

THE PULSE



A monthly digest of key macroeconomic events

Edition: March 2025

"We believe that it will have a short-lived impact on inflation, but for growth, a trade war will be extremely detrimental" – Luis de Guindos, Vice President, European Central Bank

Executive Summary

Uncertainty continued to weigh on markets through the month with impending liberation day tariffs, with yields ending marginally softer for the month on softer data points. Fed kept rates on hold and the median dot plot remained broadly the same since the last reading indicating the central bank is not in a rush to act. However, projections showed signs of stagflation worries, with lower growth forecast and higher inflation forecast. The tariff announcement on key trading partners turned out to be more severe than what the market was pricing, triggering a sharp reaction across asset classes - stocks crashed, bond yields fell, and the dollar index traded weaker. The actual implementation deadline is still a couple of days away and there would be likely some negotiations and possible retaliations, in some instances.

In continuation with measures to ease banking system liquidity, RBI announced more tranches of Open Market Operations and another foreign currency swap earlier last month. Steps were pre-emptive ahead of the seasonal year-end squeeze in March, being the fiscal year-end. There were positive data surprises last month with inflation coming in lower at 3.6%, led by softer food inflation, and IIP improved to 5%, led by a pick-up in the manufacturing sector. On the currency front, sharp lower movements in USD-INR caused the currency pair to drop ~2.3% last month, while FPI flows turned positive (including both debt and equity). With softer inflation and potential growth slowdown, we expect RBI to cut rates by another 25 bps and change its stance to accommodative in the upcoming April meeting.

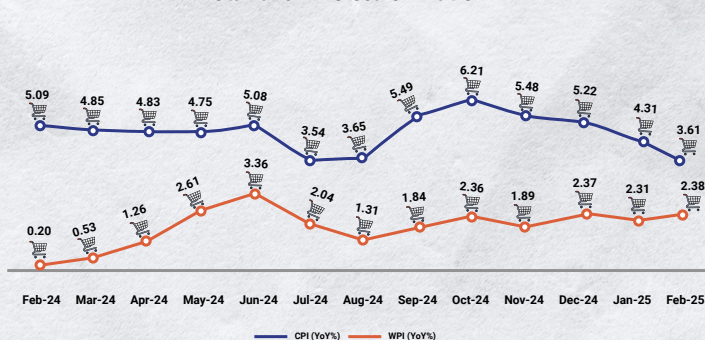
Domestic Updates

India's retail inflation plunges to 7-month low, wholesale inflation spikes

The retail inflation in India, measured by the change in the Consumer Price Index (CPI), moderated to a 7-month low of 3.61% YoY in February from 4.31% YoY in January. This is the first time since September 2024 that the inflation has dropped below the RBI's medium-term target of 4%. The softening is attributable to food inflation that eased to 3.75% YoY in February, the lowest since May 2023. Vegetable deflation stood at 1.07% YoY in February compared to an inflation of 11.35% YoY in January. Along with vegetables, lower prices in eggs, meat, fish, pulses, and dairy products contributed towards the fall in inflation.

However, inflation based on the Wholesale Price Index (WPI) rose to an 8-month high of 2.38% YoY in February from 2.31% YoY in January led by lower deflation in fuel and power prices and higher costs in the manufacturing sector. The deflation for fuel and power declined to 0.71% YoY in February from 2.78% YoY in January whereas inflation for manufactured products increased to 2.86% YoY in February from 2.51% YoY in January. However, the food inflation declined to 5.94% in January from 7.47% in January, partially offsetting the rise in wholesale price inflation.

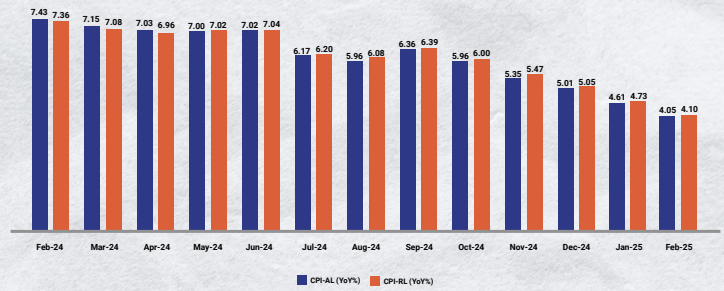
Retail and Wholesale Inflation



Source: CPI - MOSPI; WPI - Ministry of Commerce and Industry

Meanwhile, retail inflation for farm and rural workers eased to 4.05% YoY and 4.10% in February respectively, from 4.61% YoY and 4.73% in the previous month. The retail inflation for farm and rural workers during the month is the lowest since November 2021.

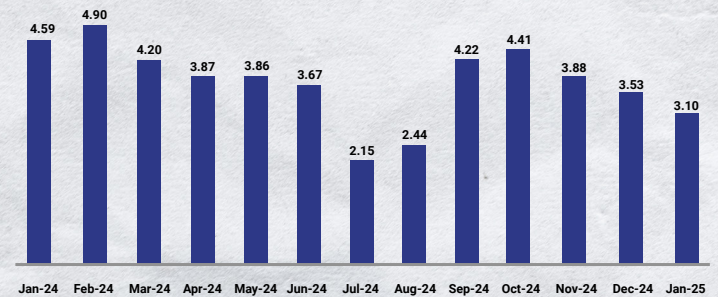
Retail Inflation for Farm and Rural Workers



Source: Ministry of Labour and Employment

The retail inflation for industrial workers (IW) measured by the CPI-IW, moderated to a 5-month low of 3.10% in January 2025 from 3.53% in December.

Retail Inflation for Industrial Workers

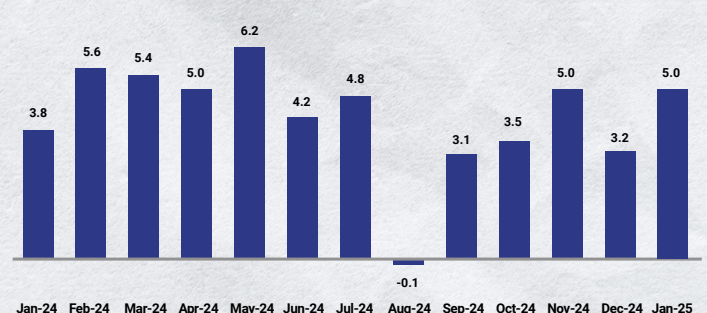


Source: Labour Bureau

India's industrial output growth accelerates

India's industrial output, as measured by the Index of Industrial Production (IIP), grew 5% YoY in January 2025 compared to 3.5% in December primarily driven by the manufacturing sector. The manufacturing sector (largest in the IIP basket) output increased 5.5% in January compared to 3% in December as higher government spending in January provided support to industrial growth. Mining and electricity output grew 4.4% and 2.4%, respectively, during the month under review.

Index of Industrial Production, IIP (YoY %)

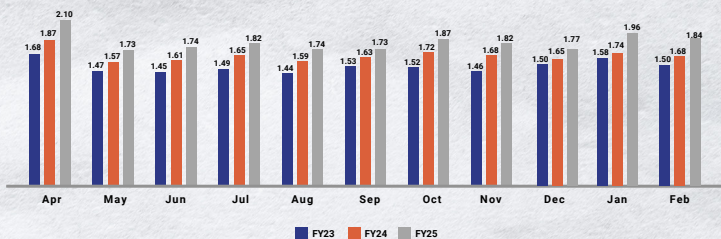


Source: MOSPI

India's GST collections register a sluggish growth

India's GST collection grew 9.1% YoY to INR 1.84 lakh crore in February driven by an increase in domestic revenue. The GST from domestic sources increased by 10.2% YoY to INR 1.41 lakh crore in February. The top five states by collection remained the same with Maharashtra recording the highest collection (INR 30,637 crore) followed by Karnataka (INR 14,117 crore), Gujarat (INR 11,402 crore), Tamil Nadu (INR 10,694 crore), and Haryana (INR 9,925 crore). Net GST revenue grew 8.1% YoY to 1.62 lakh crore in the month under review.

India's GST Collection (INR Lakh Crore)



Source: Indian Finance Ministry

OECD revised India's GDP growth forecast downwards

The Organisation for Economic Co-operation and Development (OECD) lowered India's FY26 growth forecast to 6.4% from its earlier estimate of 6.9% in December citing rising global uncertainty. The forecast for FY27 has also been lowered to 6.6% from the earlier estimate of 6.8%.

Meanwhile, Ministry of Statistics and Programme Implementation (MOSPI) has revised the growth estimates for FY25 to 6.5% from 6.4% projected in January. The ministry's outlook is based on recovery in the agricultural and service sector during the December quarter.

Real GDP Growth Forecasts

Agencies	2025	2026	2027
Reserve Bank of India (RBI)	6.6%	6.7%	
Projection: Unchanged			
UN's report, World Economic Situation and Prospects 2025*	6.6%	6.7%	-
Projection: First estimate			
The World Bank	-	6.7%	6.7%
Projection: Unchanged			
International Monetary Fund (IMF)	6.5%	6.5%	-
Projection: Unchanged			
The Federation of Indian Chambers of Commerce and Industry (FICCI)	6.4% ↓	-	-
Projection: Revised estimate			
Asian Development Bank (ADB)	6.5% ↓	7% ↓	-
Projection: Revised estimate			
Organisation for Economic Co-operation and Development (OECD)	6.3%	6.4% ↓	6.6% ↓
Projection: Revised estimate			
Government of India (National Statistics Office (NSO))	6.5% ↑		
Projection: Second estimate			

*Growth rates are on a calendar-year basis, rest is on fiscal-year basis

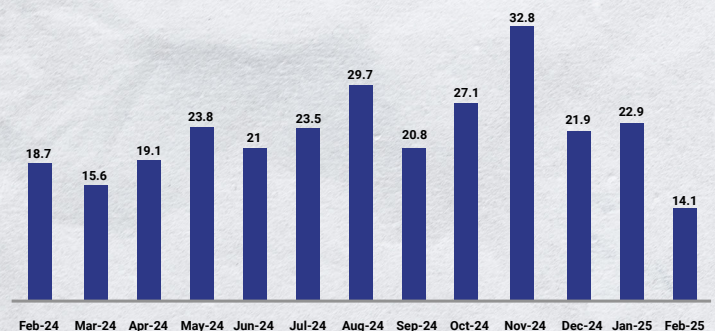
Gross FDI inflows nosedive in Q3FY25

Gross foreign direct investment (FDI) in India dipped 5.6% YoY to US\$10.9 billion in the October-December 2024 from US\$11.5 billion in the October-December 2023, due to global uncertainties. Total FDI, including equity inflows, reinvested earnings and other capital, grew 21.3% YoY to US\$62.4 billion in 9M FY25. In April-December 2024-25, major countries that contributed to equity inflows were Singapore, the US, the Netherlands, the UAE, Cayman Islands and Cyprus.

India's trade deficit shrinks

India's merchandise trade deficit, the gap between the imports and exports, declined to US\$14.1 billion in February from US\$22.9 billion in January driven by sharp decline in imports. This is the lowest deficit since August 2021. Merchandise imports fell 16% YoY to US\$50.96 billion while exports fell 11% YoY to US\$36.91 billion.

Merchandise Trade Deficit in India (US\$ billion)

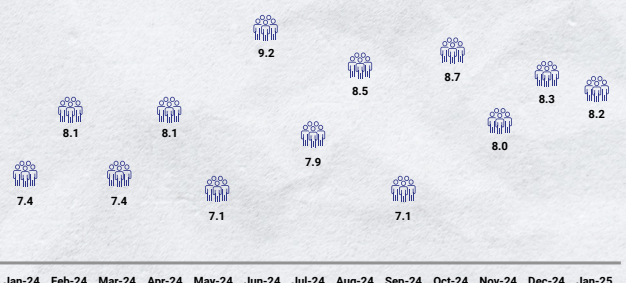


Source: Ministry of commerce and Industry, India

India's unemployment rate skids

The unemployment rate in India slid to 8.2% in January 2025 from 8.3% in December, according to the survey by the Centre for Monitoring Indian Economy (CMIE). The average unemployment rate in India for the 2018-2024 period was 8.18%. The unemployment rate reached an all-time high of 23.5% in April 2020 and it reached an all-time low of 6.4% in September 2022.

Unemployment Rate in India (%)



Source: CMIE

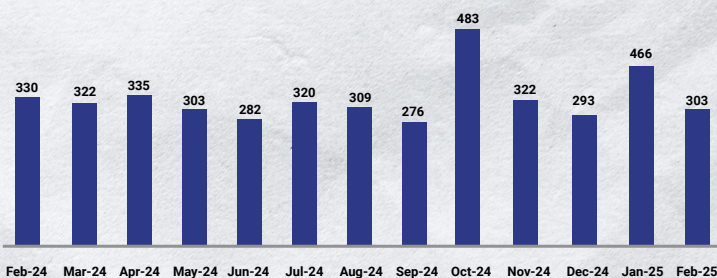
India's net direct tax collection growth slows

India's net direct tax collection grew 13.13% YoY to INR 21.26 lakh in March slowing from 14.69% in February, according to the latest data released by the income tax department. Gross direct tax collections were up 16.15% to INR 25.87 lakh crore in FY25 from INR 22.27 lakh crore in FY24. During the same period, corporate tax collection was at INR 12.4 lakh crore, while Securities Transaction Tax (STT) collection, a component of direct tax, grew sharply by 55% YoY to INR 53,095 crore.

Passenger vehicle sales drop significantly

Total passenger vehicle (PV) sales in India fell 10.34% YoY to 303,398 units in February from 465,920 units in January, as per the data from the Federation of Automobile Dealers Association (FADA). The auto dealers attribute this decline to delayed conversions and other challenges. All the categories registered a decline - 2-wheeler sales were down 6% YoY, 3-wheeler segment fell 2%, commercial vehicles sales dropped 8.6%, and the tractor segment dipped 14.5% YoY.

Passenger Vehicle Sales in India ('000)



Source: FADA

Global Update Roundups

Monetary Policies

US: The US Fed kept the federal funds rate unchanged at 4.25% - 4.5% for the second time in a row in its March 2025 meeting, noting that the economy is expanding, and the unemployment rate remains under control while acknowledging the rising concern about the economic outlook at the same time. "We do understand that sentiment has fallen off pretty sharply, but economic activity has not yet," the Federal Reserve Chair Jerome Powell said. "The economy seems to be healthy".

ECB: The European Central Bank (ECB) cut its benchmark interest rates by 25 basis points to 2.65% from 2.9% while lowering the deposit facility rate to 2.5%, and the marginal lending rate to 2.9%. The move aims to boost economic growth amid rising concerns on persistent inflation and sluggish recovery in the Eurozone fearing a looming trade war.

BoJ: The Bank of Japan (BoJ) kept interest rates unchanged at 0.5%, in an effort to buy more time for gauging the effect of higher US tariffs on the export-intensive economy. "Japan's economy is recovering moderately, albeit with some weak signs," the BOJ stated.

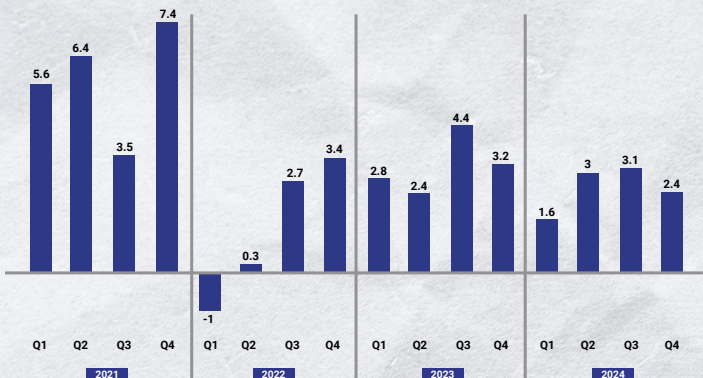
China: China has kept its benchmark interest rates unchanged for the fifth straight months, in line with market expectations. The one-year loan prime rate (LPR), a benchmark rate for corporate and household loans, was kept steady at 3.1%, while the five-year LPR, a reference for property mortgages, has been retained at 3.6%. This happened as economic recovery and declining lender profit margins limit the need for further easing.

BoE: The Bank of England (BoE) kept the benchmark interest rate unchanged at 4.5%, trading caution about the persistent inflation, slowdown in economy, and global economic uncertainties. The country's inflation remained above the central bank's 2% target and is set to move higher in the next few months.

GDP growth

US: The US economic growth declined at an annualised rate of 2.4% in Q4CY24 from the previous quarter's growth of 3.1% but was slightly higher than the consensus estimate of 2.3%. The slowdown in growth is a result of weakened exports, while imports surged, and a 9% decline in business investments. On the other hand, there was a slight increase in government and consumer spending, at an annual rate of 4.2%, in the fourth quarter.

US: Growth in Real GDP (annual rate, %)



Source: Commerce Department

Japan: Japan's economy grew 0.6% QoQ in Q4CY24 from the previous quarter's 0.4% (upwardly revised), the third consecutive quarter-on-quarter growth. This growth is attributable to increase in government spending by 0.4%, and business investments by 0.6% (compared to a 0.1% drop in Q3), which is above the expectations of 0.5%.

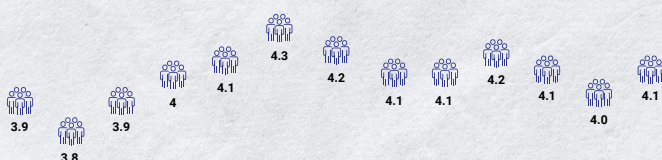
Euro Area: The seasonally adjusted GDP grew 0.2% in the Euro area and 0.4% in the EU on a QoQ basis in Q4CY24. Among the member states, Ireland recorded the highest growth (3.6% QoQ) followed by Denmark (1.6%), and Portugal (1.5%).

UK: The UK economy grew 0.1% QoQ in Q4CY24, in line with the previous estimate, and compared to the flat reading of Q3CY24. The improvement is led by increase in household spending, gross capital formation, public expenditure, and service sector output.

Unemployment

US: Unemployment rate in the US was 4.1% in February, slightly above the market expectations and January's reading of 4%. The number of unemployed individuals grew to 7.05 million in February from 6.85 million in the previous month. The labour force participation rate dropped to 62.4% while the employment-population ratio declined to 59.9% in February.

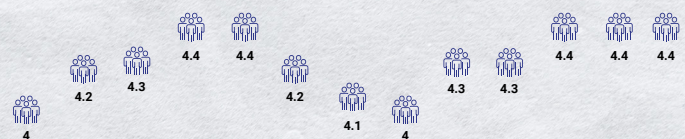
US Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics

UK: The unemployment rate in the United Kingdom remained steady at 4.4% in January 2025, in line with market expectations. With this, unemployment remained at the highest level for the third consecutive month as the number of individuals unemployed for up to 12 months increased. The economic activity rate remained unchanged at 21.5%.

UK Unemployment Rate (%)



Source: Office for National Statistics

Canada: The unemployment rate in Canada remained unchanged at 6.6% in February but came in below market expectations of 6.7%. The number of unemployed individuals decreased to 1.4 million in February from 1.5 million in the previous month. The labour force participation rate dropped to 63.5%.

China: The unemployment rate in China came in higher at 5.4% in February compared to the January's reading of 5.2% and market estimates of 5.1%. This is the highest unemployment rate since February 2023. The jobless rate for local registered residents stood at 5.6%, non-local registrants at 5%, and for non-local agricultural registrants at 5.1%.

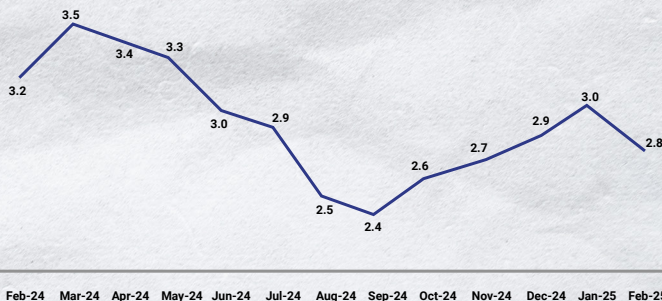
Japan: The unemployment rate softened to 2.4% in February compared to 2.5% in January and against the market forecasts of no change. The number of unemployed individuals fell by 3.4% to 1.68 million in February, while the number of employed individuals also declined by 0.2% to 68.16 million. The non-seasonally adjusted labour force participation rate stood at 63.2% in February. The jobs-to-applications ratio fell to 1.24 in the month under study from 1.26 in the previous month.

Euro: The unemployment rate in the Euro Area decreased to a new low of 6.1% in February compared to market consensus and January's reading of 6.2%. The number of unemployed individuals decreased by 70,000 MoM to 10.5 million.

Inflation readings

US: The inflation rate in the US edged down to 2.8% YoY in February from 3% in January. It was lower than the consensus estimates of 2.9%. The decline is attributed to the fall in energy costs (0.2% YoY) led by lower gasoline and fuel oil prices. Moreover, inflation for shelter, used cars and trucks, and transportation slowed down during the month. Annual core inflation declined to 3.1% (compared to 3.3% in the previous month), which is the lowest since April 2021.

US CPI (YoY, %)



Source: U.S. Bureau of Labor Statistics

Eurozone: The consumer price inflation in the Euro Area fell to 2.3% YoY in February from 2.5% in January and below the market forecast of 2.4%. Factors that contributed to the decrease include services (3.7% vs. 3.9% in January) and energy (0.2% vs. 1.9%). Moreover, core inflation, which excludes volatile food and energy prices, eased to 2.6%, its lowest level since January 2022.

UK: The annual inflation rate in the UK eased to 2.8% YoY in February from 3% in January and lower than the expectations of 2.9%. The largest contributor towards this decline came from prices of clothing that fell for the first time since October 2021. Core inflation, which excludes volatile energy, food, alcohol, and tobacco prices, fell to 3.5% YoY in February from 3.7% in January.

China: China recorded a deflation of 0.7% YoY exceeding market estimate of a 0.5% deflation and reversing January's inflation of 0.5%. This is the first deflation since January 2024 amid fading seasonal effects from the Spring Festival in late January. Food prices, mainly pork, and fresh vegetables fell sharply. Core inflation dropped 0.1% in February compared to a 0.6% rise in January.

Japan: Japan's annual inflation shrank to 3.7% YoY in February from a 2-year high of 4% in January. The fall is led by the sharp decline in prices of electricity and gas. Furthermore, inflation softened for healthcare, recreation, and miscellaneous items. The core inflation rate fell to 3.0% in February from January's 3.2%.

Consumer confidence

US: The consumer confidence dimmed further to 92.9 in March 2025 from 98.3 in February and came in lower than the forecast of 94.2. This 7.2-point contraction marks the 4th consecutive month of decline. In February, consumer views about the future business conditions and income fell to the lowest level. Moreover, the index that measures future expectations dropped 9.6 points to 65.2, the lowest reading in 12 years below the 80-level, indicating possibility of a recession ahead.

UK: The GfK consumer confidence index in the UK grew by 1 point to -19 in March 2025, making it the second consecutive monthly increase. While the improvement in the consumer confidence exceeded market expectations of -21, it remained in the negative area reflecting caution by the consumers.

Euro: The consumer confidence in the Euro Area declined by 0.9 points to -14.5 in March 2025, the lowest in 3 months and in line with the initial estimates. This decline is fuelled by pessimism about future economic and financial situation while there was a slight improvement in consumers intent to make major purchases.

Balance of Trade

US: The US reported an all-time high trade deficit of US\$131.4 billion in January 2025 from US\$98.1 billion in December 2024 (revised), surpassing the forecast of US\$127.4 billion. Imports grew 10% to a record high of US\$401.2 billion in anticipation of upcoming tariffs while exports increased 1.2% to US\$269.8 billion.

UK: The UK's trade deficit fell to £0.60 billion in January 2025 from £3.18 billion in December. It is the smallest trade gap since September. Exports grew 3.6% MoM to a 5-month high of £75.68 billion while imports were up 0.1% MoM to £76.28 billion.

Japan: Japan's trade balance shifted to a surplus of JPY 584.5 billion in February compared to a deficit of JPY 415.43 billion in January, falling short of market estimates of a JPY 722.8 billion surplus. This reversal is driven by 11% YoY increase in exports to JPY 9,191.14 billion, while imports fell 0.7% YoY to JPY 8,606.63 billion.

China: China's trade surplus increased to US\$170.52 billion in January-February 2025 period from US\$104.84 billion in December. This sharp increase was driven by imports that fell 8.4% YoY, while the exports grew 2.3% YoY.

Purchasing Manager's Index

Manufacturing:

Countries	Feb 2025	Jan 2025
US	52.7 ↑	51.2
UK	46.9 ↓	48.3
Eurozone	47.6 ↑	46.6
China	50.8 ↑	50.1
Japan	49.0 ↑	48.7
India	56.3 ↓	57.7

Note: A reading below 50 indicates contraction and above indicates expansion in output.

Services:

Countries	Feb 2025	Jan 2025
US	51.0 ↓	52.9
UK	51.0 ↑	50.8
Eurozone	50.6 ↓	51.3
Japan	53.7 ↑	53.0
China	51.4 ↑	51.0
India	59.0 ↑	56.5

Note: A reading below 50 indicates contraction and above indicates expansion in output.

Monthly Data Snapshot

Currencies

	31-Mar	28-Feb
EUR/USD	1.08	1.04
GBP/USD	1.29	1.26
USD/INR	85.45	87.47
USD/CNH	7.26	7.29
1y Forward Premia (%)	2.21	2.06

US Bond Yields (%)

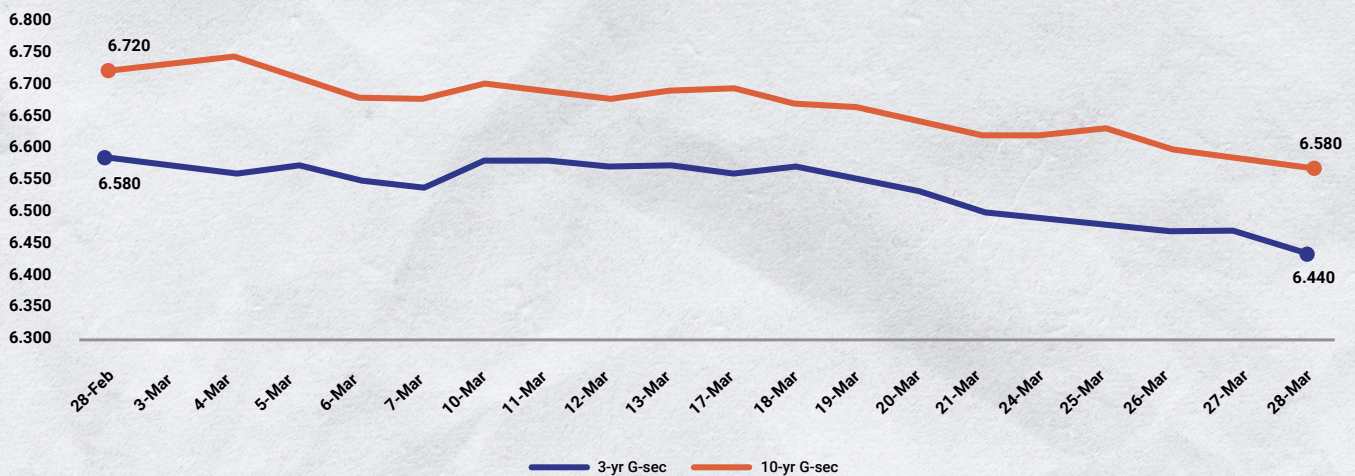
	31-Mar	28-Feb
US 30-yr Treasury	4.58	4.48
US 10-yr Treasury	4.21	4.20
US 2-yr Treasury	3.89	3.99

Commodities (US\$)

	31-Mar	28-Feb
Crude Oil (per barrel)	74.74	73.18
Natural Gas (per MMBtu)	4.11	3.90
Gold (per ounce)	3,123	2,859
Silver (per ounce)	34.07	31.15
Copper (per pound)	5.10	4.51

Source: Refinitiv

India Govt Bond Yields (%)



Note: Yield figures are approximated

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