

THE PULSE



A monthly digest of key macroeconomic events

Edition: February 2025

There is no change in RBI's approach. It does not look at any price level or band. It is our endeavour to curb excessive volatility. We should not be looking at daily movement or exchange rate." – Sanjay Malhotra, RBI Governor on the depreciation of INR

Executive Summary

Last month saw risk-off moves and a relief rally in US treasuries, with the US 10-year treasury down by about 50 basis points (bps) from the highs in January this year. A weaker set of data points including soft consumer confidence surveys aided the move lower in yields. US curves echo the bleaker outlook developing around the US economy with tariffs still in play, however, with tariffs still in play higher inflation cannot be ruled out. For now, a weaker economic outlook is weighing on the yield curves.

On the domestic front, the Reserve Bank of India (RBI) Monetary Policy Committee reduced rates unanimously by 25 bps as was widely expected, maintaining a 'Neutral' stance and no specific liquidity measures. On the currency front, RBI maintained that the central bank is committed to smoothening the excessive volatility and does not target any specific levels. Later, through the month, the chatter of heavy intervention in the currency market saw some respite to the otherwise unidirectional upward movement in INR this year. A weaker Balance of Payment outlook with relentless FPI outflow continues to weigh on currency at the moment.

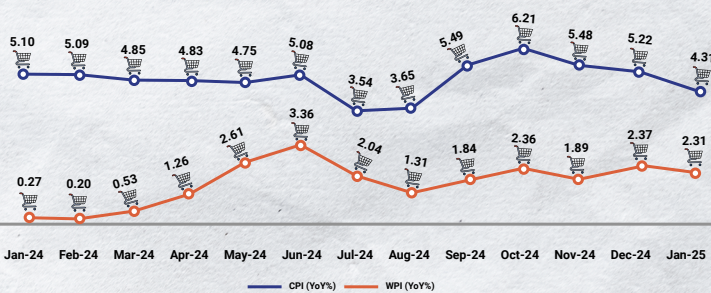
Domestic Updates

India's retail inflation moderates to 5-month low, wholesale inflation abates

The retail inflation, measured by the change in the Consumer Price Index (CPI), fell to a 5-month low of 4.31% YoY in January 2025 from 5.22% YoY in December. This is attributable to food inflation that hit a record low of 6.02% YoY in January since August. Vegetable inflation more than halved to 11.35% YoY in January from 26.56% YoY in December contributing majorly towards the declaration of food inflation.

Inflation based on the wholesale price index (WPI) marginally declined to 2.31% YoY in January 2025 from 2.37% YoY in December because of a correction in inflation for primary articles along with fuel and power. Inflation for primary articles went down to 4.69% YoY in January from 6.02% YoY in December as food prices dropped while the inflation for fuel and power slowed to 2.78% YoY in January from 3.79% YoY in December.

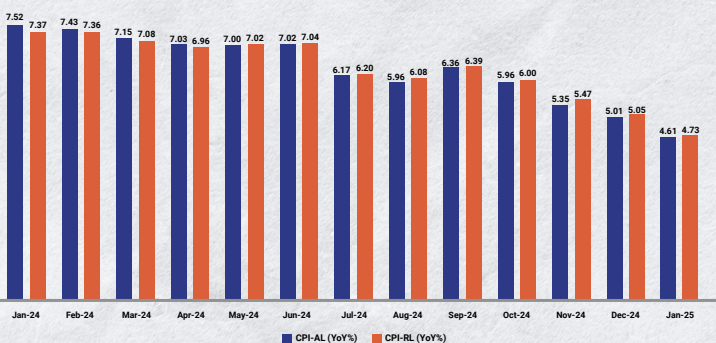
Retail and Wholesale Inflation



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

Meanwhile, retail inflation for farm and rural workers softened further to 4.61% YoY and 4.73% in January 2025, respectively, from 5.01% YoY and 5.05% in the previous month. The retail inflation for farm and rural workers in January 2025 is the lowest since November 2021.

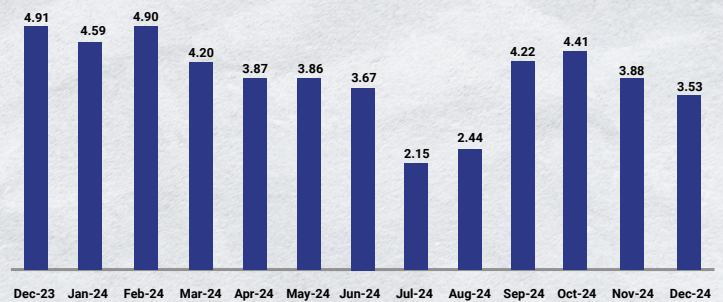
Retail Inflation for Farm and Rural Workers



Source: Ministry of Labour and Employment

The retail inflation for industrial workers (IW) measured by the CPI-IW, eased slightly to 3.53% in December from 3.88% in November.

Retail Inflation for Industrial Workers

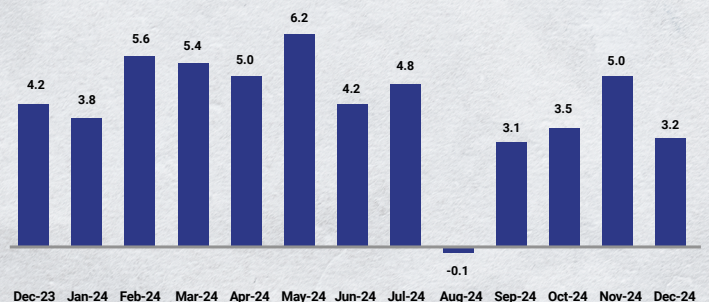


Source: Labour Bureau

India's industrial output growth slows to a 3-month low

The growth in India's industrial output, as measured by the Index of Industrial Production (IIP), slowed to a 3-month low of 3.2% in December from 5% in November. The manufacturing sector output (largest in the IIP basket) grew 3% in December compared to 5.5% in November. The mining and electricity output grew 2.6% and 6.2%, respectively, in December.

Index of Industrial Production, IIP (YoY %)



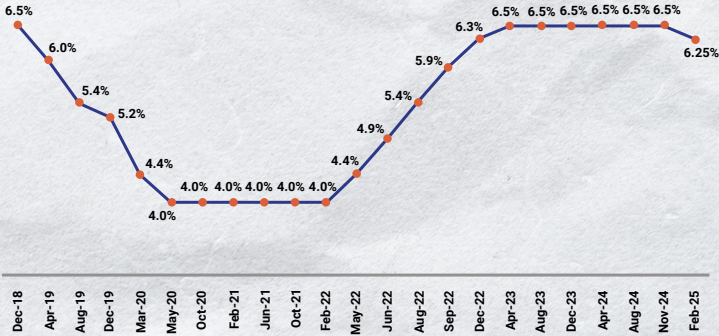
Source: MOSPI

RBI cuts repo rate for the first time in nearly 5 years

The RBI cut its repo rate, the rate at which the central bank lends to other banks, by 25 basis points (bps) to 6.25% for the first time in nearly 5 years (since May 2020). The earlier rate has been kept unchanged for 11 straight policy meetings. The last time the RBI cut rate was during the Covid-19 pandemic by 40 bps to 4%. In the latest meeting, all six members of the monetary policy committee (MPC) voted to cut the rate and maintain the monetary policy stance at "neutral" considering the easing of inflation towards the medium-term target of 4% and the need to support the

sluggish economy. India's real GDP growth declined to a 7-quarter low of 5.4% in July-September against RBI's projection of 7%. The Economic Survey 2025 estimated a growth of 6.4% in FY25, 20 bps lower than the RBI projection in its previous policy.

RBI Repo Rate Trajectory



Source: Minutes of monetary policy committee meetings, RBI

Following are the revisions in real GDP growth and Inflation forecasts announced by the MPC:

GDP Growth Forecasts

Period	Previous	Current
Q1FY26	6.9%	6.7% ↓
Q2FY26	7.3%	7% ↓
Q3FY26	-	6.5%
Q4FY26	-	6.5%
FY26	-	6.7%

Inflation Forecasts

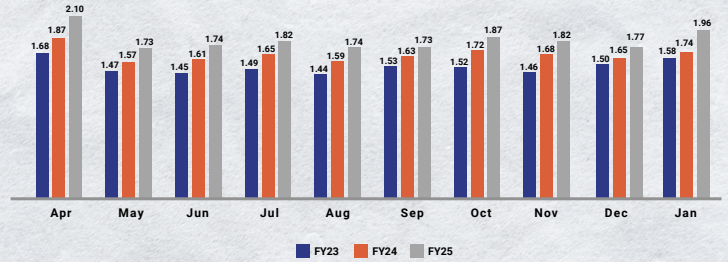
Period	Previous	Current
Q4FY25	4.5%	4.4% ↓
FY25	4.8%	4.8%
Q1FY26	4.6%	4.5% ↓
Q2FY26	4%	4%
Q3FY26	-	3.8%
Q4FY26	-	4.2%
FY26	-	4.2%

India records highest GST collections since April 2024

India's GST collection grew 12.3% YoY to INR 1.96 lakh crore in January 2025. This number marks the highest GST revenue since April 2024. The top five states by collection remained the same, compared to the prior month, with Maharashtra recording the highest

collection (INR 32,335 crore) followed by Karnataka (INR 14,353 crore), Gujarat (INR 12,135 crore), Tamil Nadu (INR 11,496 crore), and Haryana (INR 10,284 crore). Net GST revenue grew 10.9% YoY to 1.72 lakh crore in January 2025.

India's GST Collection (INR Lakh Crore)

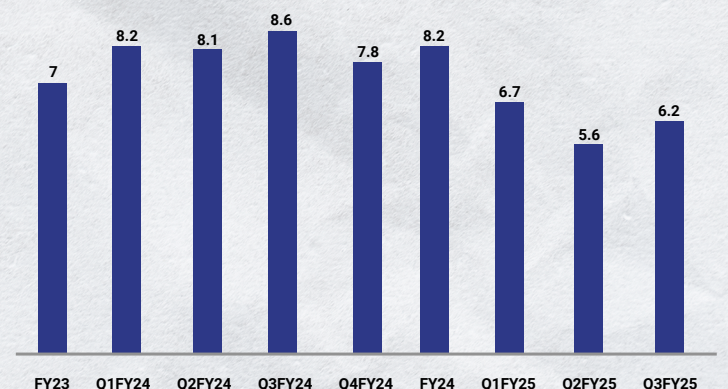


Source: Indian Finance Ministry

India's real GDP growth rebounds in Q3 FY25

India's real GDP grew 6.2% in Q3 FY25, recovering from the 7-quarter low of 5.6% YoY in Q2 FY25. However, the growth is lower than the RBI's estimate of 6.8%. The uptick was driven by an increase in government and private consumption along with a sharp increase in exports during the quarter. Moreover, the growth in the gross value added (GVA) of the agricultural sector stood at a 6-quarter high of 5.6% due to strong kharif harvest and better rabi sowing trends. The industrial sector recorded slower growth with mining, manufacturing, and construction growing at 1.4%, 3.5%, and 7%, respectively. The services sector remained a key driver of growth with trade, hotels, transport, and communication services rising by 6.7% and public administration, defence, and other services growing by 8.8%.

India's Real GDP Growth (YoY, %)

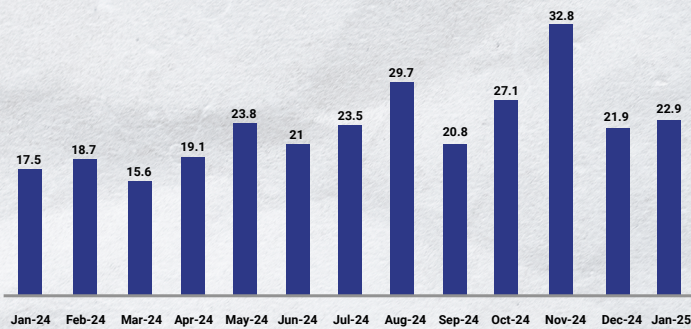


Source: MOSPI

India's trade deficit widens

India's merchandise trade deficit, the gap between imports and exports, increased moderately to US\$22.9 billion in January 2025 from US\$21.9 billion in December. Merchandise exports fell 2.4% YoY to US\$36.43 billion while imports surged 10.3% to US\$59.42 billion. In the April 2024 - January 2025 period, imports rose 7.4% YoY while exports grew 1.4% YoY.

Merchandise Trade Deficit in India (US\$ billion)

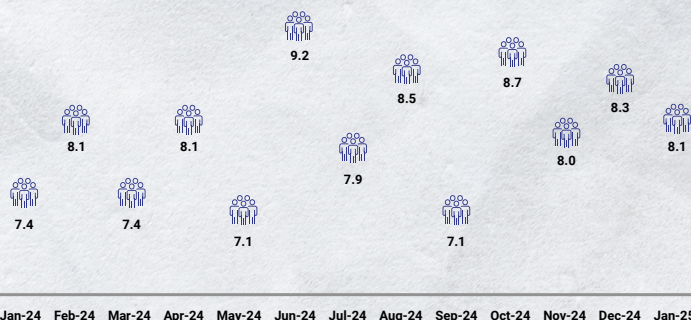


Source: Ministry of commerce and Industry, India

India's unemployment rate improves

The unemployment rate in India fell to 8.1% in January 2025 from 8.3% in December, according to the survey by the Centre for Monitoring Indian Economy (CMIE). In January 2025, rural unemployment was at 7.7% while urban unemployment stood at 8.4%.

Unemployment Rate in India (%)



Source: CMIE

India's forex reserves jump to a 2-month high

India's foreign exchange reserves rose by US\$4.76 billion to a 2-month high of US\$640.48 billion as of February 21. The contributor to this growth is Foreign Currency Assets (FCAs), a major component of the forex reserves, which grew by US\$4.25 billion to US\$543.84 billion. Moreover, in the reported week, gold reserves went up by US\$426 million to US\$74.58 billion, as per RBI.

Cotton production expects to dip

The Cotton Association of India (CAI) forecasted that the cotton output for the 2024-25 season would decline by 7.8% to 301.75 lakh bales from 327.45 lakh bales in the previous season due to lower yields in Gujarat, Punjab, and Haryana. Cotton exports in the current season are estimated to decline 40% to 17 lakh bales against 28.36 lakh bales estimated for the 2023-24 season.

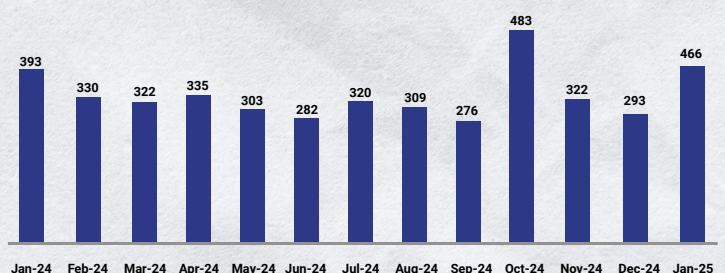
India's direct tax collection slows down

The growth in India's net direct tax collection decelerated to 14.69% YoY (to INR 17.8 lakh crore) in February 2025 from 15.88% as of January, according to the latest data released by the income tax department. The gross direct tax collections went up 19.06% to INR 21.88 lakh crore in 11M FY25 from INR 20.64 lakh crore in 11M FY24. During the same period, corporate tax collection was at INR 7.8 lakh crore, while Securities Transaction Tax (STT) collection, a component of direct tax, stood at INR 49,201 crore (65% growth YoY).

Passenger vehicle sales surge

Total passenger vehicle (PV) sales in India rose 15.5% YoY to 465,920 units in January 2025 from 293,465 units in December, as per the data from the Federation of Automobile Dealers Association (FADA). The auto dealers attribute this surge to buyers postponing their purchases until January 2025 to take advantage of new models with upgraded features, better pricing, and other potential incentives in the new year. The other categories began the year on a promising note too - 2-wheeler sales were up 4.2% YoY, the 3-wheeler segment grew 6.6%, commercial vehicle sales increased 8.2%, and the tractor segment increased 5% YoY in January.

Passenger Vehicle Sales in India ('000)



Source: FADA

Global Update Roundups

Monetary policies

UK: The Bank of England (BoE) MPC announced a 25-bps cut in its benchmark rate to 4.5% in a 7-2 majority vote. This is the third time since 2020, that the central bank cut its benchmark rates in an effort to boost the sluggish economy despite elevated inflation levels. This marks the third rate cut since the easing cycle began in August 2024. In the fourth quarter ended December 2024, UK's consumer price inflation stood at 2.5%, above the central bank target of 2% mainly due to higher fuel prices. Investors are pricing at least three quarter-point cuts by the end of 2025.

Australia: The Reserve Bank of Australia (RBA) announced its first rate cut since the pandemic joining central banks of other developed countries like the US and UK in the rate cut cycle. It has reduced interest rates by 25 bps to 4.1%. The RBA Governor Michele Bullock attributed the cut to subsiding inflation (last reported at 3.2%) and to support "subdued growth in private demand".

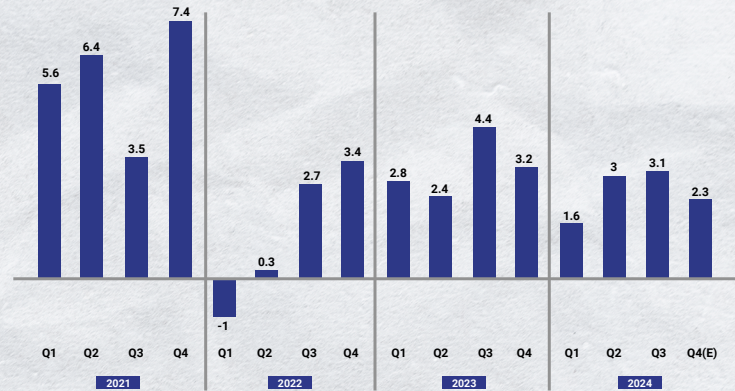
Trump raised import tariffs on steel and aluminium

US President Donald Trump announced raising import tariffs on steel and aluminium to a flat 25% "without exceptions or exemptions". It will apply to imports from Canada, Brazil, Mexico, South Korea, and other countries that had been entering the U.S. duty-free. As per White House officials, the tariff will be effective from the beginning of March. The US president stated that it will impose reciprocal tariffs on all countries that impose duties on U.S. goods, and he is also looking at tariffs on cars, semiconductors, and pharmaceuticals.

GDP growth

US: The second estimate of the Bureau of Economic Analysis suggested growth in the US economy at an annualised rate of 2.3% in the fourth calendar quarter of 2024, which is lower than the previous quarter's growth of 3.1%. The slowdown in growth is expected to be caused by the weakening of exports and a slowdown in business investments. In 2024, the US GDP growth is pegged at 2.8%, slightly lower than 2.9% in 2023.

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



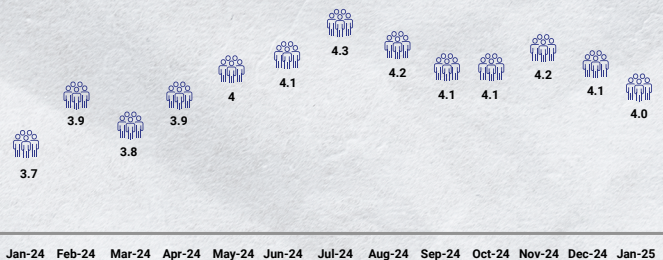
Source: Commerce Department

Japan: Japan's economy grew 0.7% quarter-on-quarter in the fourth quarter of calendar year 2024 versus the previous quarter's 0.4%, exceeding market expectations of 0.3%. This translated into an annualized growth of 2.8%, up from 1.7% in the previous quarter. The improvement is led by growth in private consumption, which recorded a QoQ growth of 0.1% against the expectations of a 0.3% contraction.

Unemployment

US: Unemployment rate in the US eased to 4% in January 2025 from 4.1% in December 2024, reaching its lowest level since May 2024 and below market expectations of 4.1%. This happened as the number of unemployed individuals declined by 37,000 to 6.85 million, while employment increased by 2,234 to 163.9 million. The labour force participation rate also rose to 62.6%.

US Unemployment Rate (%)

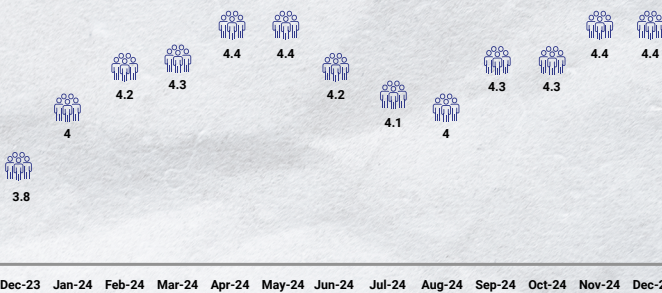


Source: U.S. Bureau of Labor Statistics

Canada: The unemployment rate in Canada eased to a 3-month low of 6.6% in January 2025 from 6.7% in December 2024 and came in below market expectations of 6.8%. The number of unemployed remained nearly unchanged from the previous month at 1.5 million. Net job additions were 76,000 during the month.

UK: The unemployment rate in the United Kingdom remained steady at 4.4% in December 2024 compared to the prior month. With this, unemployment remained at the highest level in the full-year 2024 due to an increase in individuals unemployed for up to 12 months. It is also attributed to the economic activity rate that went down to 21.5% from 21.6% in the preceding period.

UK Unemployment Rate (%)

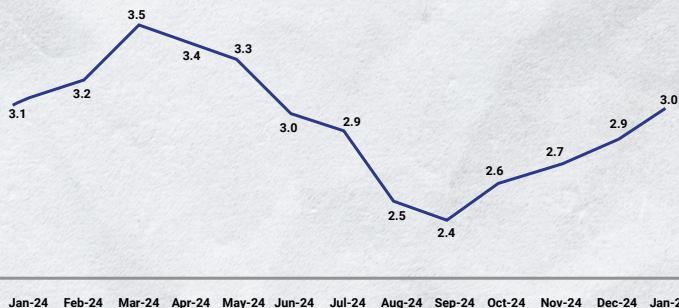


Source: Office for National Statistics

Inflation readings

US: The inflation rate in the US hardened to 3% YoY in January 2025 from 2.9% in December 2024 and exceeded the consensus estimates of 2.9%. The increase is attributed to the rise in energy costs (1% YoY) for the first time in 6 months led by higher gasoline, fuel oil, and natural gas prices. Increased prices of used cars and trucks and transportation also led to the rise.

US CPI (YoY, %)



Source: U.S. Bureau of Labor Statistics

Eurozone: The consumer price inflation in the Euro Area rose to a 6-month high of 2.5% YoY in January 2025. Factors that contributed to the increase include services (up 1.77 percentage points), food, alcohol & tobacco (up 0.45 pp), energy (up 0.18 pp), and non-energy industrial goods (up 0.12 pp).

UK: The annual inflation rate in the UK rose sharply to 3% YoY in January 2025 from 2.5% in December and surpassed expectations of 2.8%. Higher costs of food, non-alcoholic drinks, and air fares led to the rise. Core inflation, which excludes volatile energy, food, alcohol, and tobacco prices, increased 3.7% YoY in January from 3.2% in the previous month.

China: China's annual inflation rate escalated to a 5-month high of 0.5% YoY in January 2025 from 0.1% in December, exceeding market expectations of 0.4%. The spike was driven by seasonal effects from the Lunar New Year. Food prices, mainly pork, and fresh vegetables, rose, while non-food prices, mainly housing, healthcare, and education quickened.

Japan: Japan's annual inflation climbed to a 2-year high of 4.0% YoY in January 2025 from 3.6% in the previous month. The spike is led by the steepest rise in food prices in 15 months, elevated prices of electricity and gas, as well as upward pressure from housing, clothing, transport, furniture and household items, healthcare, recreation, and miscellaneous items.

Consumer confidence

US: Consumer confidence dropped sharply to 98.3 in February 2025 from a revised 105.3 in January and came in lower than the forecast of 102.7. This 7-point MoM drop is the biggest since August 2021. The decline is fuelled by pessimism about the future employment prospects, which worsened and reached a 10-month high followed by less optimism about future business conditions and income.

Japan: Japan's consumer confidence index unpredictably fell to 35.0 in February 2025 from 35.2 in January and came in below the consensus of 35.7. It is the lowest reading since March 2023. The fall was driven by the weakened sentiment of almost all indicators - overall livelihood (31.9 vs. 32.2), income growth (39.7 vs. 39.9), and willingness to buy durable goods (27.2 vs. 27.5) while employment marginally grew 41.1 in February from 41.0 in January.

Euro: Consumer confidence in the Euro Area grew by 0.6 points to -13.6 in February 2025, the highest in 4 months and in line with the initial estimates. Consumers are more intent on making major purchases and their expectations from the economy have improved marginally.

UK: The GfK consumer confidence index in the UK rose by 2 points to -20 in February 2025. The slight improvement is a result of optimism among the household about their personal finances and the broader economic outlook. All the five key measures that make the consumer confidence index, which is the relative level of past and future economic conditions including personal financial situation, the situation for major purchases, overall economic situation, and savings level, showed an uptick in February.

Balance of Trade

US: The US trade deficit widened to US\$98.4 billion in December 2024 from US\$78.9 billion in November (revised), surpassing the forecast of US\$96.6 billion. It's the highest trade deficit reported since March 2022. Imports rose 3.5% to US\$364.9 billion while exports

declined 2.6% to US\$266.5 billion. The goods deficit increased to US\$123 billion while the services surplus declined to US\$24.5 billion in December.

UK: The UK's trade deficit declined to £2.82 billion in December from a downwardly revised £4.35 billion in November. It is the smallest trade deficit since September. Imports fell by 1.5% MoM to a 3-month low of £71.88 billion, while exports grew 0.7% to a 4-month high of £69.06 billion.

Japan: Japan reported a trade deficit of JPY 2,758.78 billion in January 2025 in sharp contrast to a trade surplus of JPY 130.94 billion in December, exceeding the market estimate of a JPY 2,100 billion deficit. Imports grew 16.7% YoY to JPY 10,622.52 billion, while exports rose 7.2% YoY to JPY 7,863.75 billion.

Purchasing Manager's Index

Manufacturing:

Countries	Jan 2025	Dec 2024
US	51.2 ↑	49.4
UK	48.3 ↑	47.0
Eurozone	46.6 ↑	45.1
China	50.1 ↓	50.5
Japan	48.7 ↓	49.6
India	57.7 ↑	56.4

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

Services:

Countries	Jan 2025	Dec 2024
US	52.9 ↓	56.8
UK	50.8 ↓	51.1
Eurozone	51.3 ↓	51.6
Japan	53.0 ↑	50.9
China	51.0 ↓	52.2
India	56.5 ↓	59.3

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

Monthly Data Snapshot

Currencies

	28-Feb	31-Jan
EUR/USD	1.04	1.06
GBP/USD	1.26	1.27
USD/INR	87.47	84.56
USD/CNH	7.29	7.25
1y Forward Premia (%)	2.06	2.24

US Bond Yields (%)

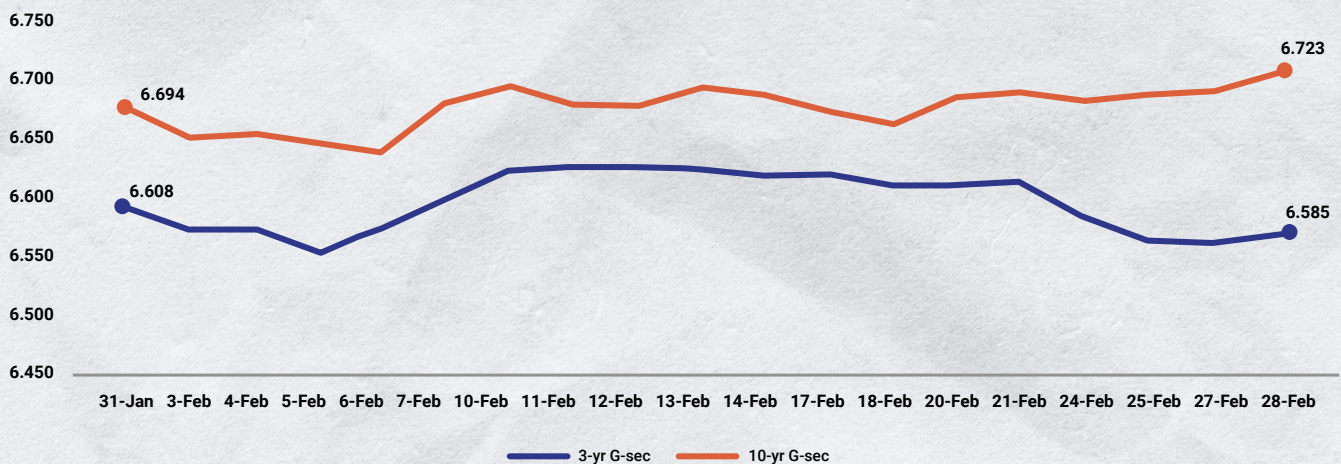
	28-Feb	31-Jan
US 30-yr Treasury	4.48	4.38
US 10-yr Treasury	4.20	4.19
US 2-yr Treasury	3.99	4.17

Commodities (US\$)

	28-Feb	31-Jan
Crude Oil (per barrel)	73.18	72.94
Natural Gas (per MMBtu)	3.90	3.39
Gold (per ounce)	2,858.60	2,653.55
Silver (per ounce)	31.15	30.60
Copper (per pound)	4.51	4.08

Source: Refinitiv

India Govt Bond Yields (%)



Note: Yield figures are approximated

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