ECONOMY OUTLOOK – MARCH – 2025

Brickwork Research

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Contents

Summary

1. The Indian economy saw a rebound in growth with GDP growing by 6.2% in Q3 FY2024-25 (October-December), accelerating from 5.4% in the previous quarter
2. At the end of January 2025, the Centre's fiscal deficit reached 74.5% of the annual target, according to data from the Controller General of Accounts (CGA)
3. The RBI cut the repo rate by 25 basis points to 6.25% on February 7, 2025, marking the first policy decision under the chairmanship of the newly appointed RBI Governor, Sanjay Malhotra. This decision marked the sixth and final bi-monthly monetary policy review of FY25
4. India's retail inflation witnessed a significant moderation in January 2025, easing to 4.31%, marking a decline from 5.22% in December 2024
5. India's Wholesale Price Index (WPI) inflation eased to 2.31% in January 2025, a slight decline from 2.37% in December 2024 due to to a decrease in food prices, especially vegetables, which saw significant price corrections
6. India's manufacturing sector experienced a significant rebound in January 2025, as the PMI rose to 57.7, marking a significant increase from December's 12-month low of 56.4, indicating a strong rebound in manufacturing activity
7. India's services sector experienced a notable slowdown in growth momentum in January 2025, marking the weakest expansion in over two years as India Services Purchasing Managers' Index (PMI), which fell to 56.5 from 59.3 in December 2024
8. India's Composite Flash Purchasing Managers' Index (PMI) for February 2025 reached its highest reading since August 2024, reaching 60.6 in February 2025, indicates a robust expansion in the private sector, driven primarily by the services sector
9. India's eight core industries recorded a year-on-year growth of 4.6% in January 2025 as against 4.2% growth in January 2024, marking the fifth consecutive month of expansion
10. India's industrial production slowed in December 2024, with the Index of Industrial Production (IIP) growing at 3.2% YoY, marking a slowdown from the 5% growth recorded in November 2024 and this was primarily due to weaker performances in the mining and manufacturing sectors despite a robust increase in electricity generation
11. India's merchandise trade deficit surged to $22.99 billion in January 2025, marking a significant increase from the $16.56 billion recorded in the same month the previous year, representing a year-on-year (YoY) rise of 24.85%, adding pressure on India's economy amid rising import bills
12. February 2025 was a challenging month for the Indian stock market, particularly the NSE Nifty 50 index, as it experienced a 6% decline in February 2025, marking its worst performance since 2020 and a 15% drop from its peak in September 2024, eroding nearly $1 trillion in investor wealth
13. India's foreign exchange reserves experienced a notable increase in February 2025, reaching a two-month high of $640.48 billion as of February 21, 2025
14. February 2025 was a challenging month for the Indian rupee, marked by significant depreciation and volatility, reaching an all-time low against the US dollar
15. Brent crude oil prices experienced a significant decline in February 2025, reaching $73.18, due to geopolitical developments, trade policies, and supply dynamics, causing increased market volatility and uncertainty about future oil price trends
16. The German government revised its 2025 economic growth forecast for the country's economy down to just 0.3% after it contracted for two consecutive years
17. The World Economic Forum (WEF) highlighted that the global economy is likely to encounter significant challenges in 2025, with 56% of chief economists surveyed anticipating a decline in conditions
18. Japan’s inflation surged more than anticipated, reaching its fastest pace since the summer of 2023 and this has heightened expectations that the Bank of Japan may raise its benchmark interest rate further to manage inflation while supporting economic growth

India's Economy Rebounds Strongly in Q3FY25; GDP Growth Hits 6.2%; Second Advance Estimates

- The Indian economy saw a rebound in growth with GDP growing by 6.2% in Q3 FY2024-25 (October-December), accelerating from 5.4% in the previous quarter driven by increased rural consumption and higher government spending, though it was lower than the 9.5% growth in the same quarter of the previous year. Challenges remain, particularly in manufacturing, but overall growth momentum is expected to continue
- **Full-Year GDP Growth Projected at 6.5% for FY25**
  - The Second Advance Estimates project India's real GDP to grow by 6.5% in FY 2024-25. This marks a slight increase from the 6.4% growth rate projected in the First Advance Estimates released in January 2025
  - However, this growth rate is significantly lower than the 9.2% recorded in FY 2023-24, which was the highest in the past 12 years, excluding the post-pandemic surge of 9.7% in FY 2021-22
  - This growth rate still stands slightly below the Reserve Bank of India's projection of 6.8%. Nonetheless, India remained one of the fastest-growing major economies globally during the quarter, showcasing economic resilience
- **Revised GDP Growth for FY24 at 9.2%, Highest in Over a Decade**
  - The NSO revised the GDP growth for FY24 to 9.2%, marking the highest growth in over a decade and highlighting India's robust economic recovery Revised GDP Growth for FY24 at 9.2%, Highest in Over a Decade
  - This significant upward revision in FY24 GDP growth has raised questions about data quality, even as it highlights India's strong economic recovery
  - The revised GDP growth of 9.2% for FY24 presents a significant challenge for future economic growth, as maintaining such high rates may be challenging
- **Q4FY25 Expected to See Further Boost**
  - India's economy is expected to experience a significant boost in Q4FY25 due to sustained government spending, increased capital expenditure, and a surge in consumption during festive events like the Maha-Kumbh festival and wedding season
  - The Indian government has increased fiscal spending on infrastructure and developmental projects, aiming to provide long-term economic stability and boost growth in Q4FY25
  - The Maha-Kumbh festival and wedding season are expected to drive a temporary surge in consumer demand, contributing positively to GDP growth.
  - The RBI has implemented measures to support economic growth, including rate cuts, liquidity provisions, and regulatory adjustments, aiming to enhance credit availability and foster a favourable credit environment, particularly for Micro, Small, and Medium Enterprises (MSMEs)
- **Downside Risks Remain Due to Global Trade Uncertainties**
  - Despite a turnaround in the economy, downside risks remain due to global trade uncertainties and modest urban demand that could impact future growth

(For further details, please refer to BWR Economic Brief, 04 March, 2025, https://www.brickworkratings.com/Research/India's_EconomyRebounds_in_Q3FY25.pdf

India's Fiscal deficit reaches 74.5% of annual target at end of January 2025

- At the end of January 2025, the Centre's fiscal deficit reached 74.5% of the annual target, according to data from the Controller General of Accounts (CGA)
- During April-January 2025, the difference between expenditure and revenue, in absolute terms, was Rs.1,169,542 crore. The deficit was 63.6% of Revised Estimates (RE) of 2023-24 in the year-ago period
- CGA data also revealed that the central government's net tax revenue stood at Rs 19.03 lakh crore, or 74.4% of the RE for 2024-25, down from 80.9% in the same period of the previous fiscal year

BWR VIEW

India's GDP growth in Q3 FY 2024-25 was 6.2%, indicating a significant recovery, driven by increased government spending and improved rural consumption. Further, strategic government spending, strong agricultural output, and a recovering industrial sector supported the growth, but addressing urban demand sluggishness and global trade uncertainties is crucial. However, this growth falls short of the 8.6% recorded in the same quarter last year

The government revised its full-year growth forecast slightly to 6.5%, but challenges like global trade uncertainties and modest urban demand may impact future growth prospects

The fourth quarter of FY 2024-25 will be crucial for India to meet its projected 6.5% GDP growth, and the high nominal GDP growth may influence the Reserve Bank of India's monetary policy decisions

India's economic growth is expected to moderate in FY 2024-25 due to challenges in certain sectors and ongoing inflationary pressures. The revised GDP estimates highlight the need for robust data quality to support policy decisions

The projected 6.5% growth is partly due to global uncertainties and domestic issues like inflation and manufacturing and mining sector-specific issues. The Second Advance Estimates for FY 2024-25 predict a moderate economic growth of 6.5%, with construction and services contributing significantly. However, challenges in manufacturing and mining sectors and data quality concerns require careful economic management and policy interventions

Rural consumption in India is showing signs of improvement in early 2025 driven by favorable agricultural conditions and government policies. This is evident with pickup in sales of tractors, two-wheelers and other consumer durables which have seen a healthy increase, indicating improved rural consumer sentiment

The Kharif harvest in 2024 and a promising Rabi crop, along with higher Minimum Support Prices, have improved rural incomes and consumption, leading to increased sales of consumer durables like two-wheelers and tractors and this is going to have a positive impact on GDP growth

RBI Cuts Repo Rate by 25 Bps to 6.25%; Projects FY26 GDP Growth at 6.7%

The RBI reduced the repo rate by 25 basis points to 6.25% on February 7, 2025, marking the first policy decision under the chairmanship of the newly appointed RBI Governor, Sanjay Malhotra. This decision marked the sixth and final bi-monthly monetary policy review of FY25

Key Highlights of the Meeting:

- **Repo Rate Cut:** The Monetary Policy Committee (MPC) of the RBI, unanimously voted to reduce the repo rate by 25 basis points, bringing it down to 6.25% from 6.50%. This is the first repo rate cut in nearly five years, with the last cut happening in May 2020
    - The RBI's decision to reduce the repo rate aims to boost economic activity by making borrowing more affordable for individuals and businesses, thereby encouraging spending and investment
    - It is a sign that RBI is adopting an accommodative stance to support the economy
    - The central bank expects the move to foster growth while managing inflation
- **SDF and MSF Rates:** Consequently, the standing deposit facility (SDF) rate adjusted to 6.00%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.50%
- **First Rate Cut in Nearly Five Years**
    - This rate cut marks the first rate cut by RBI since May 2020. The last rate reduction occurred in May 2020, when the RBI cut rates by 40 basis point to aid economic recovery during the Covid pandemic
    - However, the central bank initiated a rate hike cycle from May 2022 due to global economic pressures from the Russia-Ukraine conflict and paused this cycle in May 2023 after six consecutive rate hikes aggregating to 250 basis points. The pause in interest rates lasted until the MPC meeting on February 7, 2025, when the repo rate was reduced
    - The decision to cut the repo rate was unanimous among the MPC members, assessing the current and evolving macroeconomic situation

Aims for Neutral Monetary Policy

- Despite the rate cut, the MPC decided to maintain a 'neutral' policy stance. RBI Governor Sanjay Malhotra announced the MPC's neutral monetary policy stance, aiming to align inflation with the target and support economic growth. This indicates that future rate actions will not be pre-determined to either easing or tightening, allowing flexibility to adapt to changing economic conditions

Inflation Target

- The RBI MPC projected an inflation rate of 4.2% for FY 2025-26, aiming to maintain CPI aligned with the target and improve macro outcomes using flexible targeting for the economy's best interest
- The quarterly projections for FY26 are Q1 at 4.5%, Q2 at 4%, Q3 at 3.8% and Q4 at 4.2%, with risks evenly balanced

(For further details, please refer to BWR Economic Brief, 10 February, 2025, https://www.brickworkratings.com/Research/RBI%20Policy%20Meet%20Outcome-%20February%202025%20(1).pdf

BWR VIEW

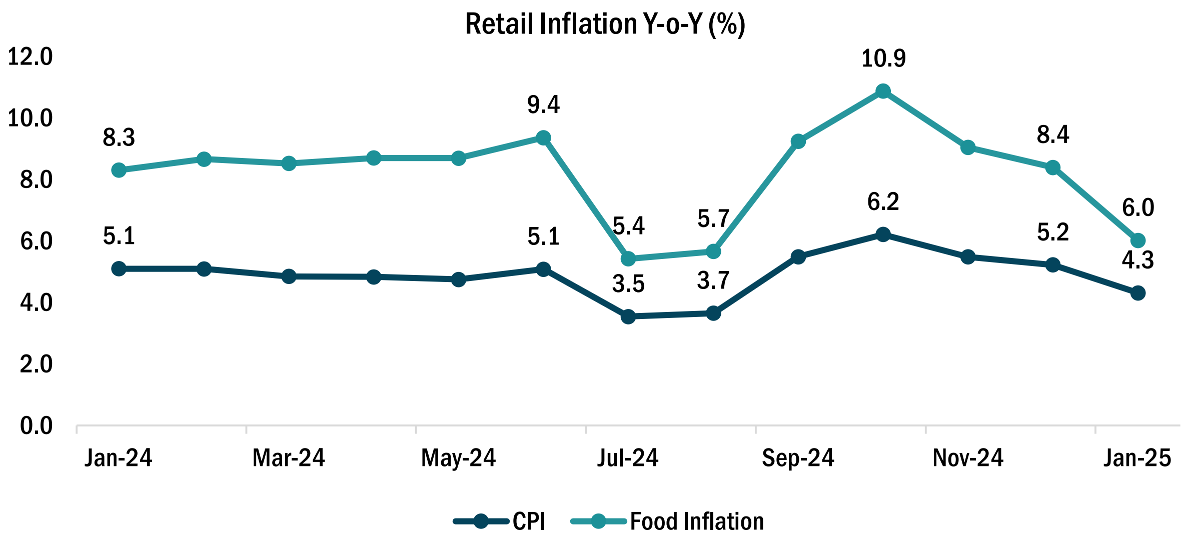
The RBI has cut the repo rate by 25 basis points as a strategic move to boost economic growth amidst easing inflation and slowing activity, aiming to stimulate demand and investment while monitoring global economic developments

This rate cut by RBI is a strategic move to stimulate economic growth, reduce borrowing costs, increase consumer spending, and improve financial system liquidity amid inflation and global uncertainties

The rate cut aims to boost economic activity by making loans cheaper, encouraging spending and investment, following the Central government's recent cut in personal income tax

Despite the reduction, concerns about retail inflation, rupee-USD exchange rate, and global trade-related uncertainties persist and future repo rate cuts will depend on addressing these issues

India's Retail Inflation Eases to a five-month low of 4.31% in January 2025



Source: RBI

- India's retail inflation witnessed a significant moderation in January 2025, easing to 4.31%, marking a decline from 5.22% in December 2024
- The decline of 91 basis points in headline inflation is the lowest since August 2024
- This decline was primarily attributed to a moderation in food prices, especially in categories like vegetables and cereals, alongside a stable core inflation rate. This sharp decline was due to improved supplies and seasonal factors, contributing substantially to the overall reduction in food inflation

Factors Contributed to the Easing of India's Retail Inflation in January 2025:

The easing of retail inflation in India to a five-month low of 4.31% in January 2025 was primarily driven by several key factors:

- **Moderation in Vegetable Prices:** The moderation in food prices, especially vegetables, played a significant role in this decline as it saw a sharp drop in inflation from 26.56% to 11.35% year-on-year largely due to the arrival of fresh winter produce
- **Cooling Food Prices:** The overall food inflation rate as measured in terms of Consumer Food Price Index (CFPI) decreased to 6.02% in January 2025. This is a notable decline from 8.39% in December 2024, largely due to softer inflation in cereals and pulses, however, oils and fats saw an increase
- **Moderation in Cereal and Pulse Prices:** Cereal and pulse prices moderated in January 2025, contributing to a decline in food inflation. This easing of prices in staple food items reduced household budget pressure and supported the decline in retail inflation, alongside vegetables
- **Decline in Prices of Specific Commodities:** Food prices and other commodities, such as jeera, ginger, dry chilies, and brinjal, experienced a decline, with jeera prices dropping by 32.25%, ginger by 30.92%, and dry chilies by 11.27% and brinjal by 9.94% respectively. These declines further supported the overall easing of inflation
- **Deflation in Fuel and Light:** Deflation persisted in the Fuel and light category at -1.38% in January 2025, a slightly increase from -1.39% in December 2024, easing inflationary pressures from other sectors
- **Housing:** Inflation in the housing sector remained relatively stable, with a slight increase from 2.71% in December 2024 to 2.76% in January 2025
- **Seasonal Factors:** Fresh winter produce in local markets moderated food price rises, which account for about half of the Consumer Price Index (CPI) basket
- **Healthy Kharif Output:** The robust autumn Kharif harvest, which increased the supply of essential food items, contributed to the softening of food prices and alleviated inflationary pressures
- **Improved Supply Chain Dynamics:** The favorable weather conditions and effective supply chain management led to increased availability of food products, especially vegetables, which alleviated price pressures that had previously led to higher inflation rates
- **Rural and Urban Inflation Trends:** Rural and urban inflation rates have decreased, with rural inflation dropping to 4.64% and urban inflation to 3.87%, indicating a broad-based inflationary pressure easing across various sectors

BWR VIEW

The decline in inflation enhances the prospects for additional rate cuts by the RBI to stimulate economic growth and providing liquidity to commercial banks

The decline in inflation brings it closer to the Reserve Bank of India's (RBI) target range of 2-6%, potentially supporting further interest rate cuts. The Reserve Bank of India (RBI) has lowered the repo rate by 25 basis points to 6.25% at its policy meet in early February 2025, in response to moderate inflation, which aligns with their target range of 2-6%

The Reserve Bank of India (RBI) has projected inflation at 4.8% for FY25 and 4.2% for FY26, assuming a normal monsoon in the latter year

The RBI's rate cut indicates a shift from inflation control to growth support, potentially accommodative if inflation remains within the 4% target range. Future rate cuts will depend on core inflation trends and external risks

The MPC emphasized the need for growth-supportive monetary policies, including liquidity injections, as inflation trends towards the target of 4%

Inflation rates for vegetables softened, as it rose by 11.35% in January 2025 compared to a 26.56% increase in December 2024

Going ahead, the Union Budget for 2025-26 introduced significant income tax reliefs, which will be increasing disposable incomes for consumers and this fiscal intervention is expected to boost urban consumption and increase rural demand due to robust agricultural performance

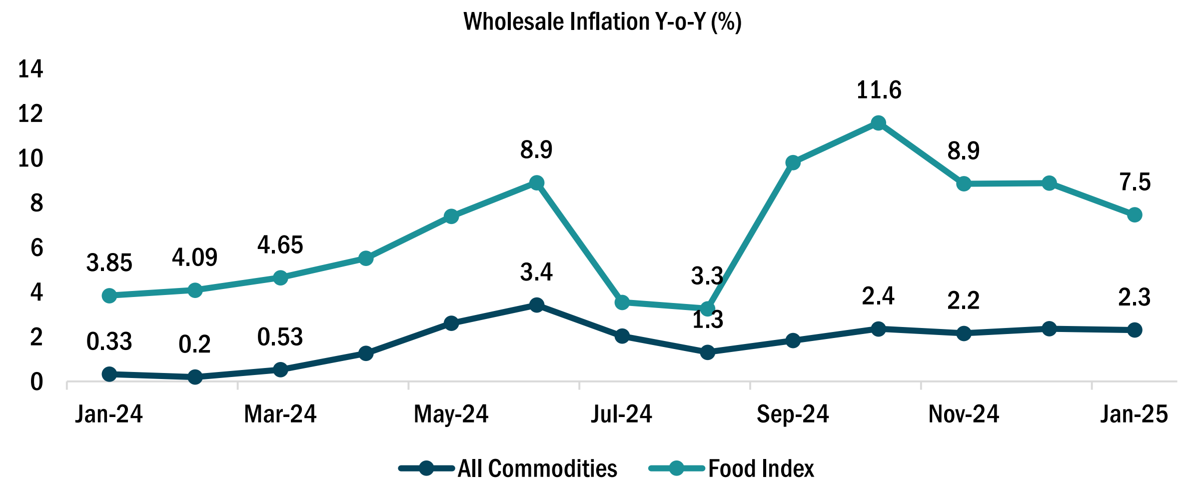
External risks include global financial market uncertainties, energy price volatility, adverse weather events, and currency movements like rupee depreciation, which could impact inflation outlook

- Collectively, these factors have played a crucial role in moderating India's retail inflation, providing relief to consumers and creating a more conducive environment for economic growth

Implications for Monetary Policy:

- The drop in India's retail inflation to 4.31% in January 2025 has significant implications for future monetary policy decisions. The Reserve Bank of India (RBI) may consider maintaining or reducing interest rates to support economic growth, reducing the pressure to raise interest rates. The RBI may also consider a trade-off between controlling inflation and promoting economic growth. Lower inflation can support the credibility of the RBI, but if expectations rise, the RBI might need to tighten policy. The RBI may maintain an accommodative stance to support growth while keeping inflation within target especially if inflation expectations remain stable. Data-driven decisions will be made to ensure inflation control

India’s Wholesale Inflation Holds Steady: Eases to 2.31% in January 2025



Source: Ministry of Commerce & Industry, Government of India

- India's Wholesale Price Index (WPI) inflation eased to 2.31% in January 2025, a slight decline from 2.37% in December 2024
- This moderation is primarily attributed to a decrease in food prices, especially vegetables, which saw significant price corrections
- On a month-over-month basis, wholesale prices fell by 0.45% in January 2025, marking the third consecutive monthly decline, following a revised 0.64% drop in December 2024

Key Drivers of Wholesale Inflation:

- **Food Inflation:** The WPI Food Index decreased to 7.47% in January 2025 from 8.89% in December 2024 partly due to correction in food article prices, although specific food items like wheat inflation rose to 9.8%
- **Vegetables:** Notably, vegetable price inflation dropped to 8.35% in January 2025 from a high of 28.65% in December 2024 and this was a major contributor to the easing of wholesale inflation
- **Specific Commodities:** Despite the general decline, certain items experienced price hikes. Potato prices surged by 74.28% and onions by 28.33% in January, despite a general decline in other commodities
- **Primary Articles:** Inflation rate for Primary articles decreased to 4.69% from 6.02% in the previous month, attributed to softer price increases across various commodities
- **Fuel and Power:** The fuel and power category experienced a deflation of 2.78% in January 2025, improving from a 3.79% deflation in December 2024. This decrease can be attributed to global energy price trends and domestic policy measures aimed at stabilizing fuel costs
- **Manufactured Products:** Manufactured product inflation increased to 2.51% in January 2025, slightly higher than the 2.14% in December 2024, primarily due to higher prices in food products, machinery, and pharmaceuticals sectors. This indicates a stable demand for manufactured goods, contributing to the overall moderation in wholesale inflation

BWR VIEW

Lower inflation in India can ease consumer pressure on household budgets, leading to increased disposable income and spending. This can also support economic growth by reducing borrowing costs by the Reserve Bank of India. Additionally, lower input costs can boost demand and economic activity, benefiting businesses

The Reserve Bank of India (RBI) may consider further interest rate cuts if inflation remains within its comfort zone to stimulate economic growth and manage inflation risks. However, external risks like global commodity price volatility and currency fluctuations could pose challenges to India's economic stability. Food price stability, driven by seasonal supplies and effective agricultural policies, is crucial for maintaining low inflation levels

The easing of wholesale inflation in January 2025 presents a favourable outlook for the Indian economy with the RBI forecasting inflation to average 4.8% for the current year and decrease to 4.2% next year. This anticipated stability in prices, coupled with supportive fiscal and monetary policies, is expected to create a conducive environment for sustained economic growth

India's Manufacturing PMI Rises to 6-Month High of 57.7 in January; Exports Fuel Growth

- India's manufacturing sector experienced a significant rebound in January 2025, marking a significant increase from December's 12-month low of 56.4
- This surge not only surpassed the previous month's figure but also outpaced the long-term average, signalling a robust expansion in the manufacturing sector
- India Manufacturing PMI rose to 57.7, surpassing December's 12-month low of 56.4 and outpacing its long-term average, indicating a strong rebound in manufacturing activity
- This increase marked the fastest expansion since July 2024 and was driven by both domestic and international demand and strong output, resulting in record job creation

Key Drivers of Growth:

- **Surge in New Orders:** The sector saw a significant rise in new orders since July 2024, driven by strong domestic demand and a substantial rise in international sales
- **Record Export Growth:** Export orders witnessed fastest record export growth in 14 years, indicating high global market demand and India's growing global competitiveness
- **Employment Growth:** The employment index reached its highest level since its inception, indicating robust job creation due to companies increasing hiring due to strong sales and a positive outlook
- **Input Costs and Prices:** Firms continue to raise selling prices despite easing input cost pressures, which were at their weakest in 11 months due to buoyant demand and improved business confidence
    - Input cost inflation reached its weakest level in a year, allowing firms to raise prices at a slower pace, a positive development considering headline inflation remains above the Reserve Bank of India's 4% target
- **Business Confidence:** Manufacturers are increasingly optimistic about future output, with 32% of firms forecasting growth and 1% expecting a decline, largely due to robust demand, favourable economic conditions, improved customer relations, and effective marketing strategies
- **Decline in Finished Goods Inventory:** In January 2025, finished goods inventories decreased for the second consecutive month due to increased demand exceeding production levels, prompting manufacturers to reduce their stockpiles
    - The decrease in finished goods inventories can lead to reduced storage costs and improved cash flow, but also poses risks of stockouts and missed sales, necessitating effective inventory management for sustainable economic growth

BWR VIEW

India's manufacturing sector experienced significant growth in January 2025, driven by strong domestic and international demand, easing inflationary pressures, and heightened business confidence, boosting the country's economy, which has been experiencing slowdowns due to weak consumption

The rise in the PMI, indicating a strong start to the year for the manufacturing sector. Strong demand, particularly from domestic and international markets, led to a significant increase in export orders. This accelerated production growth, resulting in robust job creation. Inventory management improved, with manufacturers increasing input purchases and building up inventories while finished goods stocks declined. Supplier performance also improved, indicating better supply chain efficiency and reliability

This growth is expected to positively impact India's economic performance, driven by export-led growth, job creation, and improved business confidence. The sector's sustained growth could attract investment and support long-term economic stability

India's Services Sector Loses Steam: Growth Momentum Slows to 14-Month Low as PMI Drops to 56.5 in January

- India's services sector experienced a notable slowdown in growth momentum in January 2025, marking the weakest expansion in over two years
- This deceleration was highlighted by India Services Purchasing Managers' Index (PMI), which fell to 56.5 from 59.3 in December 2024
- Despite this slowdown, the index remained above the critical 50 threshold, indicating continued growth, albeit at a reduced pace

Key Factors Contributed to the Slowdown:

- **Softening Demand:** The slowdown is primarily due to a decrease in demand, resulting in the weakest expansion in new business intakes since November 2023. This decline was partly offset by strong international demand and a rebound in new export business
- **New Business Intakes:** New business intakes have softened to its weakest pace since November 2023 due to intense competition and a slight decrease in customer numbers, despite favourable demand conditions
    - Slower growth in new business was partly impacted by intense competition and a slight decrease in customer numbers, despite favorable demand conditions

BWR VIEW

The services sector experienced a slowdown in January 2025, possibly due to weak domestic demand. but remained expansionary, demonstrating its ability to adapt to changing demand conditions and maintain a positive outlook for future growth

However, the sector's resilience is evident through strong international sales and job creation

The slowdown in services growth could impact India's economic growth, as the services sector is a significant contributor to GDP. However, the manufacturing sector's resilience might offset this. Service providers remain optimistic about future business activity

- The slow growth in new business intakes, despite strong demand conditions, has limited business activity growth, resulting in the lowest level of activity since November 2022

- **Intense Competition:** The services sector faced intense competition, limiting growth, prompting providers to offer better prices to attract clients

- **Inflationary Pressures:** Inflationary pressures continued to mount, fuelled by rising staff and food costs, led to a significant increase in service provider prices, which were then passed on to clients

- **International Sales:** While domestic demand was softer, new export business partly countered this downtrend. International sales surged, bolstered by client gains in Asia, Europe, the Middle East, and the Americas, despite a decline in domestic demand

- **Employment and Sentiment:** Employment growth accelerated despite a slowdown, with job creation among the fastest in recent years, and business sentiment remained positive, although slightly weakened by competition concerns

- **Price Pressures:** Increased payroll expenses led to increased cost burdens, resulting in charge inflation and partially passed on to consumers by service providers

India Composite PMI Drops to 14-Month Low in January:

- India Composite PMI for January 2025 reflected a slowdown in private sector growth, marking the lowest figure in 14 months. Despite this, the index remained above its long-run average, indicating continued expansion in the private sector

- This slowdown in January 2025 was primarily driven by weaker demand in the services sector. but overall private sector activity remained expansionary, with manufacturing cost pressures easing and export growth providing positive indicators

- While the January data showed a slowdown, the February 2025 figures indicated a rebound in the composite PMI to 60.6, indicating a recovery in growth momentum for the private sector. However, challenges in the services sector, including cost inflation and domestic demand, need to be addressed for sustained long-term growth

Flash India PMI

India's Composite Flash PMI Rises for First Time After Three Quarters; Services Sector Surges

- India's Flash PMI performance for February 2025 indicates a robust expansion in the private sector, driven primarily by the services sector

- **Composite Flash PMI:** India's Composite Flash Purchasing Managers' Index (PMI) for reached its highest reading since August 2024, reaching 60.6 in February 2025. The rise was largely due to strong expansion in the services sector, reaching an 11-month high, and a slight decline in the manufacturing sector

- **Private Sector Output at Six-Month High in February in India:** The rise was fuelled by strong international demand and new export orders, with services activity recording its steepest increase in nearly a year

- **Flash India Services PMI:** After witnessing a slowdown in January 2025, the services sector rebounded as the PMI surged to an 11-month high, reaching 61.1 in February 2025, up from 56.5 in January 2025, indicates a significant improvement in the services sector, primarily due to a surge in new export orders, particularly in professional services exports

    - The sector experienced a significant boost in new business orders, primarily from foreign sales, which significantly contributed to its growth.

- **Flash India Manufacturing PMI:** Manufacturing PMI slightly decreased to 57.1, indicating robust expansion, supported by strong export demand and new orders despite competitive pressures

- India's February 2025 Flash PMI performance demonstrates a resilient economy with strong services growth and steady manufacturing expansion, despite global economic uncertainties

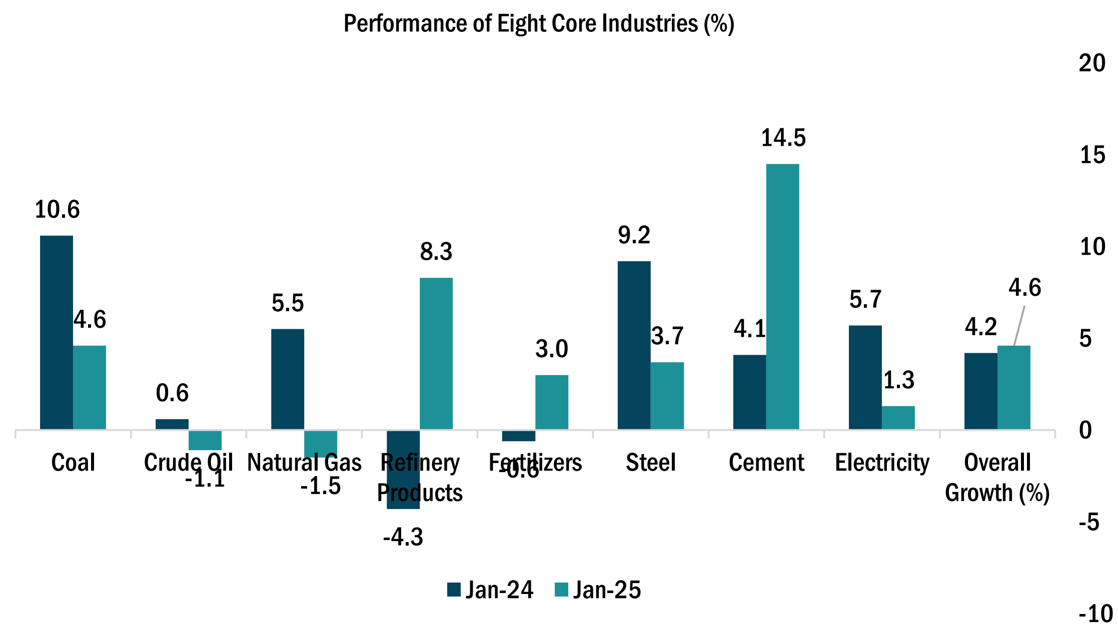
BWR VIEW

Looking ahead, India's Flash PMI performance in February 2025 shows a robust recovery in economic activity, driven by significant growth in the services sector and sustained expansion in manufacturing. This trend indicates a positive trajectory for India's economic growth, despite global uncertainties and trade tensions, and is crucial for maintaining economic momentum

The services sector is expected to continue growing, despite potential challenges from rising costs and variable demand

India's services sector faces challenges domestically but benefits from global demand. Strong performance in finance and insurance sub-sectors drives growth. Policymakers may need to address rising cost pressures and support domestic demand to sustain growth in the services sector

Core Sector Output Expands by 4.6% in January 2025 Led by Cement and Refinery Products, While Energy Sectors Face Challenges



Source: Ministry of Commerce & Industry, Government of India

- India's eight core industries recorded a year-on-year growth of 4.6% in January 2025 as against 4.2% growth in January 2024, marking the fifth consecutive month of expansion
- However, this growth was slightly lower from the revised 4.8% expansion observed in December 2024
- This growth was primarily driven by robust performances in Cement and refinery products sectors, while crude oil and natural gas remained challenging sectors as production contracted
- For the period from April 2024 to January 2025, the cumulative growth of the core sectors stood at 4.4%, a decrease from the 7.8% growth recorded during the same period in the previous fiscal year. This indicates a stable but slower industrial momentum compared to the previous year
- The performance of these core industries is a critical indicator of India's industrial health, as they constitute approximately 40% of the Index of Industrial Production (IIP), making their performance crucial for overall growth

Sector-wise Performance:

1. **Cement:** The cement sector led the growth with a substantial increase of 14.5% in production in January 2025 as against 4.1% in January 2024 and 4.6% in December 2024. This marks the highest growth among all sectors and marked a 15-month high
    - This growth was driven by increased government spending on infrastructure, increased rural housing demand, capacity expansion and consolidation, improved pricing and margins, and a shift towards sustainability and innovation. The Indian government's increased capital expenditure on infrastructure projects, coupled with robust rabi season, monsoons, and farm cash flows, has contributed to the sector's growth
    - **Cumulative Growth:** The April 2024 to January 2025 period saw a 4.6% increase in cement production over the same period in the previous year
2. **Coal:** Coal production growth increased by 4.6% in January 2025 compared to January 2024. The growth was driven by increased domestic production and higher demand from key sectors like power generation, steel, and cement as well as government initiatives, improved operational efficiency and reduced import dependency. The Ministry of Coal's efforts to enhance domestic production, reduce import dependency, and promote commercial mining have contributed to the sector's growth
    - From April 2024 to January 2025 period, coal production increased by 6.0%, compared to the previous year's period
    - Despite this growth, the pace of expansion was slower in comparison to previous months, indicating a slight deceleration in overall core sector growth
    - The growth of the coal sector significantly impacts the Index of Industrial Production (IIP) due to its crucial role in energy generation and industrial processes

BWR VIEW

The overall growth in core sectors indicates a positive trend in India's industrial output, contributing to GDP growth. However, easing from December's growth rate suggests moderation in expansion but still show a positive trajectory for India's industrial sector despite varying performances across different industries. India's core sector's performance is crucial for economic growth, with sectors like steel and cement showing robust infrastructure development. However, a decline in crude oil production raises energy security and import dependency issues. The positive electricity generation trajectory demonstrates renewable energy integration, a positive trend, contributing to sustainable growth

Going ahead, India's core sector is expected to continue its strong performance in sectors like cement and refinery products, but challenges in the energy sector, particularly crude oil and natural gas, may persist. Government policies and infrastructure investments are crucial for supporting growth across these sectors

While the core sector's growth in January 2025 was modest, it reflects a steady expansion in India's industrial sector. However, maintaining growth momentum will depend on addressing energy production challenges and leveraging opportunities in renewable energy and infrastructure development. Addressing challenges and capitalizing on opportunities will be crucial for sustained growth and economic development

The revised downward capex for FY25 may impact future growth in India, but increased spending could support industrial expansion. The government anticipates capex growth to reach Rs 11.2 lakh crore in the next fiscal year, potentially boosting infrastructure development and core sector performance. Challenges in energy sectors and reduced government spending on capex may influence future growth trajectories

- The coal sector's growth significantly impacts the Indian Industrial Policy (IIP), as it contributes to the core industries, ensures stable power supply for industries like steel, cement, and manufacturing, supports energy-intensive industries, mitigates supply chain disruptions, and has a ripple effect on related sectors like mining equipment manufacturing and logistics, thereby boosting industrial production metrics

- Sustained coal production boosts economic growth, energy security, and industrial efficiency in India. It reduces reliance on imports, supports self-reliance goals, and enhances operational efficiency across industries dependent on thermal power.

3. **Petroleum Refinery Products:** Refinery products saw a significant 8.3% increase in production in January 2025, up from 2.8% in December 2024. The growth was fuelled by rising petroleum demand and improved refining capacities

    - **Cumulative Growth:** The cumulative production growth from April 2024 to January 2025 period stood at 3.3% as compared to the corresponding period of the previous year

    - This substantial growth indicates a robust performance in the refinery sector

4. **Steel:** The steel sector's production expanded by 3.7% in January 2025, down from 7.3% in December 2024. The growth was driven by increased demand from infrastructure projects and the automobile sector

    - **Cumulative Growth:** Experienced a 5.9% increase in production during the April 2024 to January 2025 period over the corresponding period of the previous year

5. **Crude Oil:** Crude oil production experienced a 1.1% contraction in January 2025 compared to the previous year. The decline was primarily due to production cuts and maintenance shutdowns at major extraction sites

    - **Cumulative Decline:** Experienced a 2.0% decline in production during the April 2024 to January 2025 period over the corresponding period of the previous year

    - This decline underscores ongoing challenges in the crude oil sector

6. **Natural Gas** production fell by 1.5% year-on-year in January 2025, reflecting ongoing challenges in the energy sector. The contraction was attributed to supply constraints and reduced demand

    - **Cumulative Growth**: Despite a monthly decline, natural gas experienced a modest cumulative increase of 0.5% from April 2024 to January 2025 period

    - The contraction in crude oil and natural gas production in January 2025 had a notable impact on India's overall core sector growth, as these sectors are critical components of the Index of Eight Core Industries (ICI)

    - This led to energy supply constraints, affecting downstream industries like power generation, fertilizers, and refinery products. The decline in domestic production increased India's reliance on imports, potentially worsening the trade deficit and exposing the economy to global price volatility. The reduced domestic output may also lead to higher input costs for energy-intensive industries. The global oil and gas market in 2024-2025 has been marked by stable but range-bound crude oil prices due to controlled OPEC+ supply and geopolitical factors. The contraction in these key energy sectors signals challenges in achieving robust industrial growth and highlighting the need for accelerated investments in renewable energy sources. Policy interventions may focus on boosting exploration and production activities through incentives and reforms

7. **Fertilizer:** The fertilizer sector continued its positive trajectory with steady growth as fertilizer production grew by 3% year-on-year in January 2025, compared to 1.7% in December 2024. The growth was supported by strong agricultural demand and government subsidies

    - The cumulative production growth from the April 2024 to January 2025 period stood at 1.7% over the same period previous year

8. **Electricity:** In January 2025, electricity generation experienced a modest 1.3% year-on-year increase compared to January 2024 while it was down from 6.2% growth in December 2024

    - The growth in cement production was supported by higher demand from households and industries, along with the integration of renewable energy sources

India's Industrial Production Growth Slows to 3-Month Low of 3.2% in December

Index of Industrial Production, Y-o-Y Growth

	Mining	Manufacturing	Electricity	General
December 2024*	2.6	3.0	6.2	3.2
December 2023	5.2	4.6	1.2	4.4
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	4.0	5.4	4.0

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

Sector-wise Classification

	Primary Goods	Capital Goods	Intermediate goods	Infrastructure/ construction goods	Consumer durables	Consumer non-durables
Dec-2024*	**3.8**	**10.3**	**5.9**	**6.3**	**8.3**	**-7.6**
Dec- 2023	4.8	3.7	3.7	5.5	5.2	3.0
Nov- 2024	2.7	8.8	4.8	8.1	14.1	0.4
Weight in IIP	34.1	8.2	17.2	12.3	12.8	15.3

** Figures for December 2024 are Quick Estimates*

- India's industrial production slowed in December 2024, with the Index of Industrial Production (IIP) growing at 3.2% YoY, marking a slowdown from the 5% growth recorded in November 2024 and this was primarily due to weaker performances in the mining and manufacturing sectors despite a robust increase in electricity generation

Sectoral Performance:

- **Manufacturing Sector:** The manufacturing sector, which accounts for a significant portion of the IIP, only saw a 3% growth in December 2024, down from 4.6% in the same month the previous year and 5.5% growth in November 2024, indicating a slowdown in manufacturing activity
  - Despite the overall slowdown, 16 out of 23 industry groups posted positive growth within this sector, with notable contributions from the production of basic metals (6.7%), electrical equipment (40.1%), and coke and refined petroleum products (3.9%)
- **Mining Sector:** The mining sector experienced a 2.6% growth rate, a significant decrease from the 5.2% recorded in December 2023, indicating challenges in the industry impacting overall industrial output
- **Electricity Sector:** The electricity sector experienced a 6.2% growth rate compared to 1.2% in December 2023 and 4.4% growth in November 2024, indicating a robust demand driven by industrial and consumer needs
  - The slowdown in India's mining and manufacturing sectors in December 2024 can be attributed to several factors including due to weak global demand, domestic seasonal conditions, supply chain disruptions, price pressures, environmental and regulatory challenges, resource constraints, and seasonal factors
  - The manufacturing sector faced challenges due to weak global demand, supply chain disruptions, and lower global prices. Mining operations faced environmental and regulatory challenges, resource constraints, and seasonal factors. Tight monetary conditions and political instability further impacted the sectors

Use-Based Classification:

- **Capital Goods:** Capital goods experienced a 10.3% growth, indicating robust investment in machinery and equipment, crucial for future industrial expansion

BWR VIEW

The slowdown in industrial production in India raises concerns about the country's economic momentum for 2025. Government policies could stimulate growth through infrastructure investments and manufacturing incentives

A stable global market could support India's manufacturing sector. The strong growth in capital goods suggests ongoing investment in industrial capacity, potentially leading to future production increases. Boosting domestic demand through fiscal measures or monetary policies could also help

The Union Budget 2025-26 introduced several measures that aims to boost industrial growth in India by focusing on infrastructure development, supporting Micro, Small, and Medium Enterprises (MSMEs), and implementing tax reforms. These measures aim to reduce logistics costs, enhance efficiency, and boost consumer demand. Despite the current slowdown, projections suggest India's potential real GDP growth could maintain a 6.5% annual rate over 2026-2028, positioning the country as the world's third-largest consumer market by 2026 and the third-largest economy by 2027

- **Consumer Durables:** The consumer durables sector experienced an 8.3% growth, primarily due to the surge in demand for durable goods like electronics and appliances

- **Consumer Non-Durables:** In contrast, the consumer non-durables sector experienced a 7.6% contraction, indicating a weaker demand for essential goods like food and beverages

- For the April-December period of the fiscal year 2024-25, India's industrial production experienced a 4% decline, indicating challenges in the sector such as base effects and weaker corporate investment, compared to 6.3% growth in the same period the previous year

Infrastructure Output

- The infrastructure sector's output grew by 4% year-on-year in December 2024, slightly down from November's 4.4%. This was due to a slowdown in cement production, which increased by 4%, compared to 13.5% growth in the previous month, while steel production improved by 5.1% year-on-year from 4.4% in November 2024

Economic Implications:

- The slowdown in industrial production in India raises concerns about the country's economic momentum for 2025. However, government infrastructure spending and rising consumption demand could potentially support recovery. India's projected 6.4% GDP growth for FY 2024-25 is the slowest in four years, underscoring the need for sustained economic policies to boost industrial growth

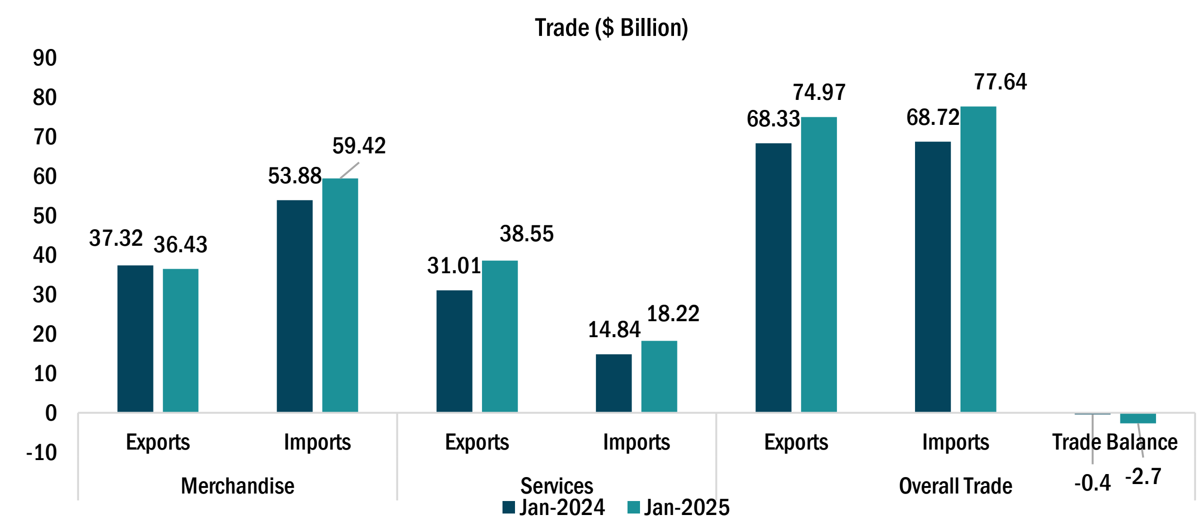
- India's industrial production growth slowed in December 2024, but sectors like electricity and capital goods showed resilience. Addressing manufacturing and mining challenges is crucial for stable growth

- India's industrial production deceleration in December 2024 highlights challenges in manufacturing and mining sectors. The deceleration in industrial production can be attributed to several factors including a manufacturing slowdown, a decline in urban consumption and slowdown in private investments, and global economic conditions

- The manufacturing sector, crucial for job creation, experienced a significant slowdown, dropping from 7% in June 2024 to 2.2% in September 2024. Additionally, high inflation, reduced government spending, and severe monsoon rains have contributed to the economic deceleration

- However, robust growth in capital goods and electricity suggests potential for sustained economic expansion. India's focus will be on maintaining momentum and addressing sectoral weaknesses for long-term economic goals

India's Trade Deficit Surges to $22.99 Billion in January 2025 as Exports Shrink



Source: Government of India, Ministry of Commerce & Industry

- **Trade Deficit:** India's merchandise trade deficit surged to $22.99 billion in January 2025, marking a significant increase from the $16.56 billion recorded in the same month the previous year, representing a year-on-year (YoY) rise of 24.85%, adding pressure on India's economy amid rising import bills

- The widening deficit is primarily attributed to a substantial increase in imports and a decline in exports. influenced by both domestic and global economic factors and exacerbated by a depreciating rupee

BWR VIEW

India's December 2024 trade deficit narrowed compared to November but remained wider than the previous year. Resilience of non-oil exports and strategic export growth are crucial for future trade balance improvement

The widening trade deficit in India has led to currency pressures, with the rupee facing depreciation risks due to increased import bills. The rupee's depreciation against the dollar widens trade deficit by increasing import costs, but also enhances global market competitiveness for exports. This could impact inflation, especially for imported goods and fuel. The situation also affects domestic industries, such as electronics, textiles, and gems, which are experiencing job losses and stress. The government is implementing measures to boost exports, negotiate trade agreements, and focus on increasing domestic production in import-heavy sectors

- **Exports and Imports:** Imports rose substantially to reach $59.42 billion in January 2025, up from $37.32 billion in January 2024 driven by higher import costs due to a depreciating rupee, while exports decreased to $36.43 billion from $37.32 billion in the previous year largely due to weaker global demand

- **Cumulative Trade Deficit:** The cumulative trade deficit from April 2024 to January 2025 increased to $87.47 billion, up from $70.06 billion in the previous year

Factors Impacting India's Trade Deficit

1. **Decline in Exports:**

- **Decline in Merchandise Exports** on **Weaker Global Demand:** Exports decreased to $36.43 billion in January 2025 from $37.32 billion in January 2024 and 38.01 billion in December 2024, primarily due to weaker global demand

- **Decline in Petroleum Exports:** The overall decrease in export values was primarily due to a 58.7% drop in petroleum product exports, primarily due to falling global petroleum prices and reduced demand for petrochemical products

- **Engineering Goods:** Sluggish demand in key markets such as the U.S. and the EU led to a moderate decline

- **Textiles and Apparel:** A continued downturn in global demand affected India's textile exports

- **Gems and Jewellery:** Lower consumer spending in international markets led to a reduction in exports

- **Sectoral Performance:** Despite a decline in overall exports, non-petroleum exports showed resilience, with electronic goods exports increasing by 78.97% and pharmaceuticals by 21.46% from April 2024 to January 2025

- Exports experienced a 7.21% cumulative growth from April to January 2024-25, despite a monthly decline, primarily driven by sectors like electronics and pharmaceuticals.

- Despite this decline, non-petroleum exports showed resilience, with sectors like electronics and pharmaceuticals experiencing notable growth. Electronic goods exports rose by 78.97%, and pharmaceutical exports increased by 21.46% during the April-January period

2. **Surge in Imports:** The import growth was driven by several sectors:

- **Gold: Gold i**mports increased by 40.8%, influenced by rising global prices and seasonal demand

  - However, on a month-on-month basis, gold imports decreased to $2.68 billion in January 2025 from $4.7 billion in December 2024, largely due to record-high gold prices reaching $2,956.15 per troy ounce. This reduction in gold imports helped mitigate the increase in the trade deficit to some extent.

- **Electronic Goods:** There was a 17.8% rise in imports, reflecting robust domestic demand

- **Chemicals and Non-Ferrous Metals:** Imports in these categories grew by 71.8% and 26%, respectively, indicating increased demand from industrial and manufacturing sectors

- **Crude oil & Petroleum:** Higher crude oil imports were observed, although at lower price levels compared to 2024

3. **Depreciation of the Rupee:** The weakening Indian rupee against the U.S. dollar has increased the cost of imports, particularly for oil and gas, as India heavily relies on foreign sources. The surge in imports led to a widening trade deficit, exacerbated by the depreciation of the rupee, making imports more expensive

Services Sector Performance:

- The services sector provided some relief with the services exports increasing to reach $38.55 billion in January 2025 from $32.66 billion in December 2024., and imports, increasing to $18.22 billion from $17.50 billion in December 2024

Policy and Geopolitical Influences

- **China Factor:** Imports from China remained high, especially for electronics, machinery, and chemicals

- **Domestic Policy Measures:** The Indian government is promoting self-reliance in manufacturing, but import dependence on critical raw materials persists

BWR VIEW

India's widening trade deficit in January 2025 reflects domestic economic challenges and global trade dynamics. The government is focusing on exports as a growth engine and implementing measures like the Export Promotion Mission.

Donald Trump's Reciprocal Tariffs Impact on India

The announcement of reciprocal tariffs by the U.S. on Indian goods could further impact India's trade dynamics

This policy aims to equalize tariffs between the U.S. and its trading partners, potentially affecting various sectors of the Indian economy. Such a development could exert pressure on India's current account balance and foreign exchange reserves

Trump's proposed reciprocal tariffs could potentially increase duties on Indian exports to the US, affecting key sectors like pharmaceuticals, textiles and apparel, IT services, engineering goods, and gems and jewellery, totalling around $80 billion in 2023

India's trade surplus with the U.S. increased by 5.4% in 2024 to $45.7 billion, but the implementation of reciprocal tariffs could potentially decrease India's export competitiveness and potentially decrease export revenues and potentially narrowing the trade surplus or shifting towards a trade deficit. This could impact India's current account balance and foreign exchange reserves

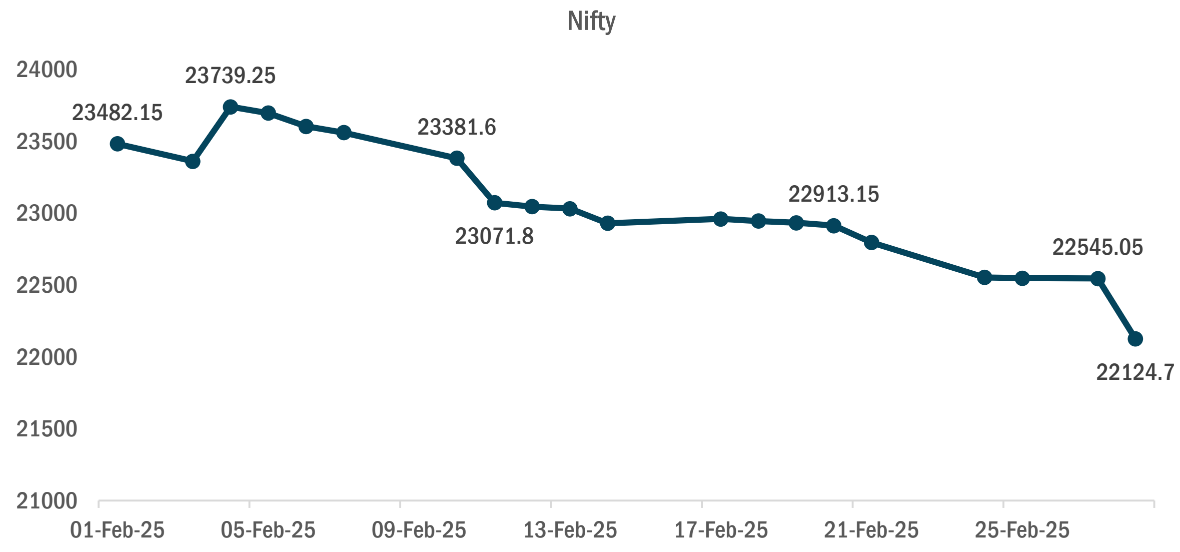
Sector-wise Impact:

Steel and Aluminum Sector: The US plans to impose 25% tariffs on steel and aluminum imports, potentially reducing India's aluminum export profitability and prompting producers to seek alternative markets

Automobiles Sector: India's high import duties on automobiles have been a significant point of contention, particularly in its trade relations with countries like the United States. with the US potentially imposing reciprocal tariffs on Indian automobile exports

Stock Markets

Nifty Falls 6% in February 2025



Source: BSE and NSE

- February 2025 was a challenging month for the Indian stock market, particularly the NSE Nifty 50 index, with significant sectoral declines, marking one of the worst performances since the 2020 COVID-19 pandemic due to aggressive selling from foreign portfolio investors amid global uncertainties and a shift towards recovering Chinese markets

- The Nifty 50 index experienced a 6% decline in February 2025, marking its worst performance since 2020 and a 15% drop from its peak in September 2024, eroding nearly $1 trillion in investor wealth

- On February 28, the Nifty experienced its most significant single-day decline in five months, closing 1.86% lower

- **Sector-Wise Performance:**

  - **Broad-Based Sell-Off:** The sell-off was widespread, with all sectors ending the month negatively, with IT and auto sectors concluded the most with significant declines of up to 6%

  - **Information Technology and Financials:** The IT and financial sectors were severely impacted by a slowing US economy and rising jobless claims, which is a major market for Indian IT services, leading to significant declines in the IT index

  - The **financial services** sector experienced significant losses due to foreign investor sell-offs, significantly impacting the overall market decline

  - The Nifty Small-Cap 100 and Mid-Cap 100 indices experienced significant decline, down 13.2% and 11.3%, respectively, largely due to reduced investor appetite for riskier assets, indicating broader market weakness beyond large-cap stocks

  - The Nifty Auto index demonstrated resilience in the automobile sector, with companies like Mahindra & Mahindra and Eicher Motors posting gains due to better-than-expected sales figures

Key Factors Influencing the Decline:

- **US Tariff Uncertainty:** Concerns over potential U.S. tariffs on Indian goods led to volatility and uncertainty in the market, causing investors to be cautious about investing

- **Global Trade Tensions:** Trump's 25% tariff on imports from Canada and Mexico, effective March 4, 2025, and proposed additional tariffs on China heightened global trade tensions, causing investor sentiment to decline and leading to major sector sell-offs

- **Foreign Investor Outflows:** Foreign investors sold $3.5 billion worth of Indian equities in February 2025, resulting in $25 billion in outflows since September 2024, causing a significant market downturn

- **Domestic Economic Concerns:** High inflation and stagnant incomes in the domestic economy have hindered economic growth and corporate profits, causing investor confidence to decline and exacerbating the market's decline

- **Currency Depreciation:** The Indian rupee depreciated for the fifth consecutive month in February, closing at 87.4950 against the U.S. dollar, causing pressure on equity markets due to foreign outflows and increased hedging demand

BWR VIEW

February 2025 was a challenging month for the NSE Nifty 50 as the Nifty's decline has led to a significant erosion of investor wealth, resulting in nearly $1 trillion loss since September 2024. This has impacted retail and institutional investors, causing reduced market participation and increased caution. The derivative market also reflects bearish sentiment. Despite expectations of a recovery, the market remains cautious. A gradual and partial recovery is expected, with projections suggesting the index could rise to 24,000 by mid-2025 and 25,689 by the end of the year

Going ahead, while historical trends suggest a potential recovery in March with the Nifty ending in the green seven times over the past decade, ongoing challenges may continue to impact market performance. Uncertainties like U.S. tariff concerns and weak earnings led to cautious tone

- **Concerns Over US Economic Growth:** Rising US jobless claims and growing inflation concerns have raised concerns about a slowing US economy and these developments negatively impacting sectors like information technology, which primarily exports

- **Rising US Bond Yields:** Higher U.S. bond yields made U.S. assets more attractive compared to emerging markets like India, leading to capital outflows

    - **Rising U.S. bond yields** have led to a shift in global economic conditions, making U.S. debt more attractive compared to emerging market equities. This has resulted in significant outflows of foreign institutional investors (FIIs) from India, who seek safer and more lucrative investments in the U.S. The selling pressure has been a major factor in the market correction since September 2024

    - The strengthening U.S. dollar and rising bond yields have also led to a depreciation of the Indian rupee, further discouraging foreign investors from investing in Indian equities and adding to the downward pressure on the Nifty.

- **Weak Earnings Expectations:** Expectations of weak earnings from Indian banks in the fourth quarter of FY25 heightened selling pressure and negatively affect investor sentiment. The earnings season in third-quarter of FY25 had already been disappointing for some banks, thus setting a cautious tone for the fourth quarter of FY25. This anticipation contributed to the decline in banking stocks

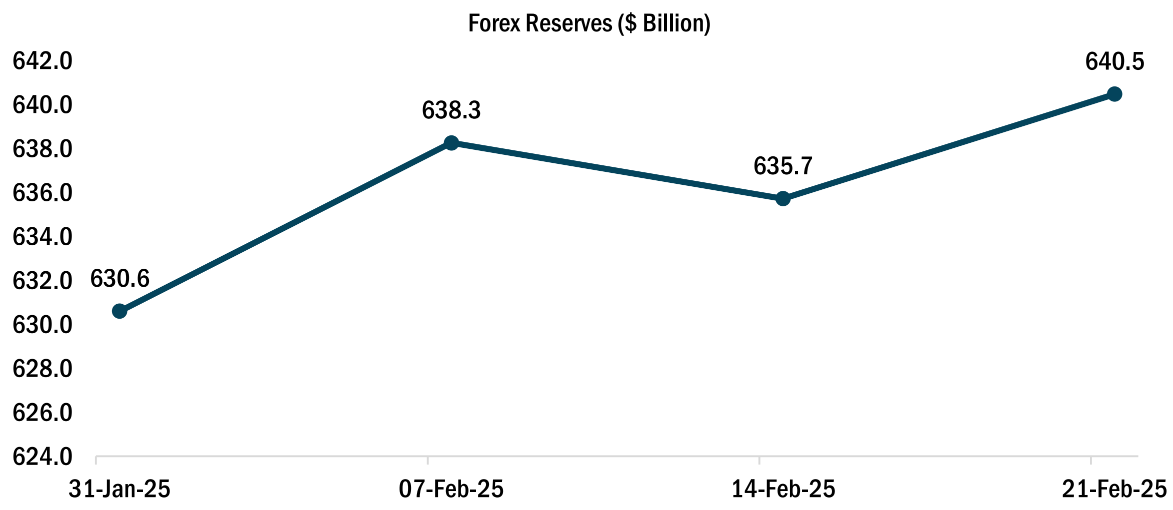
- **Disappointing Earnings Season:** The earnings season revealed weaker-than-expected corporate performances, which dampened investor sentiment as High inflation and stagnant incomes have impeded economic growth and corporate profits

- **Rising India VIX:** The India VIX, a market volatility indicator, experienced a surge in February 2025, indicating heightened investor uncertainty and risk aversion.

    - The India VIX, a measure of market volatility, rose significantly in February 2025, reaching 13.9, indicating increased uncertainty and risk aversion among investors. A rise in the VIX typically signifies market volatility, leading to a decline in the Nifty, while a decline suggests stability and optimism, potentially causing upward movements in the Nifty.

Forex

India's Forex Reserves Rebound After Previous Decline: Hit Two-Month High to reach $640.48 billion



Source: RBI

- India's foreign exchange reserves experienced a notable increase in February 2025, reaching a two-month high of $640.48 billion as of February 21, 2025

- This rise marked a notable recovery after several weeks of decline, primarily due to the Reserve Bank of India's (RBI) interventions in the foreign exchange market to stabilize the rupee

- **Initial Increase:** India's foreign exchange reserves increased by $7.6 billion to $638 billion in the week ending February 7, marking a third consecutive increase, primarily due to valuation gains

- **Subsequent Decline:** However, forex reserves fell by $2.54 billion to $635.72 billion as of February 14, despite a three-week gain, due to RBI interventions in the forex market and changes in foreign asset valuations

BWR VIEW

India's foreign exchange reserves reached an all-time high of $704.885 billion in September 2024, but have since declined due to the Reserve Bank of India's efforts to stabilize the rupee

The increase in India's foreign exchange reserves indicate economic stability, demonstrating its ability to manage external pressures and protect against potential shocks. However, ongoing rupee volatility and global economic uncertainties pose challenges

India's foreign exchange reserves reached a two-month high in February 2025, indicating the RBI's effective forex market management and the resilience of the economy amidst global challenges. As the global economic landscape evolves, strategic interventions by the RBI are crucial for maintaining market stability

India's forex reserves in February 2025 showed challenges in maintaining currency stability, with RBI interventions and liquidity measures crucial. Long-term trends suggest a decline from peak levels in 2024, influenced by domestic and global economic factors

- **Later Increase:** Reserves increased by $4.7 billion to $640.47 billion by February 21, with RBI intervening in forex market to maintain order and prevent excessive rate volatility

- Forex reserves fluctuate due to factors like RBI interventions, global economic changes, and domestic challenges like trade deficit and reduced capital flows. The Indian rupee experienced volatility, reaching an all-time low of 87.95 against the dollar but recovering slightly due to RBI interventions

Breakdown of the Reserves

- **Foreign Currency Assets (FCA):** The primary driver was the increase in foreign currency assets (FCA), which increased by $4.25 billion to $543.84 billion, largely due to RBI interventions, aimed at stabilizing the rupee and managing currency volatility and fluctuations in global asset valuations, particularly the appreciation or depreciation of non-US currencies

- **Gold Reserves:** Gold reserves also contributed to the overall increase, as it increased modestly by $426 million to $74.576 billion in the reporting week, contributing to overall growth in reserves, reflecting strategic asset management by the RBI

- **Special Drawing Rights (SDRs) and Reserve Tranche Position:** SDRs increased by $73 million to $17.971 billion, while the Reserve Tranche Position with the IMF rose by $7 million to $4.09 billion

- **Market Conditions and Revaluation:** Market conditions and currency appreciation or depreciation can affect the value of foreign currency assets held by the RBI, affecting the overall valuation of these assets

- **RBI's Strategic Interventions:** The RBI's forex market management, including selling dollars to prevent rupee depreciation, stabilized the currency and supported reserve growth

- **Liquidity Measures:** The RBI's liquidity measures, including USD/INR buy/sell swaps, have been instrumental in ensuring market stability and bolstering reserve levels

Factors Influencing Increase:

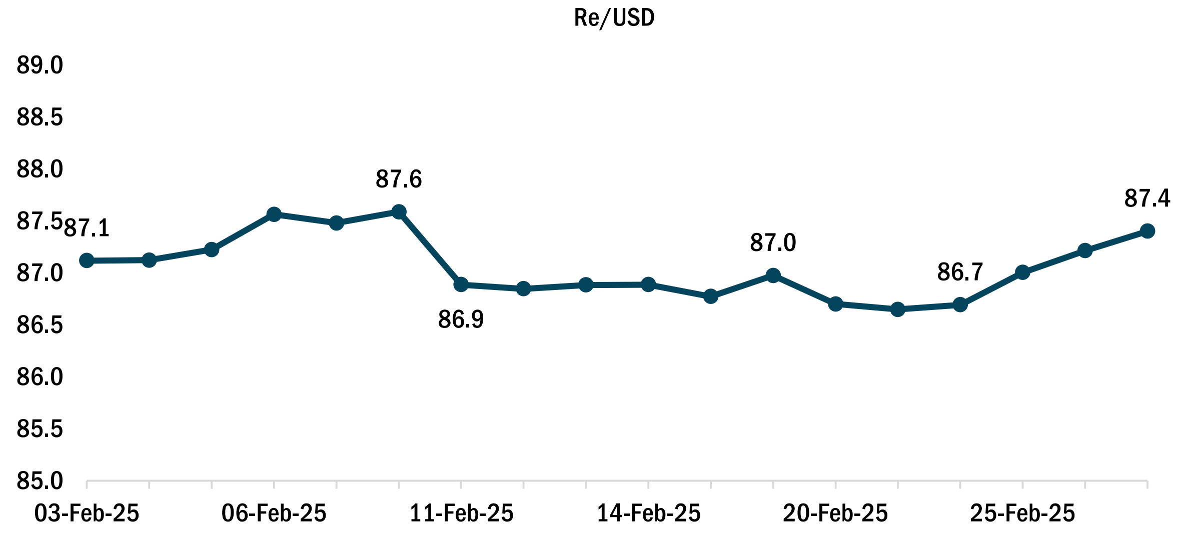
- **RBI Interventions:** The RBI's periodic interventions in the forex market, including selling dollars to limit domestic currency losses, significantly stabilized the rupee and supported reserves increase

- **Global Economic Factors**: Uncertainty over U.S. trade tariffs and economic slowdowns in other regions impacted market sentiment influenced rupee's volatility

- **Market Conditions:** The RBI's actions helped cap large-scale losses in the rupee, despite its volatility and reaching an all-time low of 87.95 in February

Rupee

Indian Rupee Touched an All-Time Low Against The US Dollar in February 2025



Source: RBI

- February 2025 was a challenging month for the Indian rupee, marked by significant depreciation and volatility, reaching an all-time low against the US dollar
- This period saw the rupee breach historical lows against the US dollar, influenced by a combination of global and domestic factors, including US trade policies, interest rate adjustments by the Reserve Bank of India (RBI), and fluctuations in global markets
- The rupee began the month at 86.971 per US dollar, reaching its weakest point on February 7, 2025, at 87.789 per US dollar. Despite some resilience, it depreciated again at 87.472 per US dollar on February 28, marking its fifth consecutive monthly decline, marking the highest exchange rate for the year
- The rupee's performance in February 2025 was influenced by global economic policies and domestic interventions, including US tariff announcements and RBI market interventions. The currency is expected to face challenges from trade tensions and domestic economic conditions
- However, some weak economic data from the US provided some relief to the Indian currency. US economic data showed weakening, causing a decline in Treasury yields, impacting the dollar's strength and providing relief to the rupee, allowing for modest appreciation in February 2025
- Going ahead, the rupee may face further pressure due to global uncertainties, but proactive RBI measures could help manage excessive volatility

Record Lows and Recovery

- **Record Lows:** On February 10, 2025, the rupee hit an all-time low of 87.95 against the US dollar, a 45 paise decrease from its previous close
- **Recovery Efforts:** In response to the rupee breaching the 87 per US dollar mark, the Reserve Bank of India (RBI) intervened by selling US dollars through state-run banks to temporarily support the rupee and help it recover from record lows

Depreciation Against the US Dollar:

- The Indian rupee depreciated by about 1% in February 2025, reaching an all-time low against the US dollar during the month
- By the end of February 2025, the rupee depreciated by 1.8% against the US dollar, surpassing the entire 2023 depreciation and nearly half of 2024's depreciation

Historical Highs

- The rupee reached an all-time high of 88.10 in early February 2025, but this was not sustained throughout the month

RBI Interventions

- The Reserve Bank of India (RBI) initiated a three-year dollar-rupee buy-sell swap auction to stabilize the currency, attracting substantial bids
- These Interventions effectively reduced one-way transactions and prevented speculators from placing significant bets on the rupee

BWR VIEW

February 2025 was a challenging month for the Indian rupee, with significant depreciation and volatility. Despite RBI interventions and policy adjustments, economic challenges and global uncertainties continue to impact its performance, forcing policymakers to balance economic growth with currency stability

The rupee's performance in February 2025 underscores the intricate interplay between global economic conditions and domestic factors affecting India's currency stability. The RBI's interventions are crucial in managing currency volatility, but global economic uncertainties and domestic challenges are expected to continue affecting the rupee's trajectory in the coming months.

Key Factors Influencing the Rupee's Performance:

Domestic Factors

- **Slowing GDP Growth:** India's GDP growth has slowed significantly, from 8.2% in the previous period to 6.4% in the current financial year, affecting investor confidence and contributing to the rupee's decline

- **Trade Deficits:** The rupee was further strained by a widening trade deficit resulting from increased imports of crude oil and other essential goods

- **Fiscal Challenges:** Concerns over fiscal sustainability and increased government borrowing and declining foreign investments also influenced rupee's decline

- **Decline in Foreign Investments:** The uncertainty from potential U.S. tariffs led to foreign investors withdrawing from emerging markets like India, contributing to the rupee's depreciation and a decline in currency demand

- **Interest Rate Cuts by RBI:** The RBI's decision to cut interest rates aimed to boost economic growth but also contributed to the rupee's weakness, potentially exacerbating depreciation pressures. Lower interest rates could increase rupee supply, exacerbating depreciation pressures. The decision exacerbated the rupee's downward pressure

Global Factors:

- **Strong US Dollar:** The rupee's decline was largely attributed to the strength of the US dollar, which serves as a safe-haven currency amid global uncertainties

  - **U.S. Federal Reserve's Monetary Policy:** The US Federal Reserve's aggressive interest rate hikes strengthened the US dollar, attracting global investors and causing capital outflows from emerging markets like India

  - The US dollar's global market strength, reflected in a rising dollar index, pushed the rupee against major currencies, causing further pressure

- **US Trade Policies and Tariffs:** The rupee's decline was largely due to US threats of tariffs on goods from BRICS nations, including India, and Trump's announcements on steel and aluminum imports, which heightened uncertainty and strengthened the US dollar. These tariffs sparked fears of a broader trade war, impacting Asian currencies and equities

  - Uncertainty over US trade tariffs and potential global trade tensions affected foreign investor demand for Indian assets

  - US President Trump's announcement of a 25% tariff on Mexican and Canadian goods and an additional 10% tariff on Chinese goods on February 27, 2025, triggered a surge in the US dollar and downward pressure on the rupee

- **Rising Crude Oil Prices:** India's heavy dependence on imported crude oil has led to rising global oil prices, escalating its import bill, worsening its current account deficit, and putting pressure on the rupee

Impact on the Indian Economy:

The depreciation of the rupee has several implications for the Indian economy:

- **Inflationary Pressures:** A weaker rupee can increase import costs, especially for essential commodities like crude oil, leading to higher inflation, affecting consumer prices and economic growth

- **Trade Deficit:** The decline of the rupee could potentially increase export growth by making them cheaper, but also increase import costs, potentially widening India's trade deficit

- **Investment Climate:** Foreign portfolio investors' withdrawal from the Indian market could decrease liquidity and increase market volatility, potentially affecting the overall investment climate in the country

Implications and Future Outlook:

The rupee's decline to an all-time low has significant implications for future economic policies:

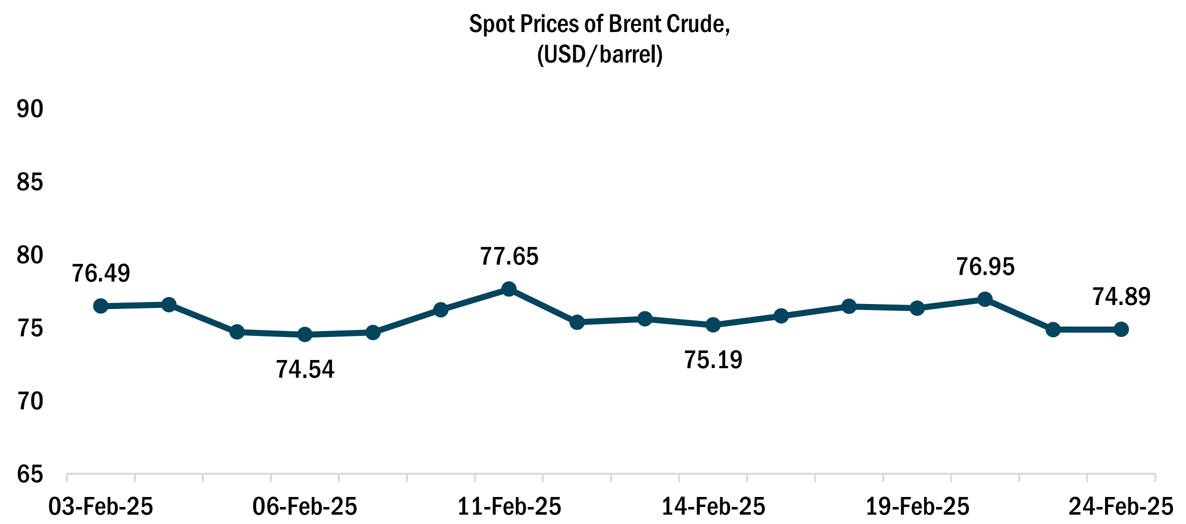
- **Monetary Policy Adjustments:** The RBI may need to adjust its monetary policy to stabilize the currency, potentially through foreign exchange market interventions or interest rate adjustments

- **Fiscal Policy Measures:** The government may implement fiscal policies to boost economic growth and stabilize the currency, including policies to increase exports and decrease import reliance

- **Global Economic Integration:** India's economic resilience is being bolstered by diversifying its trade relationships and leveraging global economic factors

Oil

Brent Crude Prices Remain Volatile; Economic Concerns Impact Demand



Source: U.S. Energy Information Administration

- In February 2025, Brent crude oil prices experienced a significant decline, reaching $73.18, due to geopolitical developments, trade policies, and supply dynamics, causing increased market volatility and uncertainty about future oil price trends

- This decline is part of a broader trend where oil prices struggle to maintain gains. On February 6, Brent crude oil prices were around $74.72 per barrel. However, by February 27, prices had fallen to $72.75 per barrel, marking the lowest level since December 2024 influenced by concerns over future supply growth, potential easing of sanctions against Russia, and U.S. tariff policies, which could impact global economic growth and oil demand

- Brent crude oil's average price in February 2025 was approximately $75.47 per barrel, down from $79.27 in January 2025, reflecting a 4.8% decline. The price decline is part of a broader trend, with prices decreasing by 9.6% over the past year

- On February 12, prices dropped by over 2% to $75.18 per barrel due to potential peace between Russia and Ukraine and increased U.S. crude stocks. By February 24, prices had fallen further to $74.29 per barrel, marking the lowest price point for the year.

- In February 2025, Brent crude oil prices experienced their first decline since November 2024, reaching $73.18, largely due to global factors.

Factors Contributing to Brent Crude Oil Decline in February 2025

Several key events contributed to the downward pressure on Brent crude prices during February:

- **Trade Tensions:** The US's potential 25% tariffs on European Union, Canada, and Mexico imports have raised global economic growth and energy demand concerns, leading to significant share price declines for European carmakers
  - New U.S. tariffs on imports from Canada, Mexico, and China sparked global trade war fears, affecting economic growth projections. This led to a depreciation of the U.S. dollar and declines in major stock indices, causing investor sentiment to become cautious, anticipating reduced economic growth and increased inflation, which typically suppresses oil demand

- **Geopolitical Tensions:** Donald Trump's tense meeting with and Ukrainian President Volodymyr Zelensky has weakened hopes for a Russia-Ukraine peace deal, causing geopolitical instability and market volatility

- **Prospective Russia-Ukraine Peace Deal:** The potential Russia-Ukraine peace deal suggests lifting sanctions on Russian oil exports, which could lead to increased oil supply from Russia, contributing to the decline in Brent prices.

BWR VIEW

Oil prices fell to a two-month low in February 2025 due to geopolitical tensions, economic uncertainties, and trade disputes. Brent crude fell below $70 per barrel influenced by geopolitical risks, trade uncertainties, and supply dynamics. The market's decline was a result of weak economic data from the U.S. and Germany

The market remains cautious, balancing supply constraints against uncertain demand and economic headwinds. Investors are concerned about future supply growth and demand forecasts, contributing to bearish sentiment. Lower oil prices may benefit consumers but negatively impact oil-producing economies

Brent crude is expected to o average $70-$74 per barrel in 2025, potentially dropping further in 2026. Non-OPEC production growth is expected to lead to a surplus, causing downward pressure on prices. Slower demand growth, especially in OECD countries, is expected to negatively impact oil prices. Tariffs and sanctions impacted global trade and economic growth, affecting oil demand

OPEC+'s April output increase could further pressure prices unless demand improves. OPEC+ plans to increase oil production by 138,000 barrels per day starting in April, which could further pressure prices downward. Supply concerns include potential easing of sanctions on Russia and delayed talks to restart oil exports from Iraq's Kurdistan region. Brent crude is trading at six-month lows but bounces off

- **US Crude Oil Inventories:** The American Petroleum Institute reported a 3.34 million barrel increase in U.S. crude oil inventories, indicating ample supply and causing downward pressure on prices

- **U.S. EIA Forecasts Oil Inventories Rise:** The U.S. Energy Information Administration (EIA) predicts a rise in global oil inventories in the second half of 2025, causing downward pressure on prices due to supply growth from non-OPEC+ countries and easing OPEC+ production cuts

- **Price Forecasts- EIA predicts average $74 per barrel in 2025:** The EIA predicts Brent crude oil prices will average $74 per barrel in 2025, with further price decline in the second half due to increased inventories and ease further to an average of $66/b in 2026

- **Demand and Supply Dynamics:** Weak economic data from major economies like the Eurozone and China has raised concerns about a slowing global demand for oil

  - The market is expected to experience slower demand growth compared to pre-pandemic levels, with increased production from non-OPEC+ countries leading to higher inventories and lower prices

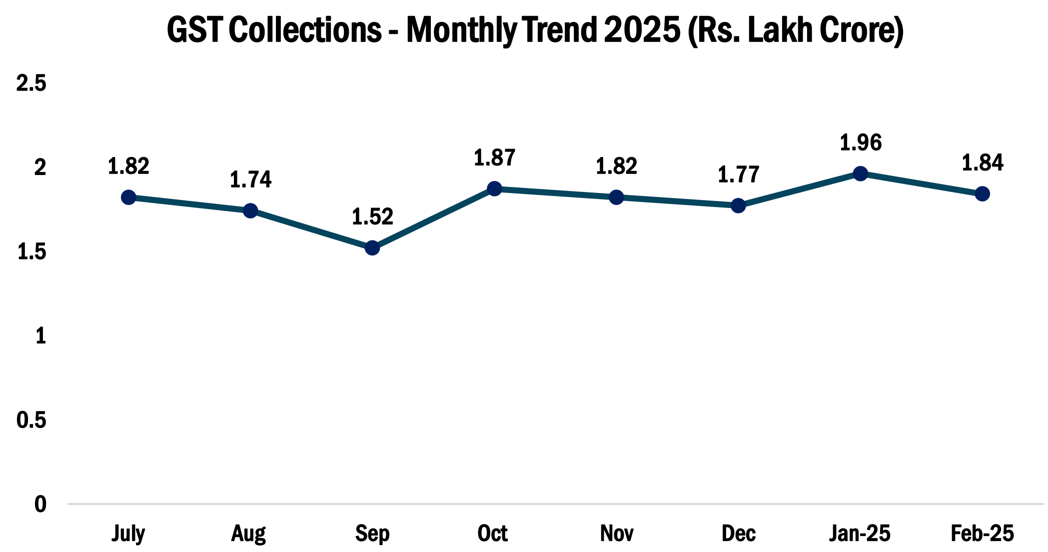
- **Economic Indicators:** An increase in U.S. jobless claims to 242,000, the highest since early December, signalled potential economic slowdown, further dampening oil demand forecasts

- **OPEC+ Production Decisions:** OPEC+ plans to increase oil production starting in April 2025 to combat low prices, a departure from previous restrictions. The strategy involves increasing output by 138,000 barrels per day each month, with the goal of restoring full production by the following year. This move aims to retain market share amid challenges like low demand in China and increased production by non-OPEC members

Other Macro-Economic Indicators

GST Collections

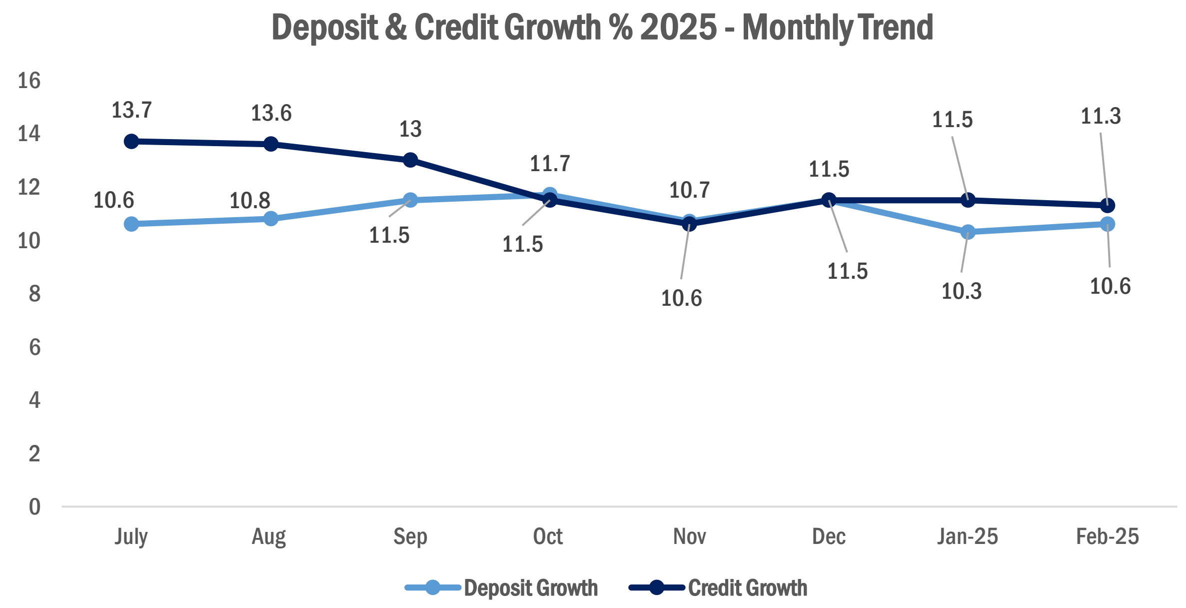
GST collections in February 2025 GST collection reflects strong economic activity, improved tax compliance, and effective fiscal management amidst global challenges. Driven by GST from domestic sources, which account for transactions within the country, it rose by 10.2%, totaling ₹1,41,945.



Sources: GST Council, Press Information Bureau.

Deposit & Credit Growth Rate

India's banking sector saw steady credit growth but continued pressure on margins as banks adjusted their lending strategies in response to regulatory changes and liquidity constraints. Despite efforts to enhance liquidity, the banking system remained volatile in February 2025, with banks depending on certificates of deposits to manage short-term mismatches. The sector is grappling with challenges like slowing credit growth and margin pressure, while deposit growth is stabilizing.



Source: RBI

BWR VIEW

The year-on-year growth in GST collections is attributed to strong consumer spending, enhanced compliance, and economic growth. This rise in GST revenue is a positive indicator of India's fiscal health, showcasing resilient consumption trends and effective tax administration. Increased consumer spending across sectors such as retail, e-commerce, and hospitality has contributed to higher GST revenues. February typically experiences seasonal buying patterns, including post-New Year sales, wedding season demand, and inventory restocking, all of which have helped boost GST collections. These robust figures highlight that India's economy is effectively navigating global economic challenges.

In the face of several internal and external uncertainties. the Monetary Policy Committee has opted to reduce the policy rate by 25 basis points, bringing it down to 6.25% from 6.50%, while maintaining a neutral monetary policy stance. Liquidity in the domestic banking system has remained volatile for the past three months. Despite a significant liquidity infusion of ₹600 billion, the domestic banking system continued to face a substantial deficit in liquidity in February 2025. However, the overall net daily banking system liquidity improved to ₹0.94 trillion on February 11, 2025, up from a peak net deficit of ₹3.15 trillion and an average deficit of ₹2.15 trillion in January. It is expected that system liquidity will remain volatile in February and March 2025, with banks continuing to rely on certificates of deposits to manage short-term mismatches.

GLOBAL

Germany slashes 2025 economic growth forecast to 0.3% following two years of decline

- On 29 January 2025, the German government revised its 2025 economic growth forecast for the country's economy down to just 0.3% after it contracted for two consecutive years
- The new estimate is significantly lower than the 1.1% growth projection made in October
- The gross domestic product shrank by 0.2% last year, after a 0.3% decline in 2023, according to preliminary data
- Germany has experienced little to no significant economic growth over the past four years, as it grapples with major shifts in the global economy and faces its own structural challenges.

Global Economy To Face Significant Challenges In 2025: WEF

- In its most recent Chief Economists Outlook, the World Economic Forum (WEF) highlighted that the global economy is likely to encounter significant challenges in 2025, with 56% of chief economists surveyed anticipating a decline in conditions
- The US economy is projected to experience strong growth in 2025, and South Asia, especially India, is expected to continue its robust growth
- However, the outlook for Europe is bleak, with 74% of respondents forecasting weak or very weak growth this year
- China's outlook remains unfavourable, with growth expected to slow gradually in the coming years

Japanese Inflation Accelerates, Raising Odds of Another Rate Hike

- Japan’s inflation surged more than anticipated, reaching its fastest pace since the summer of 2023 and this has heightened expectations that the Bank of Japan may raise its benchmark interest rate further to manage inflation while supporting economic growth
- According to the Ministry of Internal Affairs, Japan’s core inflation, which excludes fresh food, reached a 19-month high of 3.2% in January 2025, up from 3.0% in December 2024, marking the largest increase since June 2023
- Overall inflation also accelerated to 4% from 3.6%, marking its first rise to that level in two years. The increase was partly driven by a sharp rise in fresh food prices, particularly vegetables like cabbage
- Japan's inflation rate is one of the highest among the Group of Seven nations

* Views are personal

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