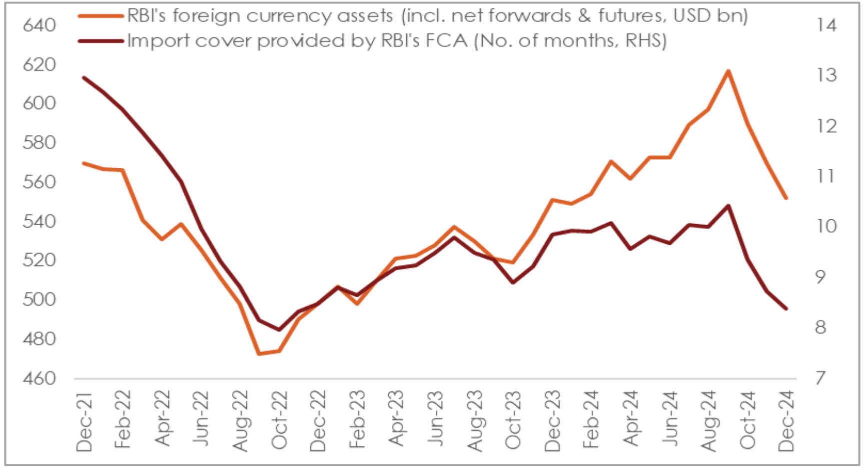
Basis REER, we estimate INR to be ~9% overvalued (as of Dec-24) vis-à-vis its long period average. Such stretched levels of currency overvaluation has historically resulted in a correction in the spot rate.





INR outlook

Sharp drawdown in RBI's fx assets coupled with a pick-up in imports has resulted in the import cover falling to 8.4 months in Dec-24, the lowest in 25-months.



IMF projects India to be the fastest-growing country within G20 over the course of 5-years.

Year	Fastest Growing G20 Country	GDP growth of fastest growing country	Average G20 GDP growth excl. fastest growing country
2025	India	6.5%	2.3%
2026	India	6.5%	2.4%
2027	India	6.5%	2.2%
2028	India	6.5%	2.2%
2029	India	6.5%	2.1%

Note: Forecasts sourced from the IMF

Considering the known-unknown risks associated with the simmering geopolitical and a likely new geoeconomic environment, our USDINR call for the end of FY25 to 86.0. Having said that, near-term global uncertainties are elevated and could pose a risk to our view.

IMF views global growth as 'Divergent and Uncertain' in 2025

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Global growth is projected at 3.3% both in 2025 and 2026

Upward revision in US growth outlook has offset downward revisions in other major economies

World trade volume estimates are revised downward slightly for 2025 and 2026. The revision owes to the sharp increase in trade policy uncertainty

Progress on disinflation is expected to continue. But, the magnitude of the inflationary effect of tariffs is especially uncertain.

The risk of renewed inflationary pressures could prompt central banks to raise policy rates and intensify monetary policy divergence.

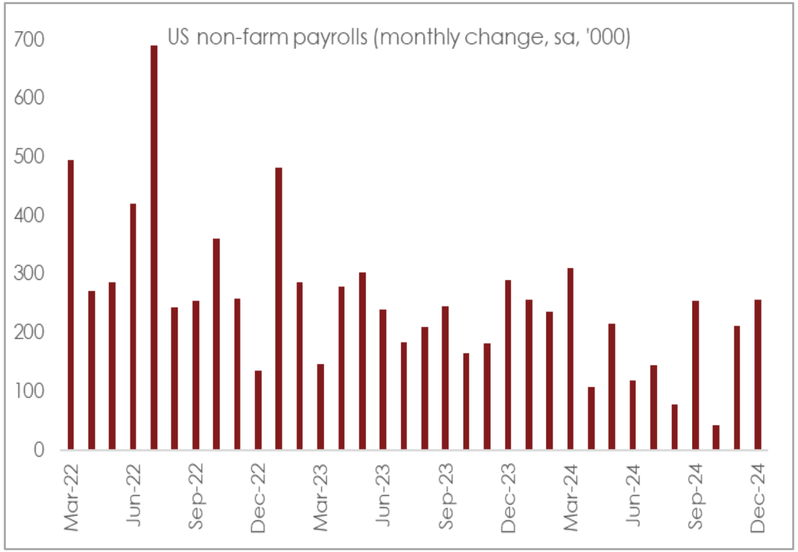
A stronger US dollar, arising from interest rate differentials and tariffs, among other factors, could alter capital flow patterns and global imbalances and complicate macroeconomic trade-offs.

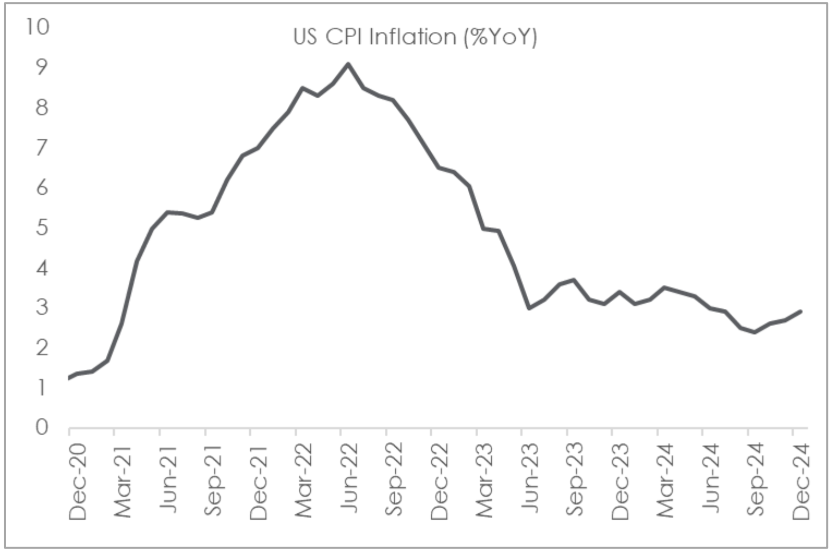
In addition to risks from economic policy shifts, geopolitical tensions could intensify, leading to renewed spikes in commodity prices.

US economy: Higher growth, higher inflation

Recent economic data has continued to demonstrate the US economy's resilience. Retail sales for the holiday season were stronger than expected, along with Non-farm payrolls additions, which stood at 256k in Dec-24.

CPI inflation ended the year at 2.9%YoY – marking only a minor improvement from a level of 3.1% in Jan-24. This points to stalled progress on the path back to the Federal Reserve's 2% inflation target.

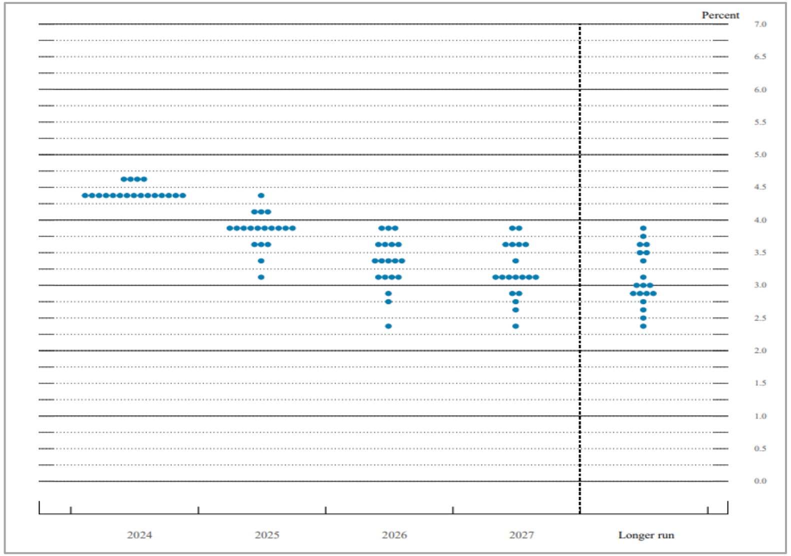


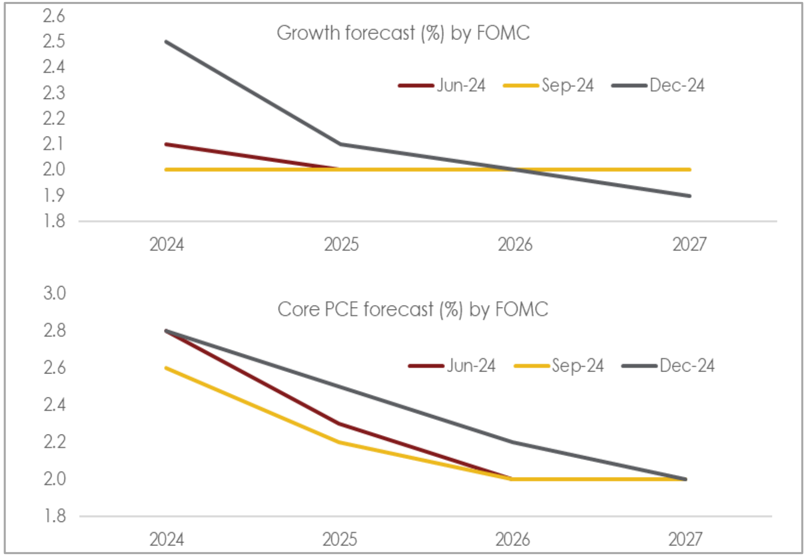


Fed rate cuts? What to expect in 2025

FOMC had cut the policy rate by 25 bps in Dec-24. However, the accompanying policy document signalled that further easing might proceed at a slower pace. The dot plot indicated only 50 bps of rate cuts in 2025, compared to 100 bps of policy easing expected at the time of Sep-24 policy.

The outlook for US monetary policy remains clouded at present by the yet-to-be-determined policy choices, especially those related to trade tariffs, of the Trump administration.





Trumponomics 2.0 to play out in 2025

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Trump's policy proposals	
Trade	60% tariffs on imports from China
	10-20% tariffs on imports from all countries
	100% tariff on Chinese made cars from Mexico
	Revocation of PNTR with China
	Trump Reciprocal Tariff Act
	25% tariff on all products from Mexico and Canada
Immigration	Mass deportation of unauthorised immigrants
	Subject visa application to "extreme vetting"
	End citizenship for US-born child of unauthorised immigrants
Tax	Extend all individual Tax Cuts and Jobs Act rates permanently
	Exempt overtime income and end social security benefit taxes
	Lower corporate tax rate to 15% from 21%
Energy	Undo Biden's climate polcies and expand crude oil production
Healthcare	Could dilute Affordable Care Act

Since returning to the White House, President Trump has declared a national emergency at the US-Mexico border, reinstated the "Remain in Mexico" policy, and suspended refugee admissions. Trump also sought to end birthright citizenship for children of non-citizens and froze federal hiring while reinstating policies to make government employees easier to fire. On energy, he declared a national emergency to expand oil and gas production and withdrew the U.S. from the Paris climate agreement and the World Health Organization.

- Peterson Institute for International Economics (PIIE) estimates that imposing an additional 60% tariffs on China, and if China retaliates, would result in US real GDP to fall by more than 0.2% below baseline by 2026, and the US inflation to increase by 0.7 ppts above baseline in 2025.
- Meanwhile, US imposing an additional 10% universal tariffs on other countries, and if those countries retaliate, would cause a drop in US real GDP by 0.9% than baseline by 2026, and the US inflation to increase by 1.3 ppts above baseline in 2025.

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