ECONOMY OUTLOOK - FEBRUARY 2025

Brickwork Research

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Economy Outlook

Contents

Summary

1. India's Gross Domestic Product (GDP) is projected to grow by 6.4% for the financial year 2024-25, according to the First Advance Estimates released by the National Statistics Office (NSO). This marks a significant decrease from the 8.2% growth recorded in 2023-24 and marking the lowest rate since FY21, when the economy contracted due to the pandemic

2. The Economic Survey for the fiscal year 2025-26, presented by Finance Minister Nirmala Sitharaman on January 31, 2025, projects India's real GDP growth to be between 6.3% and 6.8%

3. IMF maintained its growth projection at 6.5% for India for FY26 and FY27, stating that this aligns with the country's potential

4. The World Bank retained its growth forecast for India at 6.7% for FY26, maintaining that the country will continue to be the fastest-growing major economy over the next two years

5. According to a report by the Ministry of Electronics and Information Technology (MeitY), India's digital economy is set to grow at almost twice the pace of the overall economy, contributing nearly one-fifth of the country's national income by 2029-2030

6. India's Retail Inflation decreased to 5.22% in December 2024, the lowest in four months, from 5.48% in November 2024, largely due to a decrease in food prices, particularly vegetables, pulses and cereals

7. India's Manufacturing Sector experienced a notable slowdown in December 2024, as indicated by the Purchasing Managers' Index (PMI), which recorded a 56.4, a slight decrease from 56.5 in November 2024, marking the lowest reading of the year, indicating a moderate growth compared to previous months

8. India's Services Sector demonstrated strong growth in December 2024, with the Purchasing Managers' Index (PMI) rising to 59.3, up from 58.4 in November 2024. This marks the strongest expansion in four months, indicating continued growth for over three years driven primarily by sustained demand and easing inflationary pressures

9. India's Core Sector grew by 4% in December 2024, reflecting a slowdown from the 5.1% growth recorded in the same month of the previous year and a revised growth of 4.4% in November 2024

10. India's Industrial Production experienced significant growth in November 2024, with the Index of Industrial Production (IIP) rising by 5.2% year-on-year, marking the highest growth in six months

11. India's Merchandise Trade Deficit for December 2024 saw a notable reduction, narrowing to $21.94 billion, down from a record high of $31.86 billion in November 2024

12. In January 2025, Indian Equity Markets continued its negative trend observed in late 2024, with significant declines across major indices due to global economic uncertainties

13. India's Foreign Exchange Reserves have witnessed a downward trend in January 2025, reflecting economic challenges. As of January 24, 2025, the reserves stood at $629.6 billion, marking an 11% decline from the peak of $705 billion in September 2024

14. In January 2025, the Rupee exchange rate began the month at approximately Rs 85.58 per USD on January 1 and weakened to around Rs 86.70 by January 31. This represents a depreciation of about 1.3% over the month

15. India's Foreign Exchange Reserves experienced a significant decline in December 2024, dropping to $644.39 billion as of December 20, 2024, marking a significant decrease of approximately $8.5 billion in just one week

16. BOJ raises interest rates to highest level in 17 years. On 24 January 2025, the Bank of Japan (BOJ) increased its short-term policy rate from 0.25% to 0.5%, reaching its highest level in 17 years and marking the first rate hike since July 2024

17. The European Central Bank reduced interest rates by 0.25% to 2.75% on 30 January 2025. This is the fifth rate cut by the bank since June 2024

First Advance Estimates Pegs India's GDP Growth at 4-year low at 6.4% For FY25

- **GDP Growth Rate:** India's Gross Domestic Product (GDP) is projected to grow by 6.4% for the financial year 2024-25, according to the First Advance Estimates released by the National Statistics Office (NSO). This marks a significant decrease from the 8.2% growth recorded in 2023-24 and marking the lowest rate since FY21, when the economy contracted due to the pandemic

- This GDP growth estimates stands lower than both the Reserve Bank of India's estimate of 6.6% and the government's forecast of 6.5-7% for FY25, impacted primarily due to manufacturing declines and weak investment

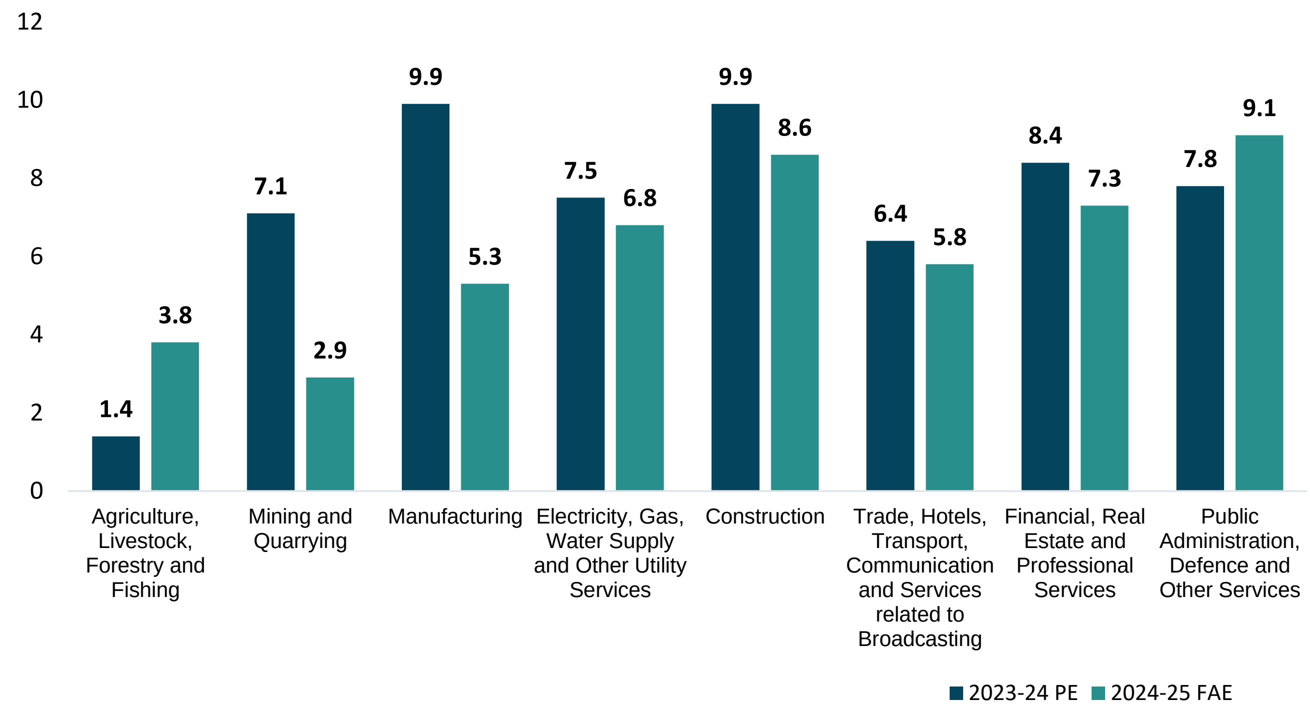
- **Nominal GDP:** The nominal GDP is expected to rise to Rs 324.11 lakh crore, reflecting a growth rate of 9.7%

- **Decline in Real Gross Value Added (GVA):** The NSO report indicates a decline in economic output, with real Gross Value Added expected to increase only 6.4% in FY25, down from 7.2% in the previous fiscal year, highlighting challenges faced by various sectors

- **Per Capita Gross National Income (GNI):** Per capita GNI is projected to rise by 5.3% in FY 2024-25, indicating modest improvement in individual income amidst a challenging economic environment

- The **agriculture sector** is expected to grow by 3.8% in FY 2024-25, a significant increase from the 1.4% growth recorded in the previous year

    - The agriculture, forestry, and fishing sector is expected to experience stable growth at 3.5%, largely driven by favourable weather conditions, increased irrigation coverage, and government support through minimum support prices



(For further details, please refer to BWR Economic Brief, 09 January, 2025, https://www.brickworkratings.com/Research/First%20Advance%20Estimates%20of%20Gross%20Domestic%20Product%20For%202024-25.pdf

BWR VIEW

These estimates indicate a decline in economic momentum in the first half of FY 2024-25 due to decreased investment and weaker manufacturing performance

A rebound in India's economic growth is expected in the second half of FY25, driven by improved agricultural and industrial activity and increased government spending

The second half of FY25 is expected to see an improved performance in agriculture and manufacturing, with an anticipated 6.7% growth rate

Monetary policy adjustments are expected by the Reserve Bank to stimulate demand and counteract the economic downturn

Lower GDP growth due to weak manufacturing output and sluggish investment could hinder short-term investments, consumer spending, job creation, and disposable incomes, influenced by broader economic challenges and reduced investment

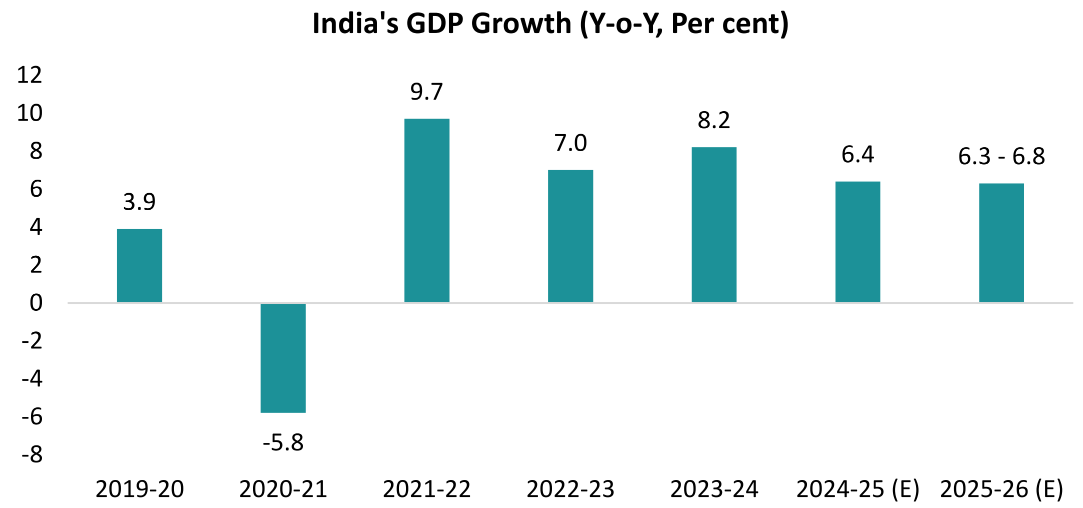
The NSO's lower economic growth estimates highlight the need for strategic interventions to boost investment and improve manufacturing productivity to counteract the economic slowdown and promote sustainable growth in India

Economic Survey 2025-26 Project India's GDP Growth between 6.3%-6.8% for FY26

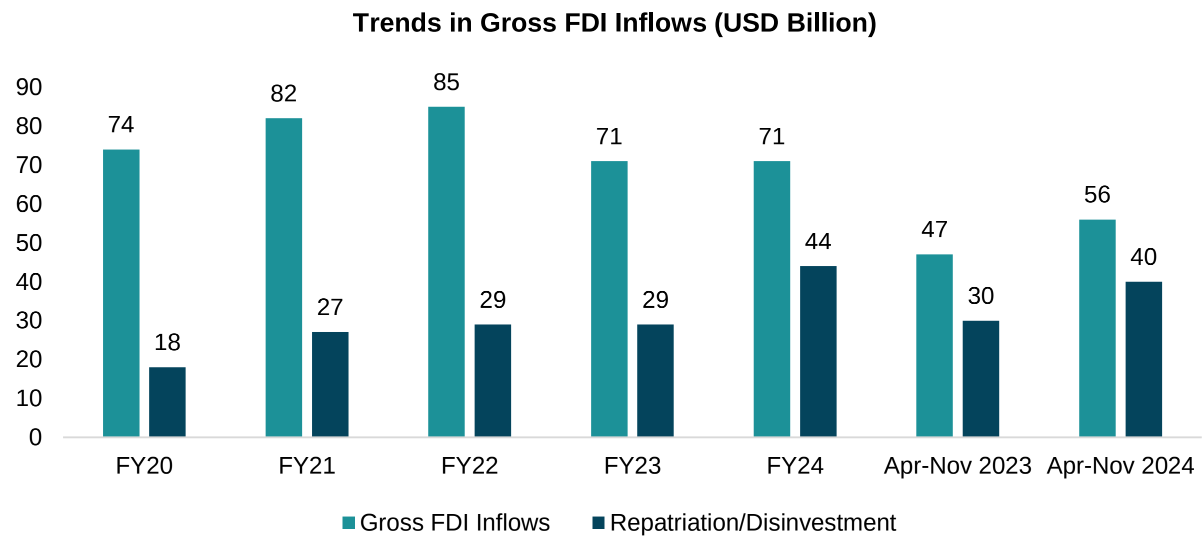
The Economic Survey for the fiscal year 2025-26, presented by Finance Minister Nirmala Sitharaman on January 31, 2025, projects India's real GDP growth to be between 6.3% and 6.8%. This forecast reflects a significant slowdown compared to the previous year's robust growth of 8.2% in FY24, indicating challenges ahead for the Indian economy as it navigates through various headwinds

- **Economic Growth Projections:** The Economic Survey for 2025-26 projects India's real GDP growth to be between 6.3% and 6.8% for FY26. This marks a slowdown compared to the previous year's growth estimate of 6.4% for FY25 and a growth of 8.2% in 2023-24, reflecting ongoing challenges such as geopolitical tensions and subdued consumer demand

- **Current Economic Context:** India's economy is experiencing a deceleration, with growth recorded at 5.4% in the second quarter of FY25, down from 8.1% in the same quarter the previous year. This slowdown is attributed to weak manufacturing performance and reduced government spending



- **Foreign Direct Investment (FDI):** The survey stated that India's FDI inflows surged from $47.2 billion in the first eight months of FY24 to $55.6 billion in the same period of FY25, marking a 17.9% year-on-year growth, indicating a significant revival in the economy.
  - The survey emphasizes the need for increased FDI, especially in fintech and digital services, and highlights untapped opportunities in the insurance sector that could benefit from increased investment and innovation



- **Government Response:** The upcoming Union Budget is expected to address these economic challenges by focusing on measures to stimulate consumption and investment while managing fiscal deficits effectively

- **Future Outlook:** To achieve sustained growth, experts suggest that India needs to maintain an annual growth rate of around 8% for several years, which would be essential for long-term economic stability and development

- **Key Challenges Ahead:** The survey highlights several challenges that could hinder growth, including global economic uncertainties, domestic inflationary pressures, and the need for structural reforms in various sectors

The Economic Survey 2025-26 presents a cautious outlook for India's economy, emphasizing the need for strategic policy interventions to navigate the current slowdown and foster sustainable growth moving forward

IMF Maintains Economic Growth Forecast For India at 6.5% For Both FY26 and FY27

- IMF maintained its growth projection at 6.5% for India for FY26 and FY27, stating that this aligns with the country's potential
- The IMF noted that India's growth had slowed more than anticipated, primarily due to a sharper-than-expected decline in industrial activity, referring to the unexpected 5.4% growth in the September quarter
- The IMF's growth forecast is lower as compared to the World Bank, which maintained its growth projection for India at 6.7% for FY26 and FY27, emphasizing that the country will continue to be the fastest-growing major economy over the next two years
- Meanwhile, the First Advance Estimates from the National Statistics Office (NSO) have forecasted a slowdown in FY25 growth to a four-year low of 6.4%. The Reserve Bank of India (RBI) has projected 6.6% growth for FY25

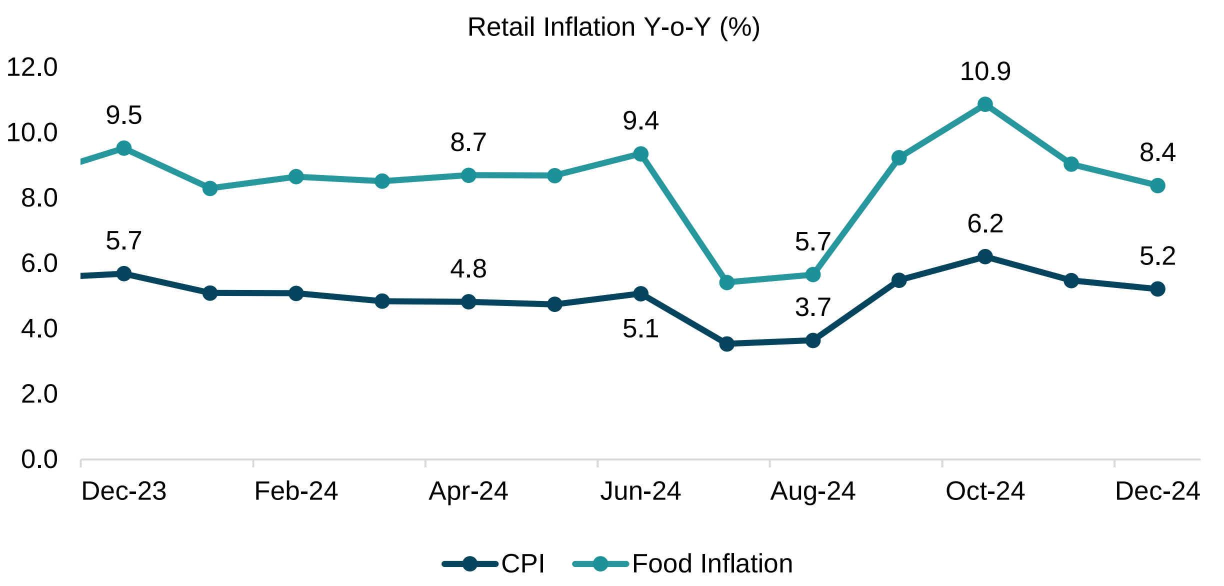
World Bank Keeps Growth Forecast For India Unchanged At 6.7% For FY26

- The World Bank retained its growth forecast for India at 6.7% for FY26, maintaining that the country will continue to be the fastest-growing major economy over the next two years
- The World Bank stated that the services sector is expected to experience continued growth, while manufacturing activity is likely to strengthen, bolstered by government initiatives aimed at improving logistics infrastructure and enhancing the business environment through tax reforms
- India's private consumption growth is projected to be supported by a stronger labor market, increasing credit, and falling inflation. However, government consumption growth is likely to remain limited
- Overall investment growth is expected to stay stable, with a rise in private investment driven by healthy corporate balance sheets and more favorable financing conditions
- India's growth is projected to slow to 6.5% in 2024-25, down from 8.2% in 2023-24, due to a slowdown in investment and sluggish manufacturing growth. However, services activity has remained stable, and the agricultural sector has seen a recovery. Private consumption growth has stayed strong, mainly driven by improved rural incomes

India's Digital Economy To Contribute Around One-Fifth Of India's National Income By 2029-2030: Meity

- According to a report by the Ministry of Electronics and Information Technology (MeitY), India's digital economy is set to grow at almost twice the pace of the overall economy, contributing nearly one-fifth of the country's national income by 2029-2030
- The digital economy's share is projected to exceed that of agriculture and manufacturing in less than six years, according to the report
- As of 2022-23, the digital economy accounted for 11.74% of India's national income, amounting to Rs 28.94 trillion ($368 billion) in Gross Value Added (GVA) and Rs 31.64 trillion ($402 billion) in GDP. According to the report, this share is expected to grow to 13.42% by 2024-25

India's Retail Inflation Drops to 5.22% in December 2024: A Positive Shift Amid Easing Food Prices



Source: RBI

- India's retail inflation decreased to 5.22% in December 2024, the lowest in four months, from 5.48% in November 2024, largely due to a decrease in food prices, particularly vegetables, pulses and cereals

Key Highlights:

- **Food Inflation:** The Consumer Food Price Index (CFPI) reported a year-on-year food inflation rate of 8.39%, down from 9.04% in November 2024, with vegetable inflation decreasing to 26.56% from 29.33%, and pulses inflation moderated to 3.83% from 5.41%
- **Urban versus Rural Inflation:** Rural inflation decreased to 5.76% from 5.95%, while urban inflation eased to 4.58% from 4.83%
- Housing inflation decreased slightly to 2.71%, while clothing and footwear inflation remained stable at 2.74%
- On a month-on-month basis, retail prices fell by 0.52%, the most significant decline in over a year
- Retail inflation has decreased since its peak of 6.21% in October, indicating a consistent downward trend that could impact the RBI's monetary policy decisions
- Decline in Retail Inflation May influence RBI's monetary policy decisions: The decline in inflation to RBI's target range of 2% to 6%, provides a relief from the previous month's high levels
- Moderate inflation raises RBI's interest rate cut expectations: Moderation in inflation has raised expectations for the RBI to cut interest rates in February 2025 to support economic growth, but concerns about inflationary pressures from higher import costs due to the Indian rupee's historic low depreciation could influence the decision
- **Food and Beverages:** The Consumer Food Price Index (CFPI) saw a slight increase of 8.39% in December 2024, slightly down from 9.04% in November 2024
- Vegetable inflation decreased to 26.56% from 29.33%, while pulses inflation moderated to 3.83%. Peas, potatoes, garlic, cumin, and ginger experienced price increases, easing consumer burden
- Other food items like cereals (6.51%), milk (2.8%), and sugar (0.31%) also saw reduced price growth
- **Fuel and Light:** Fuel and Light category experienced deflation, with inflation improving to -1.39% from -1.83% in November, indicating reduced energy costs for consumers
- **Housing:** The housing inflation rate for December 2024 decreased slightly from November's 2.87%, reflecting changing housing costs in urban areas
- **Miscellaneous:** The miscellaneous segment, which includes services and non-essential goods, experienced a slight decline, indicating subdued economic demand pressures
- **Rural Inflation:** Recorded at 5.76%, down from 5.95% in November 2024
- **Urban Inflation:** Urban inflation has decreased to 4.58%, reflecting a decrease from the previous month's rate of 4.89%

BWR VIEW

Easing retail inflation in December 2024, attributed to effective supply-side management and favourable global conditions, but sustained efforts are needed to maintain this trend and tackle potential economic challenges. While this decrease in inflation rate is encouraging, ongoing challenges like weather events and geopolitical tensions could still pose risks

The decrease in retail inflation suggests stabilization of prices, potentially boosting consumer purchasing power and economic growth. However, persistent food inflation and global oil prices remain critical for monitoring, impacting RBI interest rate decisions

Food inflation is expected to remain high in the short term but may moderate later in the fiscal year. Changes to the Consumer Price Index could stabilize inflation by reducing volatile food prices The RBI's monetary policy may be influenced by the recent decrease in inflation, which could potentially stimulate economic activity by cutting interest rates, especially if inflationary pressures continue to moderate

The RBI's Monetary Policy Committee has downgraded its 2025 fiscal year growth forecast to 6.6% and raised inflation estimates, predicting high inflation could hinder consumer spending and economic growth

Weaker Rupee and Inflation: The Indian rupee's recent depreciation has complicated the RBI's decision-making process, as a weaker rupee could increase inflation through costlier imports and reducing interest rates, could dampen capital inflows

- Though both urban and rural areas experienced a decrease in inflation rates in December 2024, but rural areas consistently displayed higher inflation levels

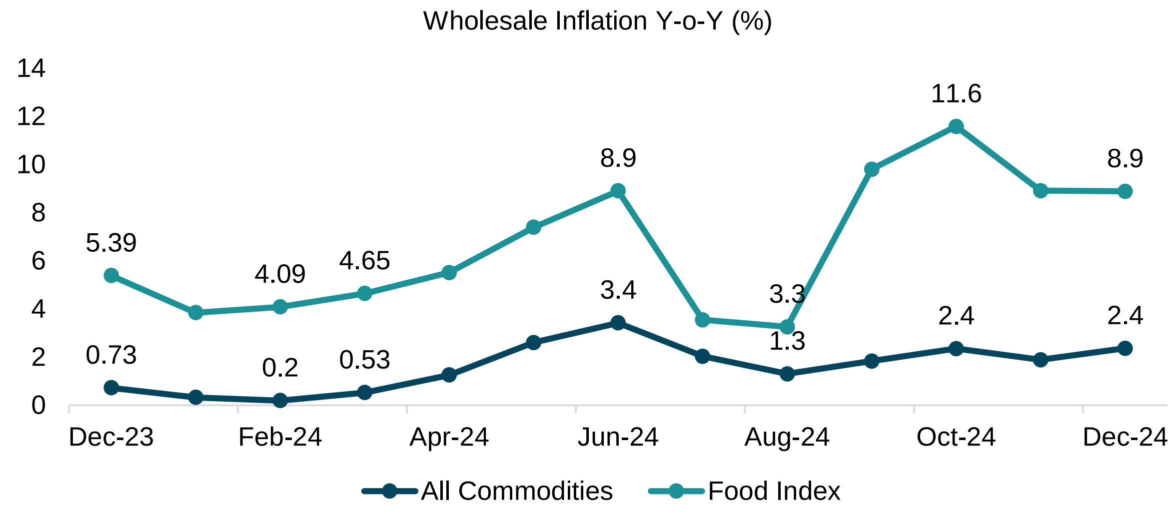
Factors Influencing the Decline in CPI:

- **Improved Supply Chain:** Improved agricultural output and supply chain management have increased the availability of essential commodities, particularly vegetables, leading to price corrections
- **Reduction in Vegetable Prices:** Vegetable prices decreased significantly, from 29% in November to 26.6% in December 2024 due to improved supply conditions and favourable weather, boosting crop yields for staples like onions, tomatoes, and potatoes
- **Global Commodity Prices:** The stabilization of global edible oil prices and favourable international market conditions have moderated domestic food inflation
- **Seasonal Factors and Harvest Conditions:** Seasonal factors, Kharif crop harvest, Rabi sowing conditions, healthy reservoir levels, and good agricultural practices have increased food availability and stabilized prices
- **Government Interventions:** Government interventions, including subsidies and import adjustments, have been instrumental in controlling food prices and reducing inflationary pressures
- **Monetary Policy Stance:** The RBI's cautious monetary policy stance, including maintaining interest rates and ensuring market liquidity, effectively anchored inflation expectations

The current inflation decline is positive, but several factors need close monitoring.

- **Currency Depreciation:** The declining rupee and global trade uncertainties pose risks to future inflation, despite the easing of inflation rates. A weakening rupee could increase import costs, especially for crude oil, potentially causing inflation to rise
- **Global Economic Conditions:** The global economic conditions are influenced by international commodity price fluctuations and geopolitical developments, potentially impacting domestic inflation dynamics
- **Domestic Demand:** The rise in economic growth may result in increased domestic demand, potentially causing price pressures and necessitating prudent monetary and fiscal policies

Manufactured Goods Drive Wholesale Inflation Higher to 2.37% in December 2024 Amid Easing Food Prices



Source: Ministry of Commerce & Industry, Government of India

Key Drivers of WPI: Food, Textiles, and Power Prices on the Rise

- India's wholesale inflation shows a notable increase, rising to 2.37% in December 2024, up from 1.89% in November 2024, marking the fastest pace since June 2024 and this increase is primarily attributed to rising prices in key sectors, particularly food articles, manufactured food products, textiles, and non-food articles
- This marks a significant rise compared to 0.86% in December 2023, indicating ongoing inflationary pressures in the economy
- This rise marks a notable shift in inflation trends, driven largely by higher prices in manufactured goods and food products

- The most significant contributor to the rise in wholesale inflation was the increase in prices of manufactured goods, which hold a substantial weight in the Wholesale Price Index (WPI)
- On a month-over-month basis, wholesale prices decreased by 0.38%, marking second consecutive month of decline, despite an upwardly revised drop of 0.45% in November 2024, indicating ongoing price corrections across various segments

Key Highlights:

- **Food Prices:** Food articles' WPI decreased slightly to 8.89% in December 2024 from 8.92% in November 2024. Although the WPI Food Index saw a slight decrease, food inflation remained significant, particularly for certain items like vegetables, which experienced significant inflation, rising to 28.65% from 28.57% the previous month
- **Manufactured Products:** The manufacturing sector saw a significant acceleration, with the inflation rate for manufactured products rising to a 23-month high of 2.14% in December 2024, up from 2% November 2024, driven by faster increases in food products, textiles and other manufactured goods, indicating increased price pressures in this sector and potential impact on retail prices
    - This reflects broader trends across various manufactured goods, although some categories showed price declines
- **Fuel Prices:** In contrast, Fuel and power categories experienced deflation with 3.79% decrease, slightly less severe than the previous month's drop of 5.83%. This indicates a softer drop in fuel prices compared to earlier months
    - Although, the fuel and power segment experienced deflation, but electricity prices increased by 8.81%, affecting manufacturing processes across sectors, including non-food articles and further influencing the overall inflation rate
- **Non-Food Articles:** The non-food article index increased by 2.53% in December 2024, contributing to an overall wholesale inflation rate. The rise in non-food article prices was due to the rise in minerals prices, which rose at a lower rate of 0.48%.
- The rise in non-food prices indicates a shift in market dynamics after two years of declining prices, potentially putting upward pressure on inflation
- **Minerals:** Alongside non-food articles, mineral prices also increased, albeit at a lower rate of 0.48%
- The textile sector significantly contributed to the overall WPI increase, with inflation in textiles reported at 2.39%, a significant increase from previous months
- **Monthly Trends:** On a month-over-month basis, the WPI for all commodities decreased by 0.38%, marking a second consecutive month of decline, following a revised drop of 0.45% in November 2024

The increase in India's wholesale inflation in December 2024 can be attributed to several key factors:

- **Rising Food Prices**
    - **Food Articles:** Although overall Food inflation eased slightly to 8.47% in December 2024, from 8.63% in November 2024, certain food categories experienced significant price increases, particularly vegetables like potatoes, which rose 93.20% and 16.81%, respectively
        - However, the prices of cereals and pulses moderated, contributing to the mixed performance in food inflation overall.
    - **Manufactured Food Products:** The inflation rate in the manufacturing of food products increased significantly to 9.68% in December 2024, up from 9.44% in November 2024, indicating ongoing pressures on food prices within the food sector
- **Manufacturing Sector**
    - **Textiles and Other Manufactured Goods:** The textile sector experienced a 2.39% inflation increase, while overall manufacturing inflation rose to 2.14%, attributed to higher production costs across various goods, indicating a broader trend of rising production costs
- **Fuel and Power Prices**
    - Fuel and power segment experienced a 3.79% deflation, but the decline was less severe than previous months, suggesting fuel prices are not contributing positively to inflation

BWR VIEW

Wholesale inflation going ahead in 2025 is likely to be influenced by commodity prices, currency fluctuations, base effects, and food supply chain dynamics. Fluctuations in crude oil and other commodities could lead to increased wholesale inflation rates. The depreciation of the Indian Rupee against the US Dollar may exacerbate inflationary pressures by increasing the cost of imported goods. Seasonal variations and disruptions in food supply chains can also lead to volatility in food prices

The Reserve Bank of India has predicted elevated food inflation through Q3 FY2025, potentially moderating. Weather-induced volatility in agricultural production could exacerbate price pressures

India's December 2024 wholesale inflation surge challenges RBI's February 2025 interest rate cuts, as retail inflation exceeds the 5% comfort zone. Global economic conditions, geopolitical developments, and commodity prices also influence inflation expectations

While there is potential for a rate reduction if inflation stabilizes and economic growth requires support, external factors and persistent inflation could lead to a more cautious approach by the central bank. However, the slowdown in India’s economic growth is putting pressure on the Reserve Bank of India (RBI) to consider easing monetary policy despite ongoing inflation concerns

The rise in food articles in India can be attributed to several interrelated factors:

- **Vegetable Prices:** Vegetable inflation remained high, reaching 28.65%, despite general food price easing, largely due to seasonal factors and supply chain disruptions

- **Edible Oils:** Global supply disruptions and increased import duties have led to a 13.3% inflation rate for edible oils, significantly impacting food inflation and household budgets

- **Supply Chain Issues:** Supply chain challenges and volatility in perishable goods, particularly vegetables, have led to price hikes and pressure on the Consumer Price Index for food

- **Seasonal Variability:** Seasonal agricultural production, despite anticipated fresh harvests, led to higher prices in December 2012 due to lag in supply adjustments from previous seasons

India's wholesale inflation in December 2024, fuelled by rising costs in food production and manufacturing, could pose challenges for consumer pricing and economic stability. Although the Consumer Price Index (CPI) decreased to 5.22%, the government and central bank may need to closely monitor these trends to adjust monetary policy

The rise in wholesale inflation potentially indicating rising producer costs, which could lead to higher consumer prices if these trends persist. Going ahead, wholesale inflation may rise to around 3% by January 2025, driven by ongoing demand and potential supply chain adjustments, reflecting ongoing economic adjustments and external pressures

India's Manufacturing PMI Ends 2024 on a Soft Note: PMI in December Decline to 56.4

Job Growth Continues: December PMI Shows Strong Employment Trends Despite Lower Output

- India's manufacturing sector experienced a notable slowdown in December 2024, as indicated by the Purchasing Managers' Index (PMI), which recorded a 56.4, a slight decrease from 56.5 in November 2024, marking the lowest reading of the year, indicating a moderate growth compared to previous months

- This indicate a weaker improvement in operating conditions despite remaining above the critical threshold of 50 that signifies expansion

- **Employment Growth:** Despite the slowdown, the manufacturing sector saw continued job growth for the tenth consecutive month, reaching its fastest pace in four months, with 10% of surveyed companies expanding their workforce, despite the overall slowdown

- **Production and Orders:** The rate of expansion in new orders was reported as the slowest of the year 2024 and this slow expansion rate suggests a potential cooling in demand, potentially affecting future production levels

- **Export Orders:** New export orders have surged at their fastest pace since July 2024, primarily due to strong international demand, especially from Asia and the Americas.

- **Cost Pressures:** Input cost inflation remained moderate, but selling prices rose significantly, marking the steepest rise since October 2013, indicating manufacturers still face challenges related to pricing

Several factors contributed to the slowdown in India's manufacturing sector in December 2024

- **Softer Demand:** The slowest expansion rate in new orders in the year indicates a weakening demand for manufactured goods, a critical indicator of future production levels and overall economic activity

- **Increased Competition:** The manufacturing sector is facing increased competition, leading to firms maintaining unsustainable pricing strategies and affecting their growth potential, especially from domestic and international competitors, especially from developed manufacturing countries

- **Rising Price Pressures:** Input cost inflation, despite slight easing, remains high, leading to increased selling prices, potentially reducing profit margins and deterring investment in expansion or innovation

- **Inventory Management Issues:** Post-production inventories declined, indicating manufacturers' inventory management challenges due to fluctuating demand, potentially causing inefficiencies and complicating production planning

BWR VIEW

December's manufacturing activity softens, but overall growth is strong. The average PMI for 2024 was 57.5, up from 56.8 in 2023, indicating resilience despite challenges. However, inflation and competitive pressures may temper optimism as manufacturers anticipate 2025

The manufacturing PMI is expected to average around 55.0 by Q1 2025, indicating continued expansion, albeit at a moderated pace. India's GDP growth is expected to slow to 6.4% for FY25, impacting manufacturing performance. Input cost inflation has eased somewhat, but persistent inflationary pressures remain, particularly in the services sector. These factors could influence manufacturers' pricing strategies and demand dynamics. Despite these challenges, manufacturers express optimism about growth driven by strong demand and investment initiatives, suggesting that while growth may be slower, it remains positive overall

Export Demand offers hope: While domestic orders moderated due to price pressures and competition, while export orders surged due to international demand, indicating a positive outlook despite cooling market conditions

- **Economic Context:** India's slowing GDP growth and inflation have impacted consumer spending, eroded purchasing power, reduced private consumption, and impacted demand for manufactured products due to the broader economic environment

Flash India PMI surged to 58.0, indicating a robust manufacturing recovery, led by rebound in output and new orders

- India's manufacturing sector experienced a significant shift in early 2025. After a slowdown in December 2024, where the Purchasing Managers' Index (PMI) fell to 56.4, marking the weakest growth of the year, the sector rebounded sharply in January 2025 as the flash manufacturing PMI rose to 58.0, indicating a robust recovery and the strongest expansion since July 2024

- The increase in the Flash PMI reflects a rebound in output and new orders, particularly driven by a notable growth in export orders

- The Flash India PMI indicates further indicates that manufacturing PMI Output Index increased to 60.3, indicating significant activity in the manufacturing sector despite challenges faced by services

- Manufacturers expressed optimism about continued growth due to advertising, investment, and favourable demand conditions, despite concerns about inflation and competitive pressures

- Manufacturers anticipate an increase in output in 2025 due to advertising and investment, despite concerns about inflation and competitive pressures. However, new export orders rose at the fastest pace since July 2024, providing some positive momentum for the new year

India's Services Sector Soars to 4-Month High in December 2024 led by Strong Demand

- India's services sector demonstrated strong growth in December 2024, with the Purchasing Managers' Index (PMI) rising to 59.3, up from 58.4 in November 2024. This marks the strongest expansion in four months, indicating continued growth for over three years driven primarily by sustained demand and easing inflationary pressures

- The increase in the PMI was attributed to a notable rise in new business, which grew at its fastest pace in four months, supported by robust global demand

- **Continued Demand and New Business Growth:** The surge in PMI, indicating strong growth in the services sector, with new business inflows increasing for the 41st consecutive month, prompting companies to expand their workforce

    - The PMI's growth is primarily due to sustained demand, with new orders increasing for the fourth consecutive month, attributed to companies expanding their capacities to handle increased workloads

- **Sector Performance:** The finance and insurance sectors experienced led the growth with significant growth in new orders and business activity, with service providers confident in maintaining this momentum into 2025

    - The service providers are optimistic about future business activity and expected continued output growth in the coming year

- **Easing Inflationary Pressures:** In December 2024, input price inflation eased from a 15-month high, providing some relief to service providers. While food, labor, and materials costs remained high, the rate of increase was slower compared to previous months, resulting in slowdown in the overall inflation rate for selling prices

    - This moderation in inflation has positively impacted business sentiment, allowing companies to manage expenses better while maintaining profitability

- **Employment Growth:** The services sector experienced strongest job creation in December 2024, albeit slightly slower than November 2024, but remained among the strongest levels since data collection began in December 2005

- **International Orders Growth:** International orders, despite a slower growth rate compared to previous months, contributed positively to the overall demand for services, indicating a resilient export market

- **Business Confidence:** Service providers expressed optimism about future output, backed by increased capacities, new customer inquiries, and strategic marketing initiatives. The sector's prospects have been supported by sustained confidence, as the overall positive sentiment remains above its long-run average

BWR VIEW

India's services sector is expected to maintain its growth trajectory as it moves into 2025, with strong demand and new business inflows. Employment growth is expected to remain strong, with service providers optimistic about hiring due to rising backlogs and new orders

Inflation pressures have moderated, supporting positive business sentiment and stable pricing strategies. The services and manufacturing sectors have a noticeable divergence, with services thriving and manufacturing slowing down

Long-term confidence remains high, with firms expressing optimism about future activity levels. The Future Activity Index suggests sustained demand is strong, potentially enhancing growth prospects over the next year

- **Composite Output Index:** India Composite Output Index, a measure of economic performance encompassing services and manufacturing sectors, improved to 59.2 in December 2024 from 58.6 in November 2024, indicating stronger economic performance despite a manufacturing slowdown

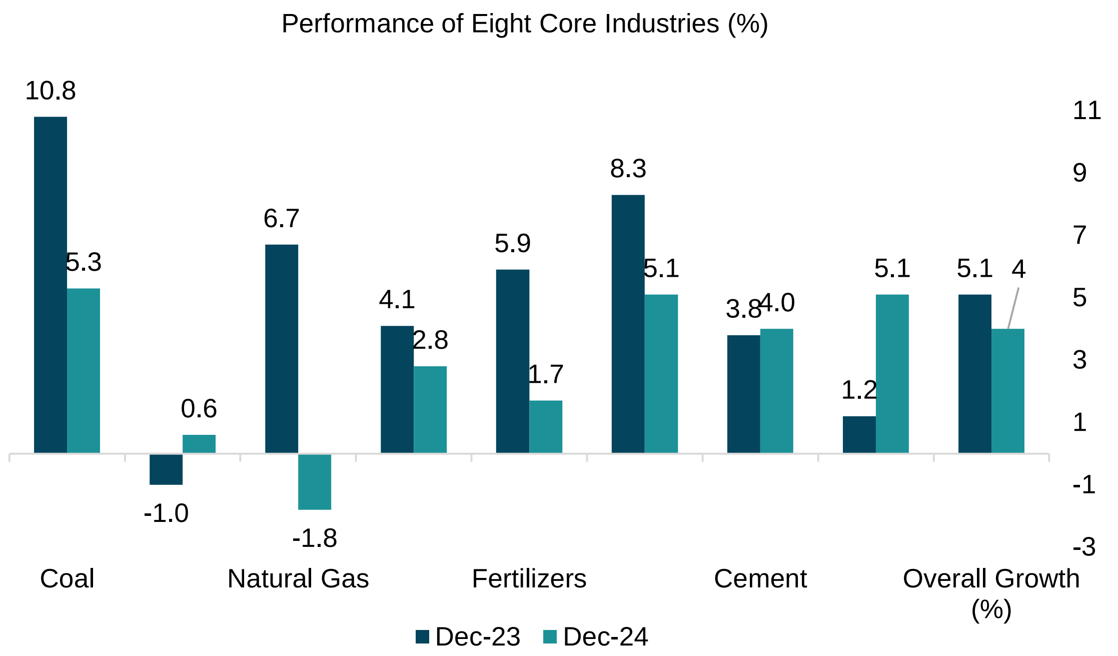
- India's services sector ended 2024 on a strong note, fuelled by strong demand and optimistic business outlooks, despite signs of slowdown in other economic sectors like manufacturing

- In contrast to the strong services sector performance, India's manufacturing PMI fell, indicating a slowdown in industrial activity and this divergence highlights the resilience of the services sector amid challenges faced by manufacturing

- The PMI surge indicates a robust demand environment, with businesses experiencing higher new orders and increased employment, with finance and insurance sectors leading the way in new business activity

- The December easing of input price inflation boosted business sentiment, indicating that positive momentum is likely to persist into early 2025

Core Sector Growth Moderates to 4% in December 2024 amid Economic Challenges



Source: Ministry of Commerce & Industry, Government of India

- India's core sector grew by 4% in December 2024, reflecting a slowdown from the 5.1% growth recorded in the same month of the previous year and a revised growth of 4.4% in November 2024

- This slowdown reflects a moderation in industrial activity due to factors like a high base effect and weaker performance in in key sectors, particularly cement and natural gas

- **Cumulative Growth:** For the period from April to December 2024, core sector growth averaged 4.2%, significantly lower than the 8.3% recorded during the same period in 2023. This decline is attributed to a high base effect and underperformance in certain sectors

- **Cement Production:** The growth in cement production eased to 4% in December 2024 compared to 13.5% in November 2024, indicating a slowdown in construction activities, closely linked to infrastructure development and overall economic momentum

- **Natural Gas Production:** Natural gas production decreased by 1.8% in December 2024, indicating energy sector challenges and impacting overall industrial performance.

- While **coal production** increased by 5.3%, this was a decrease from the 7.5% growth seen in November 2024 and 10.8% in December 2023

- However, the growth in core sector in December 2024 marks the fourth consecutive month of expansion for the core sectors, which include coal, crude oil, natural gas, refinery products, fertilizers, cement, steel, and electricity

- The core sector growth marks a notable improvement from -1.45% in August 2024, and consistent with previous months' growth rates of 2.44% in September, 3.71% in October, and 4.39% in November 2024

BWR VIEW

The slowdown in India's core sector performance comes amid broader economic challenges, including a recent dip in GDP growth to a seven-quarter low of 5.4%, prompting revisions in economic forecasts by various institutions, including the Reserve Bank of India (RBI) which has projected full-year GDP growth at a lower rate than previously expected

The moderation in core sector growth is concerning due to a broader economic slowdown, with GDP growth falling to a 5.4% seven-quarter low and further declines in full-year GDP estimates for FY25

The core sector is pivotal as it contributes about 40% to India's industrial output. A slowdown here can lead to a decrease in the overall Index of Industrial Production (IIP), which is closely tied to GDP growth rates

Going ahead, the Union Budget 2025-26 aims to boost consumption and capital expenditure, with an increase in capital expenditure, indicating optimism about future infrastructure investments. This could strengthen core sector performance in the coming months. December 2024's core sector performance showed a significant rebound, driven by strong growth across most sectors and favourable policy measures

Sector Wise Performance:

Seven out of eight sectors experienced growth while only natural gas saw a decline of -1.76%, attributed to routine operational issues

- **Coal:** Coal sector saw a 5.3% growth in production in December 2024, becoming the leading sector among eight core industries due to increased demand, especially during winter months, indicating a significant energy demand surge
    - This growth rate was significantly lower than 7.5% growth in November 2024 and 10.8% growth in December 2023.
- **Steel:** Steel achieved a 5.1% growth, largely due to government capital expenditure and increased infrastructure projects. This growth marks a significant slowdown from 8.3% growth in December 2023
- **Electricity:** The electricity sector in India experienced a 5.1% growth due to the surge in seasonal demand during winter. The growth rates in November 2024 stood at 4.4% in November 2024 and a muted 1.2% growth in December 2023
- **Cement:** Cement has experienced a 4% growth in December 2024, largely due to ongoing infrastructure development initiatives. This marks a sharp slowdown from a strong 13.5% growth in November 2024 as against 3.8% growth in December 2023
- **Refinery Products** saw an increase of 2.8%, contributing positively to the overall core sector performance. This positive performance is crucial as refinery products hold a substantial weight of 28.04% in the Index of Industrial Production (IIP). However, this growth was lower than 4.1% growth in December 2023
    - The rise in refinery product output is crucial for maintaining industrial activity amidst fluctuating performance in other sectors, indicating robust demand and operational improvements, essential for energy supply and overall industrial health
    - The growth in refinery products in India supports overall core sector growth and underscores its importance within the industrial framework. Its positive trajectory despite mixed sector performances indicates its role as a stabilizing force in recovery

Several factors contributed to the slowdown in India's core sector including:

- **Decline in Natural Gas Production:**
    - The most significant contributor to this slowdown in core sector was due to 1.8% decrease in natural gas output, which negatively impacted the core sector's performance and highlighted vulnerabilities within the sector. This marked a stark contrast to the previous year's growth and highlighted vulnerabilities within this sector
- **Moderation in Other Key Sectors**
    - Coal, steel, and electricity experienced positive growth, but their rates were lower than previous months, with coal's growth slowing from earlier higher rates, indicating a broader trend of moderation across core industries
- **High Base Effect**
    - The slowdown is partly due to a high base effect from the previous year, where core sectors experienced significantly higher growth rates, as seen in the average growth rate in FY25
- **Overall Economic Slowdown**
    - The overall slowdown in India's GDP growth, which reached a seven-quarter low of 5.4% in Q2 FY25, causing a general economic slowdown, reduced investment, and impacted industrial output due to reduced consumption and investment
- **Government Capital Expenditure**
    - Government capital expenditure in sectors like steel and cement provided some support, but it was insufficient to offset the declines in other areas
    - The government's capital expenditure and winter-induced power demand have boosted performance, but overall performance remains cautious due to slower growth rates in several sectors
    - India's core sector growth slowdown, causing concerns about the broader economic outlook, has led to a revised GDP growth forecast for FY25 to 6.6%, indicating potential challenges ahead

India's Industrial Production Growth Soars to Six-Month High at 5.2% in November 2024 driven by Robust Manufacturing Performance

Index of Industrial Production, Y-o-Y Growth

	Mining	Manufacturing	Electricity	General
November 2024*	1.9	5.8	4.4	5.2
November 2023	7.0	1.3	5.8	2.5
Weight in IIP	14.4	77.6	8.0	100

Source: Ministry of Commerce & Industry, Government of India

Index of Industrial Production, April 2024-November 2024

	Mining	Manufacturing	Electricity	General
Y-o-Y Growth	3.3	4.1	5.3	4.1

Source: Ministry of Commerce & Industry, Government of India
** Figures for November 2024 are Quick Estimates*

Sector-wise Classification

	Primary Goods	Capital Goods	Intermediate goods	Infrastructure/ construction goods	Consumer durables	Consumer non-durables
Nov-2024*	**2.7**	**9.0**	**5.0**	**10.0**	**13.1**	**0.6**
Nov- 2023	8.4	-1.1	3.4	1.5	-4.8	-3.4
Oct- 2024	2.5	3.1	4.6	4.8	5.7	2.6
Weight in IIP	34.1	8.2	17.2	12.3	12.8	15.3

** Figures for November 2024 are Quick Estimates*

- India's industrial production experienced significant growth in November 2024, with the Index of Industrial Production (IIP) rising by 5.2% year-on-year, marking the highest growth in six months
- This figure represents a notable increase from the 3.5% growth recorded in October 2024 and 2.5% in November 2023, indicating a positive trend in industrial activities following a challenging third quarter
- This increase reflects a significant recovery in industrial activities, driven primarily by the manufacturing sector
- The cumulative industrial growth for the fiscal year up to November stands at 4.1%, lower than the 6.5% recorded during the same period last year

Key Contributors to Growth

The manufacturing sector leads the charge,

- **Manufacturing Sector:** The manufacturing sector was a key driver of this growth, with its output rising by 5.8% in November 2024, a notable increase from 4.4% in October 2024, driven by significant contributions from basic metals, electrical equipment, and non-metallic mineral products

  Notably, 18 out of 23 industry groups within the manufacturing sector reported positive growth, with major contributors including:

  - Basic metals: +7.6%
  - Electrical equipment: +37.2%
  - Non-metallic mineral products: +12.0%

- **Electricity Sector:** In addition to manufacturing, the electricity sector also showed strong performance, growing by 4.4% from 2% in October 2024, indicating a recovery in energy production, crucial for supporting industrial activities
- **Mining Sector:** The mining sector recorded a more modest growth of 1.9%, an improvement from 0.9% in October 2024. Though mining sector grew at a modest rate, it indicates a recovery from previous contractions and reflects improved operational efficiencies and demand for minerals

BWR VIEW

India's manufacturing sector's strong performance is expected to boost its GDP for fiscal year 2024-25, ensuring its status as one of the fastest-growing major economies globally. India's manufacturing sector growth not only signifies a recovery from previous economic challenges but also lays the groundwork for sustainable long-term economic development, enhancing India's global economic position

The growth in IIP is seen as a positive sign of India's economic recovery following a period of subdued industrial activity earlier this year. The strong increase can be attributed to enhanced government capital expenditure and a favourable base effect from the previous year

India's industrial production in November 2024 saw strong performance due to festive demand, significant growth in infrastructure and construction goods, and positive contributions from the electricity sector, indicating a rebound in industrial activity and optimism for future economic growth

This uptick in industrial production is seen as a positive indicator for the Indian economy, suggesting a recovery trend following earlier sluggishness indicating a stabilizing and growing environment, driven by increased manufacturing activity and consumer demand

India's industrial sector is in a recovery phase, with expectation of potential for continued growth if consumer demand stabilizes and investment activities pick up further, with IIP growth projected to range between 3-5% in December due to an unfavourable base effect from last year

Use-Based Categories

- **Primary Goods** saw a growth of 2.7%

- **Capital goods**: Capital goods production surged by 9% in November 2024, indicating a recovery in investment activity, following a contraction of 1.1% in November 2023.

- **Consumer Durables:** The Consumer Durables category experienced a 13.1% growth during the festive season, contrasting with a sharp contraction of 4.8% in the same month last year

- **Consumer Non-Durables:** Consumer non-durables saw a 0.6% growth in November 2024, down from 2.6% in October 2024, indicating mixed consumption signals

- **Infrastructure and Construction goods** recorded a remarkable growth of 10% in November 2024, a significant rise from the previous month's growth of 4.8% and 1.5% growth in the same month the previous year, reflecting increased government capital expenditure and a rebound in construction activities

- **Base Effect:** The IIP's growth in November 2023, despite only a 2.5% increase, was influenced by a favourable base effect, making the current growth appear more robust compared to the previous year's performance

The significant growth in India's manufacturing sector in November 2024 can be attributed to several key factors:

- **Strong Demand for Exports:** New export orders surged at the fastest pace since July 2024, sustaining manufacturing activity despite domestic challenges

- **Government Initiatives:** The government's Production-Linked Incentive (PLI) schemes have significantly enhanced manufacturing output and competitiveness in sectors like electronics and pharmaceuticals by encouraging investment

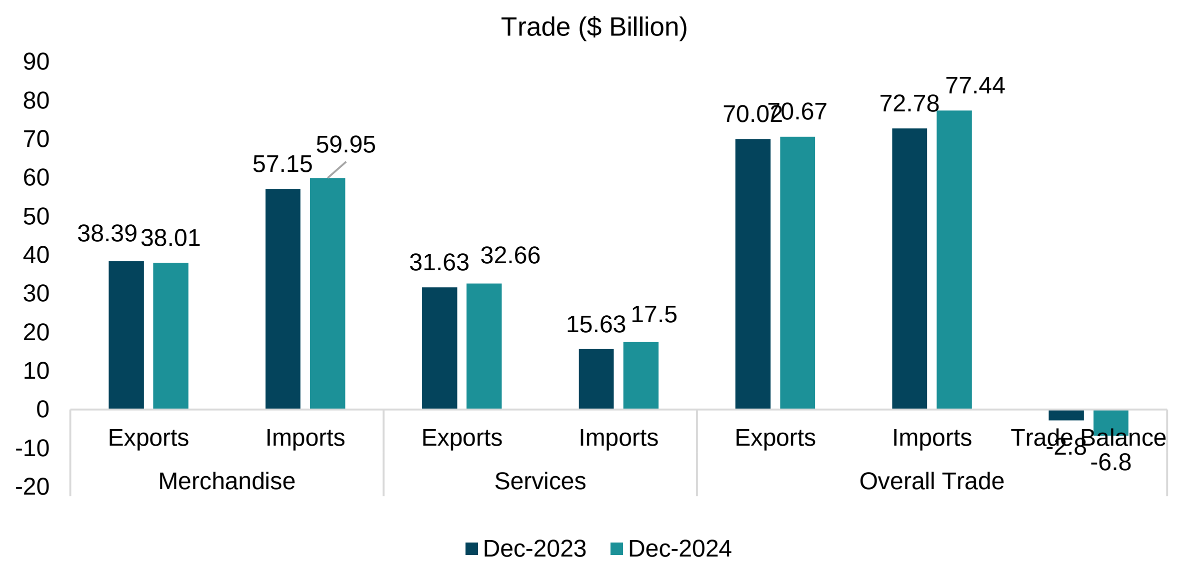
- **Sector-Specific Contribution:** The growth in the sector was largely driven by key sectors like basic metals and electrical equipment, which saw a significant output increase of 7.6% and 37.2%, respectively

- **Employment Growth:** The manufacturing sector experienced a rapid increase in job creation, indicating increased confidence among manufacturers and supporting increased production capacity

- **Easing Cost Pressures:** Input prices increased, but cost pressures slowed down, enabling manufacturers to maintain profitability and invest in production capabilities

- **Infrastructure Investments:** Investments in infrastructure and manufacturing ecosystem enhancement initiatives have fostered growth, enhancing logistics and supply chain management, crucial for manufacturing efficiency

India's Trade Deficit Narrows in December 2024 led by significant drop in Gold Imports



Source: Government of India, Ministry of Commerce & Industry

- **Trade Deficit Narrowed:** India's merchandise trade deficit for December 2024 saw a notable reduction, narrowing to $21.94 billion, down from a record high of $31.86 billion in November 2024

- This significant decrease was primarily attributed to a sharp decline in gold imports, which fell to $4.7 billion in December 2024 from $9.9 billion in November 2024, following a previous surge driven by high demand

- This figure represents a narrowing from the previous month's record high of $31.86 billion in November, indicating some improvement in the trade balance despite persistent economic pressures, however, it reflecting ongoing challenges in balancing imports and exports amid geopolitical tensions

- The December 2024 deficit exceeded the $18.76 billion recorded in December 2023, indicating ongoing challenges despite a month-on-month improvement

- For the April-December 2024 period, the cumulative trade deficit stands at $210.8 billion, reflecting an increase of 11.1% compared to the previous year. Merchandise exports increased by 1.6% to $321.71 billion, while imports increased by 5.1% to $532.48 billion for April-December 2024

Key Factors Influencing the Decline in Trade Deficit

- **Reduction in Gold Imports:** The decline in trade deficit is primarily due to a significant decrease in gold imports, which dropped from $9.9 billion in November to $4.7 billion in December 2024, a significant decrease from the previous year's 55.4% increase

- **Stable Export Performance:** Merchandise Exports contracted by 1%, reaching $38.01 billion in December 2024, while electronics exports surged by 35.11%, reaching a two-year high of $3.58 billion. However, gems and jewellery exports fell by 26%
    - Despite challenges in petroleum exports, non-petroleum exports demonstrated resilience, growing by approximately 5%, indicating resilience in sectors beyond petroleum and precious stones

- **Decrease in Total Imports:** Although imports increased by 4.9% year-on-year, it decreased from November's revised figure of $63.86 billion to $59.95 billion in December 2024, partly due to a 28.6% drop in petroleum product exports, which fell significantly by 28.6%, reflecting global price decline

- **Petroleum Imports and exports:** Petroleum imports increased by 2.2% to $15.3 billion, while exports plummeted by 28.6% to $4.9 billion due to lower global oil prices, significantly impacting export values

- **Global Economic Conditions:** The decline in global petroleum prices by 20%, significantly impacted import costs and export revenues from petroleum products

- **Government revision:** The government revised import data, particularly for gold, resulting in a more favourable trade balance than initially reported for November

BWR VIEW

The trade data reflects global economic conditions, including geopolitical tensions and commodity pricing fluctuations. Commerce Secretary Sunil Barthwal emphasized the government's commitment to improving export performance, aiming for goods and services exports to exceed $800 billion in the financial year

India's narrowing trade deficit is seen as a positive adjustment in India's trade dynamics amid geopolitical tensions and fluctuating global commodity prices. The correction in gold import figures alleviated depreciation concerns for the rupee

Economists predict a favourable current account deficit (CAD) for Q3 FY25, estimated at 2% of GDP for Q3 FY25 and 1% for FY25 due to these adjustments

The Indian rupee's depreciation in December 2024 significantly impacted the trade deficit, increasing import costs for essential commodities like crude oil and gold. This led to a 4.9% increase in imports to $59.95 billion, despite a contraction in exports, primarily due to the currency's weakening against major currencies

Exports faced challenges, contracted by 1% YoY to $38.01 billion, but the weakening rupee didn't offset higher import costs, resulting in a trade deficit due to reduced revenues and increased import expenses

The rupee's persistent depreciation is expected to continue affecting trade dynamics, creating a cycle of higher import costs leading to a larger trade deficit and potential currency weakness

- The services sector demonstrated resilience, with service exports growing 3.2% year-on-year in December 2024, despite challenges in sectors like petroleum, gems, and jewellery

The decrease in gold imports in December 2024 can be attributed to several factors:

- **Price Fluctuations:** The gold prices after reaching a record high in October 2024, saw a correction in mid-November 2024, which initially spurred purchases. However, prices rebounded in December 2024, discouraging new purchases

- **Seasonal Demand patterns:** The absence of major festivals and wedding seasons in December led to a decline in gold demand, while November saw increased activity due to the festive seasons like Dussehra and Diwali

- **Market Adjustments:** The market adjusted expectations for December 2024 after revised imports in November 2024 due to data errors and a sharp decline in imports was due to traders offering discounts, reflecting weaker demand

- **Economic Conditions:** Economic factors like inflation and investment changes have led to cautious buying practices, with many potential buyers waiting for better price conditions before making purchases

- The decline in Gold imports in December 2024 was due to price corrections and lower demand after a record November spike, with gold purchases exceeding $14 billion due to festive season demand and price corrections.

After reaching a record high in October 2024, gold prices saw a correction in mid-November 2024, which initially spurred purchases. However, prices rebounded in December 2024, discouraging buyers from making new purchases.

India's Services Trade Surplus Positively impacts overall trade balance

- India's services trade surplus has significantly improved its trade balance, especially amidst a widening merchandise trade deficit

- Services Trade Surplus: India's services trade surplus for December 2024 reached $15.16 billion, boosted by robust services exports and a rise in imports

- **Services Export Growth:** Services exports grew by 3.2% year-on-year, reaching $32.66 billion, compared to $31.63 billion in December 2023

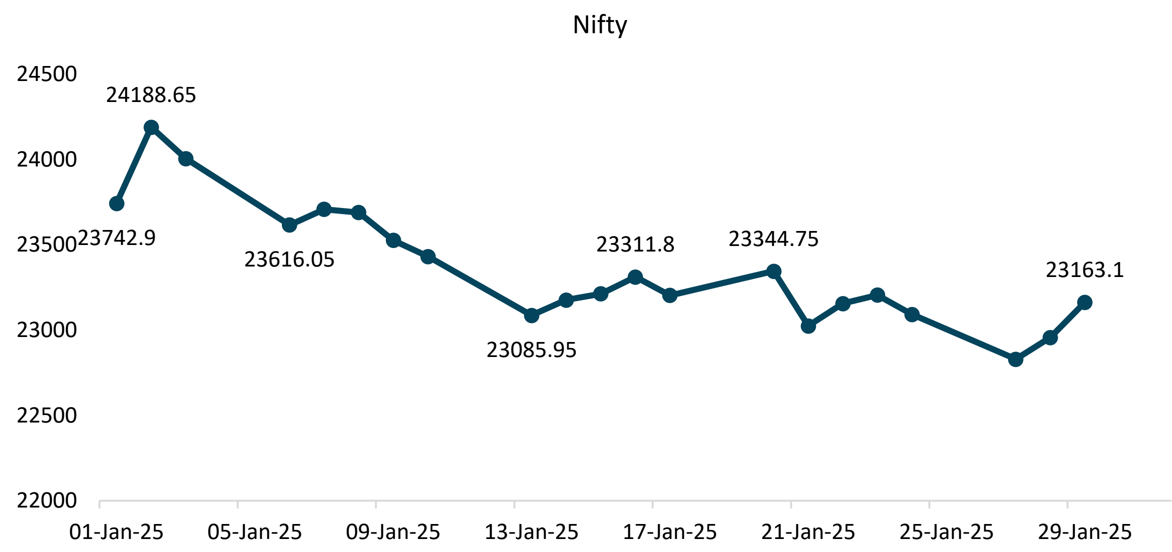
- **Import Increase:** Services imports rose significantly by 11.9%, totalling $17.50 billion, up from $15.63 billion in the previous year

- The services sector continues to be a strong contributor to India's trade balance, highlighting the resilience of this sector amidst fluctuations in merchandise trade

- The services trade surplus is expected to positively impact the current account balance in Q3 FY25 due to improved trade conditions despite challenges in merchandise exports

Stock Markets

Nifty Faces Longest Losing Streak Amid Economic Uncertainty and Budget Anticipation Drives Caution



Source: BSE and NSE

- In January 2025, Indian equity markets continued its negative trend observed in late 2024, with significant declines across major indices due to global economic uncertainties

- The NSE Nifty 50 after experienced a drop of over 3% during January 2025, closed 1% lower, marking the second-largest decline in their ongoing four-month losing streak, dropping by approximately 12.6% and 11.7% since reaching record highs on September 27, 2024

Several factors contributed to this performance:

- **Global Tarde Uncertainties:** This downturn has been influenced by various factors, including heightened fears of a trade war following tariff announcements from the U.S., weak corporate earnings, foreign portfolio investor (FPI) outflows, and broader economic uncertainties and a strengthening US dollar, which has pushed the Indian rupee to an all-time low

- **Trump's tariffs sparkled Trade Wars:** US President Donald Trump's tariffs on Canada, Mexico, and China sparked fears of a trade war, potentially impacting global economic growth and affecting investor sentiment across markets, including India, due to potential negative impacts

- **U.S. Dollar Surge and Indian Rupee Depreciation:** The U.S. dollar surged to reach record highs against various currencies, including the Indian rupee, which weakened to Rs 87 per US dollar. This depreciation causing increased import costs and created inflationary pressures and thus straining the Indian economy.

- **Anticipation of Domestic Policy Decisions:** Investors were cautious ahead of key domestic events, including the Union Budget 2025-26 announcement on February 1, 2025 and the Reserve Bank of India's monetary policy decision, which contributed to market volatility

- The decline in Indian equities began in October 2024 due to disappointing quarterly earnings reports and market expectations. The situation worsened in January 2025 when FPIs withdrew $8.3 billion from Indian equities due to a stronger U.S. dollar and concerns over high valuations

- The decline in the NSE Nifty 50 index in January 2025 came amidst a challenging market environment leading up to the Union Budget announcement on February 1, 2025, a trend consistent with historical weakening in the month preceding budget announcements in the last five years

- Further, it was impacted by economic slowdown signs, foreign capital outflows, and uncertainties about U.S. Federal Reserve interest rate policies in January, reflecting cautious investor sentiment amidst potential policy impacts from the upcoming budget

- In January 2025, the Indian equity market experienced a decline, marking a challenging month for investors. During the January 2025 month, the Nifty index reached a high of 24,227 and a low of 22,787

- This decline marked the fourth consecutive monthly drop for the Nifty 50, culminating in the longest losing streak in 23 years

BWR VIEW

Looking ahead to February 2025, several factors are expected to influence the Nifty 50's performance

Union Budget 2025-26: The Union Budget 2025-26, presented on February 1, 2025, announced a modest 10% increase in capital expenditure to Rs 11.21 lakh crore for FY 2025-26, causing investors to closely monitor its impact on various sectors and overall economic growth

US President Trump's Delay in Tariffs on Canada and Mexico: Going ahead, US President Trump's delay in tariffs on Canada and Mexico, alleviating trade tensions, has a positive impact on the Nifty influenced the Nifty's trend by reversing negative sentiment and prompting a significant rally in Indian equity markets in early February 2025. The decision to pause tariffs alleviated concerns about escalating trade tensions, which had previously led to market volatility and declines

RBI's Monetary Policy Outlook: Focus will be on the Reserve Bank of India's monetary policy meet outcome on February 7, 2025 where the RBI is anticipated 25-basis-point rate cut in the repo rate, which would lower it from 6.5% to 6.25%. This potential move is seen as a response to improving liquidity conditions and easing inflation pressures following recent fiscal measures aimed at stimulating economic growth post-Budget 2025

We expect a potential interest rate cut by RBI this time, citing it as crucial for economic momentum and improving borrowing conditions for consumers and businesses, reflecting a broader consensus among economists

Corporate Earnings: Further, upcoming India's corporate earnings season starting February 2025 is expected to further influence market sentiments with expectations of strong performance in FMCG and private banking sectors due to increased disposable income from tax reforms announced by the Finance Minister in the Union Budget 2025-26, supporting market growth

The Union Budget's focus fiscal consolidation and tax relief measures are expected to boost corporate earnings and potentially boost the Nifty index in February 2025

Indian equities' long-term outlook remains positive, but short-term volatility is expected due to cautious investor sentiment, foreign capital outflows, and global economic uncertainties

Sector Performance

- The Nifty IT Index experienced decline in January 2025 due to uncertainties from Trump's trade policies, causing a cautious outlook for tech stocks, which are sensitive to global economic conditions

- Conversely, sectors like **real estate and healthcare** faced significant pressure, contributing to the overall drop in the Nifty index

  - Rising borrowing costs and U.S. Treasury yields have exacerbated challenges in the real estate sector, attracting capital away from emerging markets like India, reducing liquidity and investment

  - Rising U.S. bond yields, which reached 4.76%, which has heightened the vulnerability of these rate-sensitive sectors to selling pressure

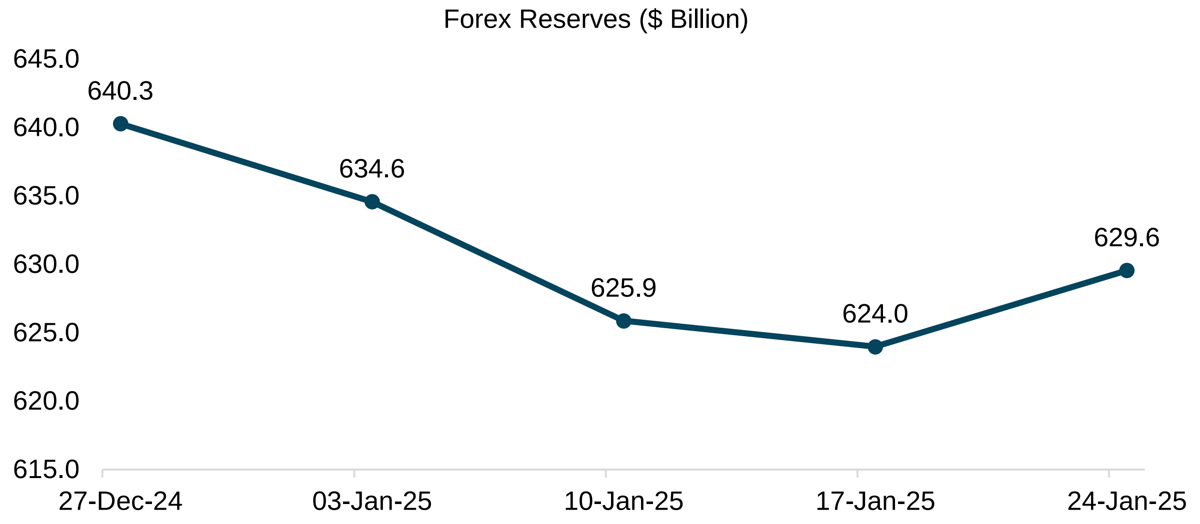
  - Further, strong US jobs report, indicating the addition of 256,000 jobs, diminished expectations for aggressive interest rate cuts by the U.S. Federal Reserve. With expectations of fewer rate cuts, investor sentiment turned cautious regarding real estate investments

- The **healthcare sector** faced challenges due to market volatility and economic uncertainties, leading to cautious investor behaviour and stock declines

- The **auto sector** faced a massive inventory backlog with dealers, causing concerns about consumer demand. This led to a correction in the Nifty Auto Index in January 2025, as investors reacted negatively to potential sales and profitability implications.

Forex

India's Forex Reserves Saw a Significant Recovery After a Period of Decline



Source: RBI

- India's foreign exchange reserves have witnessed a downward trend in January 2025, reflecting ongoing economic challenges. As of January 24, 2025, the reserves stood at $629.6 billion, marking an 11% decline from the peak of $705 billion reached in September 2024 and a decrease of approximately $10.7 billion during the January 2025 month till January 24, 2025

- This decline reflects ongoing pressures from foreign portfolio outflows and a strengthening US dollar

- Despite this decline, the reserves remain adequate by global standards, covering just over eight months of imports. However, when considering foreign currency assets, the coverage reduces to just over seven months, lower than previous years' comfort levels

- However, India's forex reserves saw a notable recovery in the week ending January 24, 2025, with reserves increasing by $5.57 billion to $629.55 billion after a period of decline, primarily due to an increase in foreign currency assets and gold reserves

Key Factors Influencing the Decline

- **Rupee Depreciation:** The decline is attributed to various factors including the depreciation of the Indian rupee, which hit a record low of $87 against the US dollar largely due to foreign portfolio outflows and rising US bond yields. Dollar appreciation

BWR VIEW

The decline in forex reserves since its peak is causing concern for investor confidence and India's ability to manage external economic shocks

The combination of a widening current account deficit and declining forex reserves poses challenges for India's economic stability while the Reserve Bank of India's interventions have resulted in a Rs 2 trillion domestic liquidity deficit

India's Economic Survey 2025 shows that its forex reserves cover 90% of external debt and provide an import cover exceeding 10 months, shielding the economy from global liquidity tightening and currency depreciation pressures. This surpasses the IMF's recommended three-month threshold for emerging economies, thereby enhancing its resilience against external shocks

The Union Budget for 2025-2026, aims to stabilize the economy and attract foreign investment, with policy measures potentially influencing investor confidence and forex reserves

The Reserve Bank of India (RBI) is anticipated to reduce its policy rate in February 2025, and these rate cuts can influence capital flows and, consequently, forex reserves decreases the value of India's foreign currency assets and increases the overall reduction in forex reserves

- **Foreign Portfolio Outflows:** There has been a notable outflow of foreign portfolio investments (FPIs) from Indian markets. In early 2025, significant portfolio outflows occurred, with $4.1 billion exiting equities and an additional $66 million from debt instruments, contributing to downward pressure on both the rupee and forex reserves

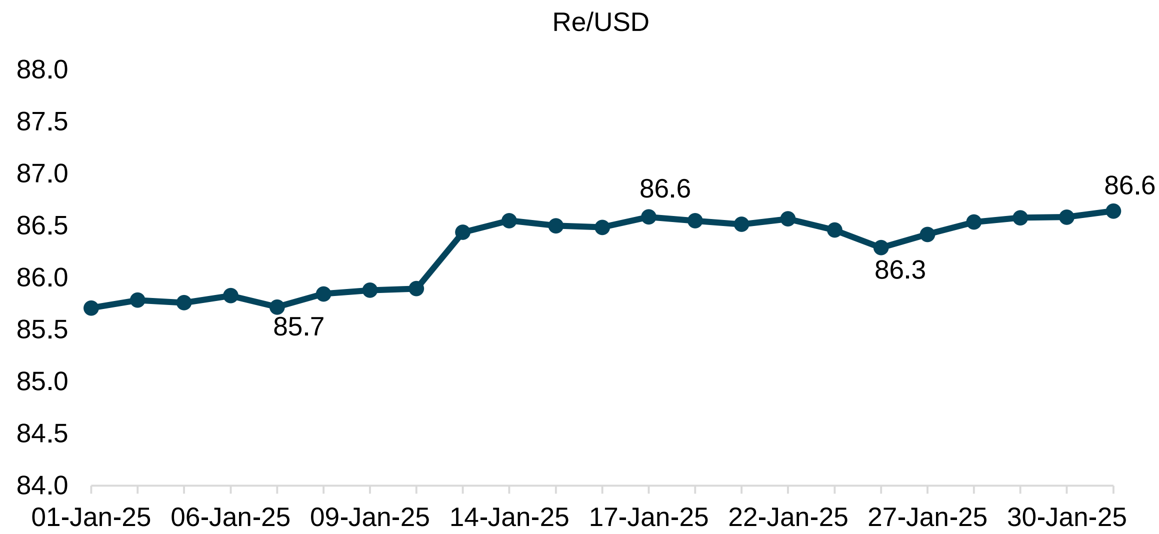
- **RBI Interventions:** The Reserve Bank of India (RBI) has been actively intervening in the forex market to stabilize the Indian rupee, involving buying and selling dollars, which has led to a depletion of reserves and prevent a potential further depreciation against the US dollar

- **Current Account Deficit:** A widening current account deficit, projected at 1.3% of GDP for FY26, which is exerting additional pressure on the Indian rupee and the overall reserves

- **Global Economic Challenges:** Global economic headwinds, including US monetary policy tightening, have impacted investor sentiment and capital flows into India, further strained its forex reserves

Rupee

Rupee Hits Record Low Against The US Dollar; Marks The Rupee's Worst Performance in January 2025



Source: RBI

- In January 2025, the Indian rupee (INR) experienced a notable depreciation against the U.S. dollar (USD). The exchange rate began the month at approximately ₹85.58 per USD on January 1 and weakened to around ₹86.70 by January 31. This represents a depreciation of about 1.3% over the month

- During the month, the Indian rupee hit an all-time low of 86.65 per US dollar on January 31, 2025. Additionally, on January 28, 2025, the rupee faced a sharp drop of 57 paise to 86.62/USD, which was its steepest daily fall in nearly two years

- The rupee's depreciation was triggered by the strengthening dollar index, a 25 basis point rate cut by the European Central Bank, global uncertainty, fears of trade wars, exacerbated by the announcement of tariffs by the U.S. on Canada, Mexico, and China. Further, consistent dollar demand from oil importers also weighed on the rupee

BWR VIEW

Going ahead, the Indian rupee is expected to face continued depreciation and volatility in the near term, influenced by domestic monetary policies and global economic factors

Several factors contributed to this decline:

- **US Tariff Threats:** US President Donald Trump's renewed warnings about imposing tariffs on goods from BRICS nations, including India, have spooked investors and added downward pressure on the rupee
    - Potential U.S. tariffs on Indian imports created a challenging export environment that could hamper growth

- **Outflow of Foreign Investments:** In January 2025, the withdrawal of investments by Foreign Institutional Investors (FIIs) from Indian markets intensified, reaching the highest level in over a decade. Data showed Foreign portfolio investors (FPIs) sold nearly $9 billion worth of local stocks and bonds in January impacted the Indian market, putting pressure on the rupee.

- FII selling caused Indian rupee depreciation due to increased US dollar demand, triggering outflows and a currency depreciation cycle
- Heavy FII outflows increased volatility and downward pressure on the Indian stock prices, affecting major indices like Nifty and Sensex, with significant selling across sectors

- **Global Economic Conditions:**
    - **Strengthening of the U.S. Dollar:** The US dollar's appreciation has pushed down the Indian rupee, increasing import costs and widening India's trade deficit
        - The US dollar strengthened amid an improved macroeconomic scenario in the US, coupled with surge in US bond yields due to expectations of shallow rate cuts by the US Federal Reserve

- **Global Tensions:** The rupee's decline was influenced by geopolitical tensions such as the Russia-Ukraine war, the Middle East crisis, and Red Sea shipping issues, along with oil price volatility, and substantial FPI outflows in equity markets

- **Weak Domestic Equity and Bond Markets:** Weakness in domestic equity and bond markets further contributed to the rupee decline, making it less appealing to foreign investors

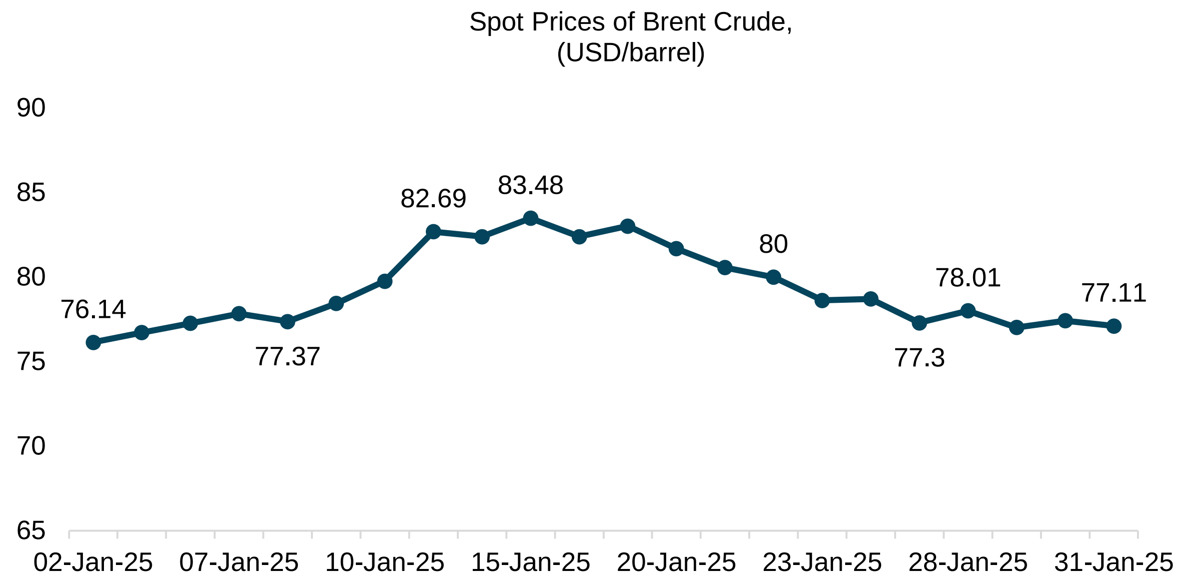
- **Domestic Economic Factors:**
    - **Inflation:** A depreciating rupee increases import costs, leading to imported inflation on input costs for businesses
    - **Trade Deficit:** Increased imports, especially of crude oil, heightened demand for foreign currencies, further pressuring the rupee. A widening trade deficit increases the demand for dollars to pay for imports, which weaken the rupee

- **Expectation of Interest Rate Cuts:** Expectations of an interest rate cut by the Reserve Bank of India (RBI) in its upcoming policy meeting also weighed down the rupee
    - There are expectations that the RBI may reduce the repo rate by 25 basis points during its upcoming monetary policy meeting to stimulate economic growth amid global uncertainties and domestic challenges
    - The mere anticipation of an interest rate cut has exerted downward pressure on the Indian rupee
    - The recent union budget 2025-26 lacks comprehensive economic reforms, shifting the responsibility to the RBI. The RBI's policy decision is crucial as it balances economic growth with currency stability. Stakeholders will closely monitor the central bank's actions and their broader implications for the Indian economy

- **RBI Interventions:** The Reserve Bank of India (RBI) is likely intervening to manage excess dollar liquidity and stabilize the rupee, implementing forex market interventions, including a $5 billion dollar-rupee swap, to curb the rupee's decline

Oil

Brent Crude Oil Reached Highest Levels Since October, Surges Past $80 Per Barrel



Source: U.S. Energy Information Administration

- Brent crude oil prices reached their highest levels since October in January 2025, driven by tighter OPEC+ supply and improved US economic data
- Brent Crude oil prices witnessed notable increase in January 2025, reaching their highest levels since October, marking a significant increase in the market. Brent crude oil prices surged past $80 per barrel in early January 2025 due to tighter sanctions on Russian and Iranian oil and a severe North American cold snap
- However, prices declined by mid-January due to U.S. crude and gasoline stockpile builds, weaker demand, and investor concerns over new U.S.-China trade tariffs. reaching a high of $83.48 on January 15, 2024
- US sanctions on Russian oil exports and uncertainty over Trump administration tariff policies could disrupt trade, impact economic growth, and influence future oil price movements

Factors influencing the increase:

- **Intensified US sanctions on Iran and Russia**
  - The US intensified sanctions against Iran and Russia, resulting in a decrease in global oil supply and upward pressure on oil prices
  - The US imposed sanctions on Russia's energy sector on January 10, 2025, targeting major companies like Gazprom Neft and Surgutneftegaz, as well as over 180 oil tankers, to reduce Russia's revenue from oil and gas exports, causing global oil supply concerns and higher prices.
- **Cold Winter Temperatures**
  - Cold spells in North America, Europe, and Asia increased heating oil demand, leading to a rise in crude prices
- **OPEC+ Production Decisions**
  - OPEC+ maintained production cuts to balance the market, supporting higher oil prices due to its restraint in increasing output
- **Geopolitical Tensions**
  - The US administration's threats to impose tariffs on major oil exporters like Mexico and Canada have heightened geopolitical tensions, causing uncertainties about future oil supplies
- **Improved US Economic Data**
  - The US Bureau of Labor Statistics reported 8.1 million job openings at the end of November, the highest level since May 2023, indicating increased business confidence and potential higher oil demand in a stronger economy
- **Economic Stimulus in China**

BWR VIEW

Brent crude oil prices witnessed significant volatility in January 2025 due to geopolitical tensions, trade disputes, OPEC+ supply management, and economic indicators, resulting in complex market dynamics

US sanctions on Russian oil exports and uncertainty over Trump administration tariff policies could disrupt trade, impact economic growth, and influence future oil price movements

- China implemented economic stimulus measures, including wage increases for public servants and substantial funding through treasury bonds, to boost economic activity and increase oil demand, supporting higher Brent crude prices

- **Opec+ Production Decisions**

  - Despite US President Donald Trump's calls for increased oil production, OPEC+ plans to maintain current output levels until March 2025, with gradual increases starting in April 2025. This decision has contributed to market tightening and higher prices

However, the crude oil prices declined after touching month's high due to a combination of factors, including increased global oil production, weakening demand, and geopolitical developments

Factors that dragged crude oil prices lower from Month's high:

- **EIA Forecasts Lower Oil Price in 2025 Amid Significant Uncertainty:** The U.S. Energy Information Administration (EIA) predicts a decrease in Brent crude oil prices from $81 per barrel in 2024 to $74 per barrel in 2025 and $66 per barrel in 2026. This is due to strong global petroleum production growth and slower demand growth, which puts downward pressure on prices. The EIA expected global liquid fuels production to increase by 1.8 million b/d in 2025 and 1.5 million b/d in 2026

- **US Crude Production Increase:** The EIA predicts an increase in U.S. crude oil production to an average of 13.55 million barrels per day in 2025. The agency predicts global oil production to reach 104.36 million barrels per day by 2025, with global oil demand expected to reach 104.1 million barrels per day.

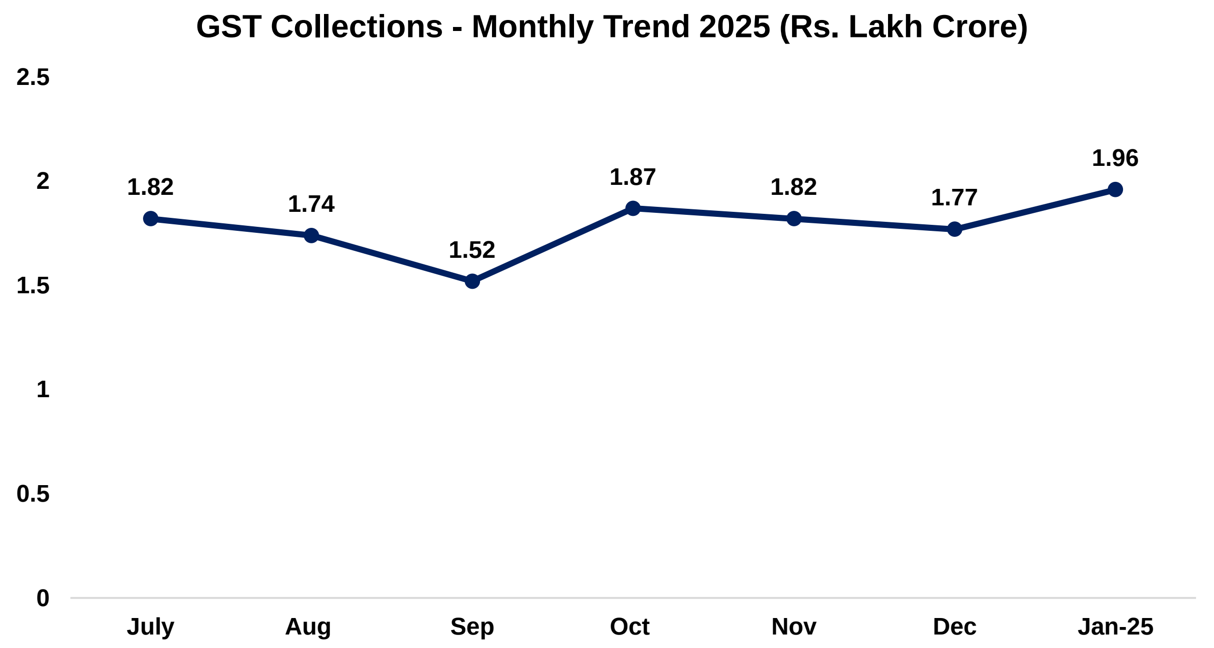
- **OPEC+ Production Cuts:** OPEC+ members' voluntary production restraint has limited oil price effectiveness, with Brent prices in December 2024 averaging $74/b, lower than the $85/b average in April 20232. Unwinding OPEC+ production cuts and strong growth in oil production outside OPEC+ are expected to increase global oil production

- **Rising US Crude Oil Inventories:** The American Petroleum Institute reported a 2.86-million-barrel increase in U.S. crude oil inventories for the week ending January 24th, 2025, and a further 5.025-million-barrel increase for the week ending January 31st, 2025

Other Macro-Economic Indicators

GST Collections

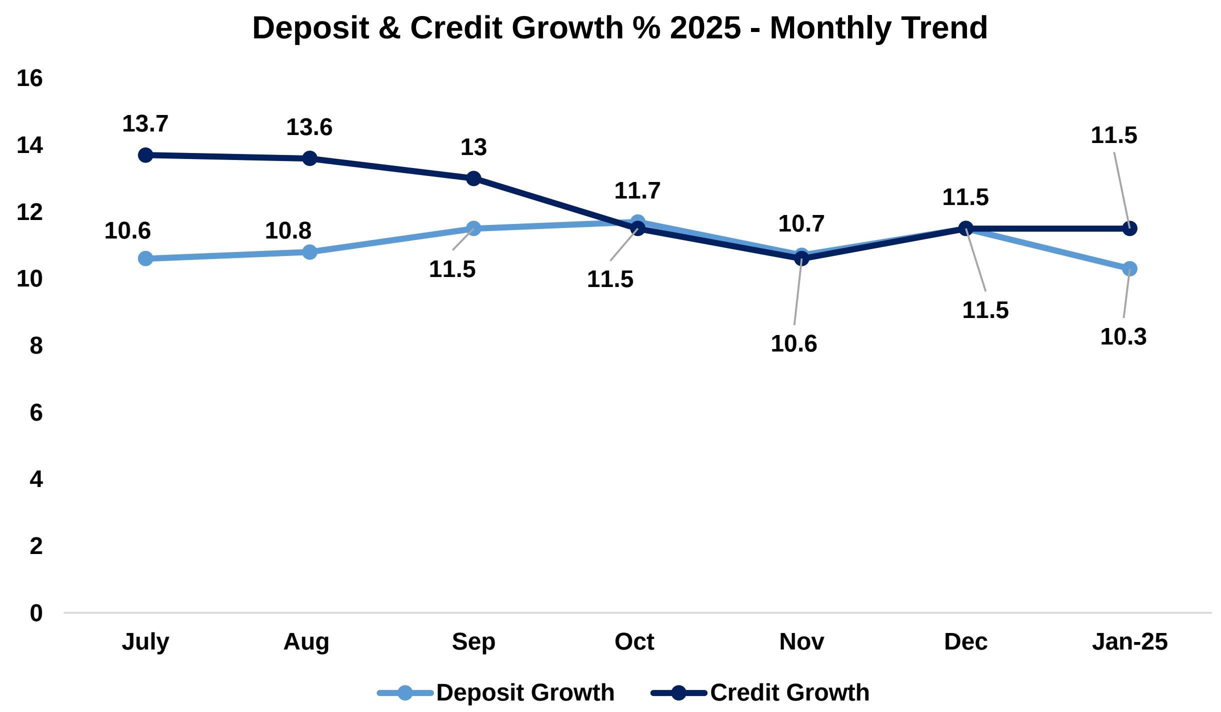
The monthly trends in India's GST collections reflects a steady growth in January 2025 compared to December 2024, the increase in GST collections in January 2025 was primarily driven by increased economic activity, strict enforcement, and greater import growth.



Sources: GST Council, Press Information Bureau.

Deposit & Credit Growth Rate

At the beginning of Q4, bank lending growth outpaced deposit growth, putting pressure on banks to raise deposit rates. As of January 2025, lending increased by 11.4% year-on-year, while deposits grew by 10.3%. The slowdown was driven by measures from the RBI and a focus on managing the Credit-to-Deposit ratio



Source: RBI

BWR VIEW

The recent GST collections highlight a positive trend in India's economy, reflecting strong domestic consumption and vibrant import activity. These figures bode well for the country's fiscal health and ongoing economic recovery, signalling resilience amid global uncertainties. The rise in GST collections suggests an uptick in economic growth and sustained tax compliance by businesses.

In January 2025, India saw an 11.4% year-on-year rise in loan growth, reflecting strong demand for credit amid a positive economic outlook. However, deposit growth lagged at 10.3%, pressuring banks to raise deposit rates for liquidity. The RBI has been managing this imbalance through measures focusing on the Credit-to-Deposit ratio to ensure financial stability. While loan growth signals economic recovery, it also raises concerns about inflation and lending sustainability, highlighting the RBI's crucial role in maintaining balance.

GLOBAL

BOJ raises interest rates to highest level in 17 years

- On 24 January 2025, the Bank of Japan (BOJ) increased its short-term policy rate from 0.25% to 0.5%, reaching its highest level in 17 years and marking the first rate hike since July 2024
- The decision underscores the BOJ's confidence in maintaining stable inflation near its 2% target, supported by increasing wages and a strong economic outlook
- Japan's core inflation rate reached a 16-month high of 3% in December compared to the previous year
- The monetary policy committee in Japan made the decision with an 8-1 vote
- The BOJ pointed to rising wages and growing inflationary pressures as key factors behind its decision
- The central bank highlighted progress in wage negotiations, with many companies signalling plans for gradual wage increases, which would boost domestic consumption and help support inflation

German economy shrinks for second consecutive year in 2024

- Germany's economy shrank for the second year in a row in 2024, underscoring the severity of the downturn affecting Europe's largest economy
- The economy contracted by 0.2% over the year, with factors like rising competition from abroad, high energy prices, persistent interest rates, and uncertain economic prospects all contributing to the decline
- In 2023, Germany's economy had contracted by 0.3%. The last time the country experienced two consecutive years of economic contraction was in the early 2000s

ECB reduces rates by 0.25%

- On 30 January 2025, the European Central Bank reduced interest rates by 0.25% to 2.75%
- This is the fifth rate cut by the bank since June 2024
- The bank is still open to the possibility of future rate cuts in spite of the ongoing global uncertainties and challenges
- With the euro zone economy stagnating in the last quarter due to an industrial recession and sluggish consumption, the ECB is expected to continue its easing policy, even as the U.S. Federal Reserve kept rates steady and signalled a lengthy pause

UK Economic Growth Slows to 0.1% in November 2024; Manufacturing Sector Decline

- The United Kingdom (UK) economy experienced modest growth of 0.1% in November 2024, falling short of predicted 0.2% increase, impacted largely due to high inflation, rising interest rates, and geopolitical uncertainties
- This growth followed two consecutive months of contraction, where GDP had shrunk by 0.1% in both September and October 2024, marking the first positive change in three months
- The growth rate indicates a weak performance in key sectors like manufacturing, services, and construction, possibly due to weakened consumer confidence and reduced business investment
- The manufacturing sector experienced a contraction with the output falling for second consecutive month, attributed to supply chain disruptions and reduced demand from both domestic and international markets
- UK consumer confidence has declined significantly, affecting retail sales and economic activity, attributed to ongoing economic uncertainty and higher living costs, according to experts
- **Sector Performance:** This GDP growth was primarily driven by the Services sector, with human health and social work activities contributing a significantly with 1.3% growth over the three months leading to November 2024
- However, the production sector continued its downtrend with a 0.4% decline, while construction output increased by 0.4% due to new commercial projects

* Views are personal

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