CareEdge RATINGS

CareEdge

Economic Pathway

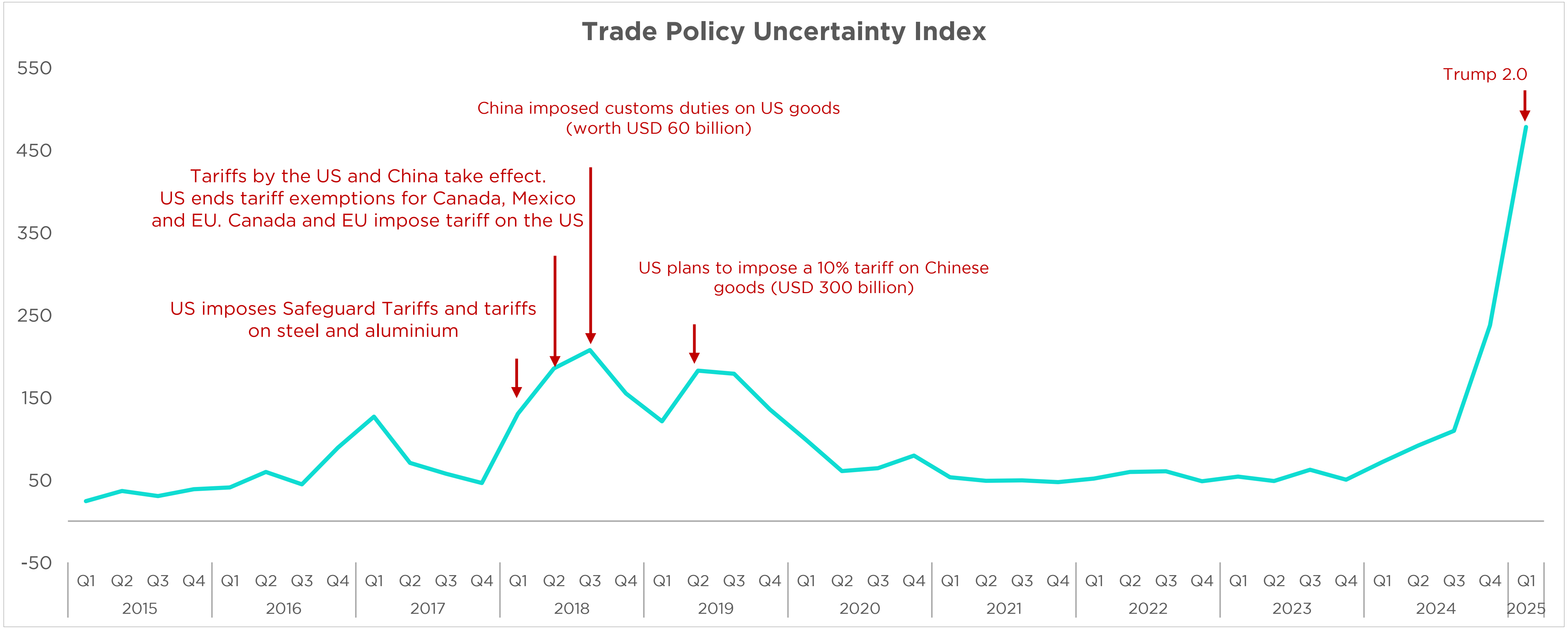
April 2025

List of Content

Economy Update

Global Economy in Turbulent Waters

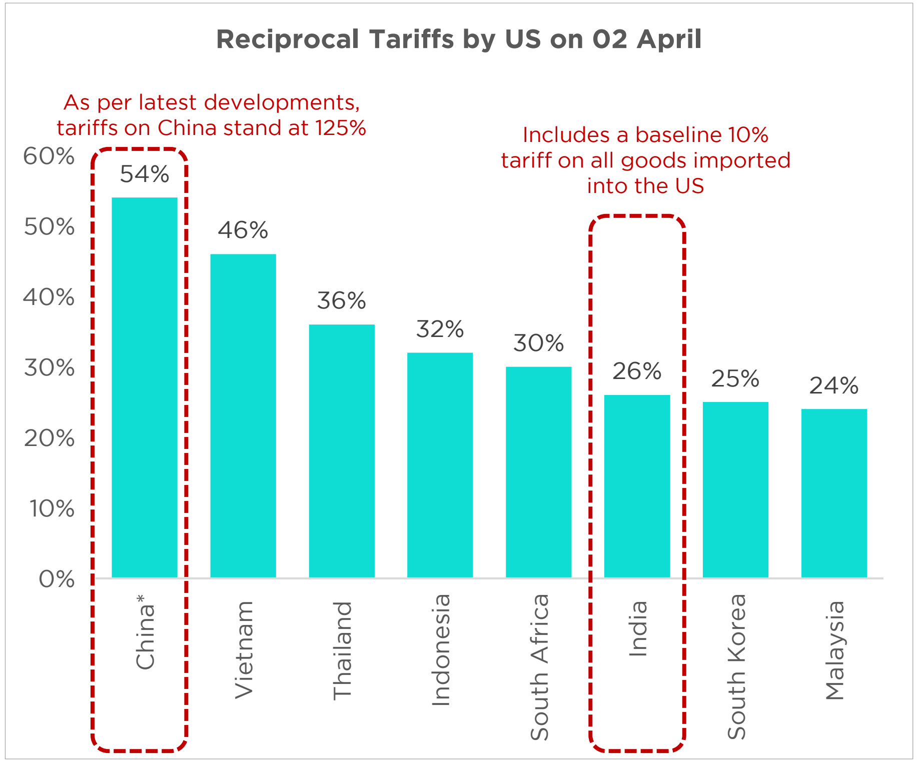
Trade Policy Uncertainty Shoots Up Amid Tariff War Under Trump 2.0



Source: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020), "The Economic Effects of Trade Policy Uncertainty," Journal of Monetary Economics, The Trade Policy Uncertainty (TPU) index is based on automated text searches of the electronic archives of seven newspapers. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper.

Global Economy in Turbulent Waters

The Tariff Truce: Trump's 90-Day Pause



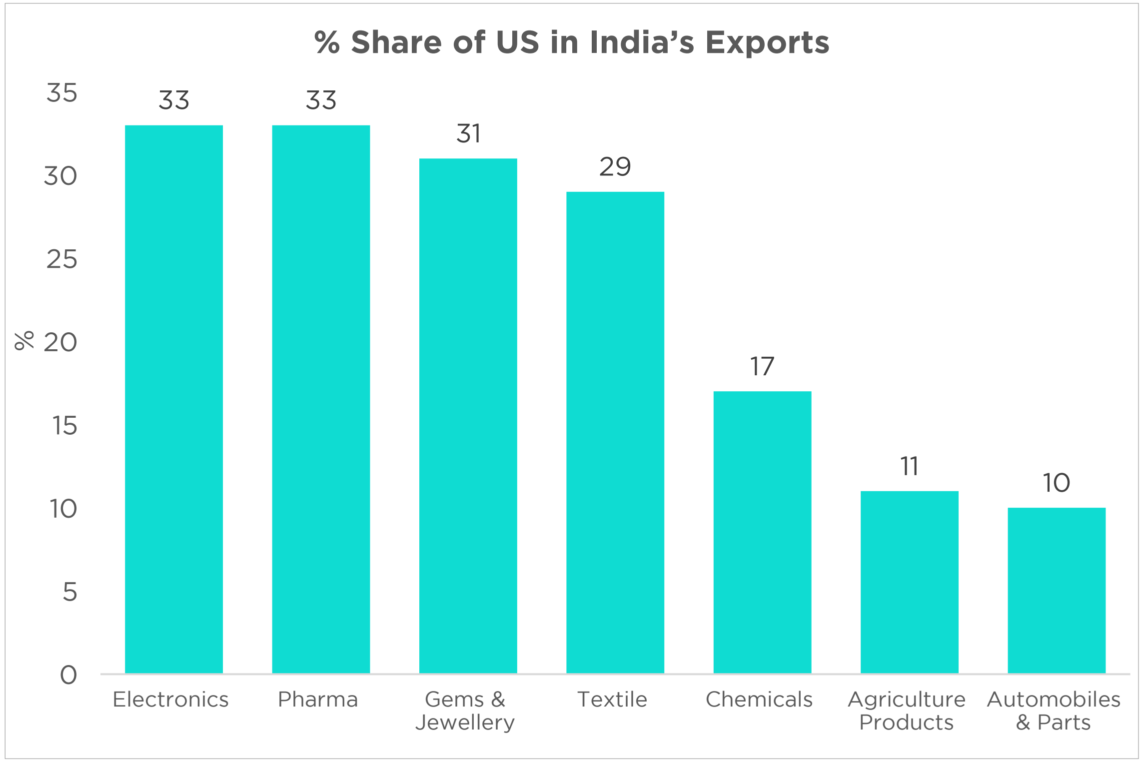
Source: White House, CareEdge. *20% tariff was announced on Chinese Exports in Feb-Mar 2025, in addition to 34% reciprocal tariffs

Estimated Direct Impact on India's Exports to the US in the Context of Possible Reciprocal Tariff	
Annual Exports to the US (USD bn)	77.5
Exports to US excluding Petroleum and Pharma (USD bn)	63.0
Possible Reciprocal Tariff (%)	26%
Assumed Exchange Rate Depreciation (%)	4%
Assumed Price Elasticity	0.6-0.9
Impact Adjusted for FX Depreciation and Elasticity	USD 9-13 billion (0.2%-0.3% of GDP)

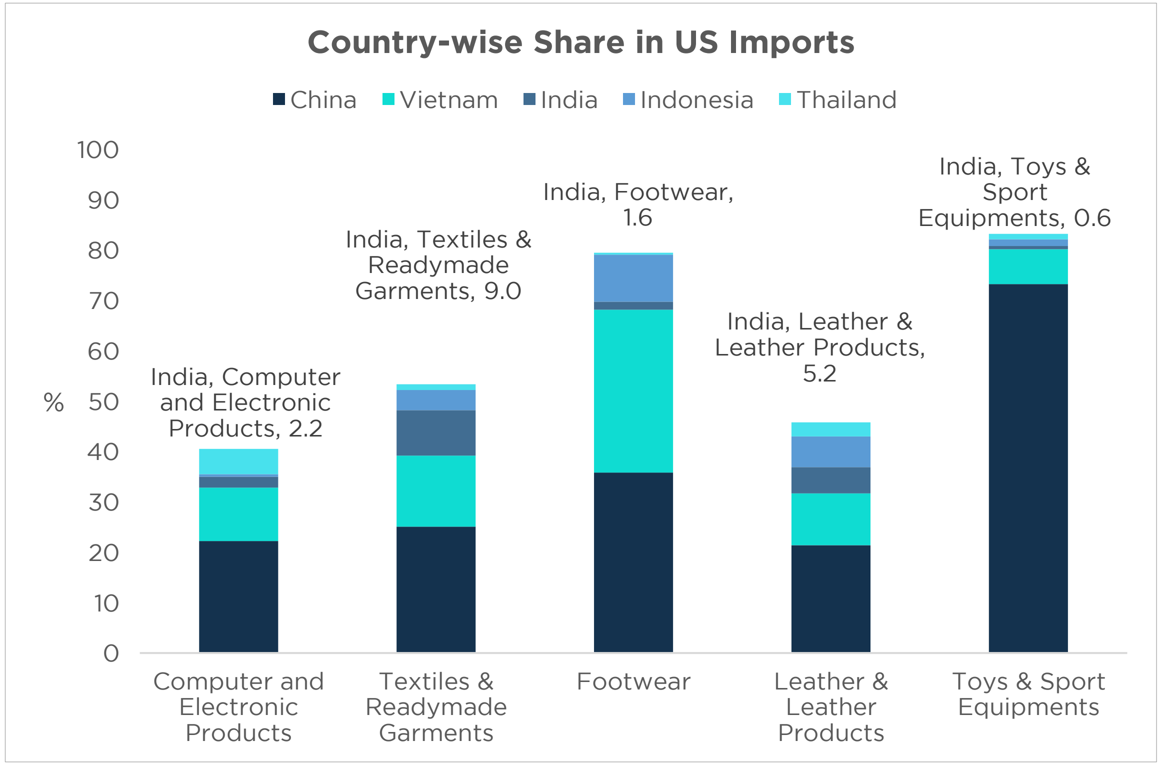
Source: CareEdge

- US President Donald Trump announced a 90-day pause on all reciprocal tariffs with an exception for China. However, the 10% baseline tariff for all countries is maintained.
- If US was to go ahead with the reciprocal tariffs, its direct impact on India's GDP growth is projected to be between 0.2% - 0.3%.
- India benefits from being a domestically driven economy with goods exports constituting about 12% of GDP, lower than other Asian economies.
- In the event of imposition of reciprocal tariffs, the expected price elasticity for India's exports could be lower given tariffs on most peer exporting countries.

Global Economy in Turbulent Waters
The Tariff Truce: Trump's 90-Day Pause



Source: Commerce.gov.in

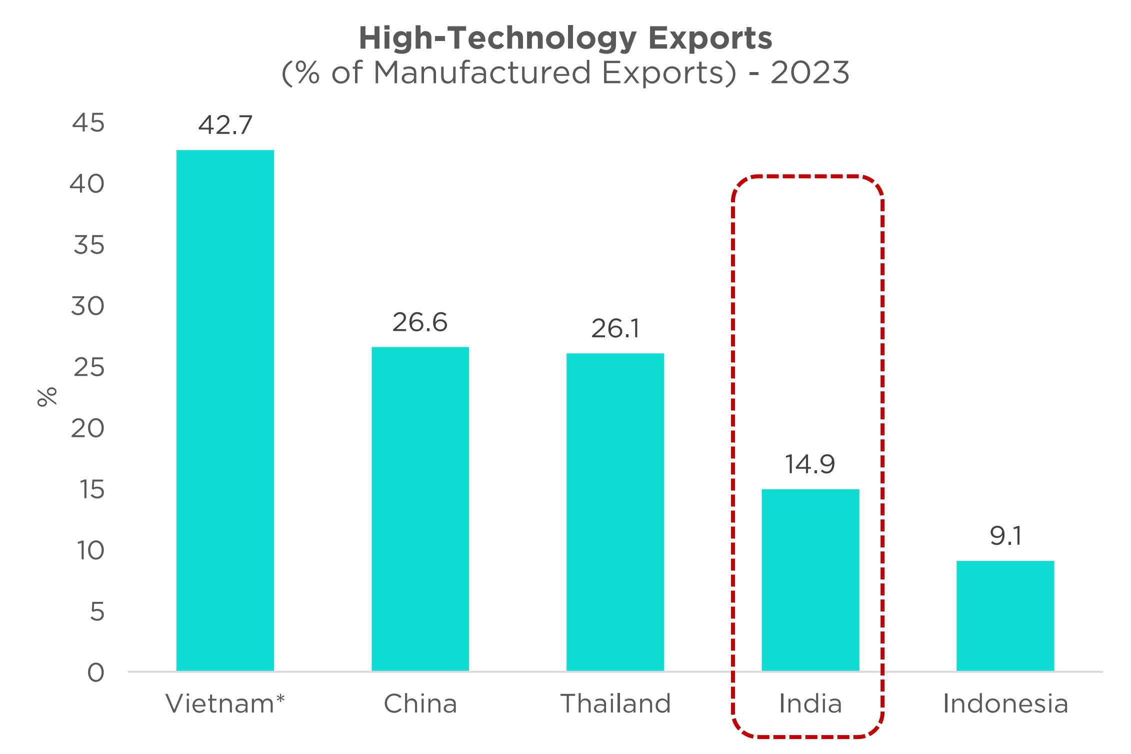


Source: International Trade Administration

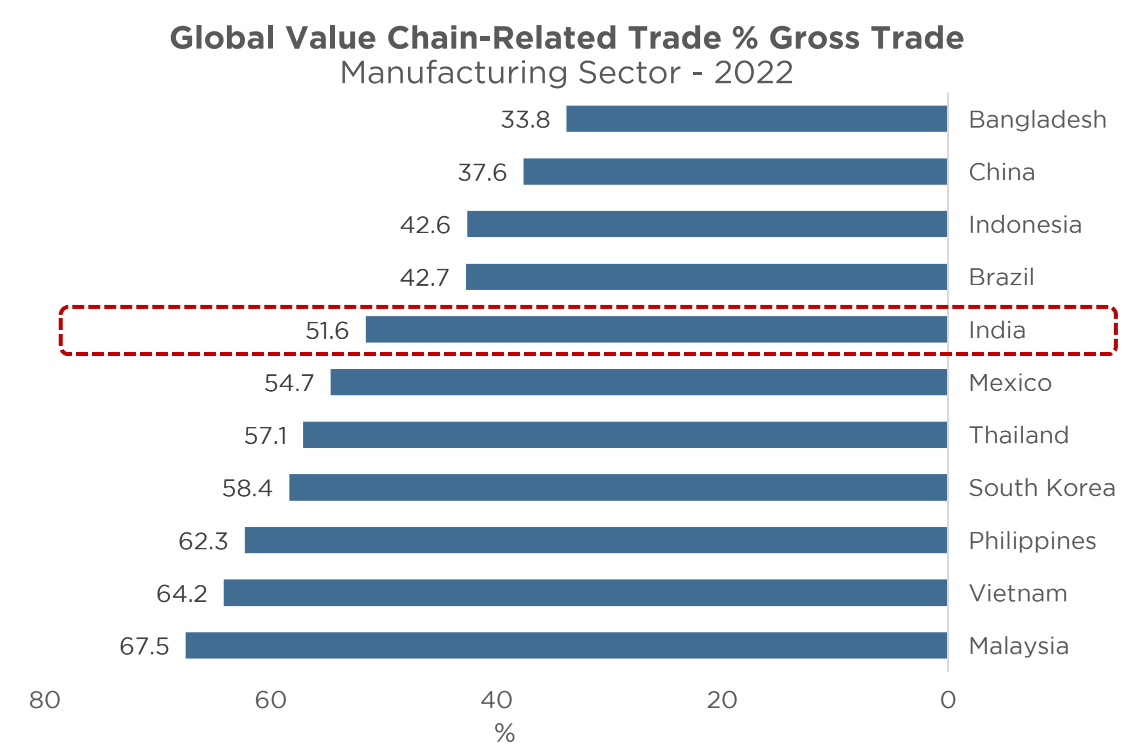
- The possible reciprocal tariffs on India could negatively impact the gems and jewellery sector given its discretionary nature.
- The share of India's exports of chemicals, agriculture and automobiles and parts to the US is low thereby limiting the impact of possible tariffs.
- Currently, India holds a lower share in US imports of electronics, textile and readymade garments compared to other economies such as China.
- Given high US tariffs on China, India faces an opportunity to position itself as a China+1 manufacturing hub. However, India needs to effectively tap into this opportunity.

Global Economy in Turbulent Waters

Challenges & Opportunities from the Global Trade War



Source: World Bank; Note: Data for Vietnam is for 2022; Note: High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

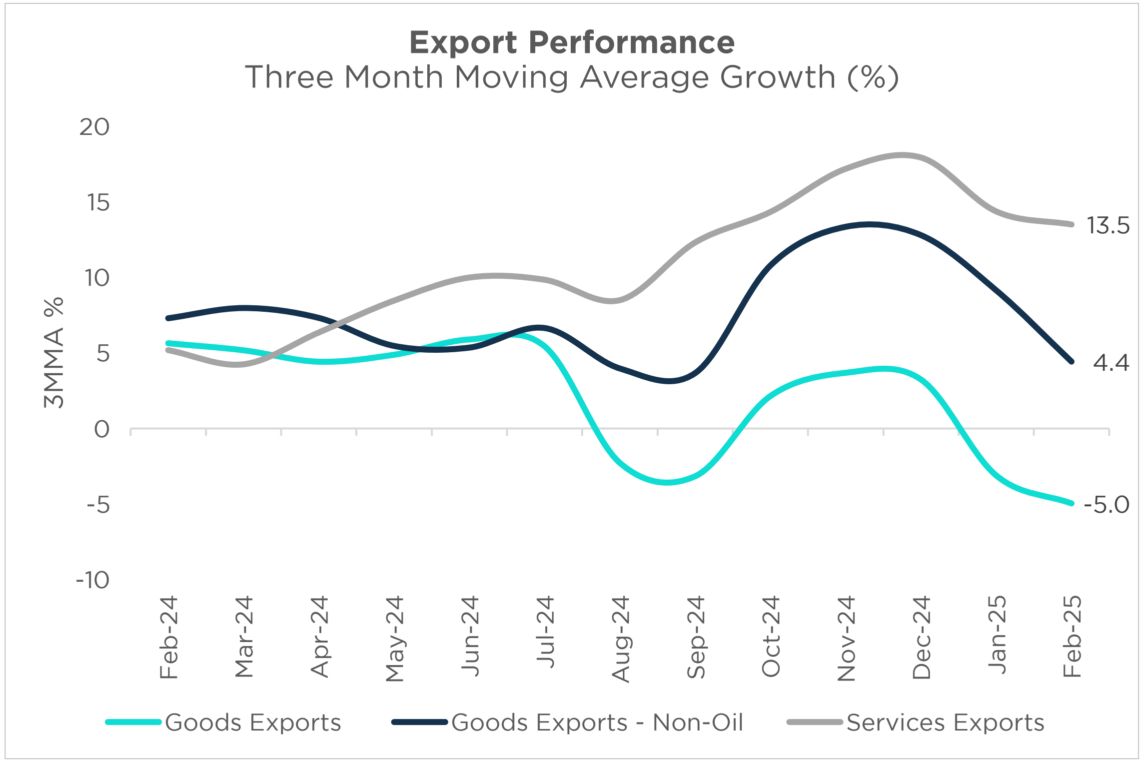


Source: WITS

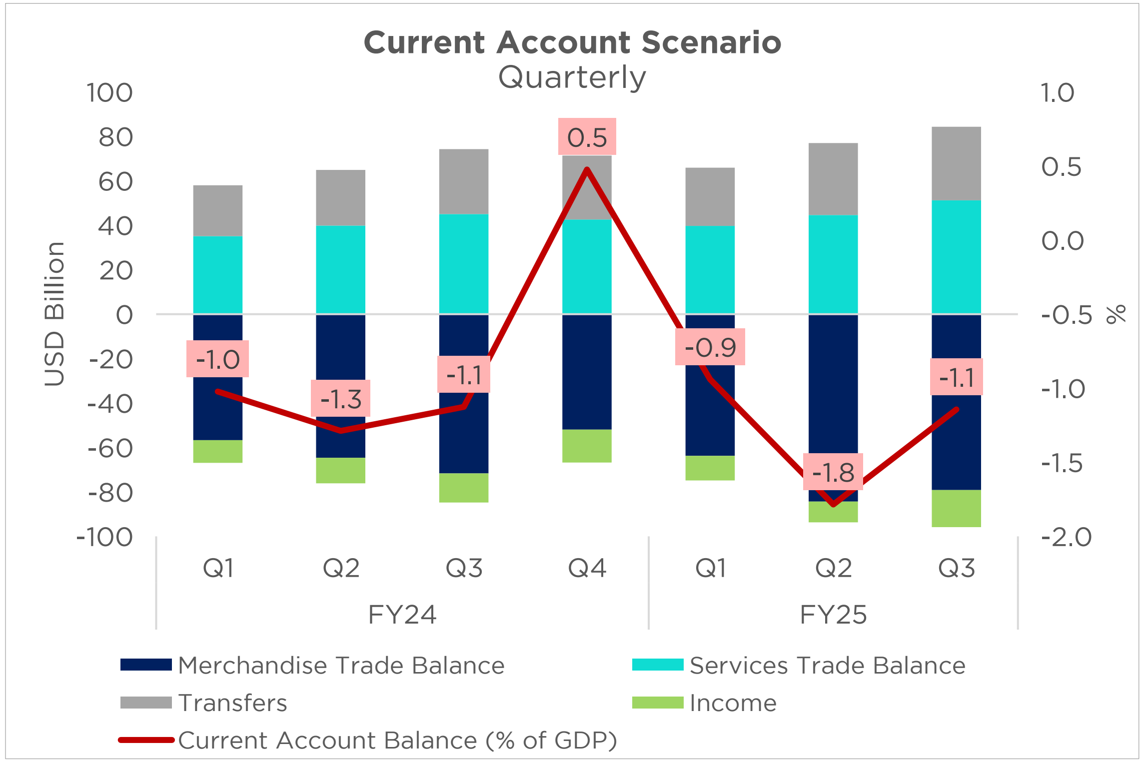
- Given the global economic uncertainty, India must focus on boosting its exports to capitalize the opportunities presented by the global trade policy changes.
- The share of high-tech exports in India's total manufacturing exports remains low at 15% vis-à-vis economies such as Vietnam, China and Thailand with a share of more than 25%.
- Another crucial aspect in today's world is that deeper integration into global value chains increases the potential vulnerabilities to trade wars.
- Thus, the second-round effects of the global trade war on India and the global economy remain to be monitored.

Domestic Economy Steering Through the Storm

CAD to Remain Manageable at 1.1% of GDP in FY26 Amid Global Trade Tensions



Source: CMIE

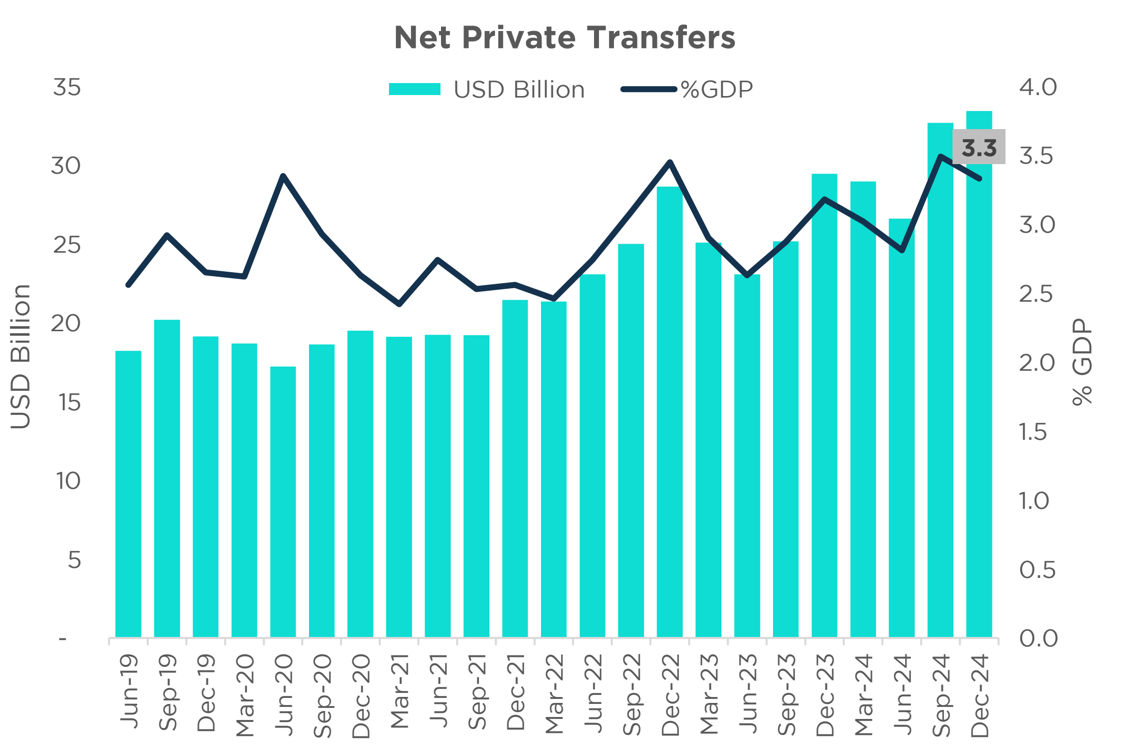


Source: CEIC; RBI

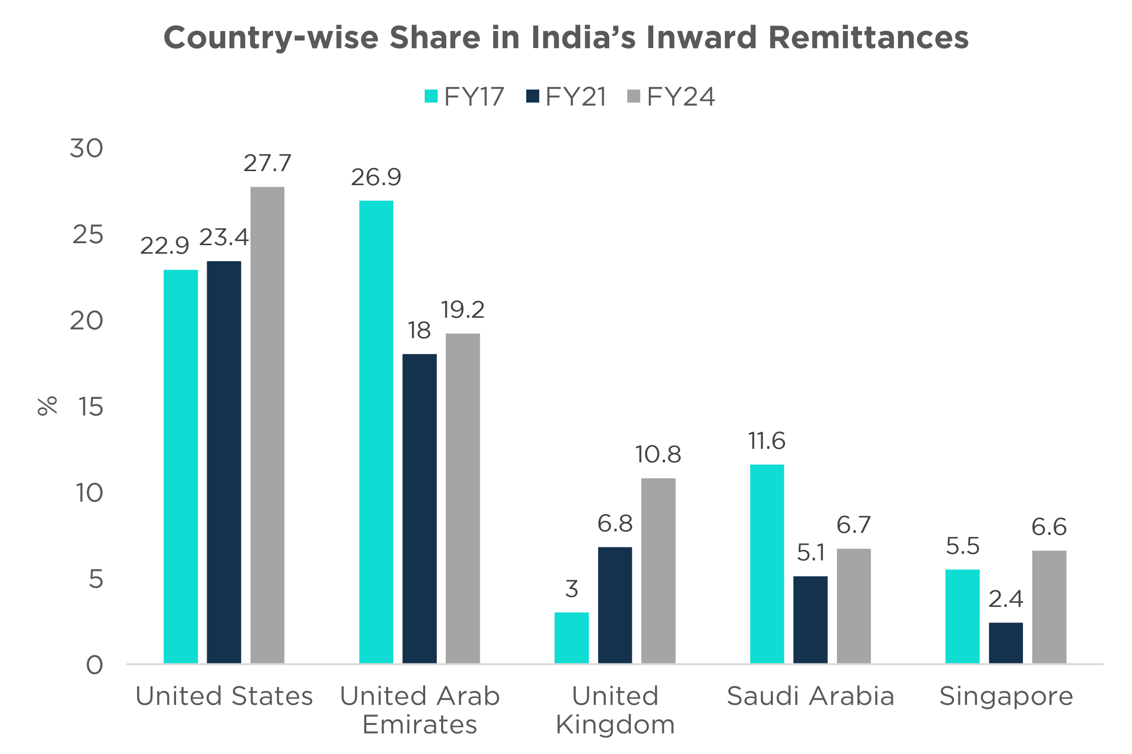
- Growth in India's goods exports remained flat in the 11M FY25; However, non-oil exports rose by 6.5% vis-à-vis 0.9% contraction in the same period last year.
- Services exports remained resilient logging a strong growth of 13% in 11M FY25 vis-à-vis 5.5% growth last year.
- India's CAD was recorded at 1.1% of GDP in Q3 FY25, narrowing from 1.8% in the previous quarter.
- We have revised our FY25 CAD projection lower to 0.7% of GDP from 0.9% earlier supported by narrower goods trade deficit and strong services trade surplus.
- In FY26, India's goods exports are projected to contract by 1.7% while services exports are projected to remain resilient rising by 6.5%.
- Slowdown in global trade is projected to result in widening of India's CAD to 1.1% of GDP in FY26.

Domestic Economy Steering Through the Storm

Remittances Healthy So Far; But May Face Challenges from Global Uncertainty



Source: RBI



Source: RBI; Data for FY17 and FY21 are sourced from the RBI's remittance surveys - RBI (2018) and RBI (2022), respectively. Note: For FY24, shares are derived based on two major components of inward remittances – (a) transfers for family maintenance and savings; (b) local withdrawals from non-resident deposit accounts.

- India's remittances have remained healthy rising by 13.6% in Q3 FY25.
- RBI survey highlights the decreasing dominance of Gulf Cooperation Council countries in remittances to India to 37.9% in FY24 from 46.7% in FY17.
- India's remittances from advanced economies has increased with US, UK, Singapore, Australia and Canada accounting for ~51% share in FY24 compared to 34% in FY17.
- This shift in composition may have implications for India's remittances given the global economic uncertainties and slowing growth in some key advanced economies.

Economy Tracker
Update of Key High Frequency Data

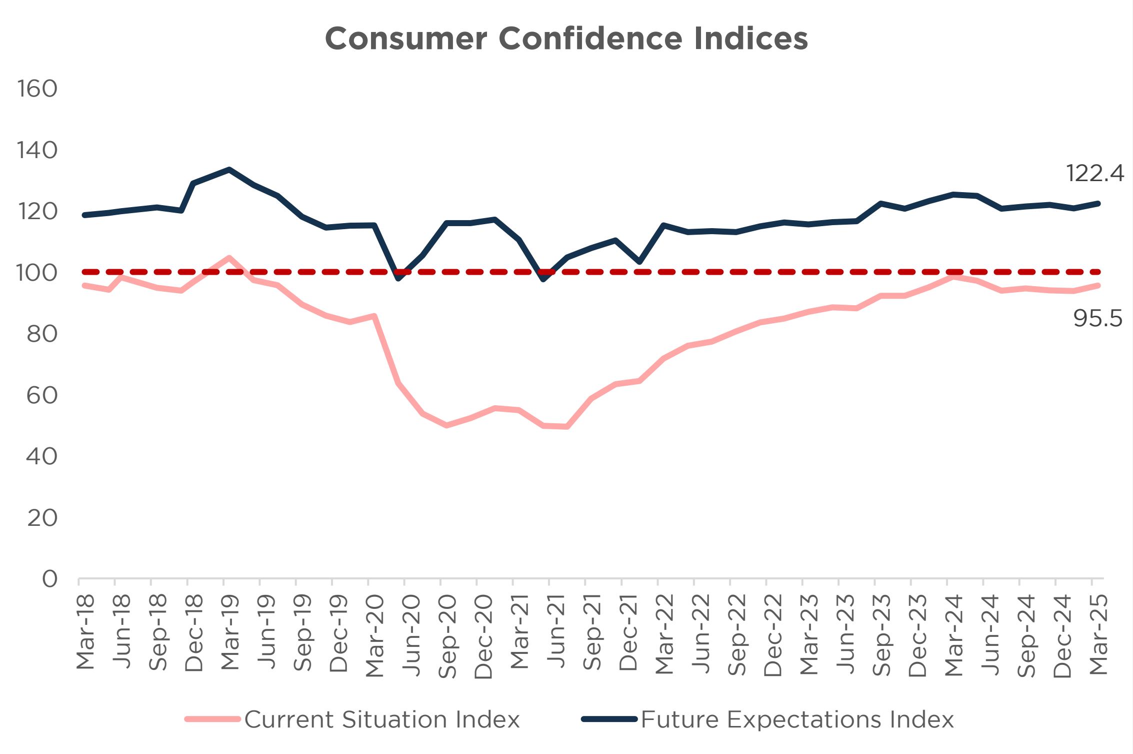
			Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Business Sentiments	Manufacturing PMI	Index	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1
	Services PMI	Index	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5
Economic Activity	Goods & Services Tax Collections	YoY%	10.3	10.0	6.5	8.9	8.5	7.3	12.3	9.1	9.9
	E-Way Bills Generation	YoY%	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2
	Core Sector Output	YoY%	6.3	-1.5	2.4	3.8	5.8	4.8	5.1	2.9	
Consumption Demand	Air Passenger Traffic	YoY%	7.8	7.5	8.1	9.8	13.2	10.5	13.5	11.2	
	Petroleum Consumption	YoY%	10.7	-3.1	-4.4	4.1	10.6	2.3	3.0	-5.4	
	Domestic Sales of Passenger Vehicles	YoY%	-2.0	-1.6	-0.4	1.1	4.4	11.4	3.5	3.7	
	Domestic Sales of 2 Wheelers	YoY%	12.5	9.3	15.8	14.2	-1.2	-8.8	2.1	-9.0	
	Domestic Sales of 3 Wheelers	YoY%	5.1	7.7	6.7	-0.7	-1.3	3.5	7.7	4.7	
	Domestic Tractor Sales	YoY%	1.6	-5.8	3.7	22.4	-1.3	14.0	11.4	35.9	
Rural Labour Market	MGNREGA: Work Demand: Persons	YoY%	-21.6	-17.1	-14.1	-9.2	3.0	7.3	13.4	1.4	1.6
Price Scenario	CPI Inflation - Overall	YoY%	3.6	3.7	5.5	6.2	5.5	5.2	4.3	3.6	
	WPI Inflation - Overall	YoY%	2.1	1.2	1.9	2.8	2.2	2.6	2.3	2.4	

Source: CMIE; CEIC

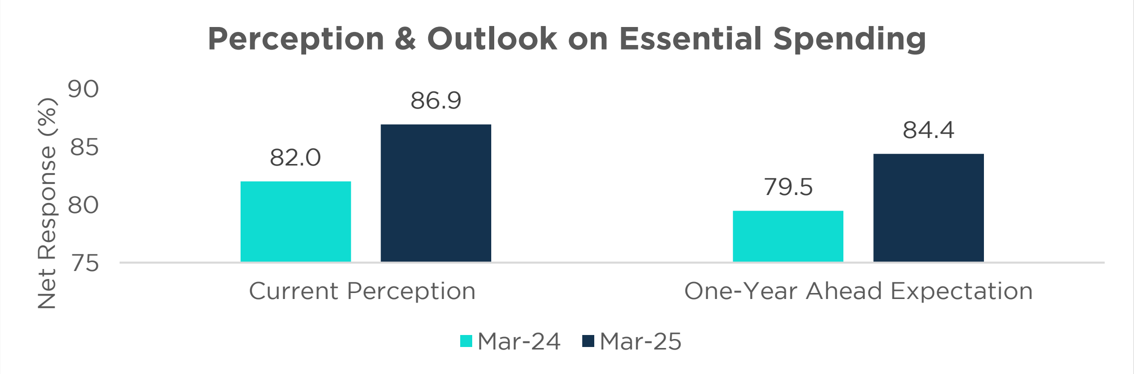
- 2 wheelers sales disappointed in February led by a broad-based contraction witnessed in sales of motorcycles, mopeds and scooters. Tractor sales was seen to be robust.
- The line-up of festivals in March is expected to drive up the 2-3 wheelers sales in March.
- Work demanded under MGNREGA scheme has shown a rising trend in the recent months. This needs to be monitored closely for any signs of distress in the rural economy.
- On the urban demand front, PV sales recorded encouraging growth in the recent months; Growth in air passenger traffic remained healthy.
- The moderation in inflation, particularly the food prices is a positive for consumption in the economy.

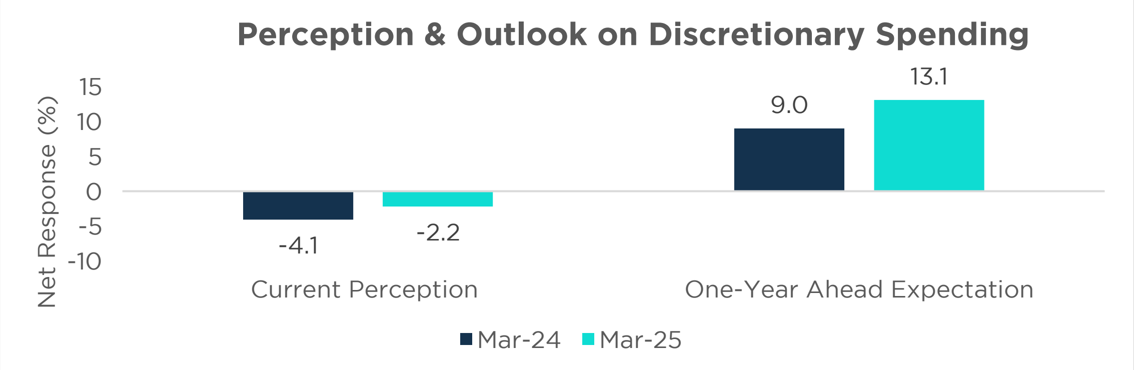
Domestic Economy Steering Through the Storm

Consumer Confidence Shows Some Signs of Improvement



Source: RBI Consumer Confidence Survey, March 2025

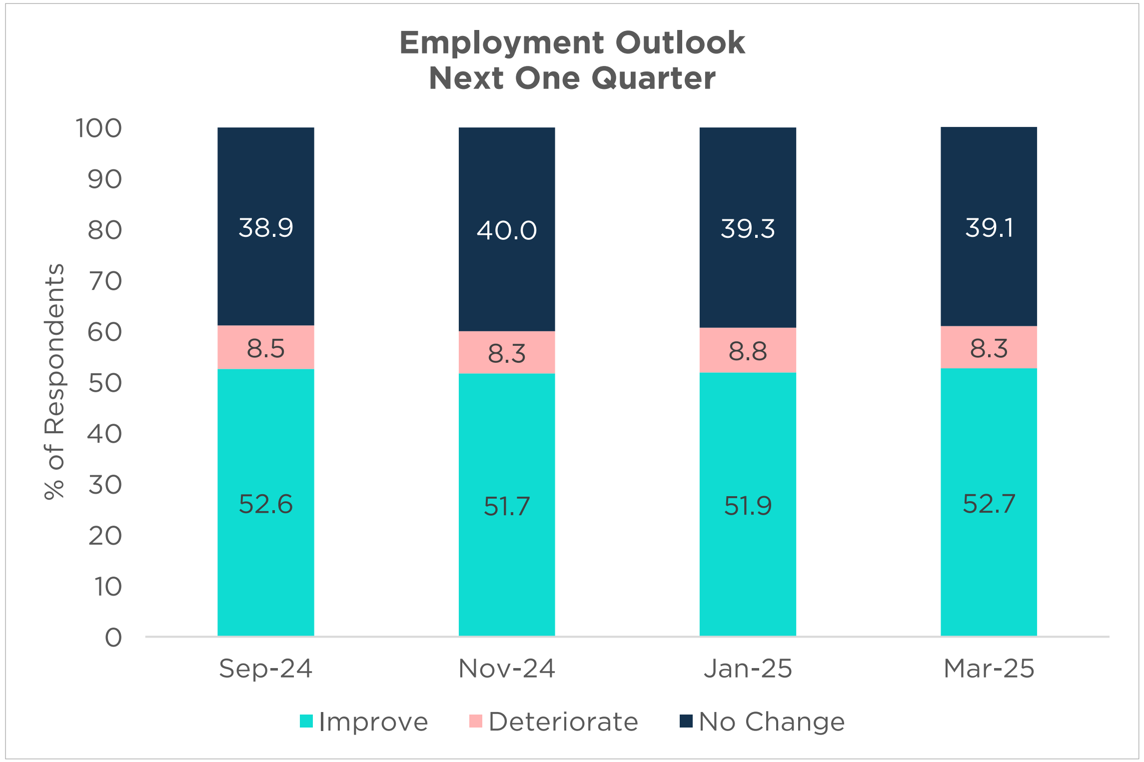


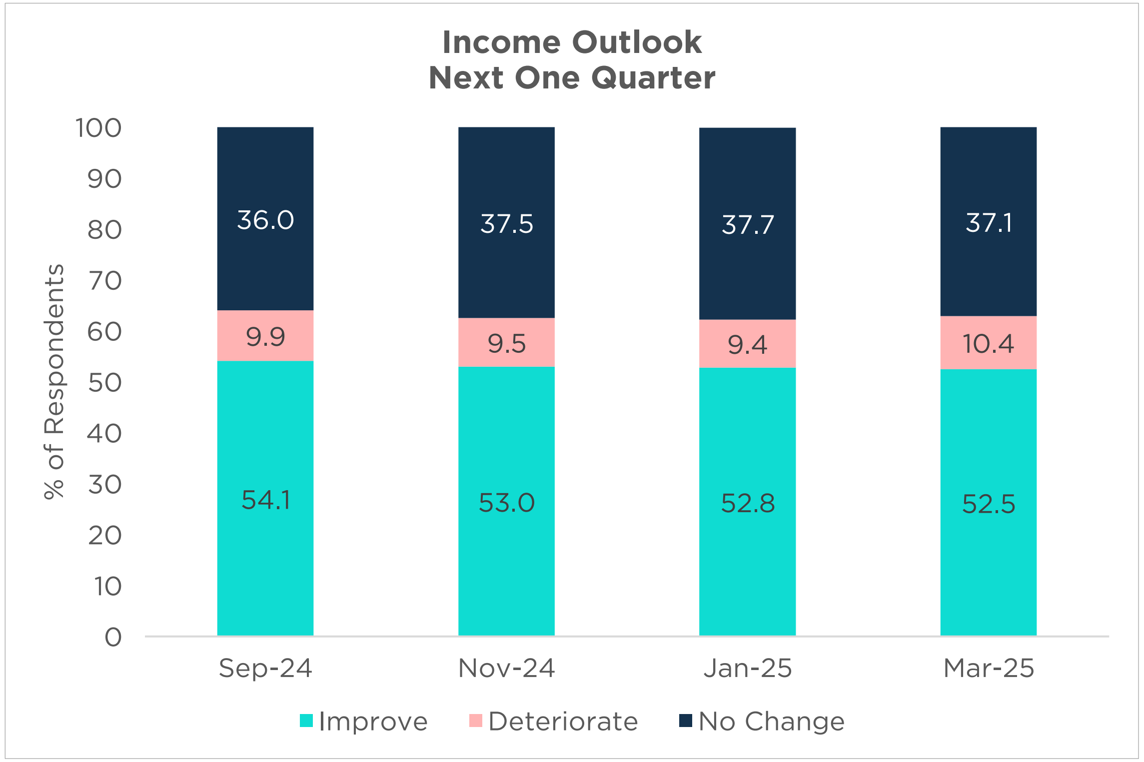


Source: RBI Consumer Confidence Survey, March 2025; Note: 'Net response' is the difference between the percentage of respondents reporting optimism and those reporting pessimism. It ranges between -100 and 100. Any value greater than zero indicates expansion/ optimism and values less than zero indicate contraction/ pessimism.

- Current and future consumer confidence indices showed improvement in March 2025 compared to the previous survey in January 2025.
- Pessimism around the current employment scenario eased while employment outlook for the year ahead remained optimistic.
- Sentiments around discretionary consumer spending, though improving, continue to remain weak.

Domestic Economy Steering Through the Storm
Rural Sentiments Hold Up Well

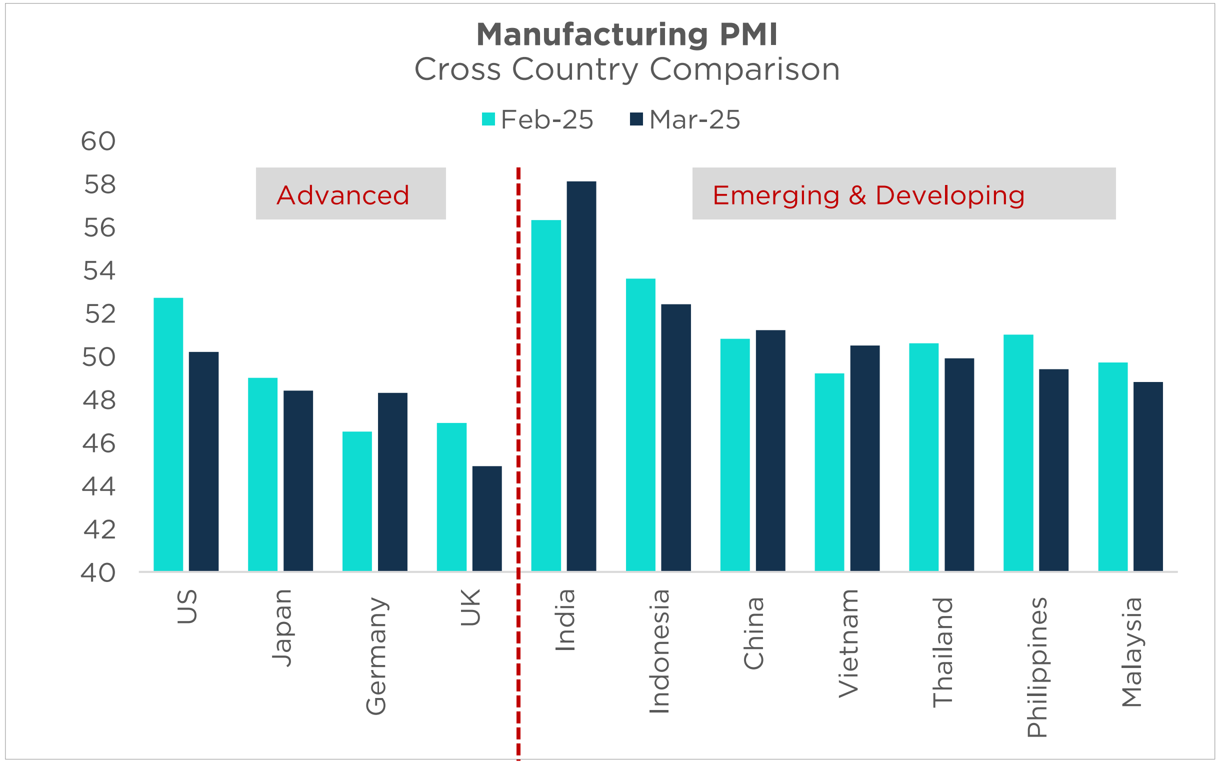




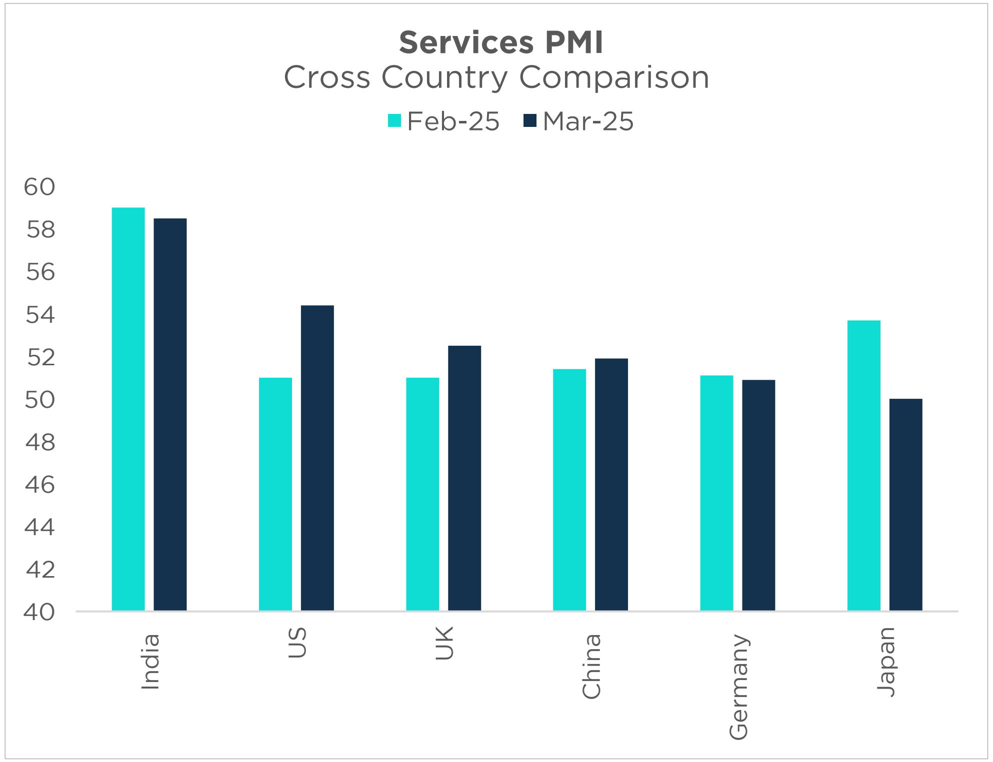
Source: NABARD Rural Economic Conditions & Sentiments Survey (Bi-Monthly Survey Report, Round 4 – March 2025); Note: The sample size is 600 villages covering 6000 households (10 households from every sample village)

- More than 50% of rural households expect an improvement in income and employment conditions over the next quarter, in line with the trend of the previous surveys.
- Broadly, we believe that the moderation in food inflation and encouraging prospects for the agricultural output will support the momentum in rural demand.

Domestic Economy Steering Through the Storm
Business Sentiments in India Hold Up Well vis-à-vis Other Economies



Source: CEIC

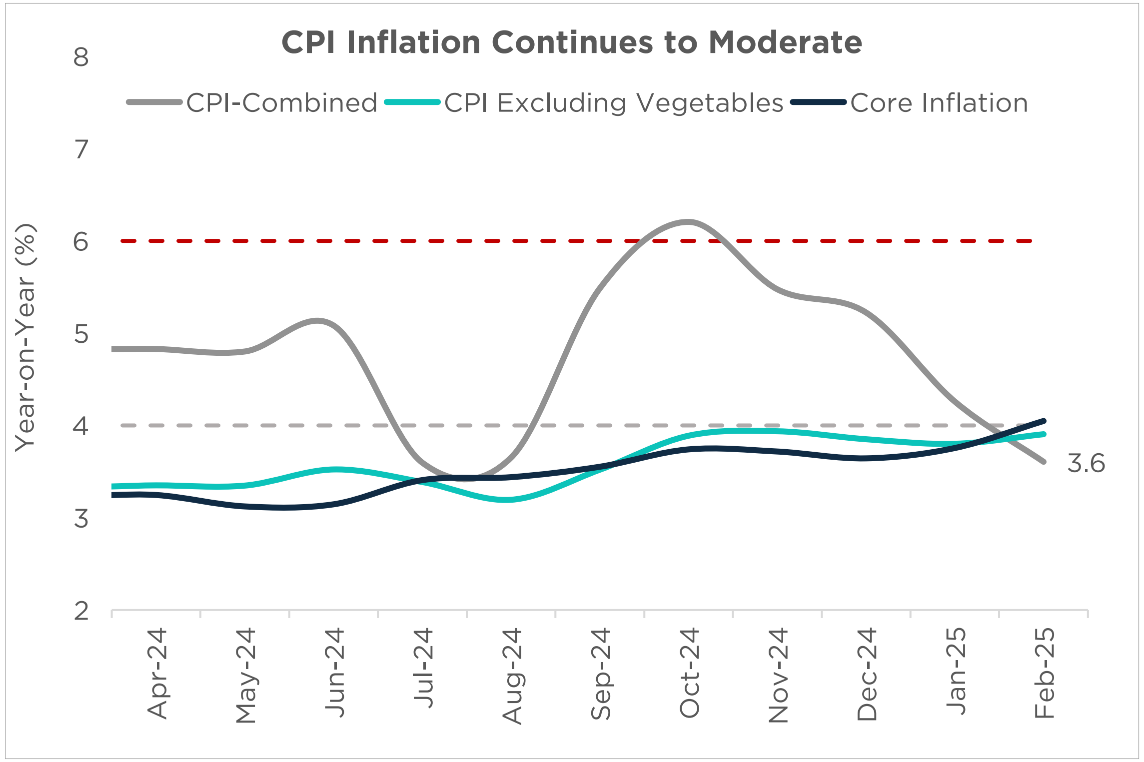


Source: CEIC

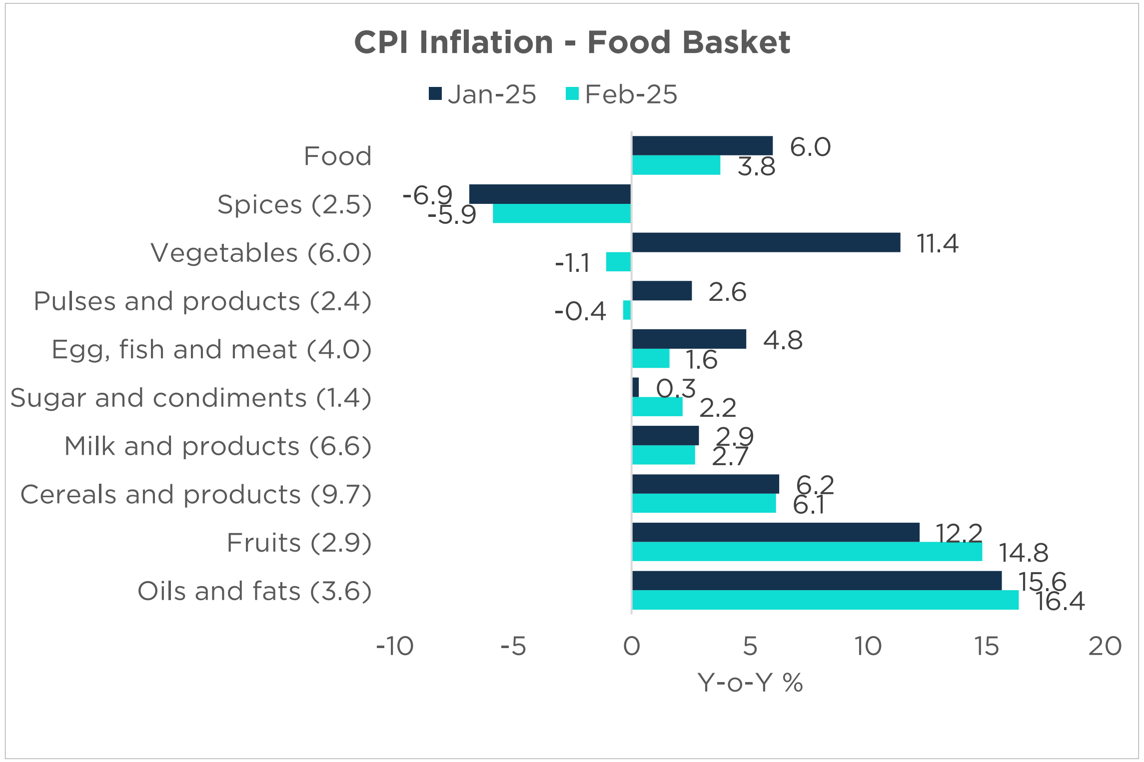
- India's manufacturing PMI recovered to an 8-month high in March despite some softening in international order growth.
- Manufacturing business sentiment remained largely optimistic with expectations of rising output volumes in the year ahead.
- Services PMI remained strong but inched down marginally to 58.5 in March from 59 in the previous month.

Domestic Economy Steering Through the Storm

CPI Inflation Continues to Moderate



Source: MOSPI, CareEdge

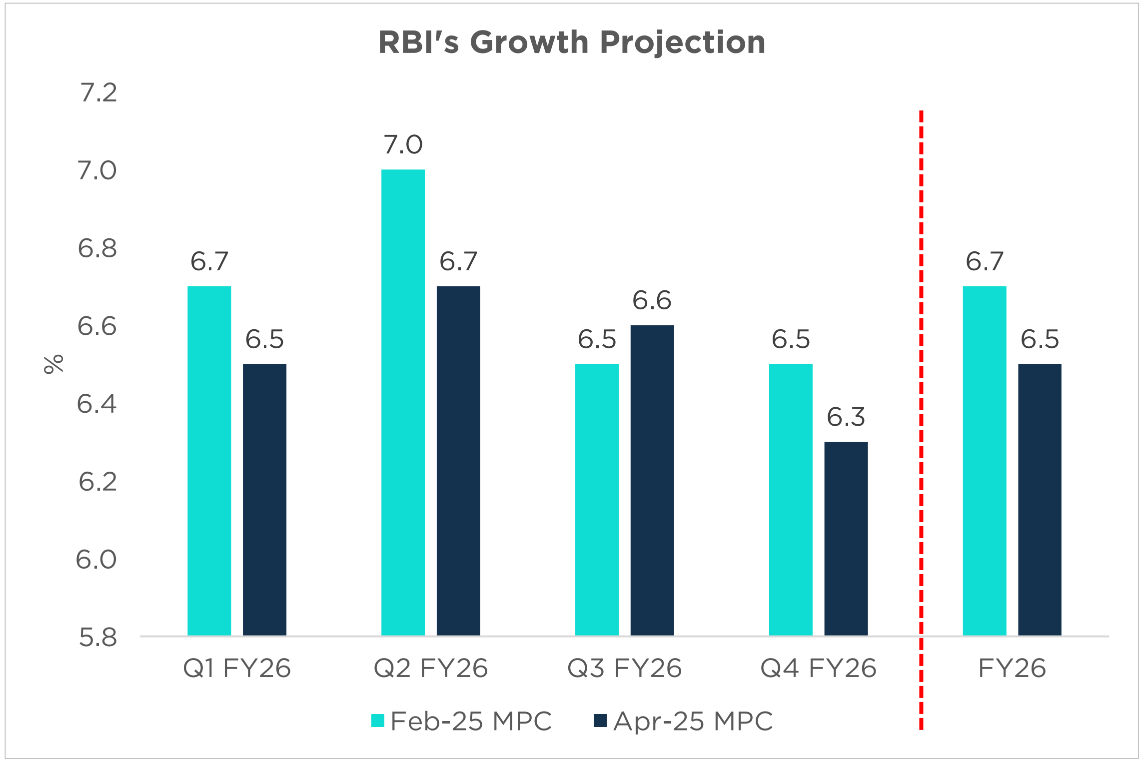


Source: MOSPI; Note: Figures in bracket represent % share in overall CPI inflation

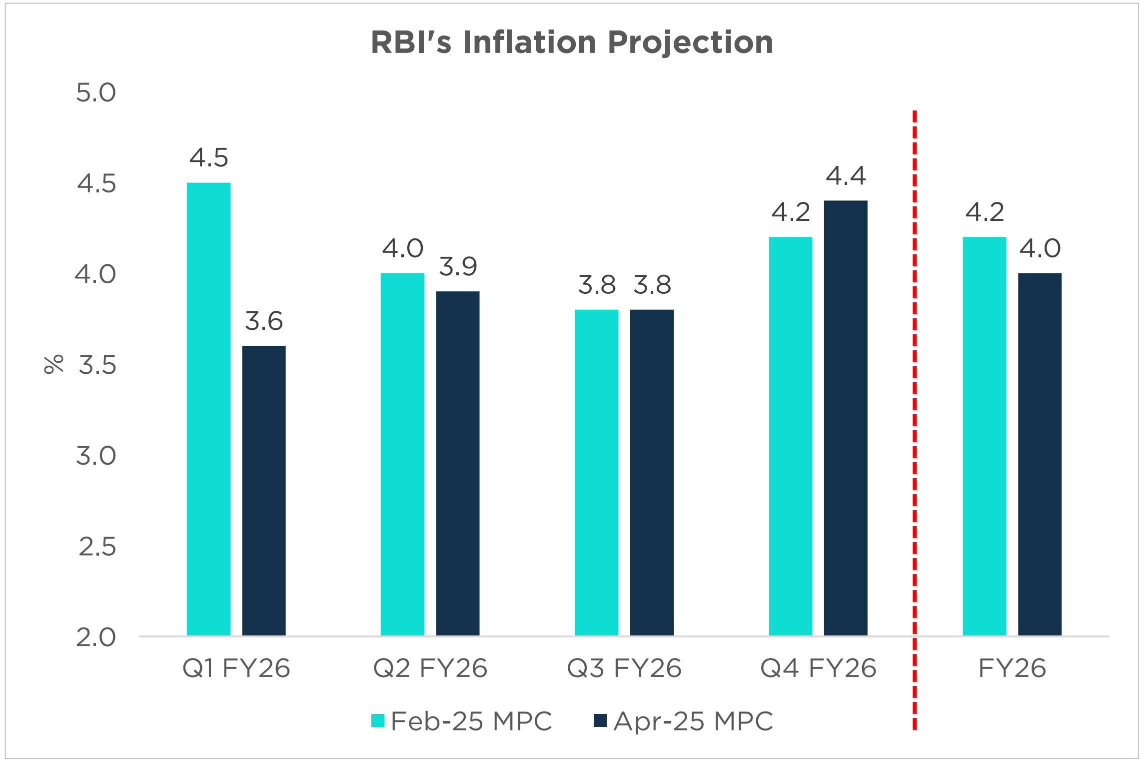
- CPI inflation moderated notably to 3.6% in February, lowest in the last seven months supported by sustained easing in food and beverages inflation.
- Vegetable inflation slipped into deflation (at -1.1%), reversing the trend of high inflation seen in the past months.
- Inflation accelerated for fruits (14.8%) and oils & fats (16.4%). Elevated inflation in oils & fats remains a monitorable given our import dependency in this category.
- Going ahead, we project CPI inflation to broadly be below 4% in the next three quarters supported by comfortable core inflation and moderating food inflation.

Debt & FX Update

RBI Delivers Second Rate Cut, Changes Stance to ‘Accommodative’ From ‘Neutral’



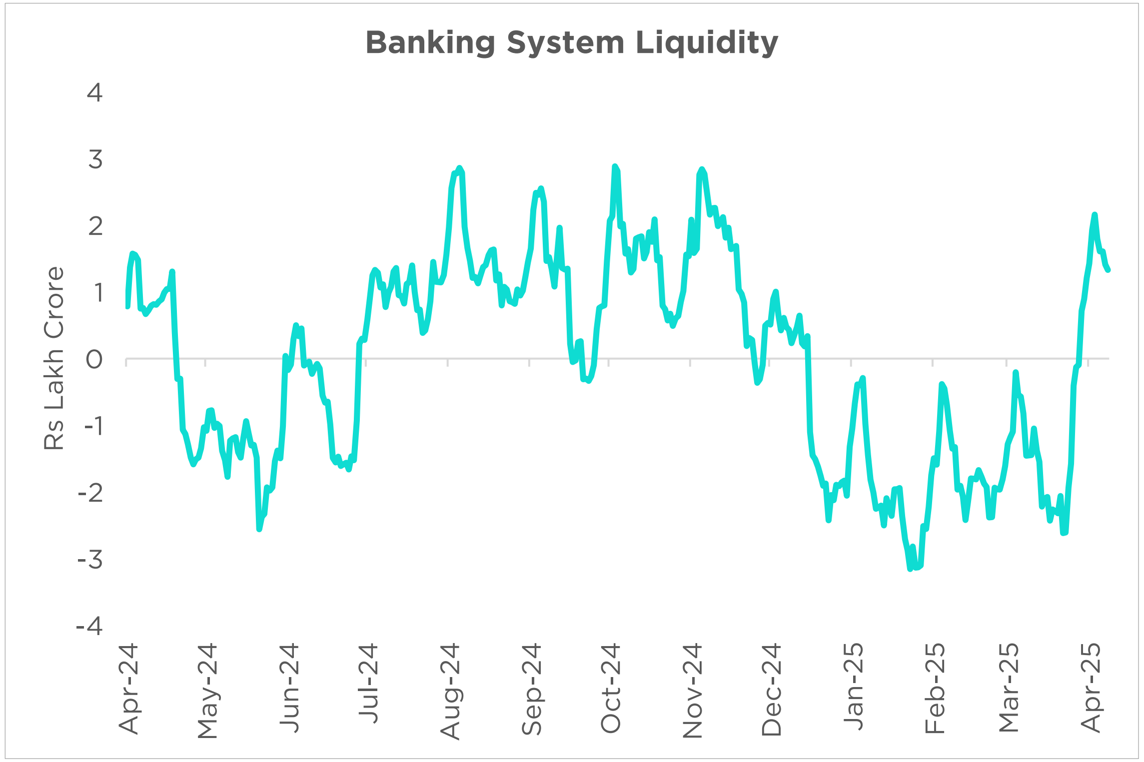
Source: RBI



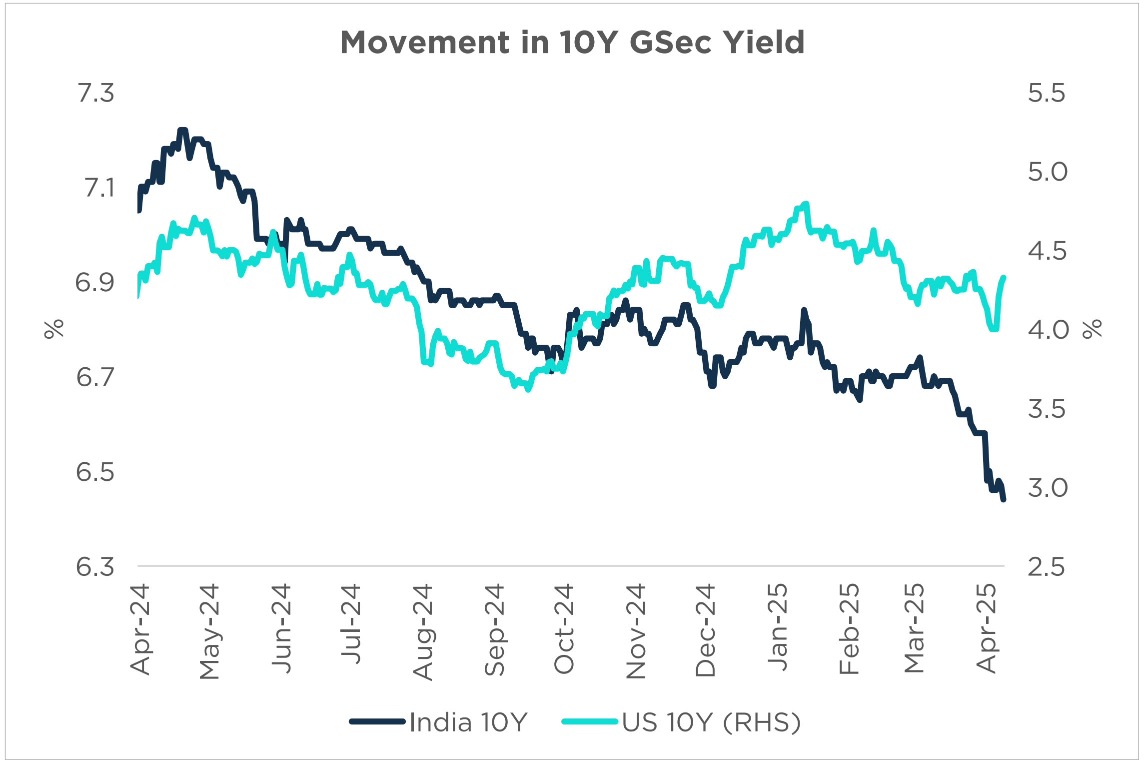
Source: RBI

- RBI MPC reduced the policy repo rate by 25 bps to 6.0% in its April meeting to support growth amidst improving inflation outlook.
- RBI revised its FY26 GDP growth projection lower to 6.5%. We expect GDP growth to be slightly below the RBI’s projection at around 6.2%.
- RBI also reduced its FY26 CPI inflation projection to 4%. We estimate average CPI inflation to be marginally higher at 4.2% for FY26.
- The change in stance suggests scope for further easing. We expect another 50 bps rate cut in FY26, with room for a deeper rate cut cycle if the global trade war severely dents economic prospects.

Liquidity Moves to Surplus; 10Y GSec Yield Eases



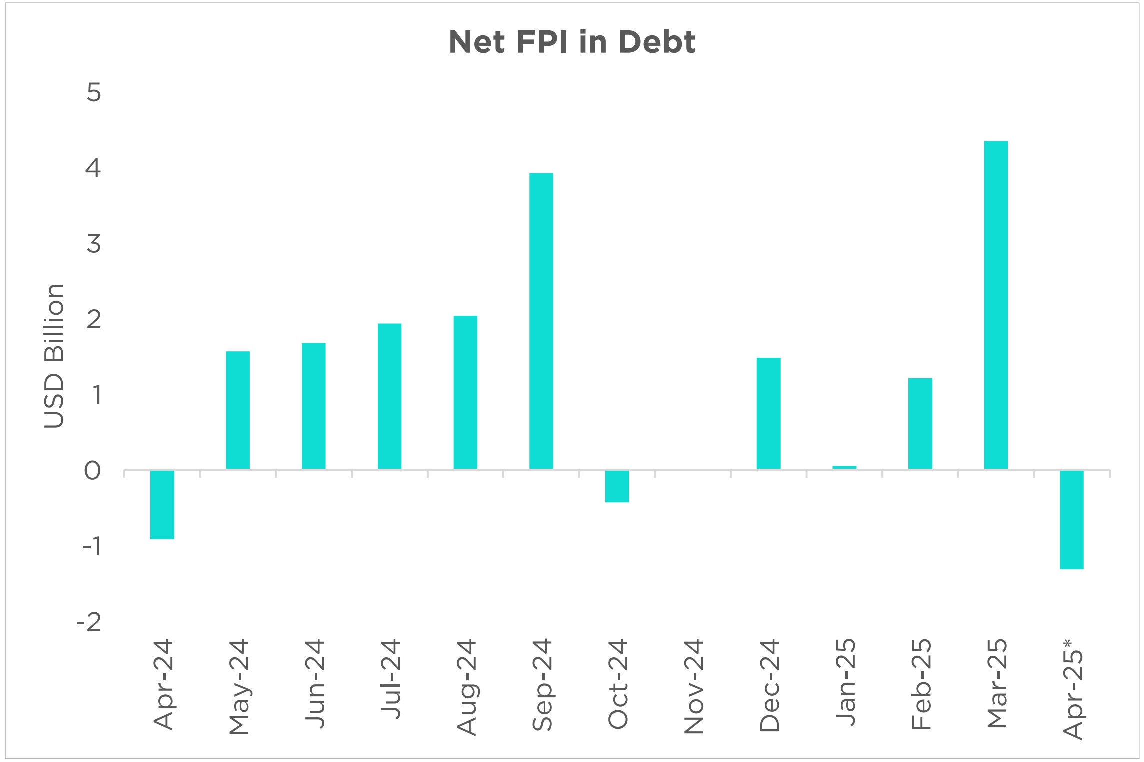
Sources: RBI, CEIC. Data as of 08 April
Negative values denote liquidity deficit.



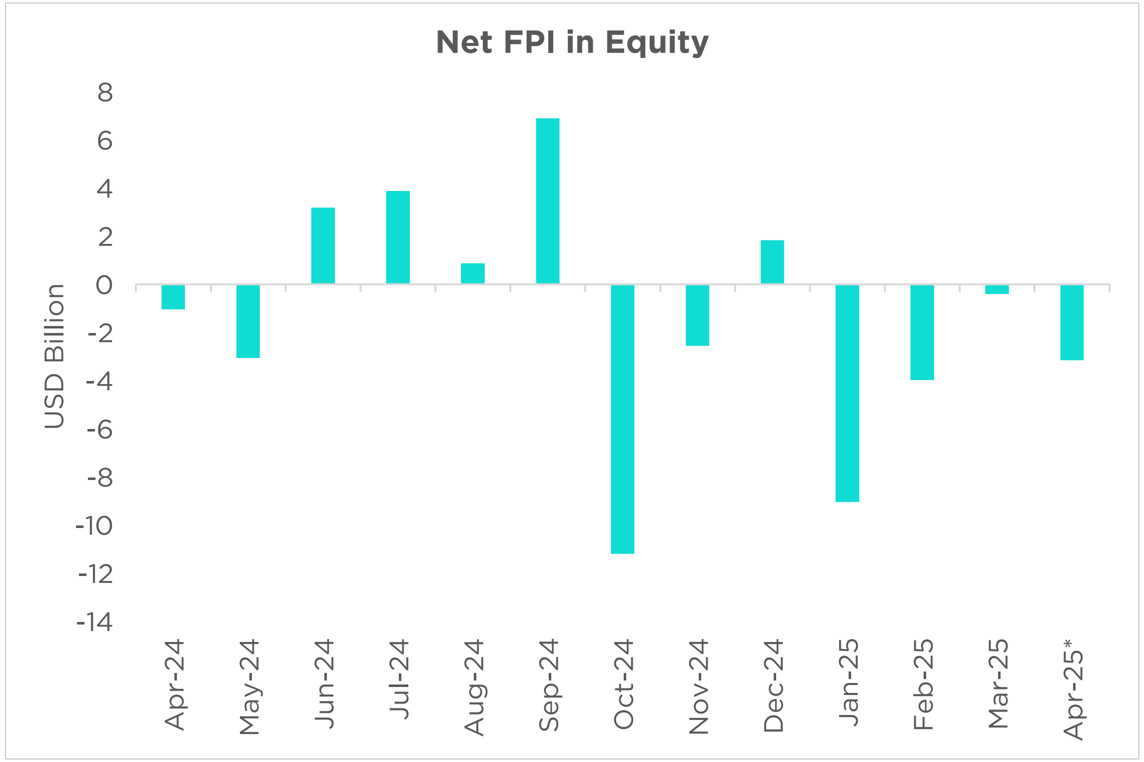
Source: Refinitiv. Data as of 09 April

- Average liquidity surplus stood at Rs 1.7 lakh crore in April (up to 08 April) compared to a deficit of Rs 1.2 lakh crore in March. RBI's measures - such as OMO purchases, long-term VRR auctions and USD/INR buy/sell swaps - have eased liquidity conditions.
- The RBI dividend expected in Q1 FY26 is likely to further support liquidity conditions. Comfortable liquidity position should aid smoother transmission of rate cuts.
- 10Y GSec yield has eased by around 25 bps over the past month to 6.44%, mainly supported by OMO purchases and expectations of RBI rate cuts.
- We expect 10Y GSec yield to range between 6.2%-6.4% by end FY26.

FPI Debt Inflows Surge in March; Equity Outflows Continue



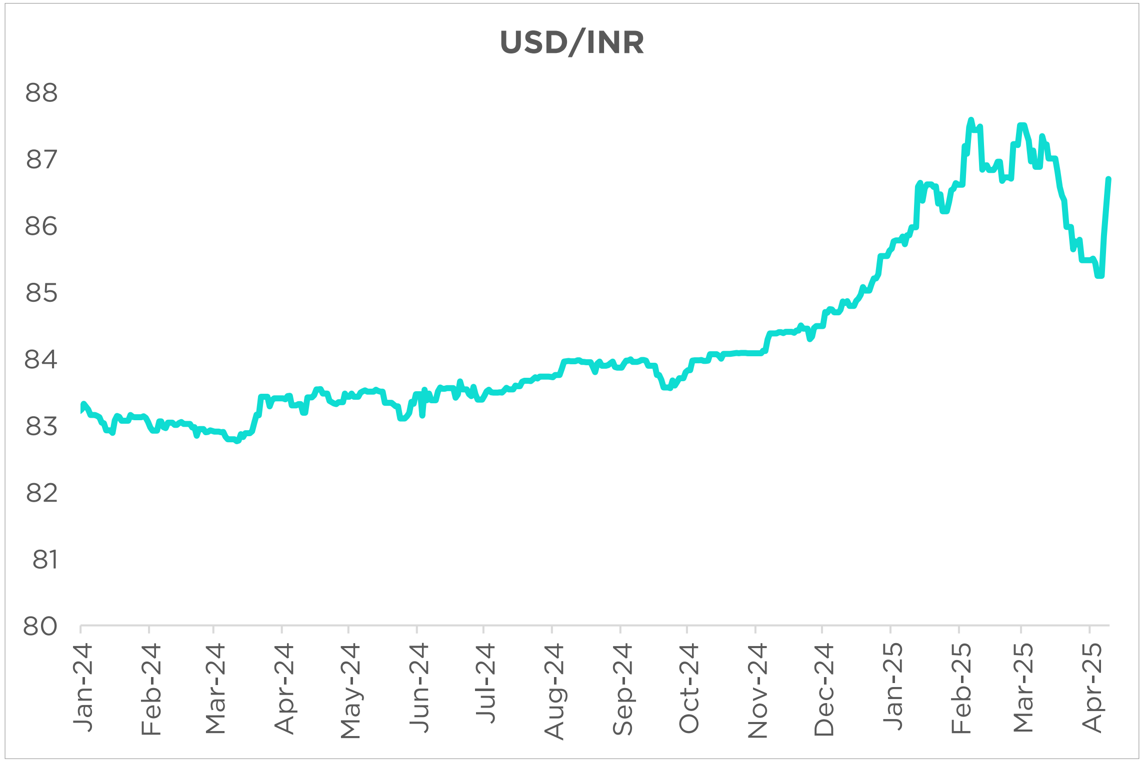
Source: NSDL. *Data as of 09 April



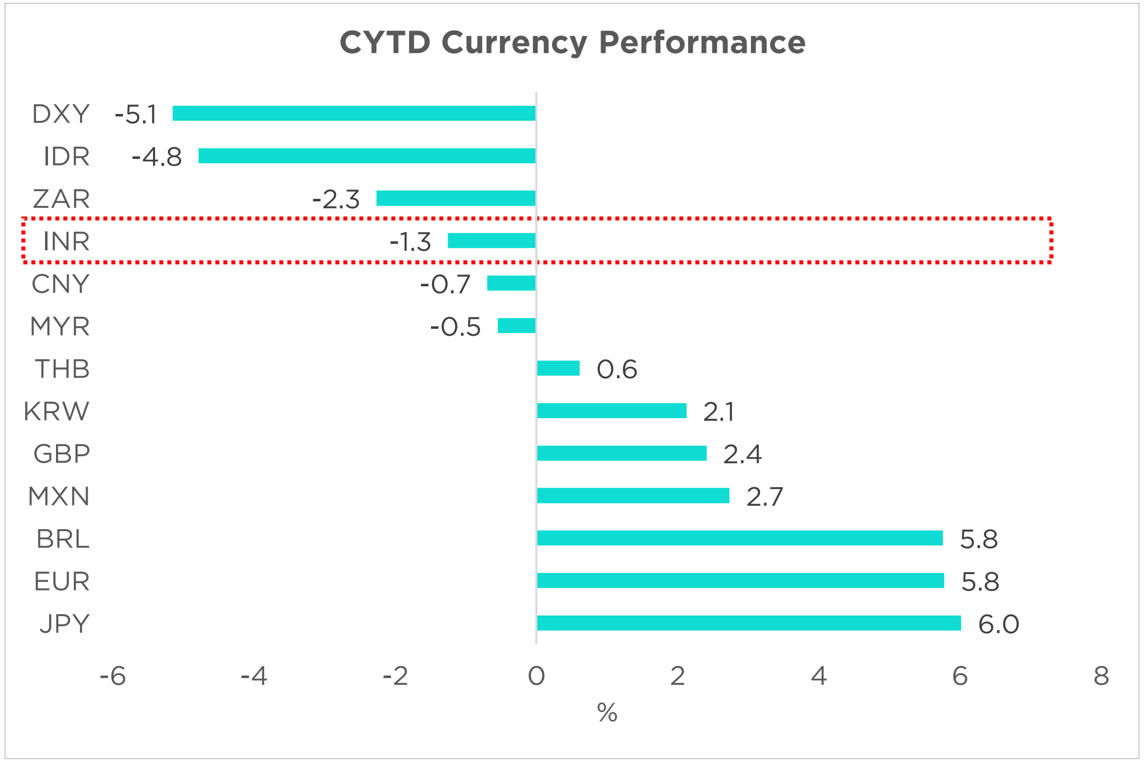
Source: NSDL.*Data as of 09 April

- Net FPI inflows stood at USD 3.8 billion in March, reversing two months of outflows. These inflows were driven by a pickup in debt inflows.
- For FY25, net FPI inflows fell sharply to USD 2.7 billion from USD 41 billion in FY24, due to heavy outflows from equities.
- So far in April (up to 09 April), there have been net FPI outflows of USD 4.5 billion (mainly from equities). FPI flows are expected to remain volatile amidst global uncertainties.

Rupee Weakens After Some Recovery



Source: Refinitiv. Data as of 09 April.



Source: Refinitiv. Data as of 09 April. Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while the performance of other currencies is measured against the USD.

- Dollar index has weakened considerably amidst rising trade policy uncertainty and concerns over US growth.
- The rupee has depreciated by 1.4% against the dollar in the current month (up to 09 April).
- While India's CAD is expected to stay manageable, volatile FPI flows and external risks (such as any yuan depreciation to mitigate tariff impact) may put pressure on the rupee. We expect USD/INR to trade with a depreciation bias around 88-89 by end FY26.

CareEdge Round-up

From the Economics Desk @ CareEdge	
CPI Inflation – February 2025	Read Here
IIP Growth – January 2025	Read Here
Debt Market Update	Read Here
Global Uncertainty and Impact on Indian Financial Markets	Read Here
Reciprocal Tariffs to Disrupt Trade but Open Opportunities	Read Here
RBI’s Policy Preview	Read Here
RBI’s Policy Outcome	Read Here

CareEdge Forecasts

Economic Growth
GDP growth estimated at **6.5%** in FY25 (SAE) and projected at **6.2%** in FY26

Inflation
Average CPI inflation projected at **4.7%** for FY25 and **4.2%** in FY26

Current Account Deficit
CAD (as % of GDP) projected at **0.7%** in FY25 and **1.1%** in FY26

Fiscal Deficit
Fiscal deficit (as % of GDP) budgeted at **4.4%** in FY26

Interest Rates
10-Year G-Sec Yield to range between **6.2%-6.4%** by end-FY26

Currency
USD/INR projected to trade between **88-89** by end-FY26

SAE: Second Advance Estimate

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