India economy update: April 2025

Industrial production: Industrial production slowed down to 4.1% in FY25

- Industrial Production came in at 3% YoY in March 2025 a tad higher than 2.7% recorded in preceding month but sharply lower than 5.5% YoY growth recorded twelve months ago. IIP growth for FY25 stands at 4.1% YoY, lower from 5.9% YoY seen in FY24 indicating much lower activity this year
- Electricity sector grew at fastest pace in eight months at 6.3% YoY. Manufacturing output expanded by 3% YoY while mining production remained under pressure at 0.4% YoY, a 6-month low. Even during FY25, mining has seen the maximum deceleration followed by manufacturing
- Infra/construction goods did well to grow by 8.8% YoY, highest in seventeen months on the back of strong expansion in steel and cement. Consumer non-durables output continued to decelerate showing weak consumption demand which was visible in Q4 results for FMCG companies
- While domestic demand conditions are improving, external demand is likely to remain under pressure with tariffs likely to drive global demand lower

IIP (March 2025): Industrial output at 4.1% YoY in FY25

Industrial Production Index; 2011-12=100 (% YoY)	Mar-24	Feb-25	Mar-25	Q3FY25	Q4FY25	FY24	FY25
IIP (100%)	5.5	2.7	3.0	4.1	3.6	5.9	4.1
Mining (14.37%)	1.3	1.6	0.4	1.8	2.1	7.5	2.9
Manufacturing (77.63%)	5.9	2.8	3.0	4.5	3.9	5.5	3.9
Electricity (7.99%)	8.6	3.6	6.3	4.1	4.2	7.1	5.1
Primary goods (34.05%)	3.0	2.8	3.1	3.0	3.8	6.1	3.9
Capital goods (8.22%)	7.0	8.2	2.4	7.4	6.7	6.3	5.5
Intermediate goods (17.22%)	6.1	1.0	2.3	5.3	2.9	5.3	4.1
Infrastructure & construction goods (12.34%)	7.4	6.8	8.8	7.0	7.7	9.7	6.6
Consumer durables (12.84%)	9.5	3.7	6.6	9.0	5.9	3.6	7.9
Consumer non-durables (15.33%)	5.2	-2.1	-4.7	-1.6	-2.3	4.1	-1.6

Source: CEIC, ICICI Bank Research

Retail inflation: Inflation softens to lowest in more than 6 years

- CPI inflation softened to a 67-month low of 3.34% YoY in Mar from 3.61% YoY in Feb, driven by food inflation at 2.7% YoY (3.7% in Feb) even as core inflation inched up to 4.1% YoY (4.0% in Feb)
- The fall in food inflation is led by veggies (-5.7% MoM), eggs (-4.9% MoM), pulses (-2.9% MoM), spices (-0.8% MoM) and meat and fish (-0.4% MoM). Infact, veggie prices rose by as high as 42% YoY in October 2024 and now are at a 21-month low of -7.0% YoY
- Core inflation is largely driven by elevated gold and silver prices pushing personal care and effects (13.5% YoY). The other core sub-segments are seeing inflation ranging from 2% YoY for footwear to 4.3% YoY for health. Apart from gold, other components of core inflation should remain benign
- CPI inflation for Q4FY25 now stands at 3.7% and FY25 inflation stands at 4.6%. Higher foodgrain production, normal monsoon, muted urban demand and lower commodity prices imply CPI inflation right upto December 2025 is expected to remain below 4%
- Given normal monsoon and weak global demand outlook, FY26 inflation has been revised lower to 3.8% now from 3.9% earlier. Inflation should pick-up next year as growth picks up next year

- Given benign inflation outlook, RBI's focus should remain on growth with another 50bps cut in policy rate. Liquidity conditions are expected to remain in surplus to support transmission. Room for an even deeper cycle opens up if growth is marked down from our current estimate of 6.2% for FY26

Inflation softened to multi-year low

% YoY	weight	Mar-24	Feb-25	Mar-25	FY24	FY25
Headline	100.0	4.9	3.6	3.3	5.4	4.6
CPI: Food & Beverages	45.9	7.7	3.8	2.9	7.0	6.7
Cereals	9.7	8.4	6.1	5.9	10.8	7.2
Vegetables	6.0	28.3	-1.1	-7.0	15.5	20.0
Protein items	13.0	7.0	1.7	0.7	6.6	4.4
Oils & fats	3.6	-11.7	16.4	17.1	-14.8	5.7
Fruits	2.9	3.0	14.8	16.3	5.5	8.7
Sugar & confectionery	1.4	7.3	2.2	3.9	5.1	3.4
Spices	2.5	11.4	-5.8	-4.9	19.0	-3.1
Non-alcholic beverages	1.3	2.8	3.7	4.0	3.5	2.8
Prepared meals	5.6	3.6	4.2	4.3	4.9	3.8
CPI: Fuel & light	6.8	-3.4	-1.3	1.5	1.3	-2.5
CPI: Core	47.3	3.2	4.0	4.1	4.3	3.5
Pan, tobacco & intoxicants	2.4	3.1	2.4	2.5	3.6	2.7
Clothing & footwear	6.5	3.0	2.7	2.6	4.7	2.7
Housing	10.1	2.7	2.9	3.0	3.9	2.8
Household goods & services	3.8	2.7	2.8	2.7	4.3	2.6
Health	5.9	4.3	4.1	4.3	5.6	4.1
Transport & communication	8.6	1.5	2.9	3.3	1.9	2.3
Recreation & amusement	1.7	2.8	2.7	2.4	3.3	2.5
Education	4.5	4.7	3.8	4.0	5.2	3.9
Personal care & effects	3.9	6.0	13.6	13.5	7.8	9.8

Note : Protein items includes meat and fish, eggs, milk and pulses; Source : CEIC, ICICI Bank Research

India trade: Muted exports, higher imports

- India's goods exports rose by 0.7% YoY to USD 42bn in March, led by non-oil exports (2.2% YoY) even as oil exports remain weak (-9.5% YoY). Goods exports in FY25 are USD 437bn (flat YoY)
- Even as goods exports are muted, net services exports outshine at USD 17.9bn (35% YoY) in March and in FY25 at USD 189bn (15.9% YoY) giving much needed stability to current account
- Goods imports rose by 11.4% YoY at USD 63.5bn in March driven by gold imports at USD 4.5bn (192% YoY) and oil imports at USD 19bn (16% YoY) even as non-oil non-gold imports were stable (+2.2% YoY)
- Goods deficit for Mar increased to USD 21.5bn from USD 14bn in Feb and for FY25 increased to USD 283bn (USD 241bn in FY24) with limited increase in CAD due to services exports, remittance inflows
- While India's goods exports are only 12% of GDP (US: 2.1% of GDP), weaker global trade outlook implies goods exports are unlikely to be driver of growth as was the case in FY25
- Given India's domestic driven economy, non-oil-non-gold imports should see an increase thus driving goods deficit higher in FY2 to USD 300bn. This should drive CAD higher to USD 35bn (0.8% of GDP)
- While there is uncertainty on global growth and thus exports, a weaker global growth outlook should also reduce India's oil imports and thus ensure impact on BoP is limited

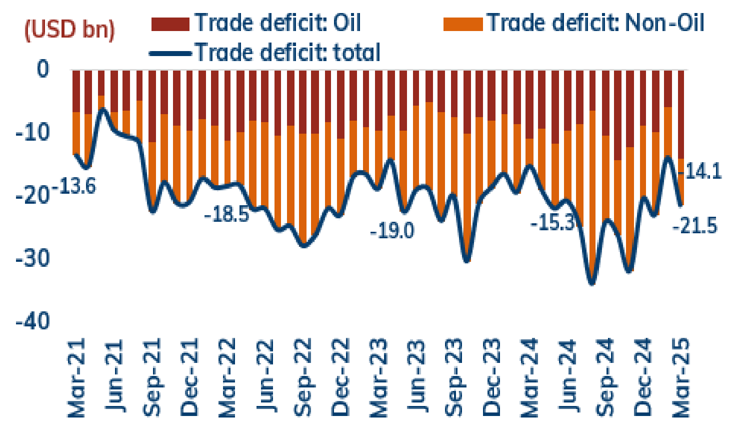
- A weaker Dollar is ideally positive for INR. However, Chinese Yuan too is showing a depreciation bias given decoupling of US-China trade which implies limited bias for INR to appreciate

India Trade: March 2025

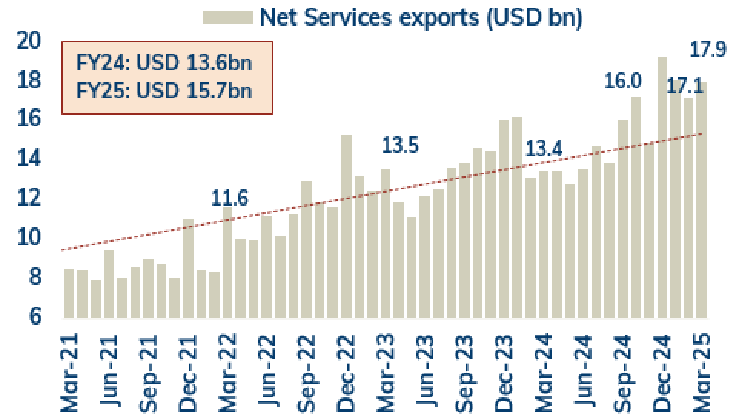
(USD bn)	Mar-24	Feb-25	Mar-25	(% YoY)	(% MoM)	FY24	FY25	Growth (%)
Exports	41.7	36.9	42.0	0.7	13.7	437.1	437.4	0.1
Of which								
Oil	5.4	5.8	4.9	-9.5	-15.7	84.2	63.5	-24.5
Non-oil	36.3	31.1	37.1	2.2	19.2	352.9	374.1	6.0
Imports	57.0	51.0	63.5	11.4	24.6	678.2	720.2	6.2
of which								
Oil	16.3	11.9	19.0	16.3	59.9	178.7	185.7	3.9
Gold	1.5	2.3	4.5	192.1	91.5	45.5	58.0	27.4
Non-oil non-gold	39.2	36.7	40.0	2.2	9.0	453.9	476.5	5.0
Trade Deficit	-15.3	-14.1	-21.5			-241.1	-282.8	

Source: CEIC, ICICI Bank Research

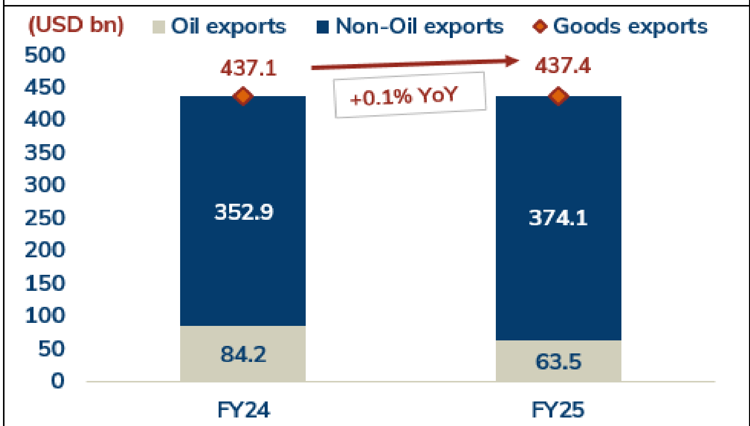
Trade deficit widened to USD 21.5bn in Mar



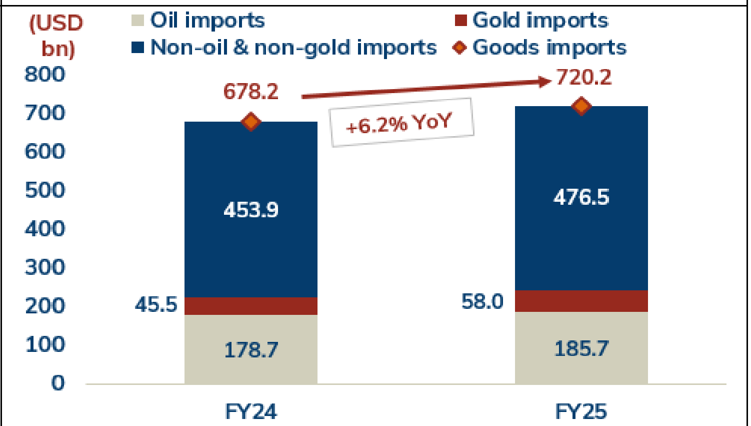
Net services exports stood at USD 17.9bn in Mar

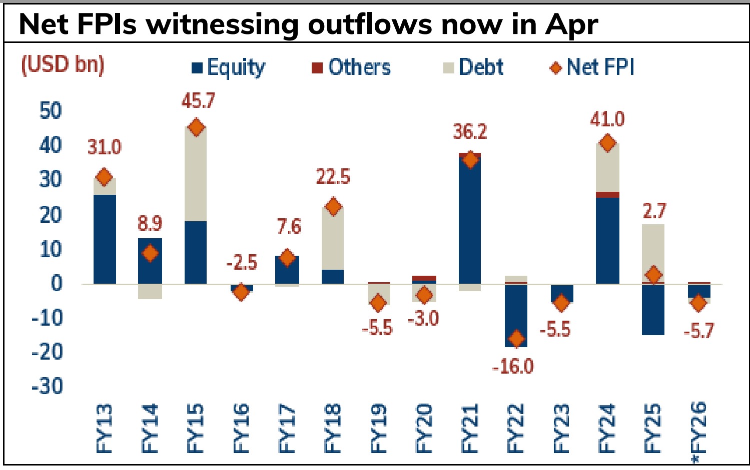


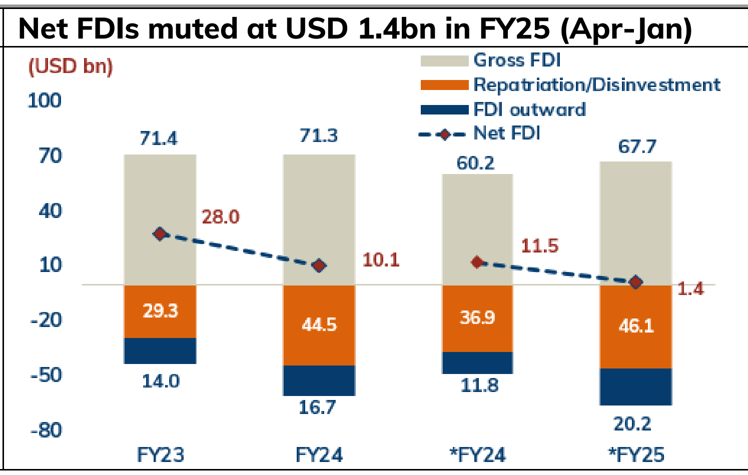
Goods exports are up by 0.1% YoY at USD 437bn in FY25



...Goods imports are higher by 6.2% YoY at USD 720.2bn



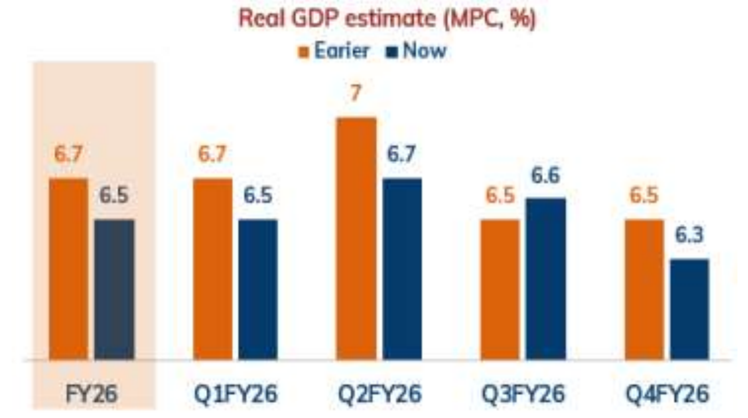
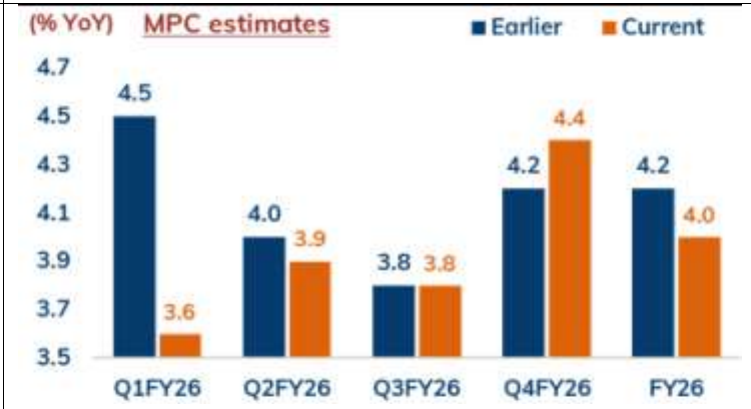
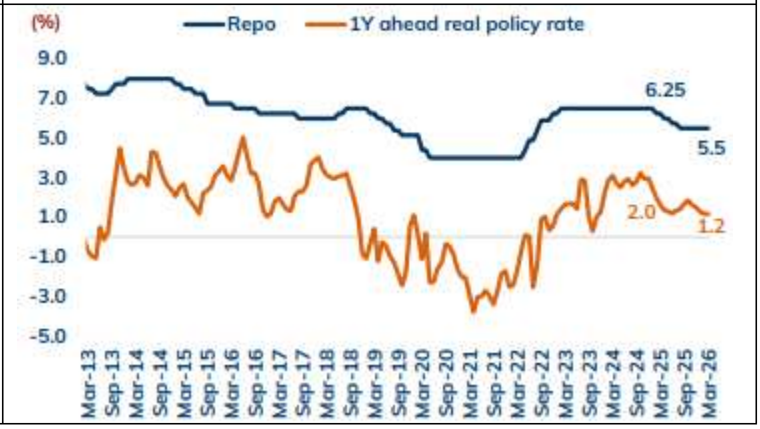




Source : CEIC, RBI, ICICI Bank Research

MPC Review: A cut after a two-year pause

- MPC reduced repo rate by 25bps for second consecutive time to 6% with a change in stance to 'accommodative' to support growth given global headwinds
- Stance signals the direction of policy rate in the future (lower or pause) and not liquidity conditions per se. While RBI is looking at keeping liquidity in surplus to the extent of 1% of NDTL (surplus of INR 2.2tn), delinking stance from liquidity gives RBI operational flexibility
- Growth projection for FY26 has been revised lower to 6.5% (6.7% earlier) given impact of reciprocal tariffs on India. However, lower oil prices and policy support should limit the impact with growth recovering in FY27 to 6.7% supported by India's fundamentals
- Given confidence on achieving inflation target, RBI has revised FY26 estimate to 4% (4.2% earlier). Given expectation of normal monsoon and current global backdrop, we expect inflation to show downward bias at 3.9% in FY26 before it inches up again in FY27
- For transmission, RBI has given guidance of surplus liquidity and banks can borrow from RBI but for deeper transmission deposit rates have to be lower. Deposit rates are driven by competition and real rates and with inflation at lowest level in over six years, banks have room to cut deposit rates
- With balance tilting in favour of growth, we see another 50bps of rate cuts (cumulative 100bps). For deeper rate cuts, real rates have to be lower which implies weaker growth and inflation outlook. We believe India's medium-term growth trajectory is intact and thus maintain 100bps of rate cuts

The MPC has revised its FY26 growth estimates lower to 6.5%	**MPC has revised its FY26 CPI projections lower**
	
Liquidity conditions have improved since RBI introduced liquidity measures	**We expect 50bps more rate cuts**
	

Source: RBI, CEIC, ICICI Bank Research

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