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Global Economic Outlook

US Economy: Recent US economic data has sparked concerns that the world's largest economy may be heading towards a period of stagflation. US trade deficit soared to an all-time high of $131.4 bn amid import surge. Imports soared 10.0% to $401.2 bn, the highest since July 2020. Consumer spending fell sharply in January, marking its largest decline in nearly four years. The inflationary pressures in the economy are becoming more pronounced. The inflation expectations have risen to their highest levels since 2023, fuelled by increasing costs of essential goods. Many businesses have warned of impending price hikes, with sectors such as automotive and food particularly vulnerable. Much of the economic unease is being attributed to the US administration's aggressive tariff policies.

Stagflation: Stagflation is an economic cycle characterized by slow growth and a high unemployment rate accompanied by inflation.

Chinese economy: As per the National Bureau of Statistics, the Chinese economy showed signs of improvement in the first two months of the year, though housing market weakness remained a drag on growth. Retail sales were up by 4% in January and February compared to last year, and industrial production rose by 5.9%. The domestic demand is insufficient, some companies are facing difficulties in production and operation, and the foundation for the continuous recovery of the economy is still unstable. A long-running real estate crisis is weighing on the overall economy, depressing consumer confidence and spending. Real estate investment fell 9.8% in the first two months of the year. Though the real estate price declines have slowed, they have yet to bottom out. Prices for both new and existing homes fell in January and February, but at a much slower pace than most of last year.

U.K. economy: The Organisation for Economic Cooperation and Development lowered its forecast for British growth this year to 1.4% from its December forecast of 1.7%. Growth in 2026 was trimmed to 1.2% from 1.3%. The organisation cut its outlook citing the rise in uncertainty and "significant changes" in trade policies. The OECD forecasts factor in the 25% tariffs imposed by the US government on imports from Canada and Mexico, 20%-point levy increase on China, as well as US taxes on steel and aluminium that affect nations including the UK. The consequences for global inflation from rising trade barriers will depend on the extent of further escalation.

Domestic Economic Outlook

India's trade deficit falls to lowest since August 2021: India's merchandise trade deficit slumped to $14.05 billion in February, the lowest level since August 2021, as imports of petroleum crude and gold fell sharply, and the uncertainty over tariffs hampered global trade. Exports were down by 10.8% to $36.9 billion in February, registering fourth straight month of contraction. Imports plunged by a sharper 16.3% to $ 50.96 billion, the lowest level since April 2023. Fall in global commodity prices also impacted the trade numbers. Crude oil imports fell 29.6% to $ 11.9 billion while the gold imports were down 62% to $ 2.3 billion. Services exports in February were up 23% to $ 35 billion while imports were up 8.6% to $ 16.5 billion. Overall exports in February were up 3.1% to $ 71.95 billion while imports were down 11% to $ 67.52 billion.

Trade Deficit= Value of Imports - Value of Exports

Fiscal Deficit= Total Expenditure – Total Revenue

WPI inflation rises marginally to 2.38%: India's Wholesale Price Index (WPI) – based inflation declined to 2.38% in February 2025. This is higher than the WPI rate in January which stood at 2.31%. The month-over-month data released by the Ministry of Commerce and Industry showed that the index for primary articles decreased by 1.74% to 186.6 in February. The index for Fuel & Power increased by 2.12% to 153.8 in February from 150.6 for the month of January. The manufactured products index increased by 0.42% to 143.8 in February from 143.2 for the month of January. Furthermore, per the release by the Ministry of Commerce & Industry, inflation for food articles dropped significantly to 3.38% in February as compared to 5.88% in January.

India's Consumer Price Index (CPI) inflation rate for February 2025 was 3.61%, marking the first

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time in six months that it fell below the Reserve Bank of India's (RBIs) target of 4%.

Index basket of WPI: Primary Articles, Fuel & Power, Manufactured products.

Index basket of CPI: Food and Beverages, Housing, Fuel and Light, Clothing and Footwear, Pan, Tobacco and Intoxicants, and Miscellaneous

Net direct tax collections surge 13.13%: According to the data released by Central Board of Direct Taxes (CBDT), the net direct tax collections rose by a robust 13.13% to ₹21.3 trillion as of March 16 of the current financial year, boosted by a jump in advance tax collections. Advance tax collections so far in the current financial year grew by 14.6% to ₹10.4 trillion, up from ₹9.11 trillion in the previous year. The rise in tax revenue is supported by digitalisation, improved compliance, simplification of tax laws, and industrial growth. Of the net direct tax collections, non-corporate tax — which includes taxes paid by individuals, Hindu Undivided Families (HUFs), firms, bodies of individuals, associations of persons, local authorities, and artificial judicial persons— grew at a robust 17.5% Y-o-Y to ₹11.01 trillion. Corporate tax, during the same period, surged at a slower pace of 7.1% to ₹9.69 trillion. The securities transaction tax (STT) grew 55.5% to ₹53,095 crore.

Direct Taxes	Indirect taxes
Imposed on peoples' incomes and profits.	Imposed on goods and services.
Point of incidence and impact of the tax is same	Point of incidence and impact of the tax can be different.
Ex: Income tax, corporate tax, Capital Gains Tax, etc.	Ex: Goods and Services Tax, Value Added Tax, Custom duty, etc.

Interest Rate Outlook

RBI to inject ₹1 lakh crore in G-Secs: The Reserve bank of India (RBI) announced that it would conduct open market operations (OMOs) for an aggregate amount of ₹1 lakh crore. This liquidity injection comes at a critical time when the liquidity crunch had to be arrested before it did any damage to the growth of the economy. The current liquidity crunch is influenced by volatile capital flows, slow deposit growth, advance tax payments and, most significantly, RBI's intervention in the forex markets to protect the Rupee. Between October 24 and January 25, RBI sold USD and forex reserves were reduced by $70bn. Given the evident strengthening of the USD, it was no surprise that the RBI sell-off happened in a very short time. However, RBI's intervention in the FX markets to protect the rupee came at the cost of the reduction of durable liquidity. With the new governor coming in, RBI has taken several corrective measures to improve the liquidity situation which include, 50bps cut in CRR, 25bps rate cut in the repo rate, OMO amount of ₹1 lakh crore conducted in Jan & Feb and the USD INR three-year swap facilities.

Indian bond yields remain flattish: Indian government bond yields were largely unchanged in the first half of March 2025. The benchmark 10-year yield was at 6.69% on 17 March 2025. In the absence of central government debt auctions, which will only resume in the next fiscal year, state debt supply and corporate bond issuances are competing for investor attention. The supply is unlikely to be fully absorbed and yields on these bonds are expected to rise further as banking system liquidity remains in deficit and is likely to widen amid tax outflows.

Government Security Yield (%)

Date	04 March	06 March	10 March	12 March	17 March
USA 10 yr	4.22	4.29	4.21	4.31	4.29
Ind 10 yr	6.73	6.69	6.70	6.69	6.69
Ind 5 yr	6.75	6.72	6.71	6.70	6.69
Ind 3 M	6.59	6.63	6.63	6.63	6.62

Sources: CMIE, worldgovernmentbonds.com