National Institute of Public Finance and Policy

NIPFP

Year End Review -

IMPACT OF TRUMP SHOCK ON INDIAN ECONOMY: AN ASSESSMENT

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In Conversation with
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Year End Review – Impact of Trump Shock on Indian Economy: An Assessment

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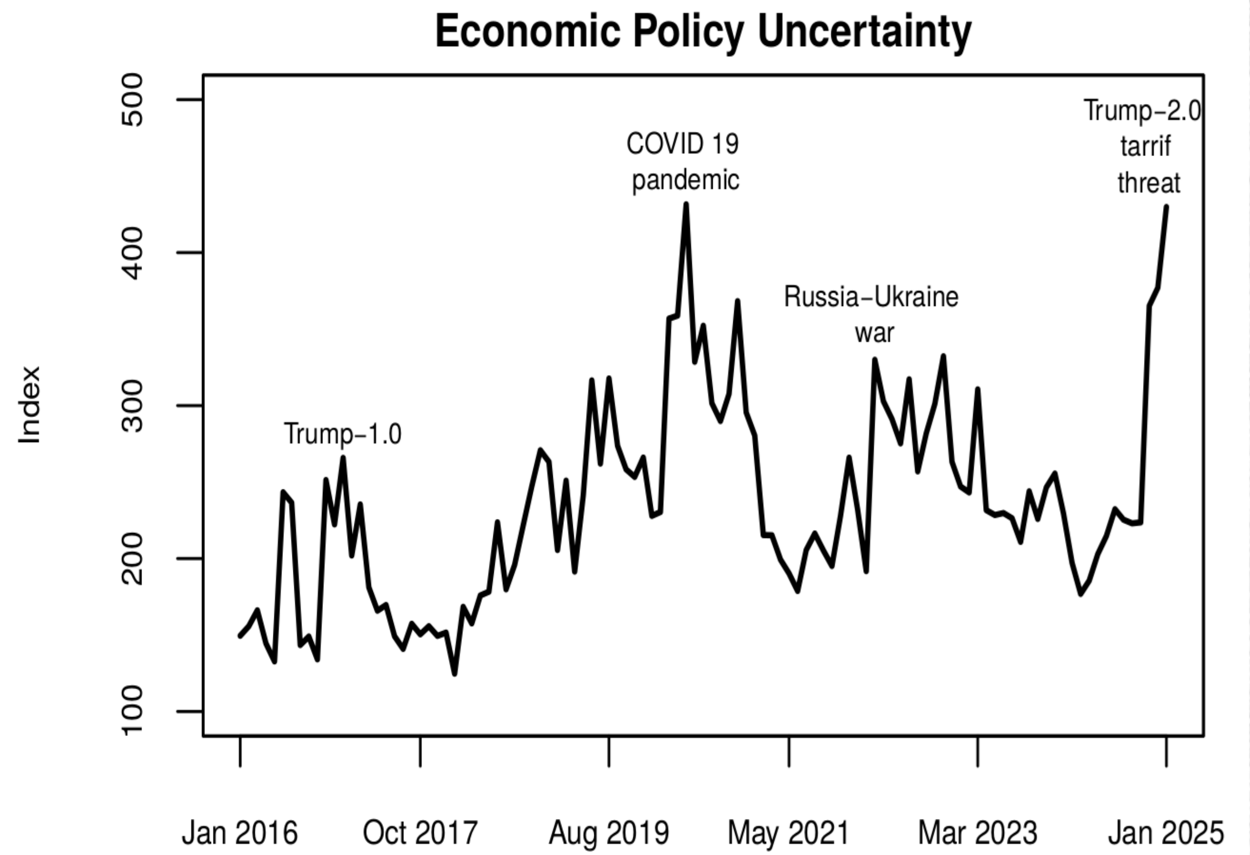
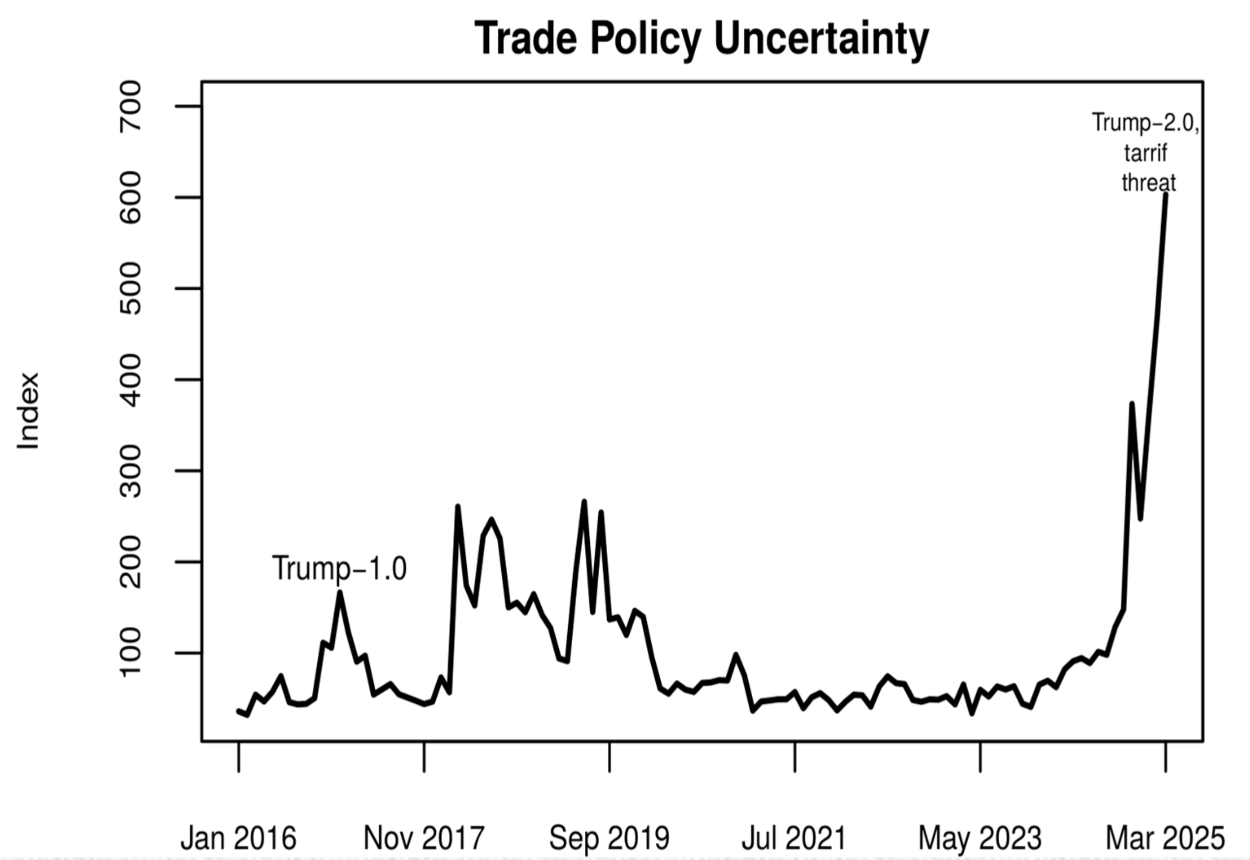
Part – I (a)

Global developments - I:
Slowing growth, rising uncertainty

Sharp increase in economic and trade policy uncertainty





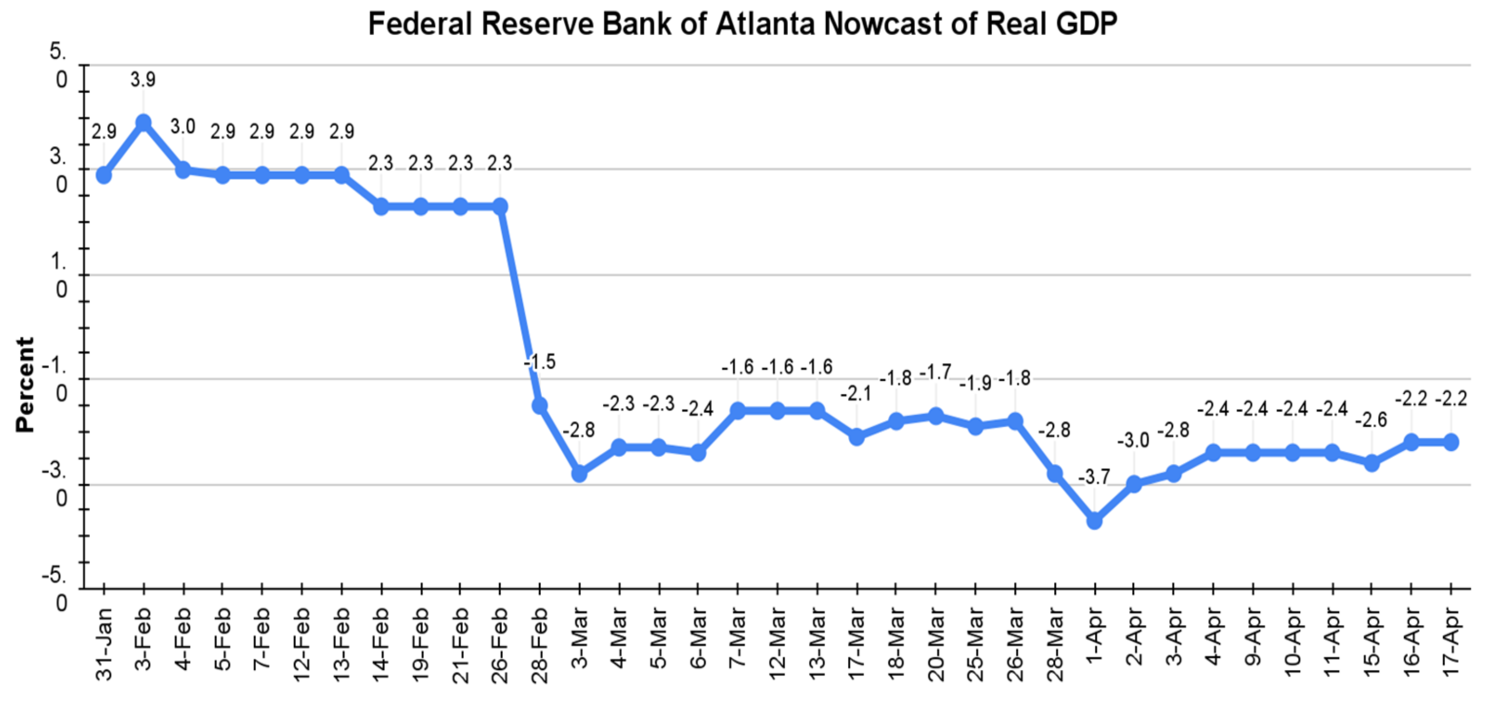
Source: www.policyuncertainty.com

IMF projects only a marginal dip in global growth amid trade tensions

Country / Regions	2024	Projection 2025	Difference from Jan 2025 Update	Projection 2026	Difference from Jan 2025 Update
World	3.3	2.8	-0.5	3.0	–0.3
Advanced Economies	1.8	1.4	-0.5	1.5	–0.3
United States	2.8	1.8	-0.9	1.7	–0.4
Euro Area	0.9	0.8	-0.2	1.2	–0.2
United Kingdom	1.1	1.1	-0.5	1.4	–0.1
China	5.0	4.0	-0.6	4.0	–0.5
India	6.5	6.2	-0.3	6.3	–0.2

- Global growth is projected to slow down from 3.3 percent in 2024 to 2.8 percent in 2025, before recovering to 3 percent in 2026.
- **United States**: GDP growth is expected to moderate from 2.8 percent in 2024 to 1.8 percent in 2025, and further moderating to 1.7 percent in 2026.
- **Euro area:** The growth is expected to moderate from 0.9 percent in 2024 to 0.8 percent in 2025 before recovering to 1.2 percent in 2026.
- **China**: Growth is expected to moderate from 5.0 percent in 2024 to 4.0 percent in 2025 and 2026.
- **India**: Growth is expected moderate from 6.5 percent in 2024 to 6.2 percent in 2025, while slightly recovering to 6.3 percent in 2026.

U.S economy is showing signs of slowing amid policy uncertainty



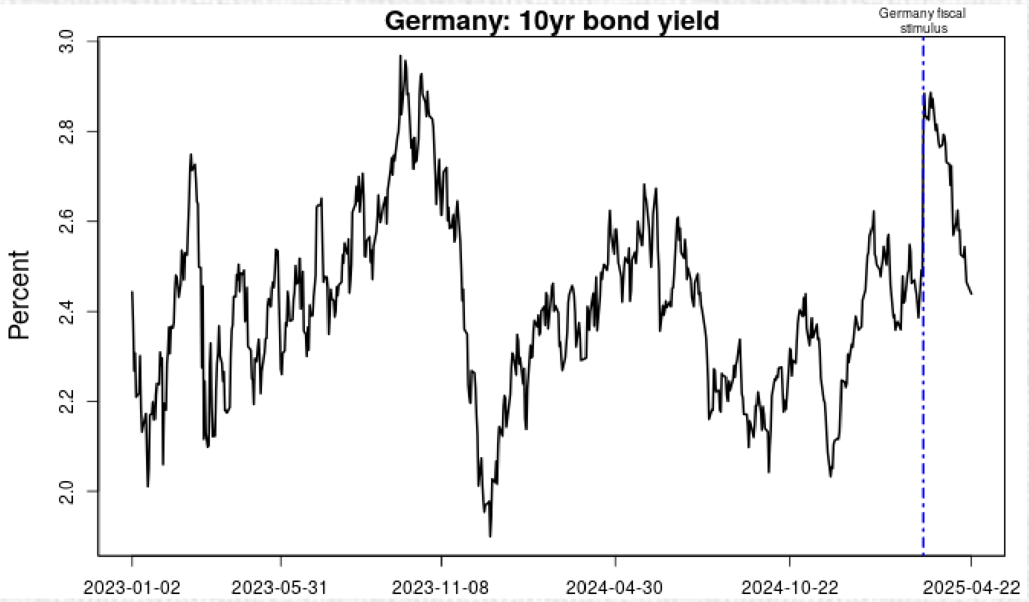
Months	Index of Consumer Sentiment	Expected change in prices	
		Next year	Next 5 years
Oct 2024	70.5	2.7	3.0
Nov 2024	71.8	2.6	3.2
Dec 2024	74	2.8	3.0
Jan 2025	71.7	3.3	3.2
Feb 2025	64.7	4.3	3.5
Mar 2025	57	5.0	4.1
Apr 2025 (P)	50.8	6.7	4.4

Source: Survey of Consumers, University of Michigan
P: Preliminary

- The latest reading of the Federal Reserve Bank of Atlanta’s nowcast of real GDP growth suggests a contraction of 2.2 percent in the first quarter (January-March) of 2025, that has been gradually tumbling from 4 percent growth forecast reported in early February.
- Policy uncertainty, expected rise in prices and mass federal layoffs have led to decline in consumer sentiments and rise in inflation expectations.

EU is ramping up spending, leading to euro appreciation

- Germany announced a large fiscal expansion geared towards military, infrastructure and climate spending.
- May provide short-term relief for the European economy. In the medium-long run, the debt burden may surge.
- The proposed fiscal expansion has boosted growth projections for Germany and Euro area.
- The euro area's growth to increase by 0.1 percentage point to 0.8% in 2025.
- The fiscal expansion plan led to an upsurge in German 10 year bond yields.
- The slowdown in the US economy and fiscal expansion in EU has led to appreciation of Euro against the dollar.



China is introducing stimulus measures to boost its economy

Monetary policy stimulus

- Cut in the reserve requirement rate,
- Trimming the minimum down payment ratio to 15% for all types of buyers.
- A central bank fully funded loan initiative to enable state owned enterprises to purchase unsold homes.
- Reducing the benchmark lending rates (one- and five-year loan prime rates) by 25 basis points.
- Switching to a "moderately loose" monetary policy stance from a previously "prudent" stance, the first such change in about 14 years.

Fiscal policy stimulus

- The finance ministry pledges to "significantly increase" debt, support indebted local governments, offer subsidies to low-income people, and recapitalise core tier-1 state banks' capital through the issuance of special treasury bonds.
- A 10 trillion-yuan ($1.36 trillion) debt package to ease local government financing strains by issuing bonds over three to five years to restructure their debts.
- Beijing would target a budget deficit of 4% of gross domestic product (GDP) in 2025, while maintaining an economic growth target of around 5%.
- Authorities agreed to issue 3 trillion-yuan ($409.19 billion) worth of special treasury bonds in 2025, the highest annual amount on record.
- Millions of government workers across China are given surprise wage increases. The immediate payout would amount to a one-time shot to the economy of between about $12 billion and $20 billion.

Part – I (b)

Global developments - II: Impacts of tariffs

US: Flip-flops on tariff policy

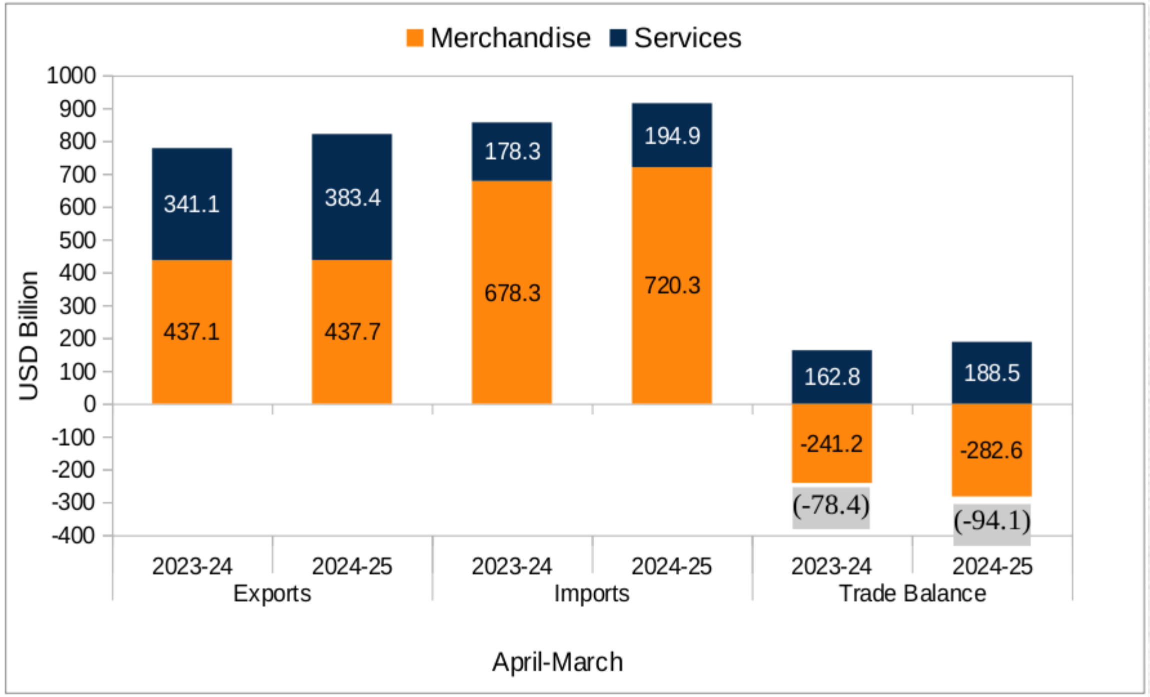
- **2nd April**: Liberation day tariffs to reduce trade deficit and revive
- **9th April**: 90 day pause on liberation day tariffs but retained 145 percent tariff on imports from China. However, the 10 percent baseline tariff on all countries will remain in effect.
- **11th April**: Exemptions on imports of smartphones, data storage servers, semiconductors, and other electronics from reciprocal tariffs and the 125% additional tariffs on China.
- **14th April**: Indicates that pharma and semiconductors may be put under a different tariff line
- **15th April** : Tariff on China further raised to 245%.
- **Implications**: Significant US China decoupling and threat of dumping of Chinese goods to India and other EMs.
- Rising possibility of recession in the U.S alongside high inflation will impact India’s growth prospects.

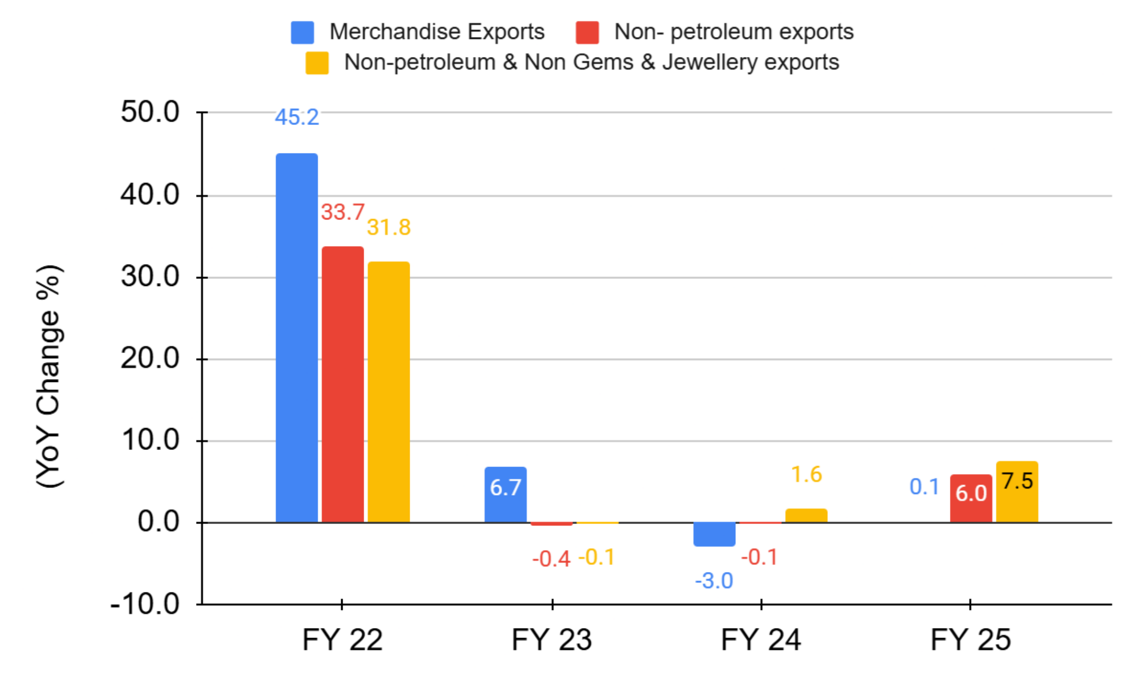
Reciprocal tariffs: Specifics

Country	2024			Tarrif (2025)
	US: Import ((USD Billion)	US: Export (USD Billion)	Trade Balance (USD Billion)	
China	438.9	143.5	-295.0	245
Mexico	505.9	334.0	-172.0	25
Vietnam	136.6	13.1	-123.0	46
Ireland	103.3	16.5	-87.0	20
Germany	160.4	75.6	-85.0	20
Taiwan	116.3	42.3	-74.0	32
Japan	148.2	79.7	-68.0	24
Korea, South	131.5	65.5	-66.0	25
Canada	412.7	349.4	-63.0	25
India	**87.4**	**41.8**	**-46.0**	**26**
Thailand	63.3	17.7	-46.0	36
Italy	76.4	32.4	-44.0	20
Switzerland	63.4	25.0	-38.0	31
Malaysia	52.5	27.7	-25.0	24
Indonesia	28.1	10.2	-18.0	32
France	59.9	43.5	-16.0	20
Austria	17.6	4.5	-13.0	20
Cambodia	12.7	0.3	-12.0	49
Sweden	18.0	8.2	-10.0	20
Hungary	12.7	3.3	-9.0	20

- Baseline Tariff: A 10% tariff will be applied to all imports from every country, effective April 5, 2025. In addition, there are country specific reciprocal tariffs.
- The basis of reciprocal tariff on each country was the trade balance the country has with the U.S.
- Certain strategic products, including pharmaceuticals, semiconductors, copper, and energy products, are exempt from these tariffs
- India subject to a reciprocal tariff of 26 percent. This is lower than most of the ASEAN competitors.
- Despite one of the highest average applied tariff rate, India has relatively lower tariffs because of its lower trade deficit with the U.S.

Before we delve into impact of Trump's tariffs, let's look at India's trade in FY 25





- During FY 25, the merchandise exports and imports grew by 0.1% and 6.2% respectively. The slump in merchandise exports was primarily owing to subdued oil exports. Imports from China jumped to a record high of USD 113 billion.
- Total exports (goods plus services) grew by 5.5%, slower than the growth registered in total imports (6.8%), resulting in widening of the trade deficit.
- The trade deficit stood at USD 94 billion in current FY up from USD 78.5 billion in the same period of previous FY.
- Netting out oil exports, non-oil exports grew by six percent, and after excluding gems and jewellery exports, the growth was a reasonable 7.5 percent. While merchandise exports are likely to be hit by tariffs, services exports would have to do the heavy lifting this year.

Source: RBI

Key sectors that are vulnerable

Items	Share in total exports to US (Percent) 2023-24
Electronic goods	13.5
Gems & jewellery	12.8
Drug formulations, biologicals	10.3
Machinery & instruments	9.1
Petroleum & crude products	7.5
Agricultural & allied products	6.5
Readymade garments	6.1
Textiles (excluding readymade garments)	6
Ferrous and non-ferrous metals	5.5
Transport equipment	3.4
Inorganic/organic/agro chemicals	3.2

- Table shows top 10 exports of India to the U.S.
- Broad sectors like Electronic goods, Gems & jewellery, Machinery, Textiles, Metals and Transport equipments are subject to elevated risk due to tariffs.
- Gems and jewellery are vulnerable because the competing countries are subject to lower tariffs. India could lose its market share.
- However, some of the sectors like Pharmaceutical, Mineral fuels etc., have been exempted for now.
- Sectors reliant on U.S. markets may experience pricing pressures, deferred orders, and supply chain adjustments.

Window of opportunity in some sectors due to lower relative tariffs

HS 2 Digit	Share of Countries (Tarrif differential > 0)	Top Exporting Countries
Footwear, Gaiters	45.5	China, Vietnam, Indonesia, Italy, Cambodia
Apparel Articles & Accessories, Knit or Crochet	30.2	China, Vietnam, Cambodia, India, Indonesia
Rubber & Articles Thereof	29.4	Thailand, Mexico, Canada, China, Japan
Apparel Articles & Accessories, Not Knit Etc.	29.2	China, Vietnam, India, Indonesia, Mexico
Furniture; Bedding	27.7	China, Vietnam, Mexico, Canada, Italy
Electric Machinery Etc; Sound Equip	21.9	China, Mexico, Vietnam, Taiwan, Malaysia
Nuclear Reactors, Boilers, Machinery	20.3	China, Taiwan, Japan, Germany, Canada
Nat Etc Pearls, Prec Etc Stones	19.6	Switzerland, India, Canada, Mexico, Italy
Toys, Games & Sport Equipment	13.3	China, Vietnam, Mexico, Taiwan, Japan
Articles Of Iron Or Steel	12.2	China, Mexico, Canada, Taiwan, South Korea

Source: International Trade Administration & Author's estimates
Excludes China while computing Share of Countries where Tariff differential > 0

- Table shows products where those countries have higher market share that are subject to much higher tariffs than India.
- Scope for Labour-intensive industries such as Footwear, Garments, Rubber articles, Furnitures, Toys to grab the opportunity from nations with tariff higher than that of India.
- For example, for footwear, the major exporters to the US are China and Vietnam but they are subject to higher tariffs.
- India could gain some market share but needs to scale up its manufacturing.

However, multi-product, multi-country dumping threat looms over India

- Countries like Vietnam /Indonesia /Cambodia /Thailand /Taiwan /Switzerland with higher tariffs as against India may divert goods to India, risking import surges and dumping across multiple products.
- Due to US-China decoupling, some of the key commodities that could see dumping are Resins, Paper, Rubber etc.
- On account of Chinese retaliatory tariffs on US, US dumping of agricultural products into India cannot be ruled out.
- To protect domestic industry, India imposed 12% safeguard duty on some steel products to curb cheap China imports.

Commodity	China's share in India's imports	China's share in U.S imports
Artificial resins, plastic materials	25.0	26.0
Paper and paper board	19.8	13.9
Rubber products	12.5	7.0
Graphite	48.3	59.7

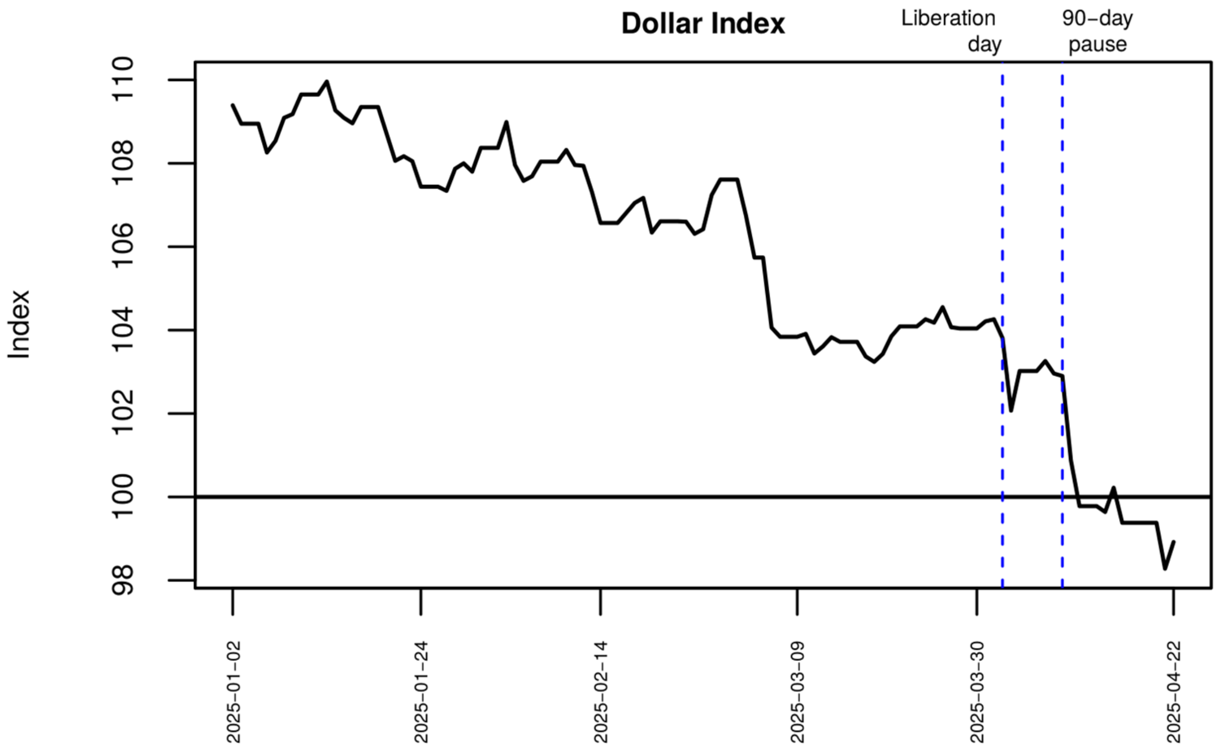
Expected Export loss on account of increased tariffs

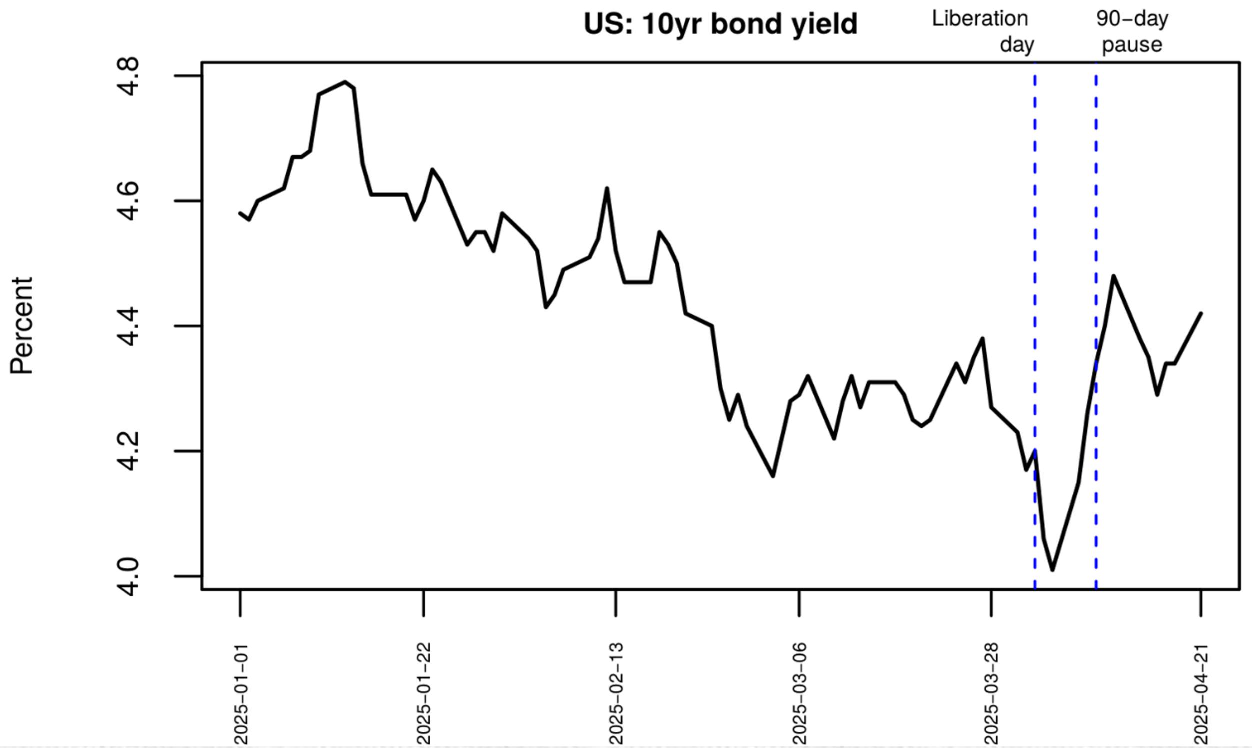
Sector	Exports to US FY24 (USD Mln)	Tariff Rate	Elasticity	Rationale	Export Loss (USD Mln)
Inelastic Products (0.1 - 0.4)					
Marine products	2499	0.26	0.3	India better positioned than Vietnam, Indonesia on account of lower tariffs	194.9
Gold and other precious Metal Jewellery	3306	0.26	0.4	Style, Design and Exclusiveness; India enjoys Competitive Advantage	343.8
Cotton fabrics, Made-ups etc	2615	0.26	0.4	Stands to gain from Cambodia, Vietnam, Thailand, China on account of Tariff differential	271.9
Elastic Products (> 0.4)					
Products of Iron and Steel	2782	0.26	1.0	Competition from USMCA put India in disadvantage position; Substitutible product	723.3
Electronic components	2697	0.26	1.0	Competition from USMCA besides South Korea, Japan and Malaysia putting India in disadvantage position on account of lower tariffs	701.1
Organic chemicals	1107	0.26	1.2	Competitive and substitutable nature of organic chemicals in global trade.	345.2
Total	77515				13951
India's GDP (USD Million; 2023)					3638490
Loss in Exports (Per cent to GDP)					**0.38%**

Source: Ministry of Commerce and Industry; IMF WEO Outlook - April 2025
India's GDP is from IMF WEO for the year 2023

- Direct export loss expected at USD 14 billion amounting to 0.38% of GDP.
- Elasticity based on Tariff differential, Substitutability, Supply chain types and Revealed Comparative Advantage of India

Pause on tariff rollout: Markets punished tariff-induced uncertainty





- Typically, in uncertain situations, investors flock to the safety of dollar and dollar backed assets.
- But the reverse happened post the imposition of reciprocal tariffs.
- This was one of the reasons that triggered the decision to halt the rollout of tariffs.

Despite the pause, India's growth prospects would be hit

- **Direct impact**
  - Exports will likely be hit due to tariffs. Impact could be cushioned by trade deal but that would involve sacrificing its trade surplus with U.S.
  - Imports could see a surge due to diversion of products from China, Vietnam and other countries.
- **Indirect impact**
  - Rising probability of recession and high inflation in the U.S will dent global growth and India's growth prospects.
  - In addition to the direct hit on goods exports, services sector exports that have been driving overall exports could suffer due to stagflation in the U.S.

- *In our view IMF's growth projections underestimate the hit to U.S, global and India growth rate possibly because they focus on the impact of tariffs and not the impact of whole range of disruptions.*

Policy measures to cushion the impact of trade uncertainty

1. **Reduce trade surplus with the US by importing more oil and other products from the U.S.**
2. **Accelerate Trade Negotiations & Secure Sector-Specific Exemptions**
   - Finalize the US trade deal
   - Leverage exemptions (e.g., pharmaceuticals) to expand exports in critical sectors, while negotiating duty waivers for auto components and electronics
3. **Diversify Export Markets away from US & Strengthen Domestic Manufacturing**
   - Target trade diversion opportunities in the EU, UK, and ASEAN markets as US-China tensions escalate
   - Boost "Make in India" initiatives, particularly in semiconductors, renewable energy, and electronics, to reduce import reliance and attract US investment
4. **Calibrated Concessions**
   - Reduce tariffs on select US goods (e.g., ethane, LPG, aerospace components) to foster reciprocity and ease trade tensions
   - Enhance PLI schemes for vulnerable sectors (gems, textiles, auto parts) to improve global competitiveness
5. **Strengthen export infrastructure and logistics**

Part - II

Growth

In 2024-25, aggregate demand growth moderated due to decline in government spending and investment growth, despite accelerated private consumption growth and improved negative real trade balance

Demand components	2023-24 YoY (%)	2024-25 YoY (%) (SAE)	2024-25 Q1 YoY (%)	2024-25 Q2 YoY (%)	2024-25 Q3 YoY (%)	2024-25 Q4 YoY (%) (Implied)
Aggregate demand (GDP)	9.2	6.5	6.5	5.6	6.2	**7.2**
Govt. Final Consumption Exp. (GFCE)	8.1	3.8	-0.5	3.8	8.3	**4.2**
Private Final Consumption Exp. (PFCE)	5.6	7.6	7.7	5.9	6.9	**9.2**
Gross Fixed Capital Formation (GFCF)	8.1	6.1	6.7	5.8	5.7	**5.8**
Net exports	386.3	-56.6	-28.5	-27.6	-90.5	**551.7**

Source: CSO, MOSPI

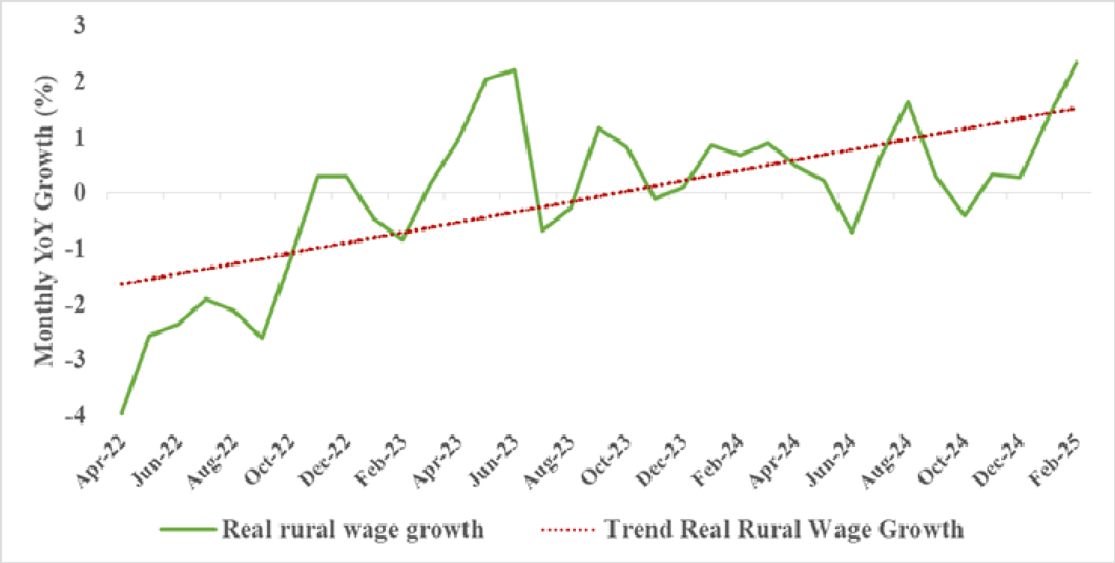
- Momentum in Investment & Private consumption growth stagnated
- Govt. final consumption growth accelerated in H2 2024-25
- Negative net exports growth declined in H2 2024-25, improving real trade balance

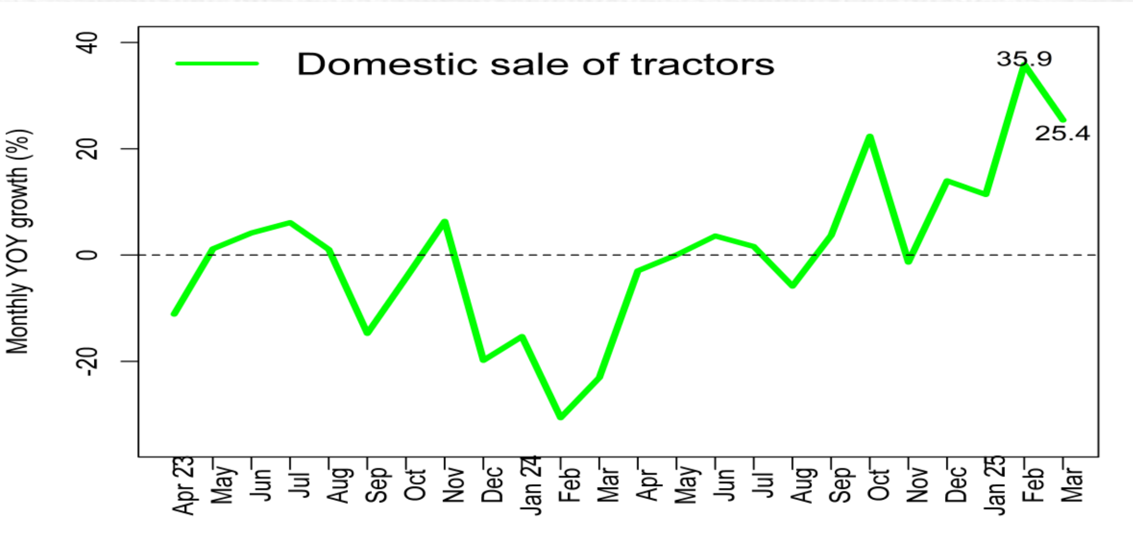
2024-25 GVA growth moderated in most non-agricultural sub-sectors, implied Q4 growth improbable

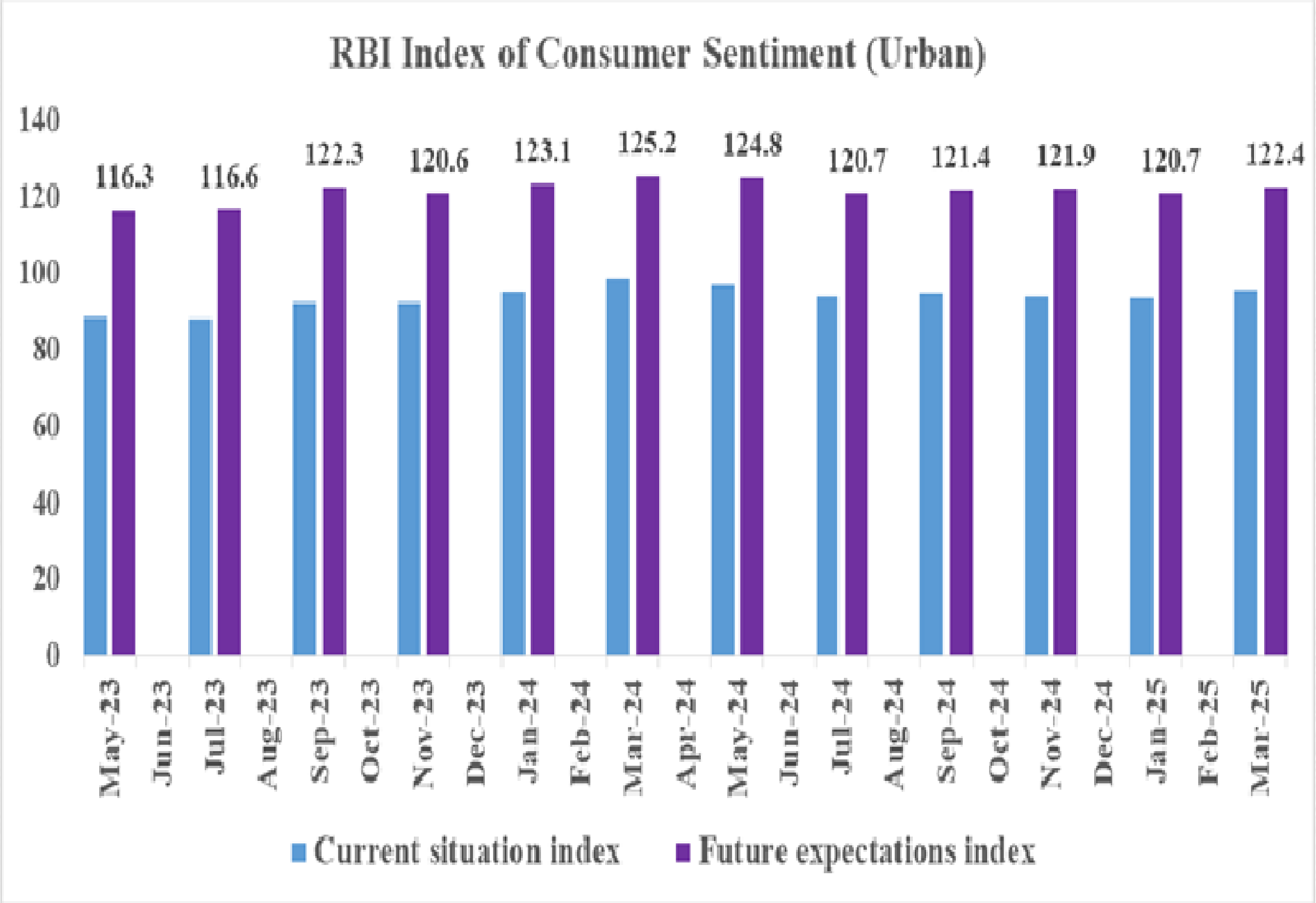
Sector	2023-24 YoY (%)	2024-25 YoY (%) (SAE)	2024-25 Q1 YoY (%)	2024-25 Q2 YoY (%)	2024-25 Q3 YoY (%)	2024-25 Q4 YoY (%) (Implied)
GVA	8.6	6.4	6.5	5.8	6.2	**7.0**
1. **Agriculture, forestry and fishing**	2.7	4.6	1.7	4.1	5.6	**6.3**
2. **Industry**	10.8	5.6	8.4	3.8	4.5	**5.7**
2.1 Mining & Quarrying	3.2	2.8	6.8	-0.3	1.4	**2.6**
2.2 Manufacturing	12.3	4.3	7.5	2.1	3.5	**4.3**
2.3 Electricity, gas, water & other utilities	8.6	6.0	10.2	3.0	5.1	**5.8**
2.4 Construction	10.4	8.6	10.1	8.7	7.0	**8.7**
3. **Services**	9.0	7.3	6.8	7.2	7.4	**7.8**
3.1 Trade, hotels, transport, communication, broadcasting (TRC)	7.5	6.4	5.4	6.7	6.1	**7.2**
3.2 Financial, real estate and professional services (FIN)	10.3	7.2	6.6	7.2	7.2	**7.9**
3.3 Public administration, defense and other services (PAD)	8.8	8.8	9.0	8.8	8.8	**8.6**

Why are SAE growth projections for FY 24-25 unrealistic?

9.2% implied growth in private consumption demand in Q4 improbable: Buoyant rural demand but urban demand remains stagnant



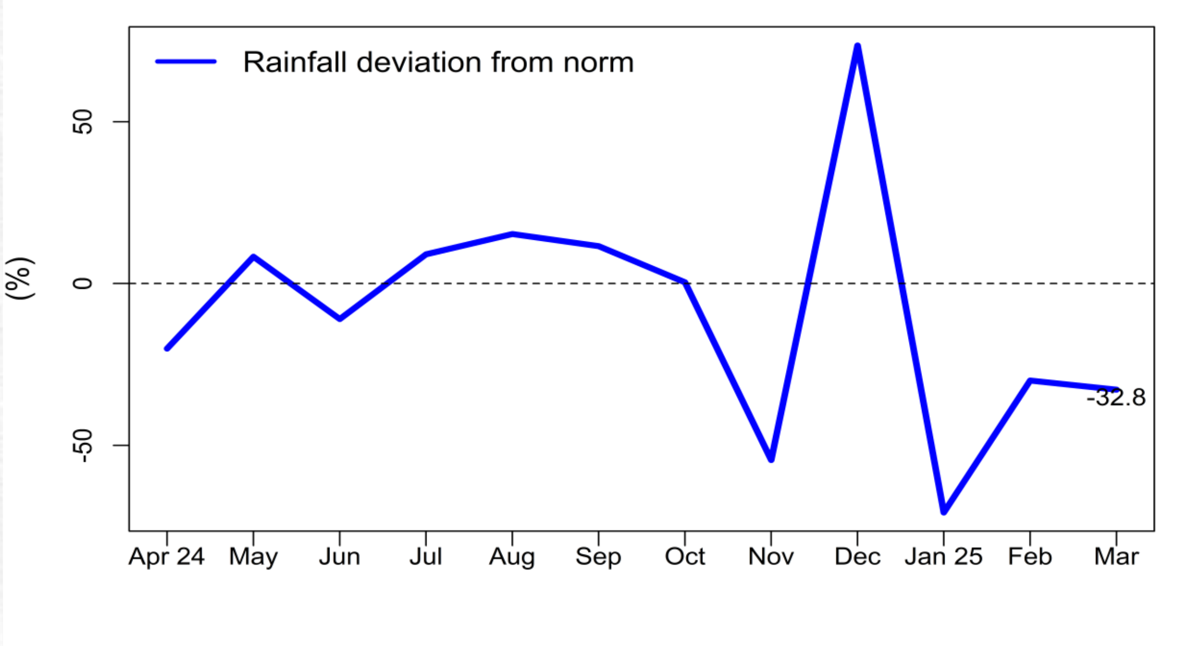




Source: RBI, Labour Bureau, CMIE

Why are SAE growth projections for FY 24-25 unrealistic?

6.3% implied growth in Agriculture in Q4 improbable, agriculture already stressed due to adverse weather factors and rise in cost of production



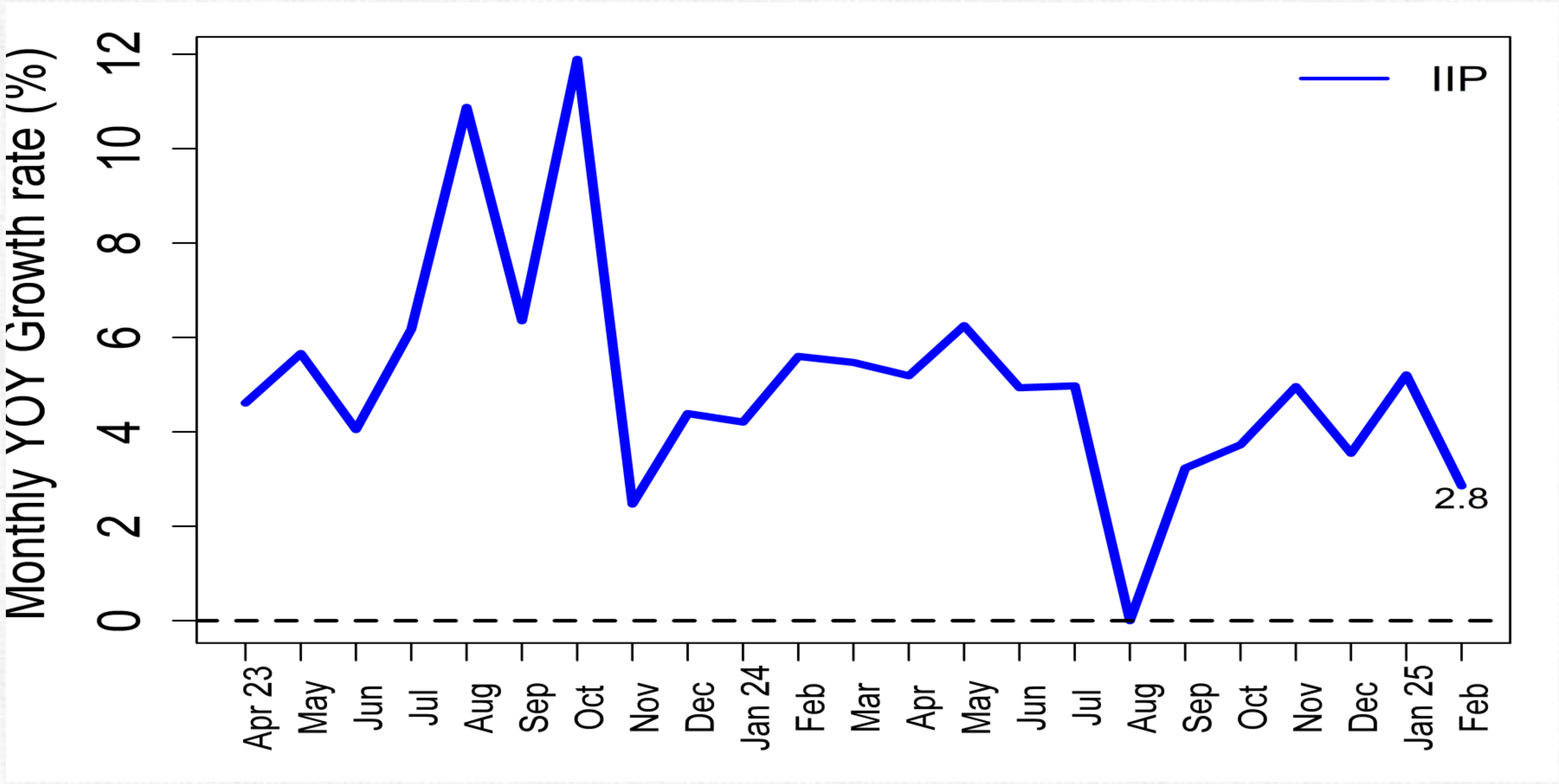
Actual gross area sown under Rabi crops (Million Hectare)				
Year	Foodgrain	Cereals	Pulses	Major Oilseeds
2024	65.1	41.4	13.8	11.0
2025	66.1	42.3	14.1	9.9
YoY Growth (%)	2.1	2.0	2.2	-1.8

Source: CMIE; Ministry of Agriculture & Farmers Welfare

- Rabi area sown under foodgrains expanded mildly by 2.1%, while oilseeds area contracted
- Rainfall on average 44% below the normal level, and rising sea-surface temperature adversely affecting agricultural crop yields
- Projected cost of agricultural production grew by 5.2% for rice and 4.5% for wheat compared to last year

Why are SAE growth projections for FY 24-25 unrealistic?

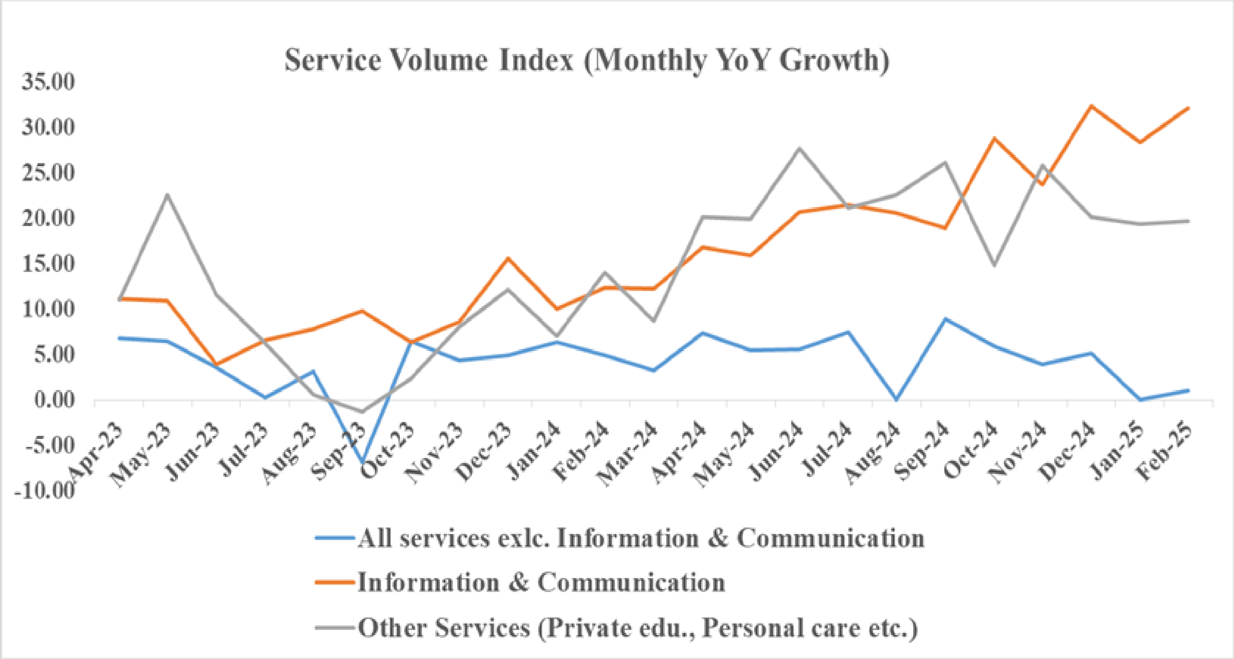
5.7% Industrial growth in Q4 improbable as industrial growth suffered broad-based down turn in Q4

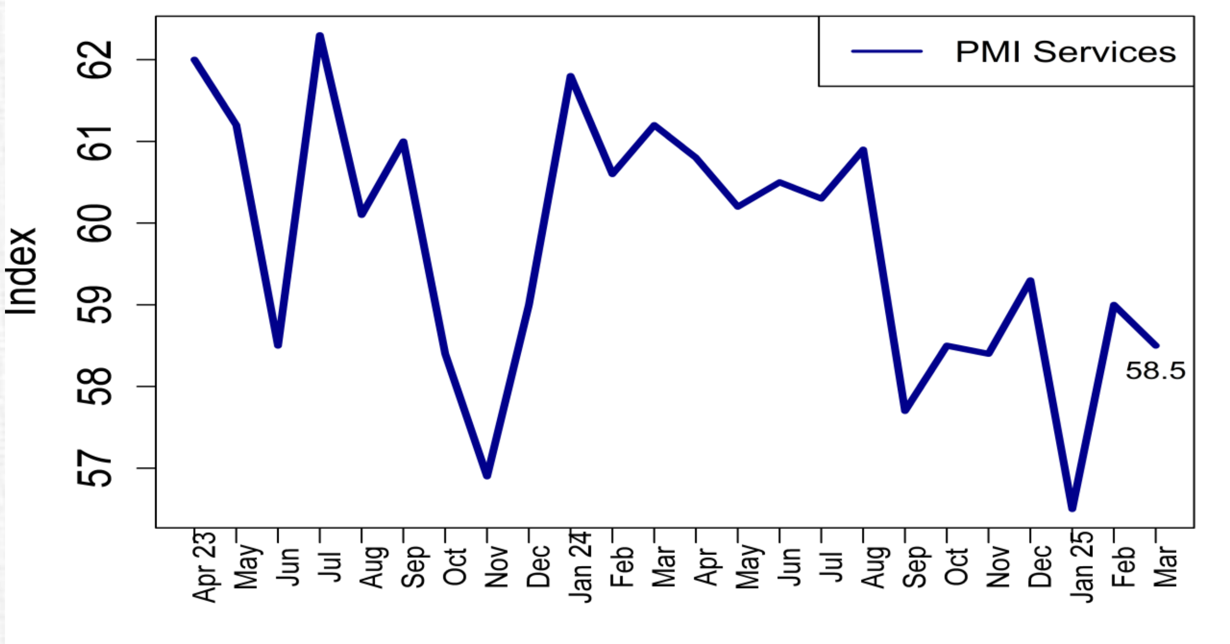


Source: MOSPI

Why are SAE growth projections for FY 24-25 unrealistic?

7.8% Services growth in Q4 improbable, except for information & communication and Others category, overall services growth stagnated

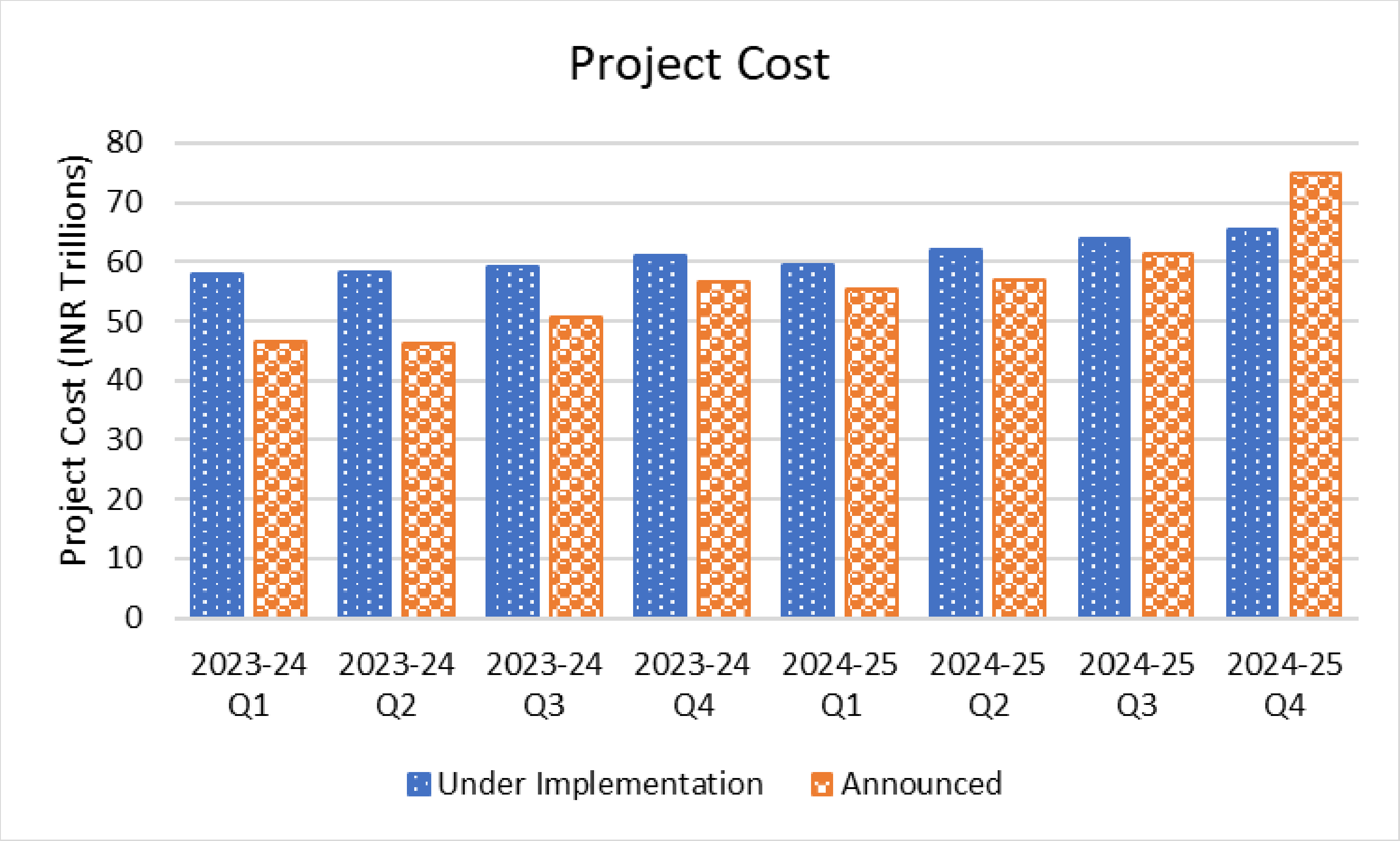




Source: CSO, CMI

- Trend in Services PMI broadly deteriorating since beginning of 2024

Strong growth in value of new private projects announced in Q4 indicating picking up of private investment sentiments



Year: Qtr	Under Implementation	Announced
2023-24 Q1	19.57	48.47
2023-24 Q2	20.74	37.73
2023-24 Q3	20.77	27.97
2023-24 Q4	6.09	28.99
2024-25 Q1	2.50	18.95
2024-25 Q2	6.59	23.20
2024-25 Q3	8.24	20.72
2024-25 Q4	7.03	32.16

Source: CMIE capex

Baseline Scenario (before Trump shock):

GDP growth forecast at 6.2-6.5% for FY 24-25 and 6.3-6.6% for FY 25-26

	FY 23-24	FY 24-25	Q1 24-25	Q2 24-25	Q3 24-25	Q4 24-25	FY 25-26	Q1 25-26	Q2 25-26	Q3 25-26	Q4 25-26
Actual	9.2	6.5 (CSO, SEA)	6.5	5.6	6.2	**7.2** (CSO, Implied)					
NIPFP (H)		6.2				6.3	6.6	6.7	6.3	6.8	6.3
RBI		6.5				7.2	6.5	6.5	6.7	6.6	6.3
IMF		7					6.2				
World Bank		7					6.7				

Source: MOSPI; Bhattacharya, Chakravartti and Mundle (2023); Bhattacharya, Bhandari and Mundle (2023)

Possible Impacts of Trump Tariff Shock

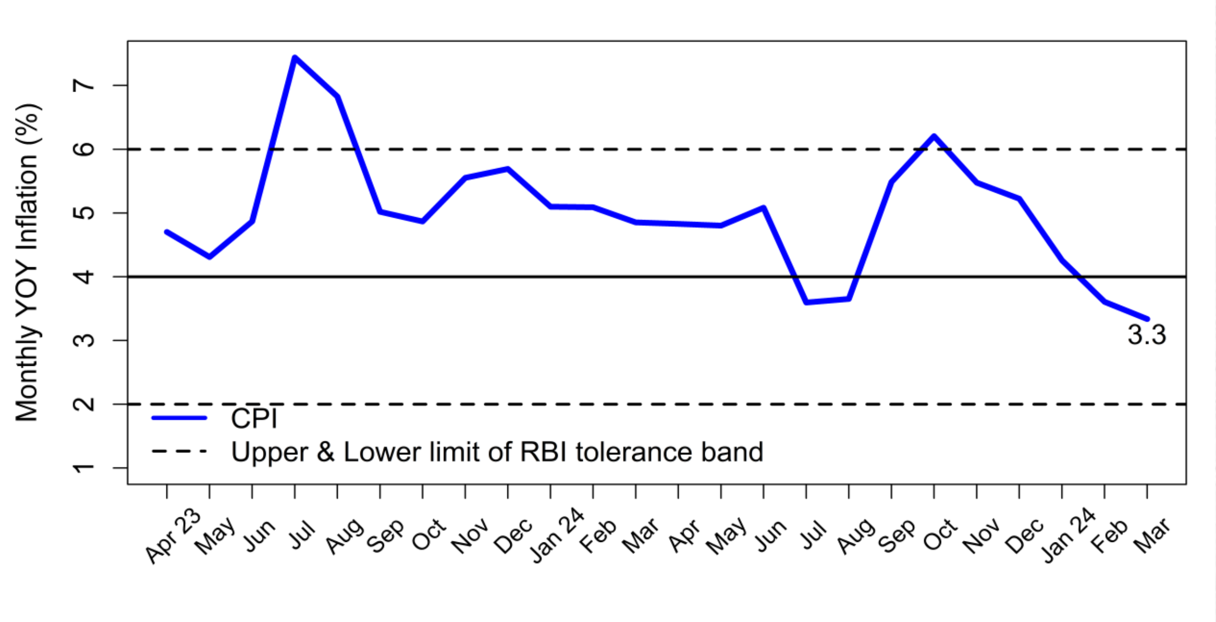
- **Scenario 1:** India able to grab trade diversification opportunities due to differential tariff advantages, so that Mean growth retained at baseline value, and income effect captured through impact of global growth
  - **FY 25-26 growth forecast at 5.8% under global growth projection (IMF) of 2.8%**

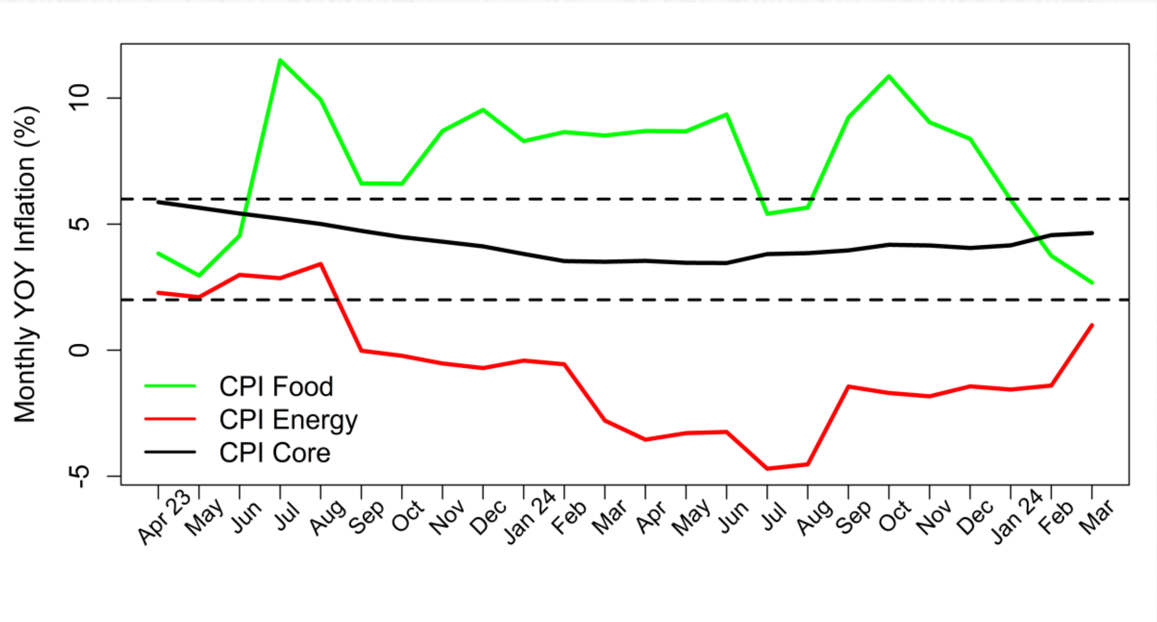
- **Scenario 2:** Global growth projections of IMF possibly accounted for only tariff effects, not upcoming disruptions due to major policy changes in US including massive shrinking of the Federal Government
  - Impact of disruptions due to US policies on global growth including India can be larger than projected
  - Close example: Impact of Global Financial Crisis (2008-09)
  - Global growth declined from 5.3 in 2007 to 2.9 in 2008 and to -0.4 in 2009, before recovering to 5.2% in 2010 due to massive fiscal and monetary stimulus
  - Correspondingly, Indian GDP growth declined from 7.4% in 2007-08 to 4.3% in 2008-09, before rebounding to 6.9% in 2009-10 with the aid of fiscal and monetary stimulus

Part - III

Inflation

Headline inflation below 4% target on account of moderating food inflation, while core inflation rising, and energy price changes rebounds

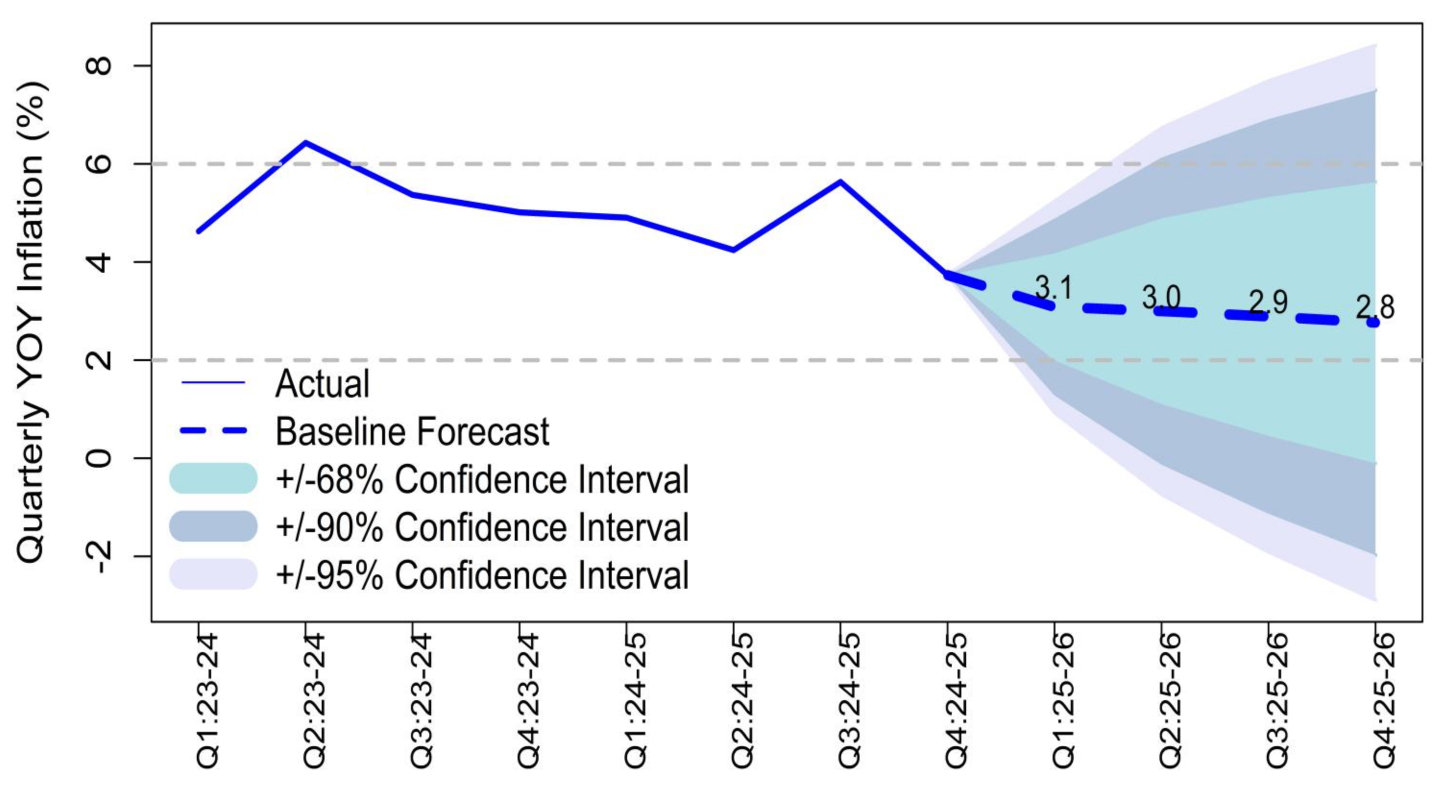




Source: CSO

- CPI food inflation moderating due to declining inflation rates in most of food items, and deflation in Vegetable and Pulses prices, while Edible oil, Fruits and Sugar price inflation are on rise
- CPI Core inflation on rise due to rise in housing rent, maintenance cost & water charges; price of medicines & health prof. fees; transport charges; educational items & fees for web-based professional trainings, and gold prices

Inflation forecast at 3.1%



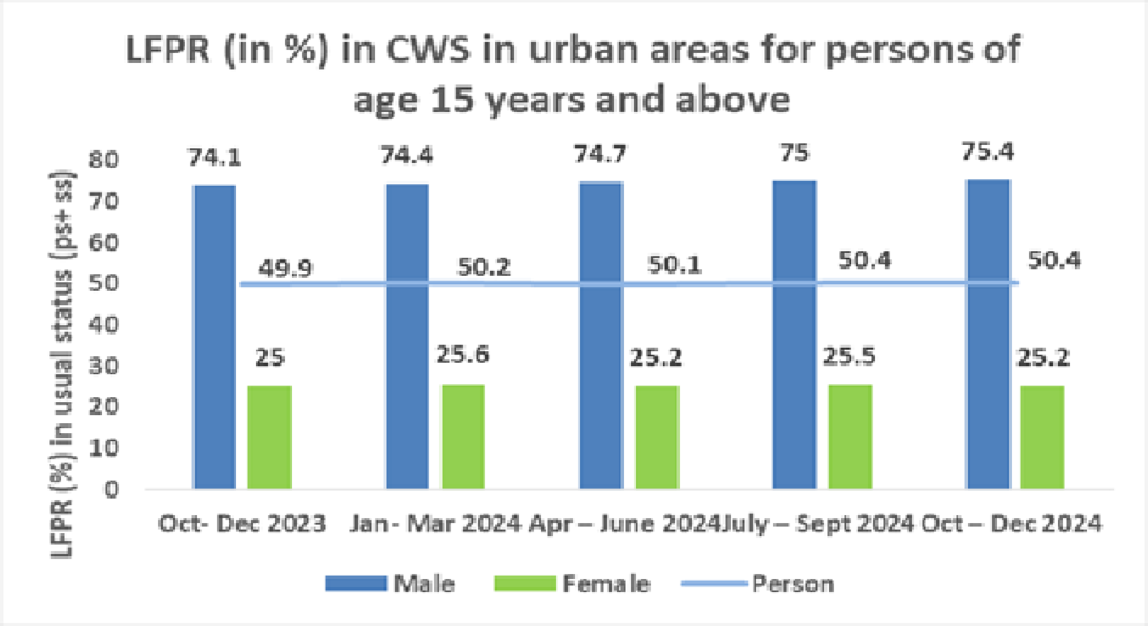
Source: Bhattacharya & Kapoor, 2020

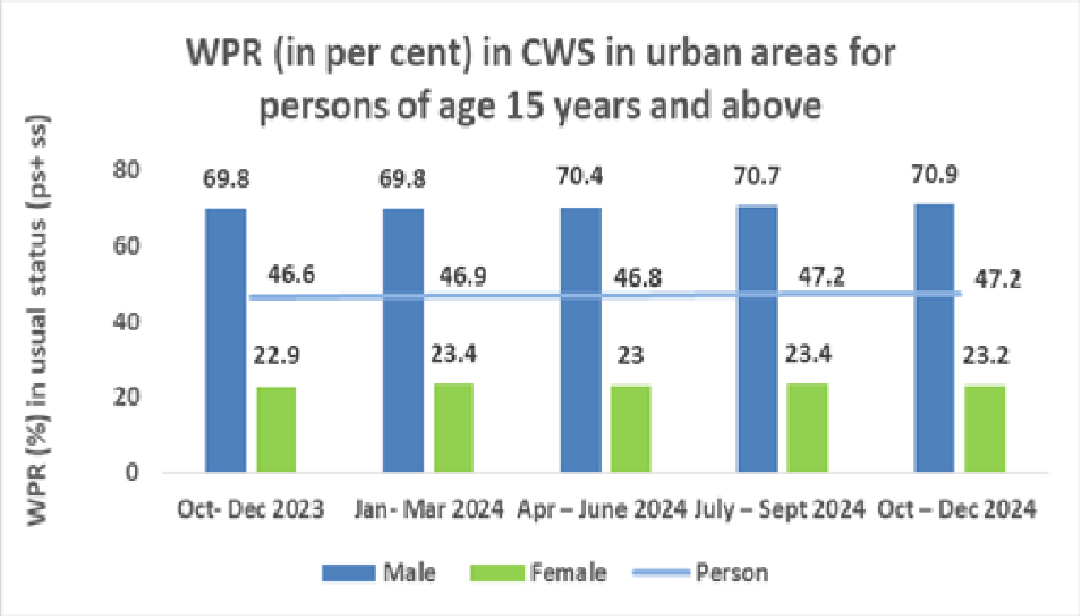
- Our baseline inflation projection for 2025-26 is 3.1%
  - 3.1% in Q1, 3.0 in Q2, 2.9% in Q3, 2.8% in Q4
- Upside risk: Rebound in core inflation due to supply constraints in services & energy price inflation
- Downward factor: Trump shock to act as a negative demand shock
- RBI forecasts: FY 2025-26: 4.0%, slightly higher than ours;
  - 3.6%, 3.9%, 3.8% & 4.4% for FY26 Q1, Q2, Q3 and Q4

Part - IV

Employment

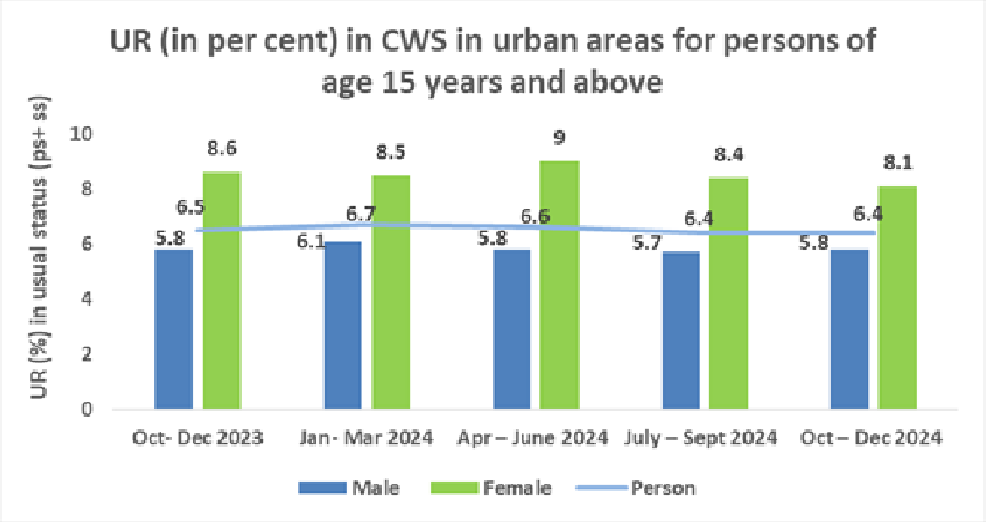
Overall improvement of quarterly urban labour market indicators for both males and females



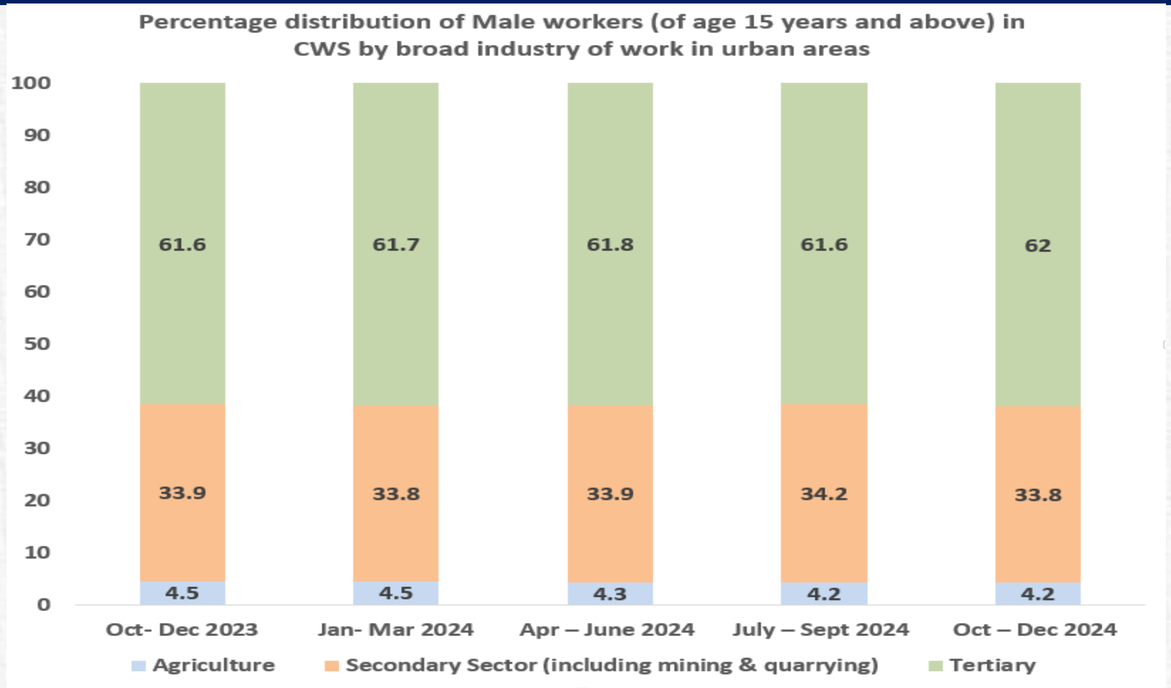


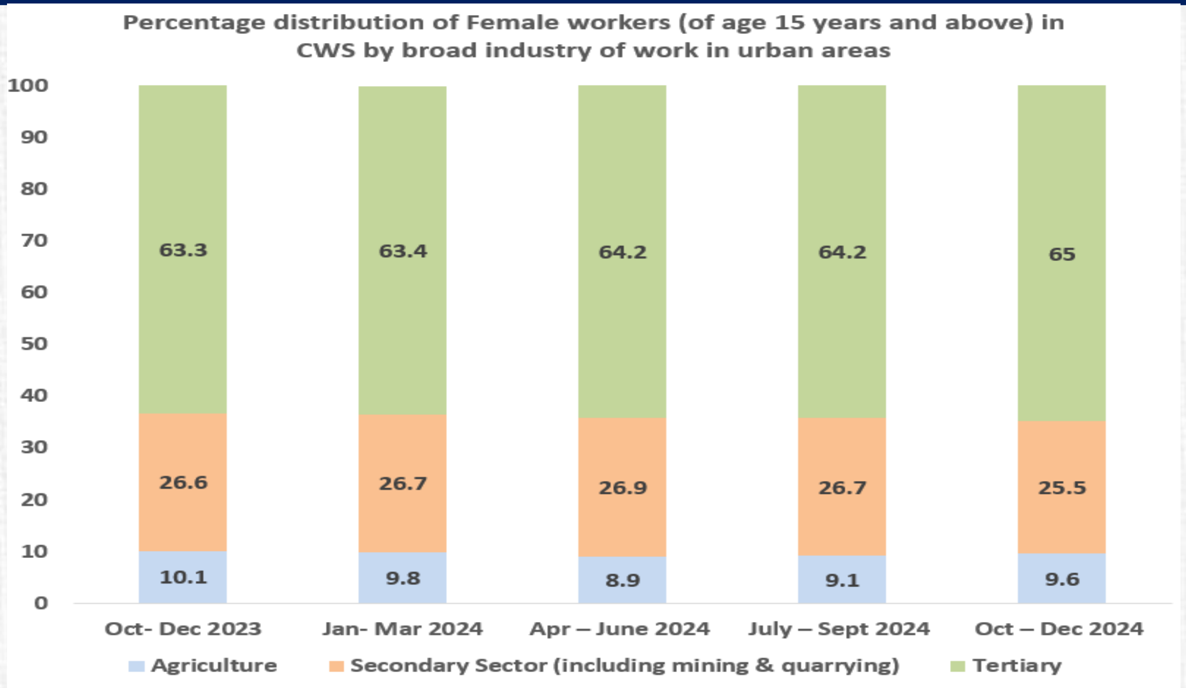
Source: PLFS, NSSO

- LFPR for males rose from 74.1 to 75.4% between Oct-Dec 2023 to Oct-Dec 2024
- LFPR for females increased from 25 to 25.2%
- WPR for males rose from 69.8 to 70.9%
- WPR for females increased from 22.9 to 23.2%
- Unemployment rate (UR) remains unchanged at 5.8% for males while declines for females from 8.6 to 8.1%



Services share of employment rising for both male and female

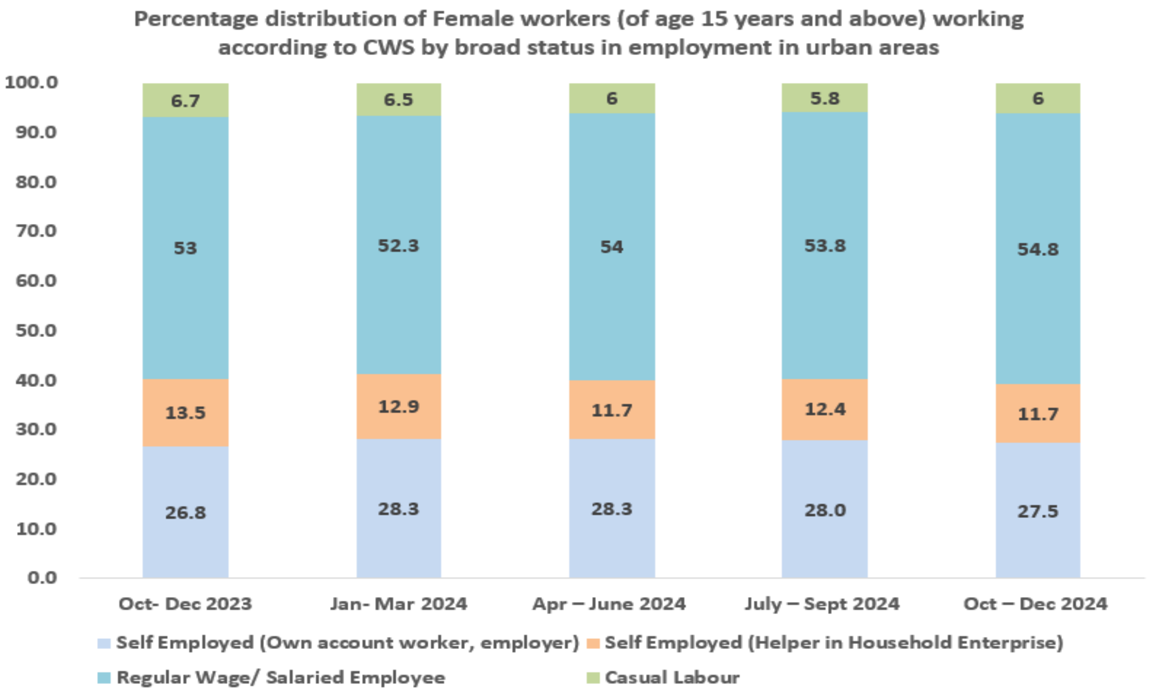




Source: PLFS, NSSO

- Percentage share of male employment in services increases from 61.6 to 62% between Oct-Dec 2023 to Oct-Dec 2024, while for females it significantly increases from 63.3 to 65%
- Percentage share of male employment in Industry declines marginally from 33.9 to 33.8, while for females it declines from 26.6 to 25.5%
- Percentage share of male employment in agriculture declines from 4.5 to 4.2%, while for females it declines from 10.1% to 9.6%
- **While male employment remains fairly stable in industry, it is mainly shifting from agriculture to services**
- **Female employment shifting to services from both agriculture and industry**

Share of formal employment rising, especially for female workers



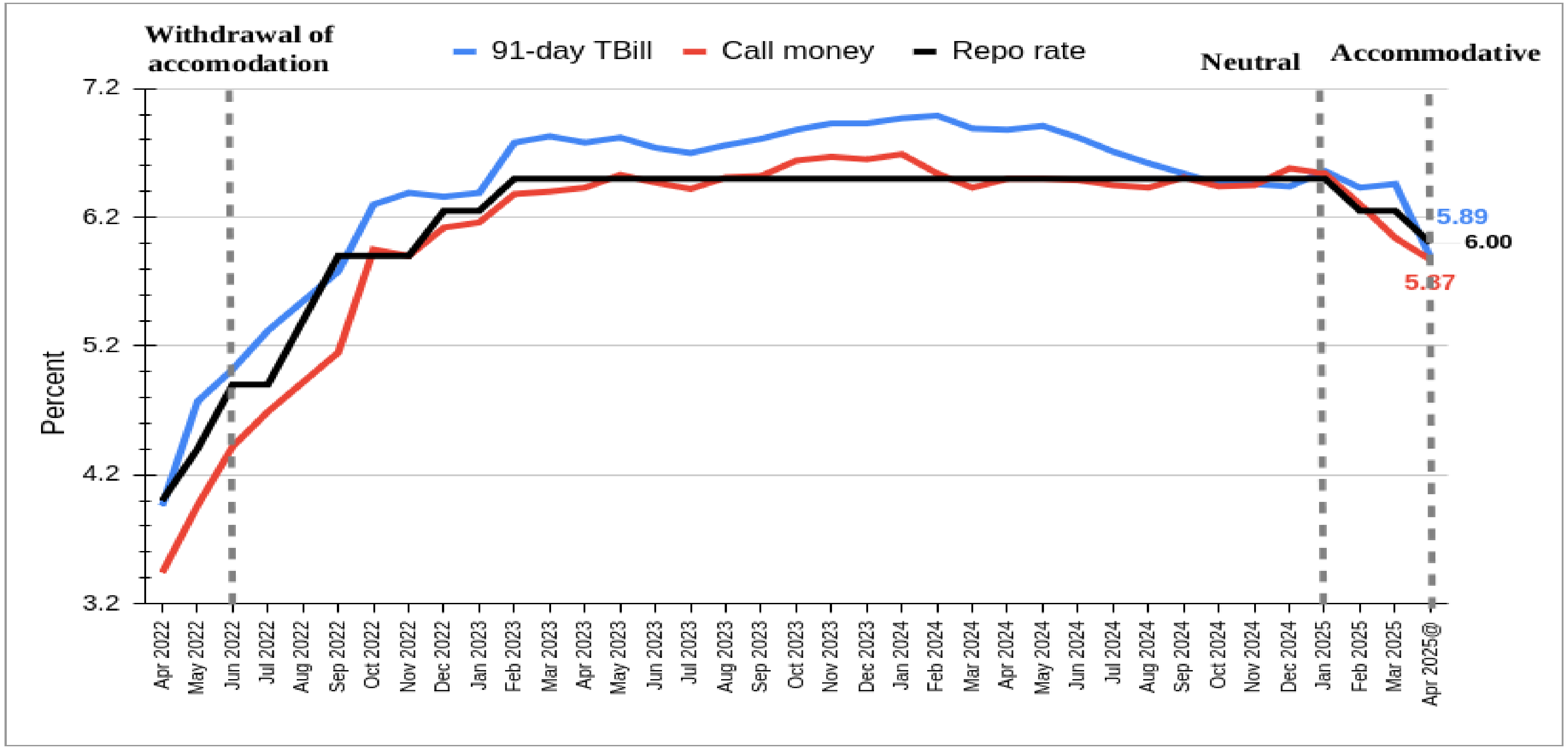
Source: PLFS, NSSO

- Share of formal employment rising and higher for women workers than for male workers
- Share of female employment rising in Own account employer/worker and regular wage and salaried status from unpaid helpers and casual workers between Oct-Dec 2023 to Oct-Dec 2024
- Share of male employment marginally increased in regular wage/salaried group but declined in Own account worker/employer group within the formal jobs
- Share of male employment within informal sector declined in unpaid helpers group, but increased in casual labour group

Part - V

Monetary Policy and Financial Markets

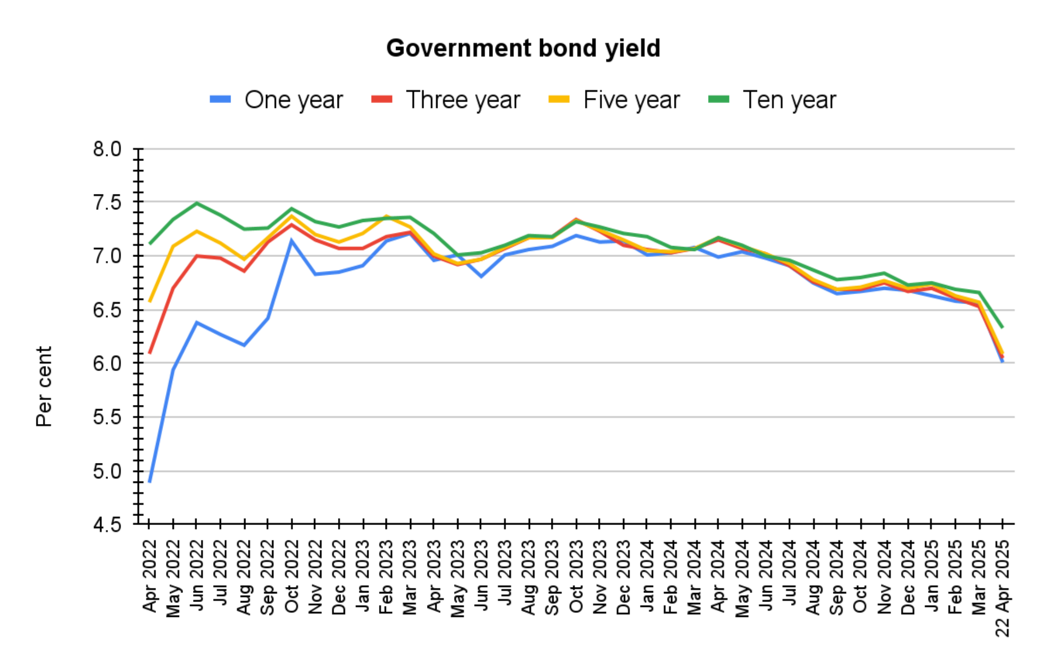
Policy rate reduced by 25 basis points; stance changed to Accommodative

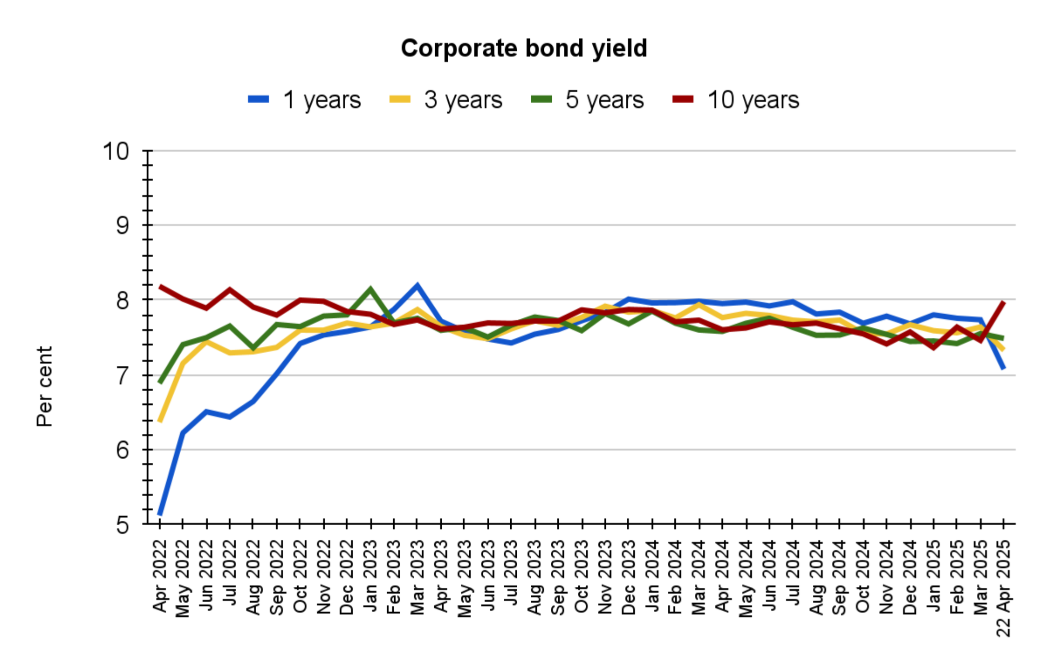


@: 91 T-Bill and Call Money rates are as on 22nd April and Repo rate is as on 18 th April

- The policy repo rate was reduced from 6.5 percent to 6.25 percent in February and further to 6 percent in April. The stance changed to neutral in February and to accommodative in April.
- The call money rate, after hovering closer to the policy repo rate has moderated sharply.
- Deeper rate cut cycle expected post the change in stance to accommodative to stimulate growth keeping in view Trump’s tariff shock.

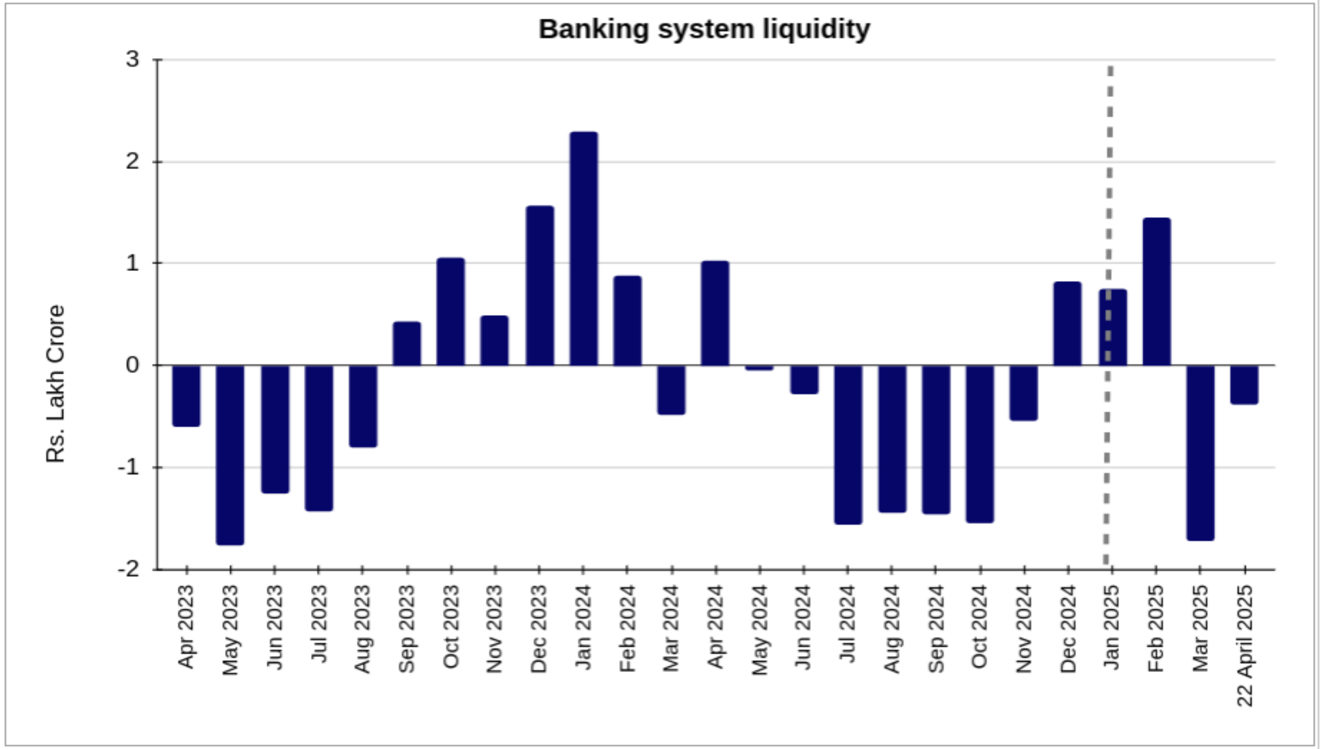
Government bond yields have eased across maturities





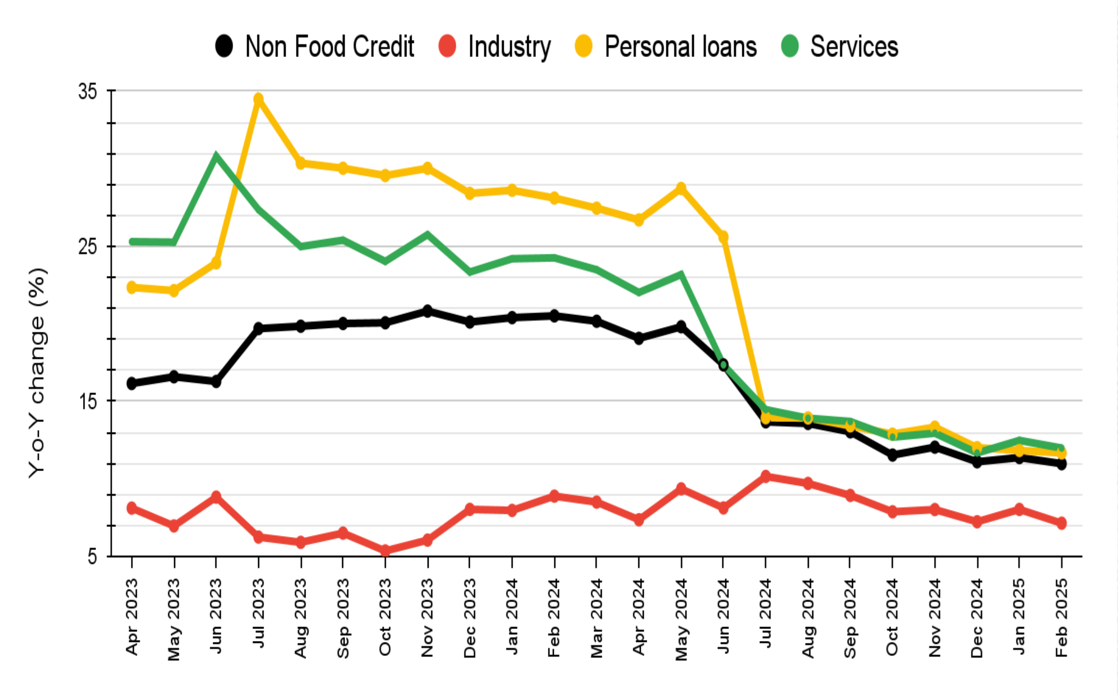
- Government bond yields across maturities have trended downwards due to easing of inflation and due to monetary easing.
- Indian sovereign bond inclusion in the JP Morgan bond index and Bloomberg Index also led to greater demand and softening of yields.
- Greater supply of corporate bonds post January has led to rise in yield and spread over government bonds. Maybe an early indication of pick up in private investments.

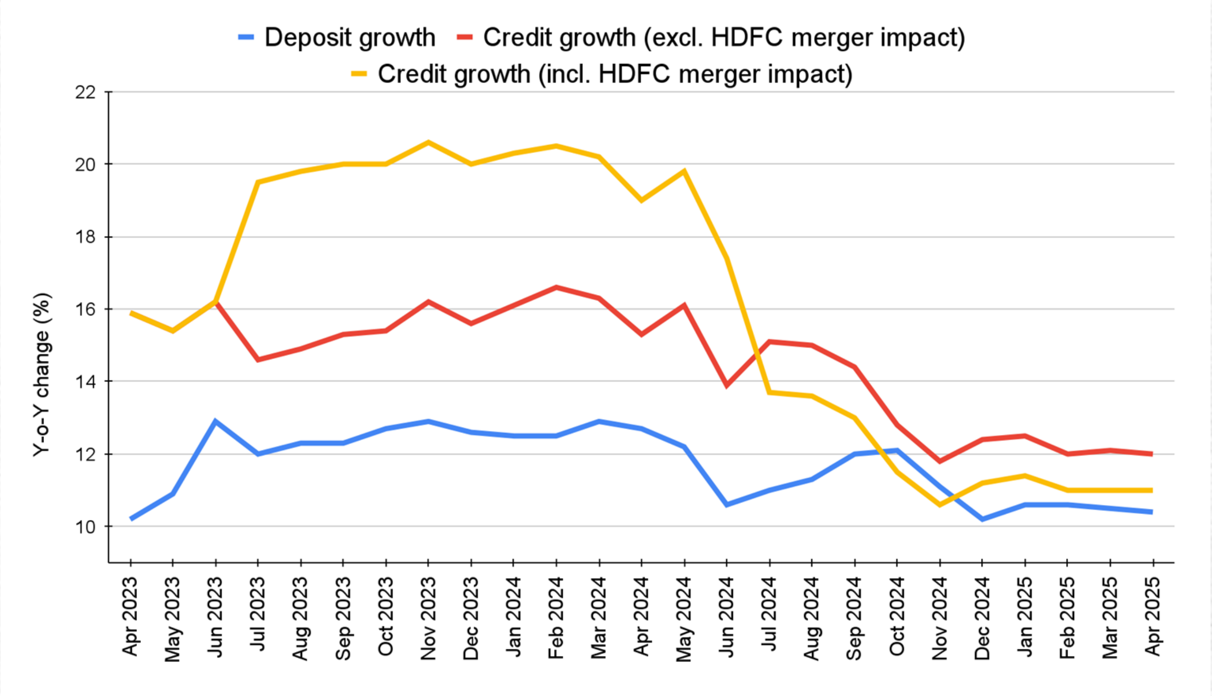
Liquidity has turned to surplus post RBI intervention



- After consistently being in surplus mode from June 2024 till mid December 2024, the banking system liquidity turned into deficit. Towards the end of January 2025, liquidity deficit rose to Rs. 3.3 lakh crore, highest in 15 years.
- RBI announced a 50 basis points cut in the Cash Reserve Ratio (CRR) to 4 percent in two tranches in it's December 2024 meeting.
- Daily variable repo rate auctions, Open market purchases of government bond, and USD/INR buy/sell swap in the recent few months has led to liquidity surplus since March 2025.

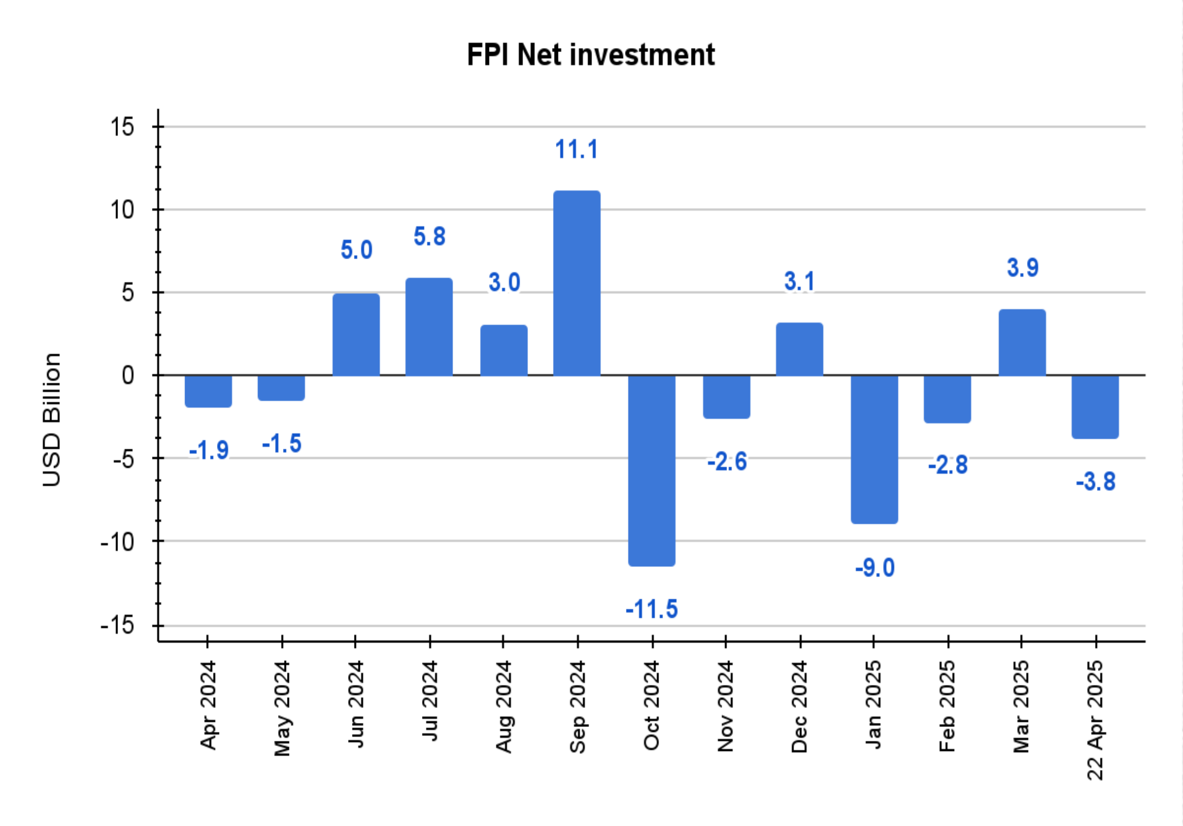
Credit growth has moderated but continue to exceed deposit growth, credit deposit gap narrows

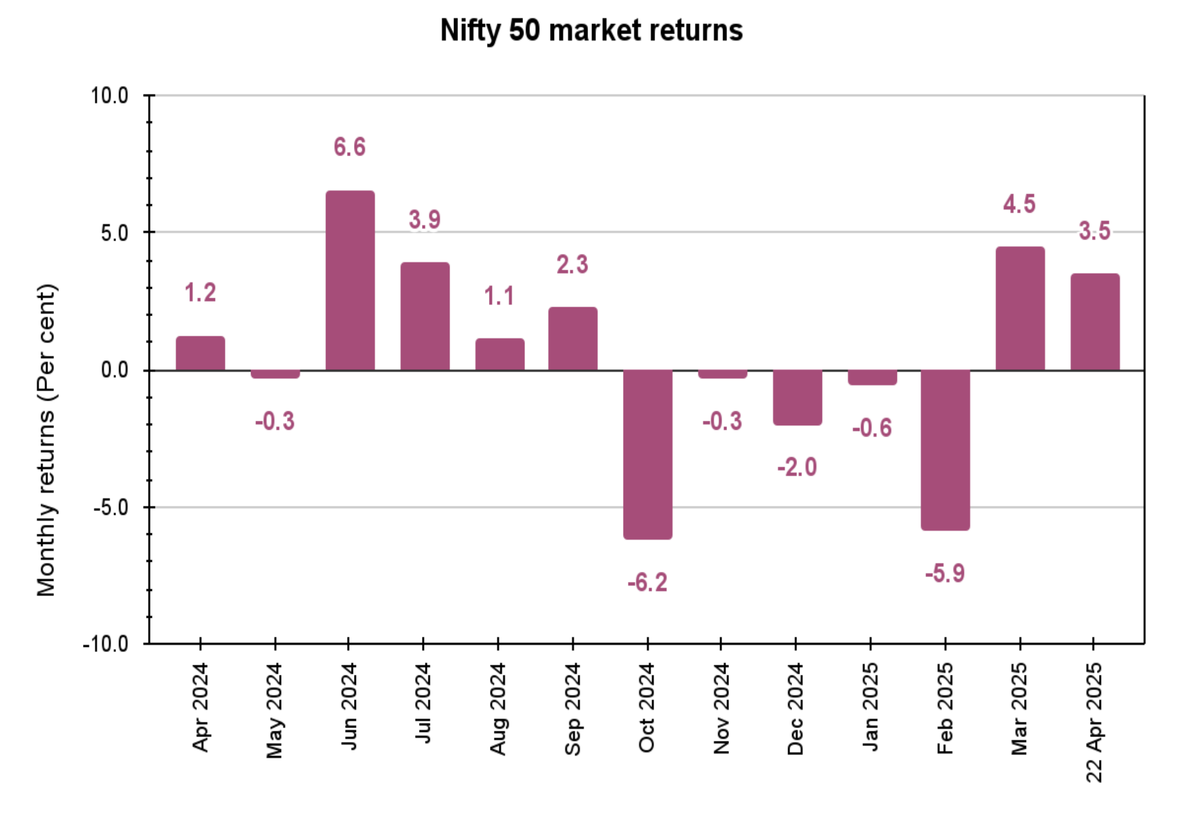




- Non-food bank credit growth declined from 11.4 percent in January, 2025 to 11 percent in February 2025. Growth in February 2025 is lowest seen since April 2022.
- Broad-based decline in personal loans and services
- Despite a moderation, bank credit growth continues to surpass deposit growth. As on 4 April, credit growth stood at 12 percent higher than the deposit growth of 10.4 percent (excluding the HDFC merger impact).

Markets have staged a recovery, FPI flows remain volatile





- FPI flows remain volatile due to uncertainty on tariffs, and weakness in dollar.
- Markets have staged a recovery in recent days due to pause on the rollout of reciprocal tariffs.

Part - VI

Fiscal Outlook:
Central and State Governments

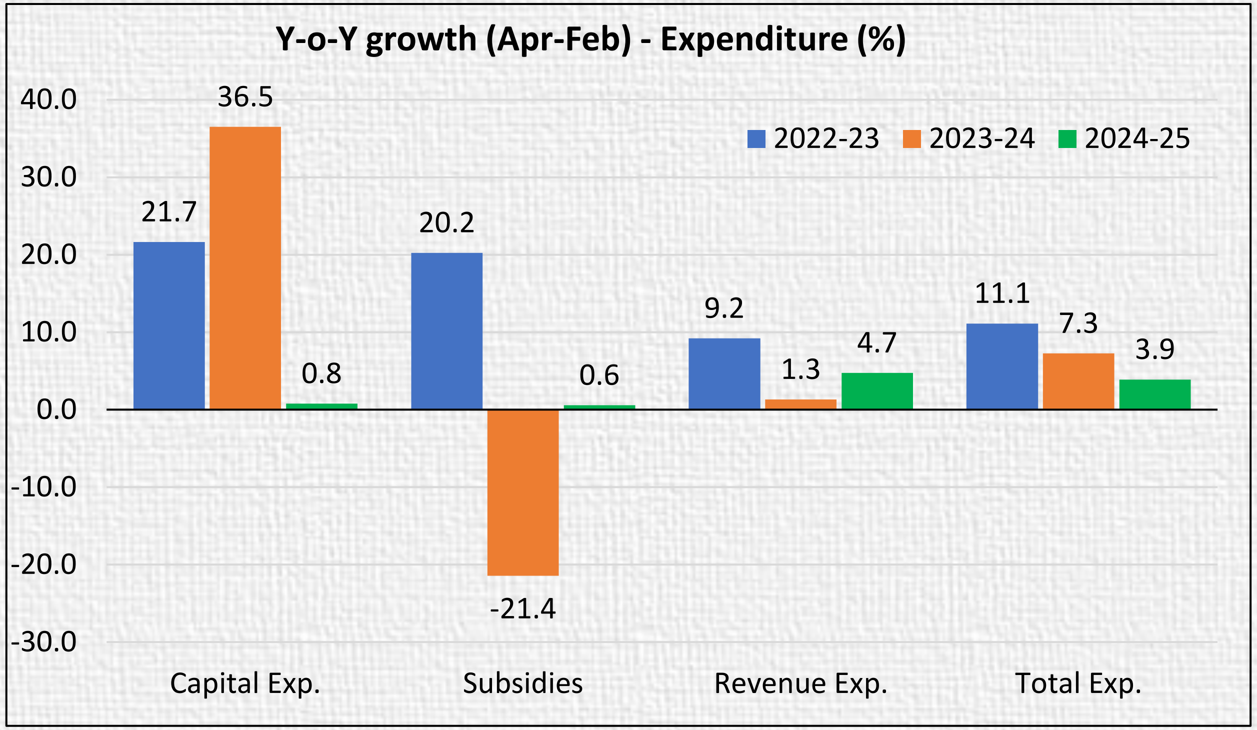
Income tax & CGST buoyant but sharp decline in corporation tax growth, excise duties still declining

- Gross tax revenue (GTR) grew 11% during Apr-Feb 2025 led by Income tax growth (22%)
  - Central Goods & Services tax (CGST) growth also buoyant at 11%
- But sharp decline in Corporation tax growth, excise duties still declining, customs duties growth moderate
- GTR growth target set at a modest 10.8% in 2025-26BE, nominal GDP growth projected at 10.1%
- Very high non-tax revenue growth at 37% during FY 2025 (Apr-Feb), mainly due to enhanced dividend from RBI
- Non-tax revenue budgeted to grow by 9.8% in 2025-26
- Projections for 2025-26 preceded the Trump Shock, actual revenues may turn out to be significantly lower

Indicators	Y-o-Y growth (%)		
	2023-24 Apr-Feb	2024-25 Apr-Feb	2025-26 BE
Nominal GDP	12.0	9.9	10.1
Centre's Net Revenue*	11.6	13.5	10.8
Gross Tax Revenue (GTR)	13.4	10.9	10.8
Corporation Tax	17.3	1.9	10.4
Income tax	25.8	22.0	14.4
Union Excise duties	-5.8	-1.4	3.9
CGST	13.7	11.1	11.3
Customs duty	3.9	4.2	2.1
Non-Tax Revenue (NTR)	44.9	36.9	9.8
of which Dividend @	164.0	122.1	9.3

Note: * net of states' share in central taxes & collections under NCCD.
@: Dividend/Surplus of RBI, nationalized banks, & financial institutions

Sharp contraction in capital expenditure (capex) growth enabled overshooting of FD target



Fiscal Deficit (FD) *(% of GDP)*

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Target	3.3	3.5	6.8	6.4	5.9	4.9	4.4
Actual	4.7	9.2	6.7	6.5	5.5	4.7	--

- Total expenditure growth modest, sharp contraction in capex growth; revenue expenditure growth moderate
  - Major subsidies (food, fertilizer & petroleum) levels in Apr-Feb 2025 similar to 2023-24
  - Modest subsidies growth in Apr-Feb 2025 (0.6%) compared to sharp contraction (-21%) in 2023-24
- Capex growth fell to < 1% during Apr-Feb 2025 compared to 36.5% in Apr-Feb 2023 and 21.7% in Apr-Feb 2022-23
- For FY 2025-26, capex budgeted to increase by 10% compared to 6.7% growth for revenue expenditure
- Major subsidies budgeted to remain at 2024-25RE level
- 2024-25 FD target of 4.9% met, mainly due to sharp contraction in capex growth
- 2025-26 FD target set at 4.4%, lower than the earlier FD reduction goal of 4.5% by 2025-26 (Budget 2021-22)

Fiscal consolidation roadmap for 2026-27 to 2030-31: Debt-GDP ratio the new fiscal anchor

- 2025-26 budget shifted to a new fiscal consolidation framework with debt-GDP ratio as the key monitoring target
- Debt to GDP ratio is less sensitive to change in fiscal deficit level compared to the fiscal deficit to GDP ratio
- This gives more flexibility for fiscal management within the new fiscal consolidation framework
- Announced a new fiscal consolidation roadmap for 2026-27 to 2030-31 (i.e., 16th FC award period) with debt-GDP ratio as the new fiscal monitoring target
  - Aim is to set FD each year such that debt-GDP ratio of 50±1% is attained by 31 March 2031
- This framework gives more elbow room for increasing capex to revive growth

State Finances: Significant decline in revenue receipt growth

- Total revenue receipt (all-states) growth fell from 10.3% in 2023-24 to 6.4% in 2024-25
- Own revenues receipts accounted for 64% of TRR, central transfers share only 36% in 2024-25
- Growth of own tax revenue (OTR), which accounts for 88.3% of ORR fell from 11.2% to 8.6%
- Large inter-state variations in OTR growth, ranging from (-)2% (Telangana) to 23.6% (Assam)
- All-states OTR budgeted to grow by 14% in 2025-26, implied buoyancy >1 if average GSDP grows by 12%
- **Assumptions for state projections unduly optimistic**
  - ORR growth 7.8% to 14.5%
  - OTR growth 8.6% to 14.1%
  - ONTR growth 2.2% to 16.9%
  - CT growth 3.9% to 8.7%
- GSDP growth projection also optimistic at 12%

Indicators	Y-o-Y growth (%)		
	2023-24 Apr-Feb	2024-25 Apr-Feb	2025-26 BE
Total Revenue Receipt (TRR)	10.3	6.4	12.0
Own Revenue Receipt (ORR)	11.9	7.8	14.5
- Own Tax Revenue (OTR)	11.2	8.6	14.1
- Own Non-Tax Revenue (ONTR)	17.6	2.2	16.9
Central Transfers (CT)	7.7	3.9	8.7
GSDP	11.6	10.9	12.0

Transfers: Decline in devolution growth along with further sharp contraction in grants

- In 2024-25 Central transfers (CT) grew by less than 4%
- Devolution increased by 15% on average but largely offset by decline in grants
- Grants declined in all but three states, Chhattisgarh, Karnataka, & Rajasthan
- Remarkably high growth of over 47% in Chhattisgarh could be on account of a sharp dip in utilization of grants due to elections in the state in 2023
- Further compression in devolution growth projections from 15% to 10.4% in 2025-26.

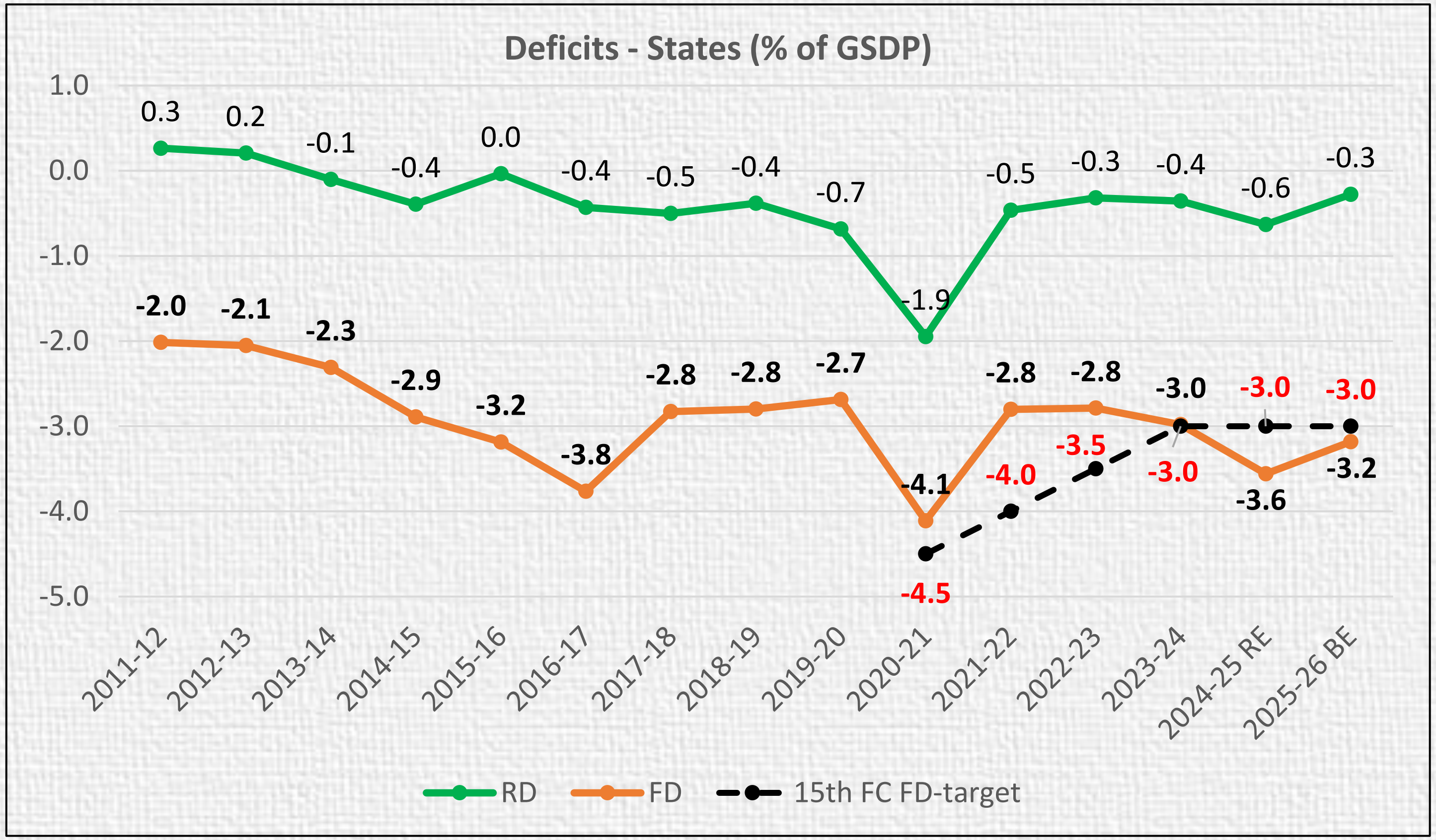
Indicators	Y-o-Y growth (%)		
	2023-24 Apr-Feb	2024-25 Apr-Feb	2025-26 BE
Central Transfers	7.7	3.9	8.7
Devolution	27.0	15.0	10.4
Grants-in-aid	-20.0	-21.7	5.1

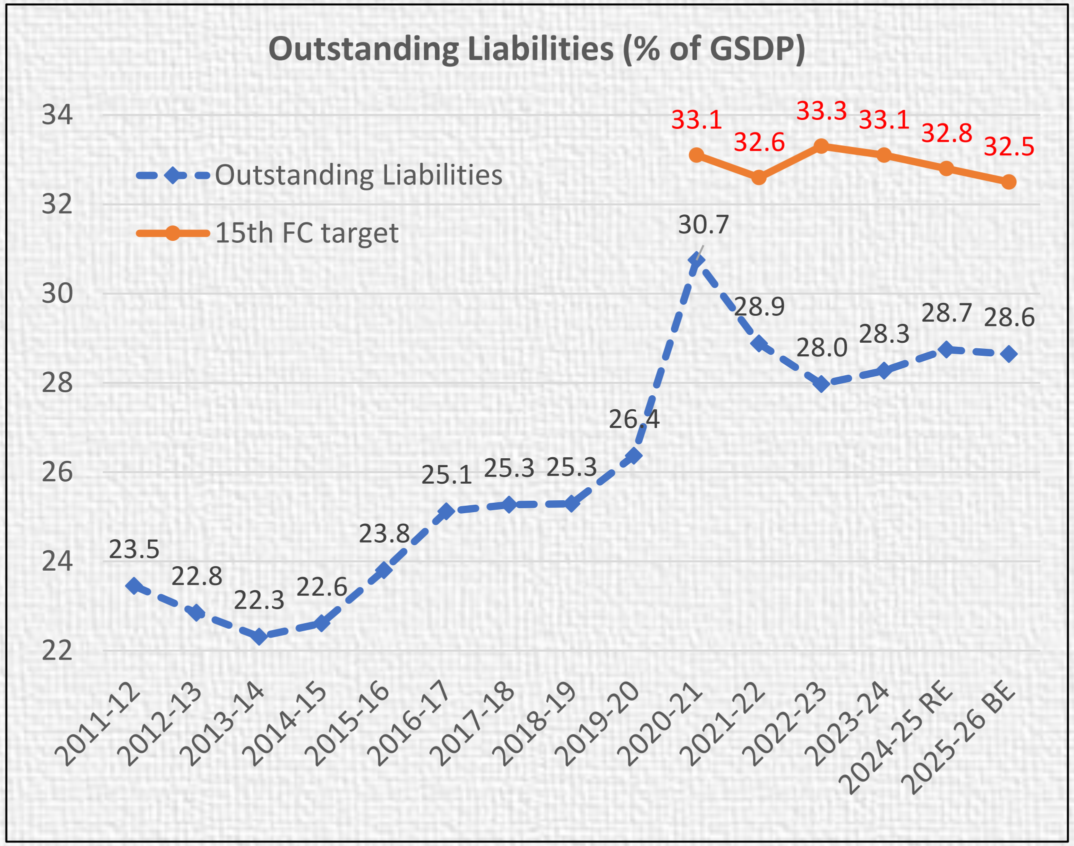
Expenditure growth driven by revenue expenditure while capex contracted

- During Apr-Feb 2024-25 combined capex of all states contracted by 2.1%
- Contraction despite Rs.1.5 trillion 50-yr interest free capex loan provision from central government
- Unduly optimistic capex growth projections (all-states) of 15% in 2025-26 compared to 2.1% contraction in 2024-25
- Revenue expenditure growth (11%) largely accounted for total expenditure growth of 9% in 2024-25
- Large inter-state variations ranging from 3.7% (Meghalaya) to 23.2% (Chhattisgarh).
- For 2025-26 all-states revenue expenditure budgeted to grow by 9.2%.

Indicators	Y-o-Y growth (%)		
	2023-24 Apr-Feb	2024-25 Apr-Feb	2025-26 BE
Total expenditure	12.3	9.1	10.1
Revenue expenditure	9.3	11.0	9.2
Capital expenditure	34.4	-2.1	15.1

States' fiscal deficit back on consolidation path, debt-GSDP ratio well within 15th FC recommendation



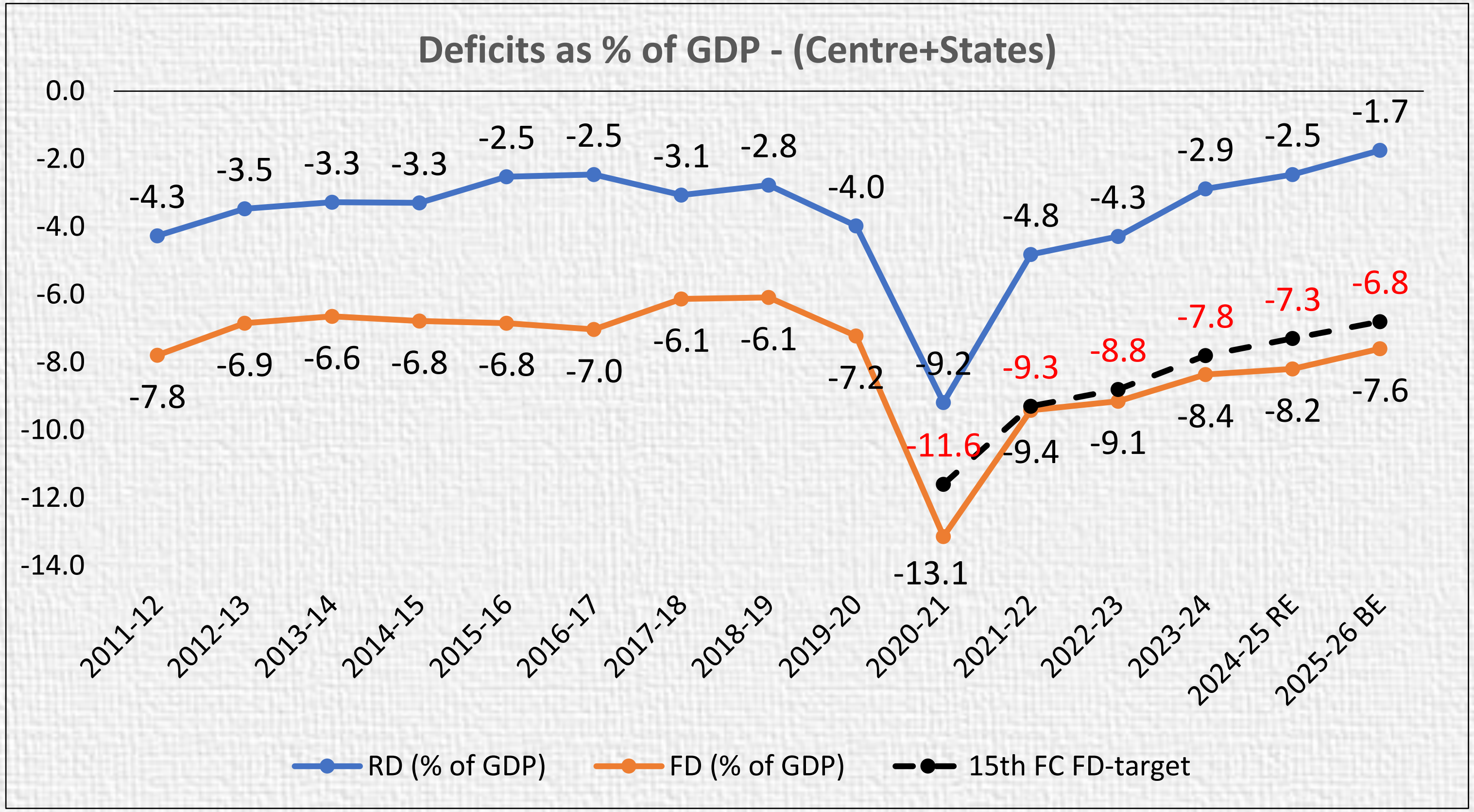


Note: Deficit (-)/Surplus (+)

- While states in aggregate have adhered to the FD-GSDP path recommended by 15th FC, there are some negative outliers in 2025-26
- Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Mizoram, Punjab, Rajasthan, Sikkim, Tripura, West Bengal (12 states)

Combined fiscal consolidation of Centre + States continuing

- Combined fiscal deficit (center + states) budgeted at 7.6% for 2025-26
- For 2025-26 Centre's FD target set at 4.4%, lower than the earlier FD reduction goal of 4.5% by 2025-26
- After diverging from 15th FC recommendation in 2024-25, states' combined fiscal consolidation back on track
- States' liabilities (28.9% of GDP), Centre's liabilities (55.1% of GDP) and combined liabilities of centre and states at 82% of GDP in 2025-26BE is within the 15th FC prescription of 30.5%, 56.6% and 85.7% respectively.



Note: Deficit (-)/Surplus (+)

Fiscal Deficit (as % of GDP)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25RE	2025-26BE
Centre	-4.7	-9.2	-6.7	-6.4	-2.9	-3.5	-3.2
States	-2.6	-4.0	-2.7	-2.7	-5.5	-4.7	-4.4
Combined	-7.2	-13.1	-9.4	-9.1	-8.4	-8.2	-7.6

Possible Impact of Trump Tariff Shock

- In our view IMF’s growth projections underestimate the impact on both global and India’s growth.
- If one factors in the disruptions due to major policy changes in US including massive shrinking of the Federal Government, the impact on global growth including India’s growth would be much larger that projected
- Such impact on GDP growth will affect revenues of the Union government
- This would call for appropriate fiscal and monetary stimulus within the new fiscal consolidation framework

- Recent relevant episode: Global Financial Crisis (2008-09)
- Union government’s revenue receipts growth fell from 24.7% in 2007-08 to (-)0.30% in 2008-09, before rebounding to 6% in 2009-10 and 37.6% in 2010-11 thanks to strong monetary and fiscal stimulus

Appendix

Sector	Exports to US FY24	Tariff Rate	Elasticity	Rationale	Export Loss
DRUG FORMULATIONS, BIOLOGICALS	8015			Exempted	
PEARL, PRECS, SEMIPRECS STONES	6577	0.26	0.8	Switzerland pips India as the top exporter; however has tariff rate higher than India	1367.9
PETROLEUM PRODUCTS	5830			Exempted	
TELECOM INSTRUMENTS	5823	0.26	0.8	India's lower tariffs compared to China, combined with PLI Schemes makes it attractive source for telecom instrument exports. UK; Japan also likely to gain	1211.1
GOLD AND OTH PRECS METL JWLERY	3306	0.26	0.4	Style, Design and Exclusiveness; India enjoys Competitive Advantage	343.8
PRODUCTS OF IRON AND STEEL	2782	0.26	1.0	Competition from USMCA put India in disadvantage position; Substitutible product	723.3
RMG COTTON INCL ACCESSORIES	2744	0.26	0.6	Stands to gain from Cambodia, Vietnam, Thailand, China on account of Tariff differential	428.0
ELECTRONICS COMPONENTS	2697	0.26	1.0	Competition from USMCA besides South Korea, Japan and Malaysia putting India in disadvantage position on account of lower tariffs	701.1
COTTON FABRICS, MADEUPS ETC.	2615	0.26	0.4	Stands to gain from Cambodia, Vietnam, Thailand, China on account of Tariff differential	271.9
MARINE PRODUCTS	2499	0.26	0.3	India better positioned than Vietnam, Indonesia on account of lower tariffs	194.9
ELECTRIC MACHINERY AND EQUIPME	2391	0.26	0.9	Competition from USMCA besides Germany, Japan and Malaysia putting India in disadvantage position on account of lower tariffs	559.5
AUTO COMPONENTS/PARTS	1863	0.26	0.6	Flat tariff; Long supply chain makes it difficult to switch; South korea, Japan , Germany to gain	290.7
INDL. MACHNRY FOR DAIRY ETC	1565	0.26	0.9	Competition from USMCA besides Germany, Japan and Malaysia putting India in disadvantage position on account of lower tariffs	366.2
OTHER MISC. ENGINEERING ITEMS	1443	0.26	0.9	Competition from USMCA besides Germany, Japan and Malaysia putting India in disadvantage position on account of lower tariffs	337.6
ELECTRONICS INSTRUMENTS	1259	0.26	1.0	Competition from USMCA besides South Korea, Japan and Malaysia putting India in disadvantage position on account of lower tariffs	327.2
RMG OF OTHR TEXTLE MATRL	1149	0.26	0.6	Stands to gain from Cambodia, Vietnam, Thailand, China on account of Tariff differential	179.2
ORGANIC CHEMICALS	1107	0.26	1.2	Competitive and substitutable nature of organic chemicals in global trade.	345.2
RESIDUL CHEMICL AND ALLED PROD	1036	0.26	1.2	Competitive and substitutable nature of organic chemicals in global trade.	323.3
ALUMINIUM, PRODUCTS OF ALUMINM	953	0.26	1.0	Competition from USMCA put India in disadvantage position	247.7
AGRO CHEMICALS	913	0.26	1.2	Competitive and substitutable nature of organic chemicals in global trade.	284.9
OTHERS	20951	0.26	1.0	For general manufactured goods, bound to be disrupted	5447.3
TOTAL	77515				13950.8
India's GDP (USD Million)					3700000
Loss in Exports (Per cent to GDP)					**0.38%**

Meaning of Banking System Liquidity

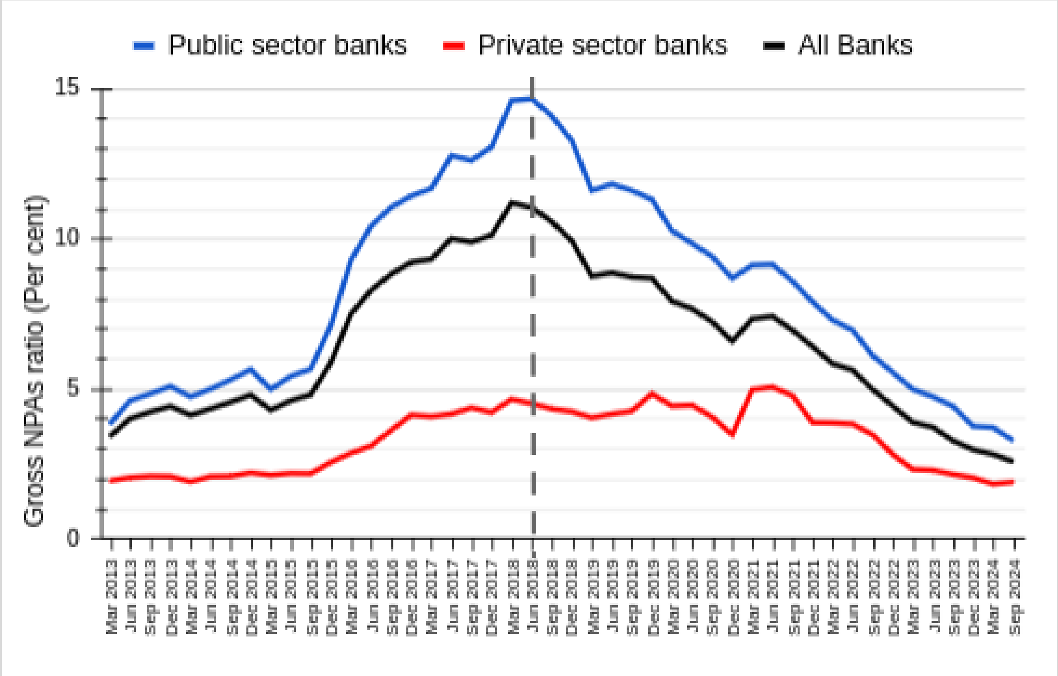
System liquidity = Net borrowing under LAF - Excess reserves maintained by banks

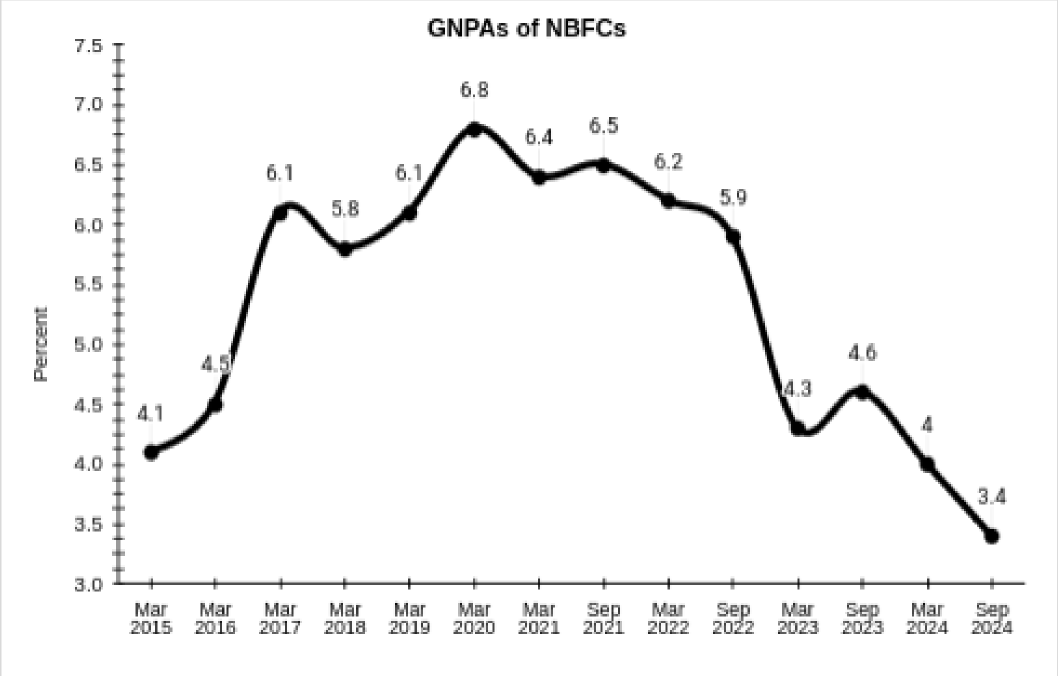
Net borrowing under LAF = Total of all Repo/MSF/SDF borrowings - Total of all Reverse-repo deposits

Excess reserves maintained by banks = Actual reserves maintained by banks - Required reserves

- If the banking system is a net borrower from Reserve Bank under LAF, the system liquidity is in deficit (i.e., system demand for borrowed reserves is positive). RBI conducts VRR auctions.
- If the banking system is a net lender to the Reserve Bank, the system liquidity is in surplus (i.e., system demand for borrowed funds is negative). RBI conducts VRRR auctions.

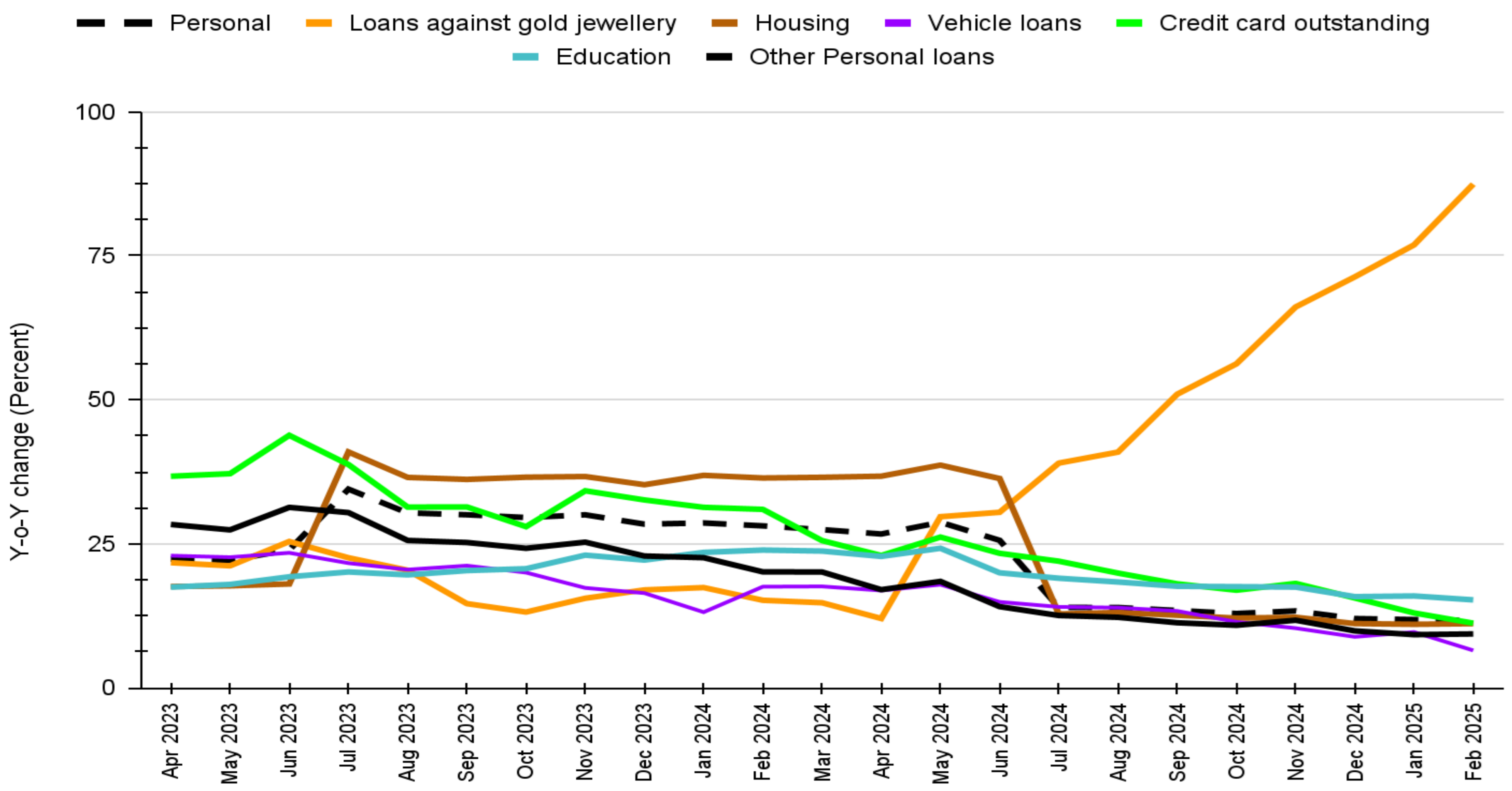
Public sector banks and private sector banks NPAs continue declining and converging, NBFC NPAs also declining





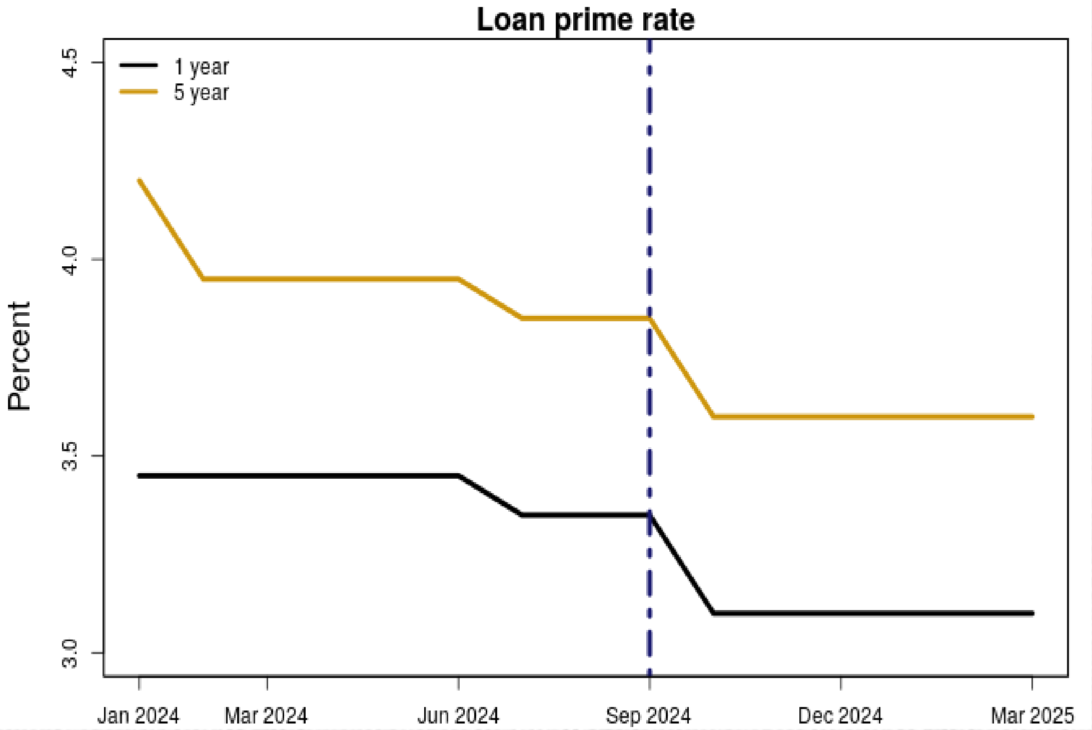
- Gross non-performing assets (GNPA) ratio of banks continue to decline, falling to 2.8 per cent in March 2024, lowest since March 2013. This is a sharp decline from 11 percent GNPA ratio in June 2018.
- Public sector banks GNPA ratio declined from 14.64 percent in June 2018 to 3.7 percent in March 2024.
- Private sector banks GNPA ratio declined from 5.0 percent in June 2021 to 1.8 percent in March 2024.
- Norms governing NPA recognition have become tighter since 2015, requiring more capital injection.
- NPAs in the NBFC segment have also declined since September 2022 and reached 4.0 percent in March 2024, lower 4.1 percent in March 2015.

Y-o-Y change in the outstanding personal loans & its components



China is introducing stimulus measures to boost its economy

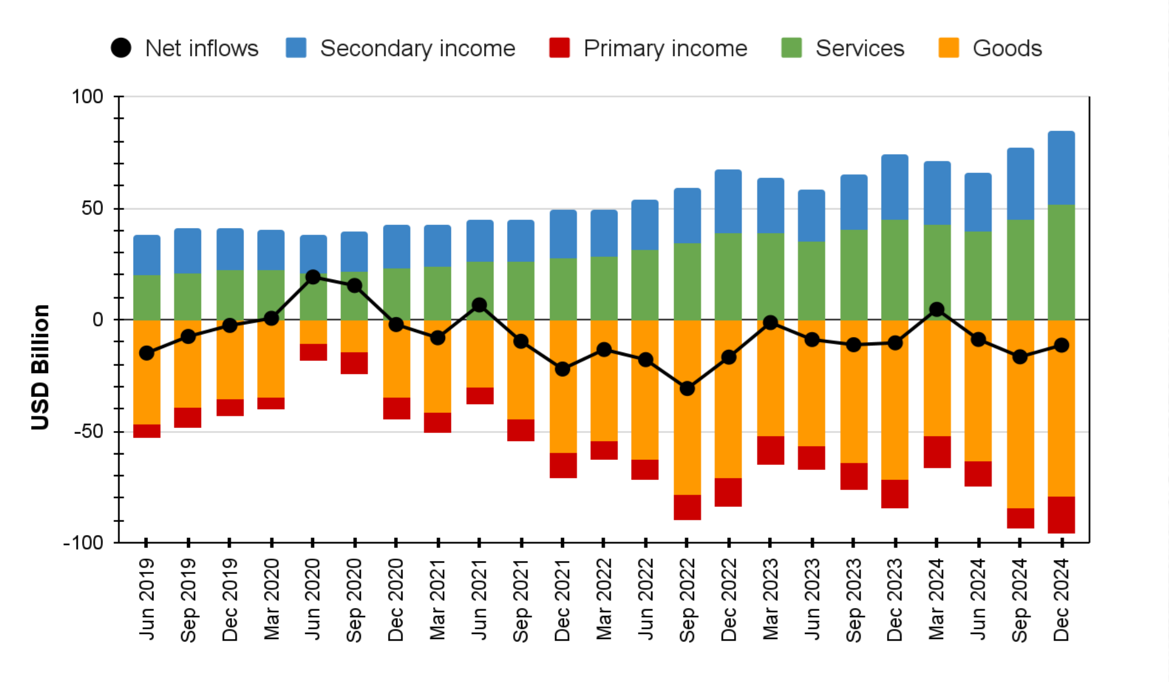
Date	Economic Stimuls
Sept 24, 2024	The central bank unveils the most aggressive monetary stimulus measures since COVID-19:- 1) Cuts in the reserve requirement rate, seven day policy rate and existing mortgages. 2) Trimming the minimum down payment ratio to 15% for all types of buyers. 3) Fresh funding for equity purchases. 4) A central bank fully funded loan initiative to enable state owned enterprises to purchase unsold homes. 5) A 500 billion yuan swap facility for securities firms, funds and insurance companies to support equity purchases
Oct 12, 2024	The finance ministry pledges to "significantly increase" debt, support indebted local governments, offer subsidies to low-income people, and recapitalise core tier-1 state banks' capital through the issuance of special treasury bonds.
Oct 21, 2024	China cuts its benchmark lending rates (one and five year loan prime rates) by 25 basis points.
Nov 8, 2024	China unveils a 10 trillion yuan ($1.36 trillion) debt package to ease local government financing strains by issuing bonds over three to five years to restructure their debts.
Dec 9, 2024	China switches to an "moderately loose" monetary policy stance from a previously "prudent" stance, the first such change in about 14 years. Thereby conveying that central bank willingness to: - 1) Reduce interest rates further. 2) Let commercial banks hold smaller reserves while extending more and larger loans.
Dec 17, 2024	Beijing would target a budget deficit of 4% of gross domestic product (GDP) in 2025, while maintaining an economic growth target of around 5%.
Dec 24, 2024	Reuters reports authorities had agreed to issue 3 trillion yuan ($409.19 billion) worth of special treasury bonds in 2025, the highest annual amount on record.
Jan 3, 2025	Millions of government workers across China are given surprise wage increases. The immediate payout would amount to a one-time shot to the economy of between about $12 billion and $20 billion.

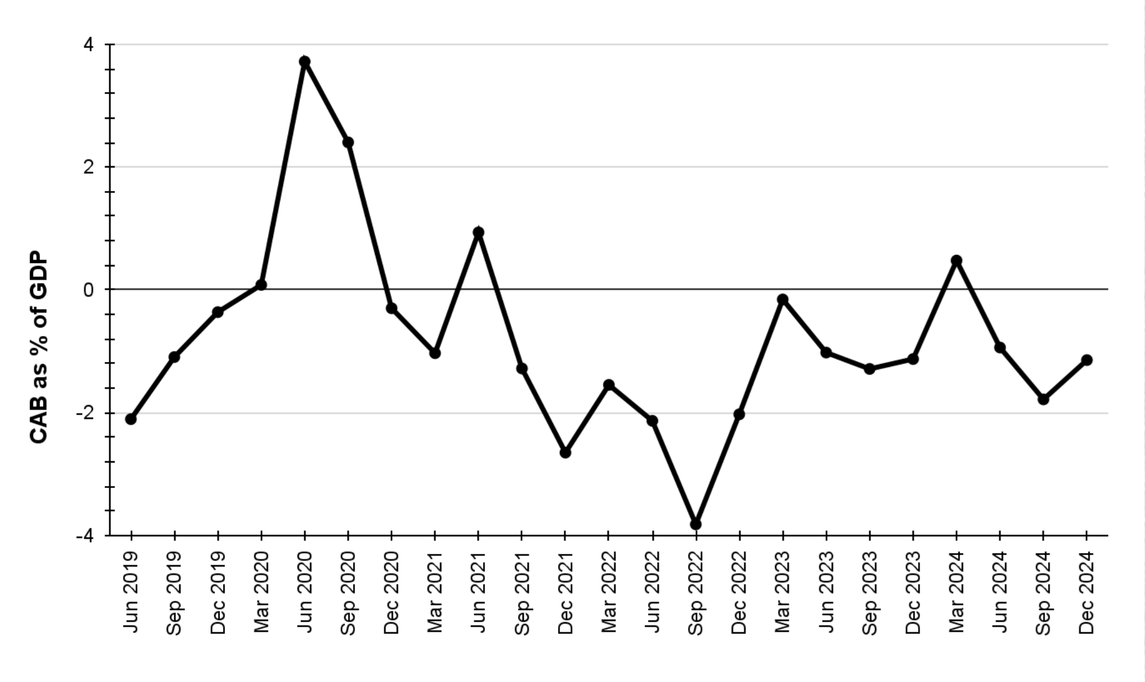


Measures taken by RBI to ease banking system liquidity

Date of announcement	Measure Announced and undertaken	Amount (Rs. crore)	Duration
6 Jan 2025	Variable Repo Rate (VRR)	50000	3 days
8 Jan 2025	Overnight VRR	50000	
9 Jan 2025	VRR	225000	14 days
10 Jan 2025	VRR	50000	4 days
13 Jan 2025	VRR	50000	4 days
14 Jan 2025	VRR	75000	5 days
15 Jan 2025	**Daily VRR**		
23 Jan 2025	1) Overnight VRR for a notified amount of Rs. 50,000 crore. 2) 14-day VRR for a notified amount of Rs. 1,75,000 crore.		
27 Jan 2025	**1. OMO purchase auctions of Government of India securities for an aggregate amount of Rs. 60,000 crore in three tranches of Rs. 20,000 crore. 2. 56-day VRR auction for a notified amount of Rs. 50,000 crore. 3. USD/INR buy/sell swap auction of USD 5 billion for a tenor of 6 months.**		
10 Feb 2025	OMO purchases (announced on 27th Jan 2025) aggregate amount revised to Rs. 40,000 crore.		
12 Feb 2025	VRR	75000	49 days
14 Feb 2025	VRR	75000	4 days
20 Feb 2025	1. 14-day VRR for notified amount of Rs. 75000 crore. 2. 45-day VRR for notified amount of Rs. 75000 crore. 3. Overnight VRR of Rs. 50,000 crore.		
21 Feb 2025	USD/INR buy/sell swap aution	USD 10 billion	3 years
5 Mar 2025	**1. OMO purchase auctions of Government of India securities for an aggregate amount of Rs. 1,00,000 crore in two tranches of Rs. 50,000 crore. 2. USD/INR buy/sell swap auction of USD 10 billion for a tenor of 36 months.**		
6 Mar 2025	VRR	50000	14 days
12 Mar 2025	VRR	100000	8 days
13 Mar 2025	VRR	100000	4 days
18 Mar 2025	OMO purchase auction of Government of India securities for an aggregate amount of Rs. 50,000 crore.		
19 Mar 2025	Overnight VRR	50000	
20 Mar 2025	VRR	50000	5 days
28 Mar 2025	VRR	100000	5 days
1 Apr 2025	**OMO purchase auctions of Government of India securities for an aggregate amount of ₹80,000 crore in four tranches of ₹20,000 crore**		
11 Apr 2025	VRR	150000	43 days

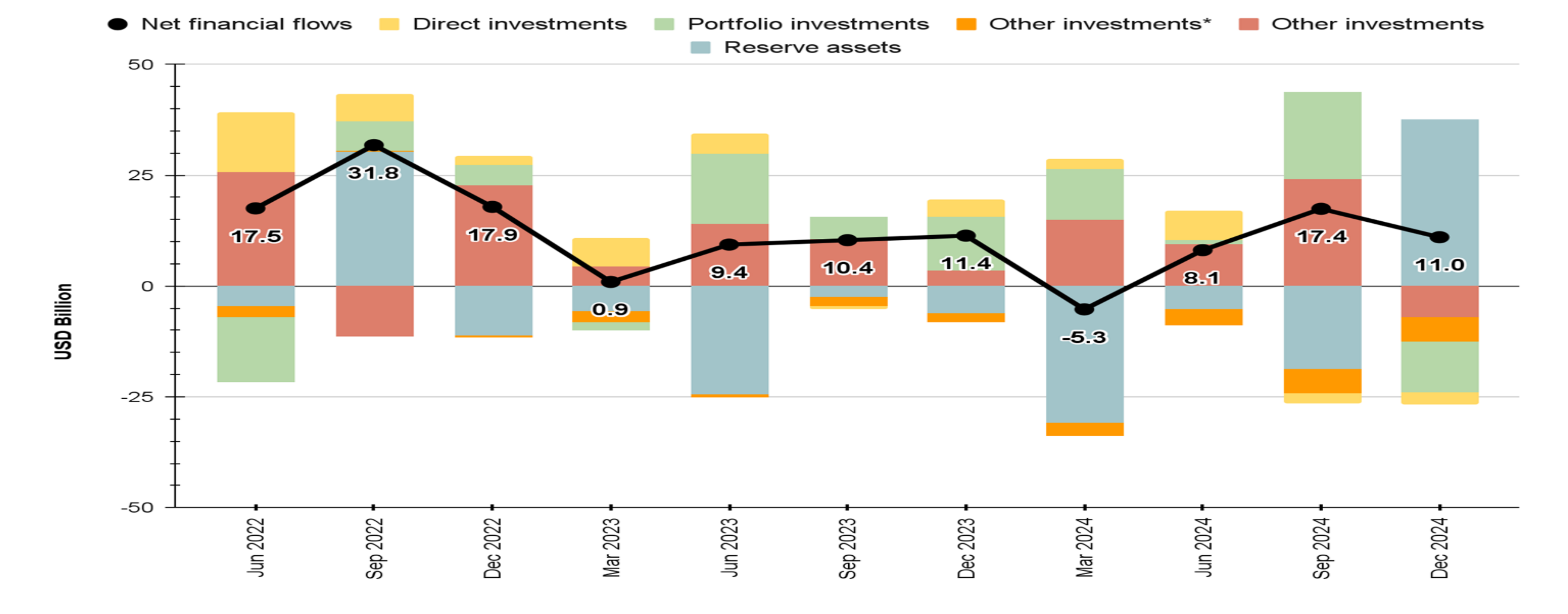
Current account deficit saw a sequential moderation in Q3





- India's current account deficit (CAD) increased to USD 11.5 billion (1.1 per cent of GDP) in Q3 of 2024-25 from USD 10.4 billion (1.1 per cent of GDP) in Q3 of 2023-24. Sequentially, it moderated from 1.8 percent of GDP in Q2 of 2024-25.
  - Widening of merchandise trade deficit
  - Increase in services trade surplus
  - Net outgo on primary income increased
  - Increase in secondary income due to remittances

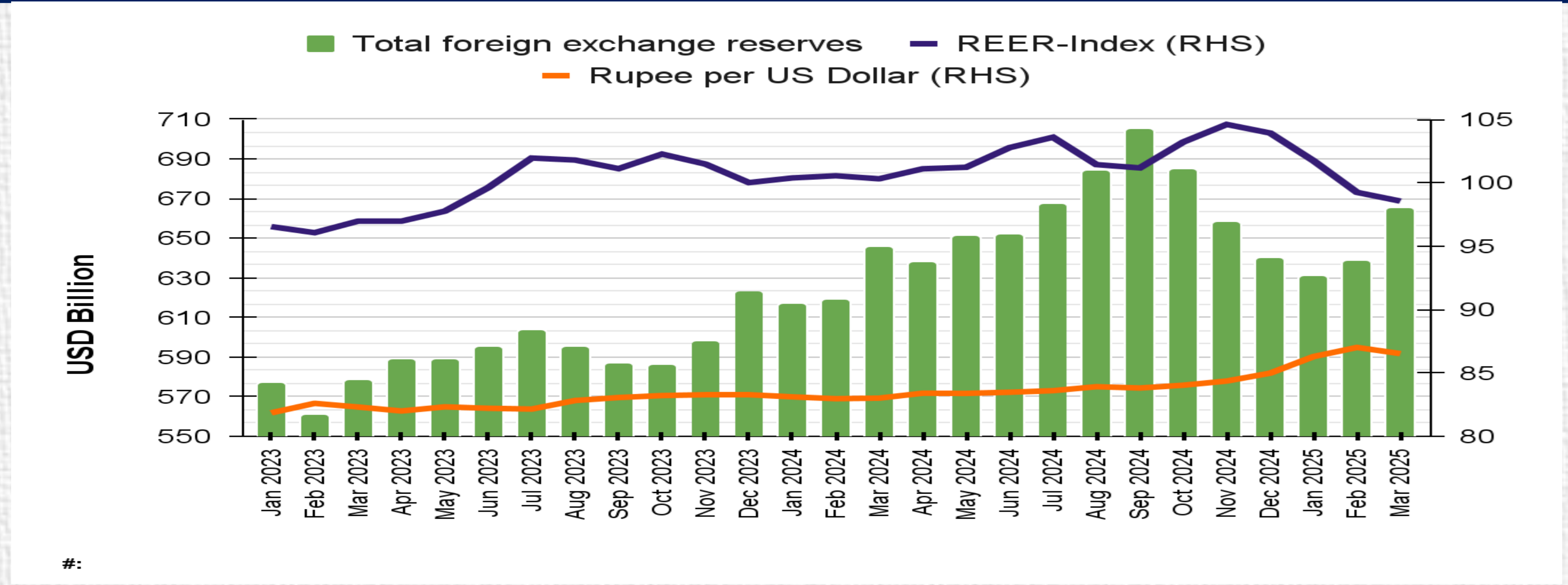
Financial Account: Net outflows in direct and portfolio investments

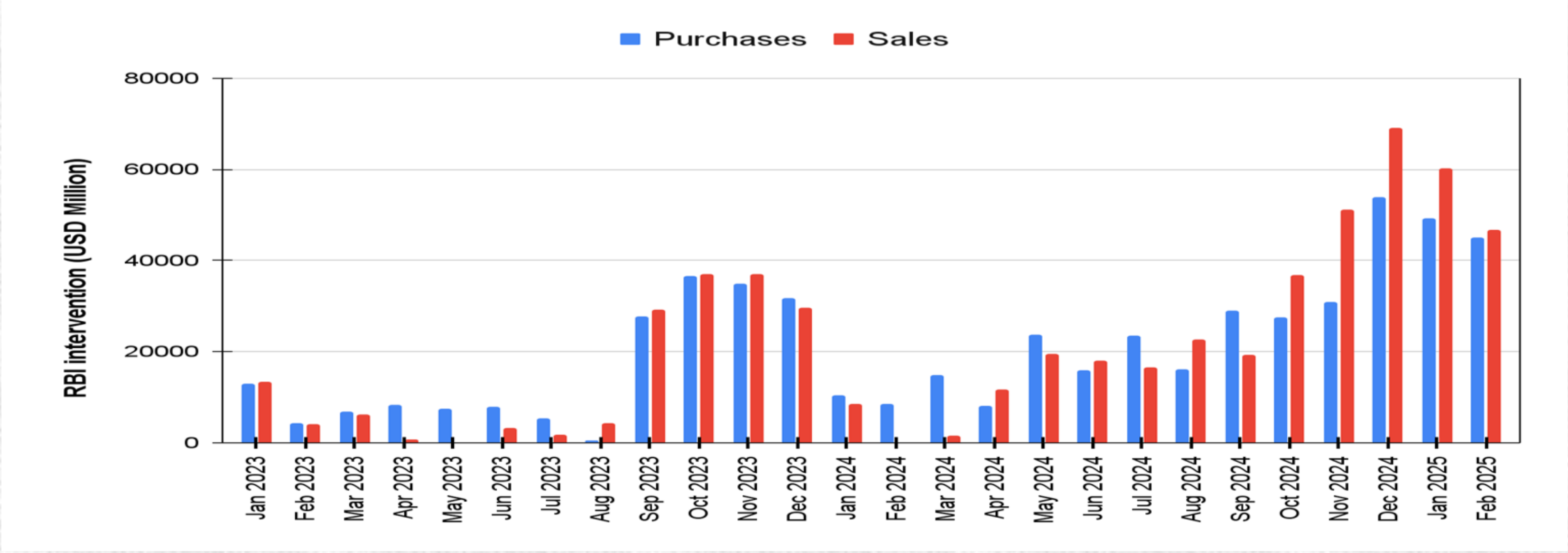


- Outflow in foreign direct investment: Recorded a net outflow of USD 2.8 billion in Q3 of 2024-25 as compared with an inflow of USD 4.0 billion in the corresponding period of 2023-24.
  - Net outflow in foreign portfolio investment
  - Net outflow in foreign direct investment
  - Depletion in foreign exchange reserves

*includes ECB and NRI deposits

Rupee remained in a narrow range but appreciated recently due to dollar weakness





- Rupee-dollar rate has remained in a narrow range due to RBI’s intervention.
- Recent indications of rupee strengthening due to weakness in dollar index.

Thank You