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Economic Round-up: April 2025

Global growth and inflation outlook continues to be impacted by rapidly changing US tariff policies. This month, the US government signalled a softer stance on tariffs. The Liberation Day tariffs were paused for 90-days, even though the additional 10% tariff was still applicable. Reprieve was also provided to US auto manufacturers. US officials also hinted at substantial progress in trade talks with major trading partners. Further, while there were signs of an escalation in US-China trade war for the most part of the month, both the countries have expressed willingness to start trade negotiations. This is a welcome sign as the impact of tariff driven uncertainty can already be seen in early macro data points. Global central banks are also adopting a cautious approach awaiting more clarity on US tariffs and its impact on growth and inflation. In India, economic activity continues to recover at a steady pace. India remains well-insulated from tariff related shocks as the economy is largely domestic driven. There are indications that a trade deal with the US is likely before the end of the year. RBI reduced policy rates by 25bps in Apr'25 while also revising its growth and inflation projections downwards. Stance was also changed to accommodative signalling status quo or lower policy rates. Ample liquidity support has also been provided to improve transmission. We believe that the RBI is likely to reduce policy rate by another 50bps.

Global growth prospects: Global growth is expected to moderate to 2.8% in 2025 and 3% in 2026 as per the IMF's World Economic Outlook Report released in Apr'25. This is lower compared with an estimated 3.3% growth in 2024, and even lower than IMF's earlier estimates in Jan'25. Tariffs and policy uncertainty are likely to act as major drag on global economic activity. Growth in Advanced Economies (AEs) is expected at 1.4% in 2025 and 1.5% in 2026, marking a downward revision of 50bps and 30bps respectively from Jan'25. In the US, GDP growth is expected at 1.8% in 2025, with a sharp downward revision of 90bps. EMDEs are also expected to register lower growth of 3.7% versus 4.2% estimated earlier, led by sharp downward revisions in growth forecasts for China and Mexico. Global inflation is expected to moderate gradually to 4.2% in 2025 and 3.6% in 2026. Growth in world trade volumes is expected to fall to 1.7% in 2025 from 3.8% in 2026, due to the tariff uncertainty.

Key macro data releases: By a unanimous vote, **RBI's monetary policy committee** decided to reduce policy rates further by 25bps to 6%, marking the second consecutive rate cut. Stance was also changed to accommodative signalling either a pause or more rate cuts. Both growth and inflation projections for FY26 were revised lower to 6.5% and 4% respectively. **CPI inflation** moderated further and eased to a 67-month low at 3.3% in Mar'25 versus 3.6% in Feb'25. Food inflation softened significantly, led by vegetables and pulses. **Core CPI** inched up marginally to 4.1% from 4% in Feb'25 and is expected to remain sticky. With the expectations of an above normal monsoon, and a positive base effect, we believe that CPI is likely to remain within RBI's target range, providing room for more rate cuts. **INR** appreciated in Apr'25, supported by dollar weakness and improvement in risk sentiment. We expect INR to trade in the range of 84-85/$ in the near-term, as a weakening growth momentum in the US is expected to weigh on the dollar. **India's 10Y yield** has traded with a sharp downside bias recently, supported by RBI's liquidity measures and dovish rate outlook. We expect a trading range of 6.30-6.35% in May'25 with a possible downward bias.

Macro developments

Global growth: Uncertainties persist

High frequency data in the US pointed to some loss of resilience for the economy partly showing the impact of tariff related concerns on growth. Core PCE, a widely gauged indicator by the Fed, picked up to 2.3% in Mar'25, at a softer pace compared to 2.7% seen last month. GDP advance estimate (annualized QoQ) also signalled moderation as it contracted by -0.3% in Q1 CY25 compared with 2.4% growth in Q4 CY24. This was broadly led by weaker personal consumption, which edged down to 1.8% from 4% in Q4 CY24. Other indicators, such as core retail sales, have also risen at a softer pace by 0.4% in Mar'25 versus 1.3% in Feb'25. Consumer sentiment has also remained downbeat, reflected in the Conference Board data whose expectations index fell to 54.4 from 66.9 in Apr'25. Employment conditions also reflected strains. The change in non-farm payroll, an indicator of new job additions moderated to 177K in Apr'25 compared to the previous month's level of 185K. Average hourly earnings also moderated to 0.2% in Apr'25 from 0.3% (on a MoM basis). Initial jobless claims data for the week ending 26 Apr also rose, reflecting slowing labour market activity. In terms of manufacturing indicators, ISM data for manufacturing remained below the 50-mark at 48.7 in Apr'25 from 49 seen in the previous month. On tariff front, market is widely anticipating outcome of trade negotiations with countries such as China and Japan. In a recent announcement, US Secretary of Commerce has clarified that finished cars in the US with at least 85% domestic content will be exempted from tariff and will also not be restricted to automakers' country of origin Further, automakers will have to pay either the steel or auto tariff, whichever is higher, but they will only pay one tariff. This kind of flexibility is welcoming for the proper balance of global trade.

In case of **Eurozone**, manufacturing PMI was at 49, its 32-month high, despite remaining below the crucial 50-mark. The improvement was led by countries such as Germany, France and Italy. However, new orders continued to fall hinting at uncertainty about US tariff policy which could further weigh down industrial activity in the near term. The industrial production data of the Eurozone reflected some momentum as it inched up by 1.1% compared with an increase of 0.6% last month. On growth front, Eurozone GDP grew by 0.4% in Q1. Among major countries, Spain led the growth with a 0.6% increase, while France and the Netherlands recorded 0.1% growth. In Germany, GDP growth was recorded at 0.2%. Other macro indicators for Germany, however painted a mixed picture. CPI inflation hit a 7-month low of 2.1% as per Apr'25 preliminary estimate, thus building up case for more stimulus by ECB in its upcoming policy. PPI also dipped into deflationary territory of -0.2%. Different survey results such as IFO Business climate index inched up to 86.9 in Apr'25 from previous level of 86.7. GFK Consumer confidence also posted a slightly better print. On tariff front, US has rejected EU's proposal of 'zero-for-zero' tariff policy. No major developments has been seen in any other areas on tariff front.

China's industrial production increased by 7.7% in Mar'25 compared with a growth of 5.9% in Jan-Feb'25 period. Retail sales also improved to 5.9% compared with an increase of just 1.9% in the Jan-Feb'25 period. Exports surged by 12.4% in Mar'25 as exporters front-loaded shipments ahead of US tariff deadline. However, imports declined by 4.3% amidst weak domestic demand conditions. However, recent macro data suggests that the World's second largest economy is likely to incur a significant hit from its worsening trade relations with the US. China's official manufacturing PMI declined to 49.0 in Apr'25 from 50.5 in Mar'25, to mark its lowest reading since Dec'23. This was below the neutral reading of 50 and indicated a contraction in manufacturing activity. The decline was led by a sharp fall in new exports orders as the staggering 145% tariff imposed by the US took effect. However, the US and China have expressed willingness to start trade negotiations, which is a big positive.

India's growth maintains momentum in Q4

India is set to announce GDP estimates for Q4 FY25 later this month. MOSPI had estimated GDP to grow by 6.5% in FY25 with Q4 FY25 growth estimated at 7.6%. While GST collections and e-way bills noted a steady uptick, earnings report from FMCG and other industries for Q4 paint a subdued picture. Industrial production growth eased. Air passenger traffic was steady, even as vehicle registrations and PV sales moderated.

Looking ahead, high frequency indicators are giving mixed signals. While both GST collections and PMIs continue to be robust in Apr'25, credit growth has moderated. Rural demand has held up and will receive further impetus from an above normal monsoon and good kharif sowing. India remains relatively insulated from global trade related uncertainty and the prospects of a trade deal with the US also bode well for domestic growth prospects. We expect GDP growth in the range of 6.4%-6.6% in FY26.

Central bank actions

RBI MPC reduced policy rates by another 25bps to 6% in Apr'25 from 6.25% earlier. Policy stance was also changed to accommodative from neutral. With this the MPC has explicitly stated that the policy rates can only be lowered or kept on hold. RBI also lowered its growth forecast for FY26 to 6.5% from 6.7% estimated earlier. This was on account of tariff related disruptions which could impact exports. On the other hand, buoyant rural demand and government capex will continue to remain important drivers of growth. CPI projection for FY26 was also revised down to 4% from 4.2% estimated in Feb'25. Apart from this, emphasis was also placed on providing adequate liquidity to enable faster pace transmission of rate cuts. Given that inflation has moderated significantly in Mar'25 and the outlook on inflation is looking increasingly positive, we expect RBI to cut rates further by at least 50bps in FY26. RBI is also likely to keep domestic liquidity conditions at comfortable levels (closer to 1% of NDTL) to promote credit growth.

US Fed in its Mar'25 meeting decided to keep policy rates on hold at 4.25-4.50%. This was driven by buoyant labour market conditions, even as inflation continues to remain above the central bank's target. However, the Fed noted the economic outlook looks uncertain amidst significant 'policy changes' and will hence require a careful monitoring of the evolving situation. The central bank also revised its GDP and inflation projections. The Fed now expects GDP growth to slow down to 1.7% in CY25 from 2.1% estimated earlier in Dec'24. For 2026 as well, the GDP projection was revised lower to 1.8%, compared with 2% expected earlier. On the other hand, inflation is now expected to be firmer at 2.7% (+20bps) and 2.2% (+10bps) respectively in 2025 and 2026. Macro data since the last policy has signalled a weakening economic momentum, even as labour market continues to be strong. The Fed is widely expected to keep rates on hold next week, with the possibility of a rate cut emerging only in Jul'25.

Bank of England (BoE), in line with market expectations, held rates unchanged at 4.5% in its Mar'25 meeting, after reducing it by 25bps in the Feb'25 meeting. This decision was approved by 8-1 vote versus expected 7-2 vote majority, thus highlighting that more members are cautious given the heightened uncertainty around global trade war. The central bank also revised its peak inflation projection marginally upwards to 3.75% in Q3CY25, up from 3.7% expected earlier. Tax hike proposals for employers are expected to impact services inflation. Despite this, growth projections were revised upwards to 0.25% for Q1Y25 from 0.1% earlier. Currently, as inflation has begun slowing, analysts expect BoE to cut rates to 3.75%.

In its Apr'25 meeting, the **ECB** reduced its policy rates further by 25bps to 2.25%. With this the policy rates are now at a near 3-year low. ECB Governor stated that risks to economic growth have increased due to the uncertain trade outlook. Global trade tensions can lead to a decline in exports and have detrimental impact on investment and consumption. Analysts expect more rate cuts this year amidst increasing risks to growth. A rate cut is priced in Jun’25, as inflation remains largely aligned to the ECB’s target.

BoJ kept its policy rates on hold in Apr’25 at 0.5%. The monetary policy statement sounded a cautious note amidst trade uncertainty. The central bank revised its growth projection downward with GDP growth in fiscal 2025 and fiscal 2026 estimated lower. Analysts widely expect BoJ to keep rates steady as it assesses the impact of US tariffs. However, sticky inflation and impact of wage rate hikes might spur the central bank to hike rates again in the latter part of the year.

Data Releases

Bonds Wrap

Global bond yields broadly softened led by risk-off sentiments under the current scenario of volatile policy environment. However, for the US, the decline was largely capped eyeing day-to-day developments on tariff front, country and commodity basis. For India, the decline in the 10Y yield has been sharp, most of it being attributable to post RBI policy. The dovish policy hinting at further monetary easing and easier approach on liquidity, has also lent support. India’s yield curve continued to exhibit a steepening bias which is likely to prevail in the near term. Liquidity is expected to remain comfortably in surplus. However, for a surplus of ~1% of NDTL, which is generally being expected by market participants, RBI will need to conduct more OMO purchase auctions. This hints at that India’s yield will continue to head southward. We expect it to trade in the range of 6.30-6.35% in May’25.

Currency update

INR appreciated further by 1.1% in Apr’25, after appreciating by 2.4% in Mar’25. A sharp decline in the dollar due to a weakening economic outlook and lower global oil prices supported the gain in INR. Equity inflows turned positive in Apr’25 after a gap of 3-months signalling an improvement in investor sentiment. A softer US stance on tariffs has supported an improvement in investor sentiment. US officials have indicated that significant progress has been made on trade negotiations with its trading partners, which is likely to lift investor sentiments. Hence, EM assets could see a gradual recovery in foreign inflows. Given India’s strong macro fundamentals and growth prospects, India remains an attractive bet for investors. This along with stable domestic macros and stable external position are likely to provide further support to the INR. We expect INR to trade with an appreciating bias in the near-term in the range of 84-85/$. However, escalation in US-China trade relations poses a significant risk to our view.

Industrial production

IIP growth eased to 3% in Mar’25 from 5.5% in Mar’24, but inched up from 2.7% in Feb’25. Compared with previous year (Mar’24), moderation was noted across the board. Manufacturing and electricity output slowed most noticeably, while mining sector output softened at a slower pace. On an annual basis, IIP growth decelerated to 4% in FY25 from 5.9% in FY24, with growth in all the other sectors dipping in FY25. Within manufacturing, majority of the subsectors registered negative growth in FY25 compared with last year. For use-based industries, with the exception of consumer durables, all the other industries registered slower growth in FY25. In FY26, we expect production to improve as has been reflected by the high frequency indicators such as manufacturing PMI, GST collections and e-way bill generation. However, there are headwinds to global growth and growing volatility, specially pertaining to global trade which requires careful monitoring as this might impinge on growth.

Foreign trade in FY25

India's merchandise trade deficit expanded in FY25 to US$ 283bn compared with US$ 241bn in FY24. This was led by a pickup in gold imports. Services surplus expanded, as services exports rose at a faster pace than imports. Commodity wise, while exports of engineering and electronic goods picked up, gems and jewellery and organic and inorganic chemicals continued to lag. Non-oil-non-gold imports rose from a year ago, suggesting buoyancy in domestic demand. Overall, we expect a CAD of ~1% of GDP in FY25. For the current year, tariff related uncertainty is likely to weigh on exports even though the actual impact might be muted. Lower global commodity prices are positive for India's external position. Taking this into account, we expect a CAD of 1.2-1.5% of GDP in FY26.

Inflation: A sigh of relief amidst turmoil

Food driven respite again provided CPI the desired band of comfort. The major correction continued from the trajectory of vegetable inflation. In Apr'25 as well, high frequency price data is showing softening albeit at a softer pace. Our in-house BoB ECI is running at 0.2%. Going forward, the outlook on food inflation seems favourable from better Kharif production in place and Rabi statistics. Apart from these, better arrivals from TOP vegetables (tomato, onion and potato) also hint at softer inflation going forward. Commodity price cycle is also in favour. So is wholesale inflation, which shows less scope of pass-through to consumers from producers. However, some upside risks cannot be ruled in totality. On the domestic front, heatwave conditions need to be monitored closely. Apart from this, risk of imported inflation from a stringent tariff policy globally, also persists, albeit much less risk to CPI. Thus, we believe the current fiscal number which has come below RBI's forecast gives more flexibility for a softer policy, going ahead.

WPI inflation higher in FY25

WPI inflation in Mar'25 rose by 2% from 0.3% in Mar'24. In FY25, WPI averaged 2.3% compared with (-) 0.7% in FY24. In comparison with Mar'24, food inflation in Mar'25 was broadly stable, while fuel and manufactured product inflation inched up. Full year inflation data shows that food inflation averaged at 7.3% in FY25 (3.2% in FY24), fuel inflation at (-) 1.3% (-4.6%), manufactured product inflation at 1.7% (-1.7%), and core inflation at 0.7% (-1.4%). In Mar'25, within food, inflation index for vegetable, milk, cereals and spices and condiments eased, while for fruits it noted some upward pressure. Wheat prices also remain elevated. Within fuel, electricity index accelerated the most, while mineral oil index declined at a slower pace, even as international oil prices fell. Within manufactured products, textiles, basic metals (aluminium, copper, zinc and lead), equipment (electrical/ transport), chemicals and pharmaceuticals led inflation higher. Going forward, as trade war deepens further, global growth prospects remain weak. This will exert downward pressure on oil and other commodity prices, which in turn will be positive for WPI inflation.

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Patterns of investment intents in FY25

Mapping new project announcements in FY25 (Apr'24-Mar'25), we note that companies and governments have shown the intent to invest Rs 38.3 lakh crore, which is second highest on record since FY96. Majority (69%) of the projects have been announced by the private sector (domestic and foreign), while the remaining (31%) will be implemented by the public sector (central government, state government, local bodies, joint ventures). Amongst the private sector also, domestic firms are responsible for 62% of the projects announced. Renewable electricity is one sector which is popular amongst both private and public companies and has attracted significant investments. For domestic private firms, other sectors such as conventional electricity, chemicals and steel are also critical areas. Centre's focus is also towards roads, refineries and shipping projects. States will be investing in roads, ITES, education, transport logistics and railways. State-wise, Odisha, Maharashtra and Andhra Pradesh alone account for ~37% of the total projects, while Karnataka, Rajasthan, Gujarat, Bihar and Chhattisgarh account for another ~33%.

World Bank's Price outlook for 2025

Commodity prices are set to fall sharply by 12% this year as weakening global economic growth weighs on demand. Next year, commodity prices are projected to decline by another 5%, reaching a 6-year low. Oil prices are expected to exert substantial downward pressure on the aggregate commodity index in 2025, as a marked slowdown in global oil consumption coincides with expanding supply. The anticipated commodity price softening is broad-based. The latest shocks to hit commodity markets are tumultuous. Between 2020 and 2024, commodity price swings were frequent and sharp, with knock-on consequences for economic activity and inflation. In the next two years, commodity prices are expected to put downward pressure on global inflation.

Risks to the commodity price projections are tilted to the downside. A sharper-than-expected slowdown in global growth—driven by worsening trade relations or a prolonged tightening of financial conditions—could further depress commodity demand, especially for industrial products. In addition, if OPEC+ fully unwinds its voluntary supply cuts, oil production will far exceed projected consumption. There are also important upside risks to commodity prices. Economic growth prospects could improve if trade barriers are rolled back in a lasting manner, leading to stronger commodity demand and higher prices. Commodity prices could otherwise rise if geopolitical tensions worsen, threatening oil and gas supplies, or if extreme weather events lead to agricultural and energy price spikes.

Flow of funds in FY25

For the banking sector, the year gone by was quite interesting on both the deposits and lending sides. On the deposits side, notwithstanding higher deposit rates with the repo rate being at 6.5%, there were challenges especially in the first quarter when government spending was subdued. Subsequently buoyant capital markets did cause some shift of funds which slowed down the growth in deposits. On the credit side, growth was disparate across sectors. Growth to services and retail witnessed a slowdown due to high base effect as well as new capital norms enforced since late 2023. The base effect also lowered growth in credit to agriculture. There were some signs of pick-up in private sector investment especially in the infra based sectors, though companies did look at all sources of funding with an open mind. Against this background, we conducted an analysis which looked at the flow of funds during the year.

For deposits, two distinct competitive markets analysed are small savings and mutual funds. Our study showed that there is definitely competition being posed by the mutual funds industry for bank deposits. In a declining interest rate regime in FY26, it needs to be seen how banks can keep deposits growth up considering that the equity market as of date appears to have absorbed the tariff tantrums impact. On the other hand, small savings do not appear to be a major competitor when it comes to deposits given that there is a niche segment involved. However, unchanged deposit rates as of date on small savings may give an edge at the margin.

On the lending side, the corporate debt market is examined in some detail from the point of view of private placements as well as ECBs, which have progressively become important. However, our analysis shows that bank credit will continue to be one of the major sources of finance for companies. It will tend to be preferred given the accessibility. Corporate debt market is more for the NBFCs and companies with high credit rating. The ECB market while open to all has accompanying risk on currency fluctuation and would probably be restricted to companies which have been accessing the market for some time.

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