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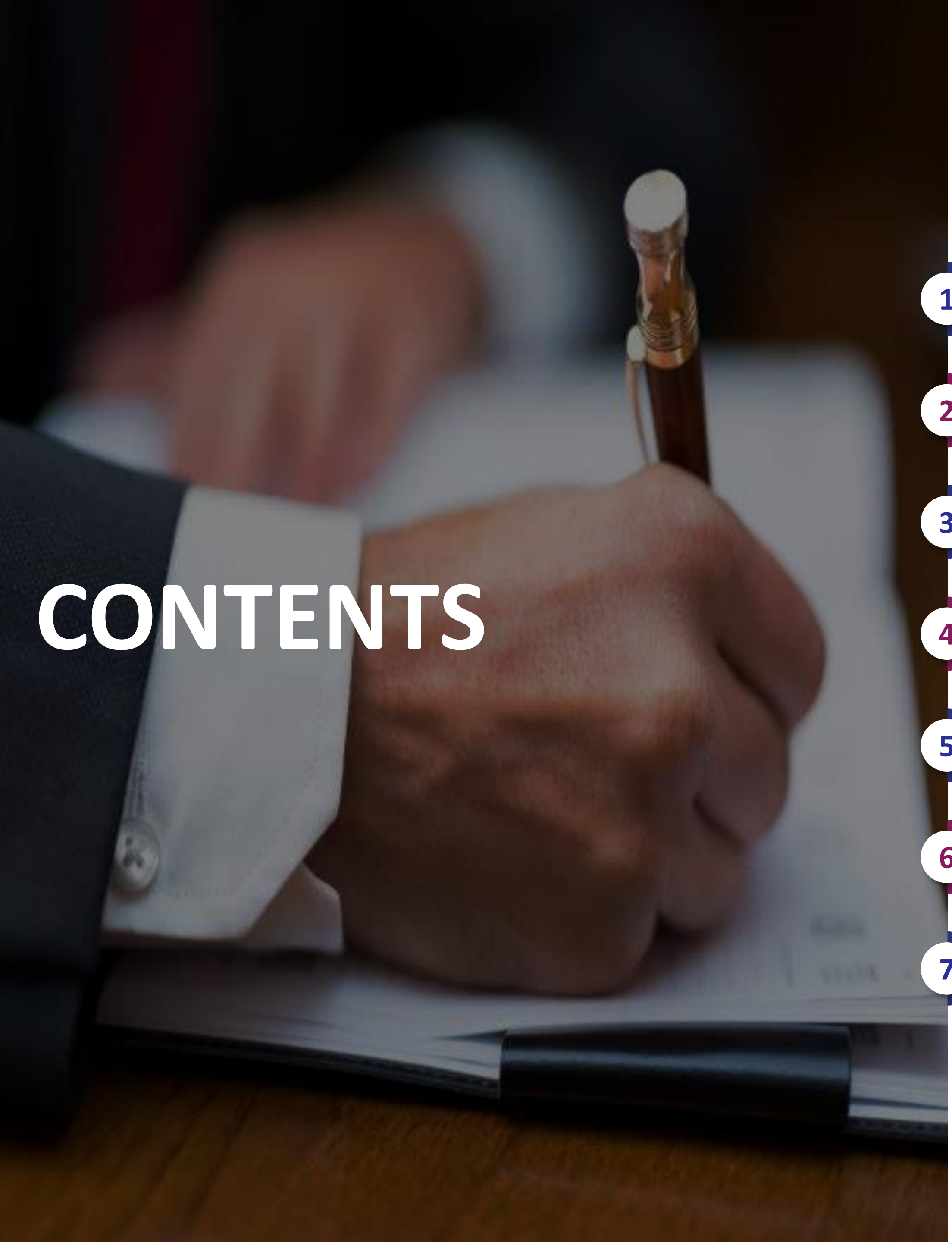
ECOCAPSULE

Navigating the Storm - Domestic Tailwinds meet Global Headwinds

11 February 2025



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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY (1/2)

Attention shifts to growth with emphasis on doubling down on domestic consumption through welfare

PFCE, comprising over 60% of real GDP, grew slower than GFCF in the seven quarters preceding Q2FY25. Union and State governments are addressing this consumption deficit. The Union's direct tax cuts should increase urban disposable income, crucial given Nielsen data showed that urban FMCG consumption is growing at half the rural rate. Rural consumption will likely remain strong due to favourable monsoons boosting kharif output, promising rabi sowing, and rural welfare schemes. *Growth in the next 15-months may be driven by a combination of the instant multiplier of revenue expenditure and the delayed impact of yesteryears' capex acting in resonance*

Navigating the tightrope: Union Budget balances welfare Priorities with fiscal prudence and capex objectives

While increased Union Budget revenue expenditure garnered attention, total capex as a share of GDP has grown in FY26BE vs. FY25RE. This reflects a rejig of capex, not a cut, with increased support for Central Sector Schemes and strategic Ministry-level reallocations. The Union expects its consumption stimulus and continued capex to generate a generous 10.1% y/y nominal GDP growth in FY26, all the while maintaining fiscal prudence. *We see downside risks to this estimate given uncertainty about broad-based private capex and the near-term effects of asset price volatility.*

The growth equation: how RBI's monetary tools are working in tandem with fiscal policy

The cut in the policy repo rate by 25bps, coupled with the liquidity release due to delay in LCR norms could spur a revival in lending. For the infrastructure and manufacturing sector, the deferral of higher provisions on project loans comes as an additional boon and could finally unshackle middling credit growth. Finally, the delay in implementation of LCR norms till next fiscal will free up significant amounts for banks to lend. *These measures in unison constitute the monetary backing for growth in FY26.* Apart from these, *the street will carefully watch for RBI's actions in the primary and secondary open market to gauge how much liquidity it allows and where it stands on the currency/growth trade off.*

EXECUTIVE SUMMARY (2/2)

Domestic tailwinds in a global maelstrom: Can India be the David in a trade war of Goliaths?

Global output growth remains below historical averages, and we anticipate downside risks to the IMF's 3.3% y/y CY25 real growth estimate. These risks could materialise if proposed disruptive policy changes by POTUS are fully implemented. Short-term, tariffs create a negative scenario due to supply chain disruptions and dumping risks from low-cost producers. Mitigation strategies include securing tariff exemptions through dialogue and strategically adjusting tariff and non-tariff barriers. Long-term, India could benefit from manufacturing domestication. Indeed, during the previous US-China trade war (2017-19), India was the fourth largest trade beneficiary. *Agile export/import and on-shore/off-shore strategies will be crucial for Indian companies to convert risks into opportunities*

Clouds on the horizon: external risks and the reign of uncertainty

There has been unprecedented volatility in global asset prices due to actions by the USA. The INR, which had consistently remained insulated from sharp depreciation in CY24 saw sharp dips to fresh lows amid a strengthening USD. FPI flows in YTDFY25 have dropped sharply with huge outflow of equity being barely offset by bond index inclusion inflows on the debt side. *The seasonal improvement in the current account balance during the fourth quarter of FY25 will provide near-term balance of payments support. On the global front, expectation of benign oil prices amidst higher OPEC+ and US supply will help the trade balance in FY26.*

It is important to remember that while globalisation and de-globalisation operate in cycles, what remains permanent is domestic growth. Indeed as Mr. Gandhi said, “I want the culture of all lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any.”

MACROECONOMIC OVERVIEW

A STRONGER H2 COULD FOLLOW A MODERATE H1FY25

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REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23
GVA	**5.6**	**6.8**	**6.3**	**6.8**	**7.7**	**8.3**	**6.0**	**4.8**
Agriculture and allied	**3.5**	**2.0**	**0.6**	**0.4**	**1.7**	**3.7**	**7.6**	**5.2**
Industry	**3.6**	**8.3**	**8.4**	**10.5**	**13.6**	**6.0**	**3.4**	**0.6**
Mining and quarrying	-0.1	7.2	4.3	7.5	11.1	7.0	2.9	1.4
Manufacturing	2.2	7.0	8.9	11.5	14.3	5.0	0.9	-4.8
Electricity, gas & water supply	3.3	10.4	7.7	9.0	10.5	3.2	7.3	8.7
Construction	7.7	10.5	8.7	9.6	13.6	8.6	7.4	9.5
Services	**7.1**	**7.2**	**6.7**	**7.1**	**6.0**	**10.7**	**7.2**	**7.2**
Trade, hotel, transport & comm.	6.0	5.7	5.1	6.9	4.5	9.7	7.0	9.2
Finance, real estate and prof serv.	6.7	7.1	7.6	7.0	6.2	12.6	9.2	7.7
Public admin., defence & Other svcs	9.2	9.5	7.8	7.5	7.7	8.3	4.7	3.5

REAL GDP EXPENDITURE COMPONENTS

Change (% y/y)	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23
GDP	**5.4**	**6.7**	**7.8**	**8.6**	**8.1**	**8.2**	**6.2**	**4.3**
Private final consumption exp. (PFCE)	6.0	7.4	4.0	4.0	2.6	5.5	1.5	1.8
Govt. final consumption exp. (GFCE)	4.4	-0.2	0.9	-3.2	14.0	-0.1	13.9	7.1
Gross fixed capital formation (GFCF)	5.4	7.5	6.5	10.7	11.6	8.5	3.8	5.0
Exports	2.8	8.7	8.1	3.4	5.0	-6.6	12.4	10.9
Imports	-2.9	4.4	8.3	8.7	11.6	15.2	-0.4	4.1

- Real GDP growth slowed down to 5.4% y/y in Q2FY25, well below expectations of 6.5% due to monsoon-related disruptions impacting industry activity, lower government capex and potentially slowing urban demand dipping consumption. Notably, manufacturing GVA slowed sharply to 2.2%

- *With an improving H2, we expect the real GDP to grow by 6.4% y/y in FY25 and 6.2% in FY26. Our projections imply that downside risks in the form of global headwinds outweigh a possible fillip from incremental domestic consumption aided by direct tax cuts and rural welfare schemes*

Source: MoSPI, CEIC, SBICAPS

ECONOMIC CONDITIONS IMPROVED IN JAN'25

INDICATOR	Feb'24	Mar'24	Apr'24	May'24	Jun'24	Jul'24	Aug'24	Sep'24	Oct'24	Nov'24	Dec'24	Jan'25
INDUSTRY												
Manufacturing PMI	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7
IIP (%y/y)	5.6%	5.5%	5.2%	6.3%	4.9%	5.0%	0.0%	3.1%	3.7%	5.2%		
Eight Core (%y/y)	7.1%	6.3%	6.9%	6.9%	5.0%	6.3%	-1.5%	2.4%	3.7%	4.4%	4.0%	
Finished Steel Consumption (%y/y)	7.0%	12.5%	9.6%	15.9%	19.5%	14.4%	10.0%	11.8%	8.9%	9.5%	5.2%	
2W Retail Sales (%y/y)	13.6%	5.4%	33.6%	2.5%	4.7%	17.5%	6.3%	-8.5%	37.0%	16.4%	-17.4%	4.2%
PV Retail Sales (%y/y)	14.9%	-6.2%	18.6%	-1.0%	-6.8%	14.0%	-4.5%	-18.8%	36.5%	-10.7%	0.2%	15.5%
SERVICES/CONSUMPTION												
Services PMI	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5
Petrol Consumption (%y/y)	8.9%	6.9%	14.2%	3.4%	4.6%	10.5%	8.6%	3.0%	8.7%	9.6%	11.1%	6.7%
Diesel Consumption (%y/y)	6.3%	2.7%	1.4%	2.4%	1.0%	4.5%	-2.5%	-1.9%	0.1%	8.5%	6.0%	4.2%
Railway Freight Volume (%y/y)	10.1%	8.6%	1.4%	3.7%	10.1%	4.5%	0.0%	6.0%	3.1%	3.6%	3.6%	3.7%
Port Cargo Volume (%y/y)	2.0%	3.6%	1.3%	3.7%	6.8%	6.0%	6.7%	5.9%	-3.4%	-5.0%	3.4%	6.2%
Electricity Supply (% y/y)	8.2%	8.3%	10.4%	15.2%	9.0%	8.3%	-4.7%	0.4%	0.8%	3.8%	5.2%	2.7%
Total Airport Footfall (%y/y)	8.1%	6.5%	6.0%	8.3%	7.7%	7.8%	7.5%	8.1%	9.8%	13.2%	10.5%	6.7%
Fastag Revenues (%y/y)	19.2%	17.2%	8.6%	8.7%	11.2%	12.0%	8.4%	10.4%	10.4%	14.5%	13.3%	19.0%
UPI Transaction Volume (%y/y)	47.9%	40.3%	39.6%	37.3%	36.0%	34.6%	30.7%	30.7%	37.0%	23.9%	27.5%	27.5%
GST Revenues (%y/y)	12.5%	11.5%	12.4%	10.0%	7.6%	10.3%	10.0%	6.5%	8.9%	8.5%	7.3%	12.3%

Source: S&P Global, FADA, CEIC, SBICAPS

SEASONAL PICKUP SEEN IN INDUSTRIAL INDICATORS

Improving trend for Industrial sector in early CY25

- Manufacturing activity, as measured by PMI soared to a 6-month high of 57.1 in Jan'25, driven by strong domestic demand and sharpest rise in export orders in 14 years, amidst improving business confidence

- A sharp recovery in Fastag collections during Jan'25 (growth rate of 19.0% y/y, highest since Feb'24) suggests that commercial activity picked. Port cargo volume also showed a corresponding smart recovery in the month

- Domestic auto sales displayed a recovery in Jan'25, growing ~7% y/y, with PV sales being exceptionally strong tailgating on Bharat Expo 2025. The liquidation of PV inventory will make headroom for increased car production in the coming months

- Strong economic activity is further corroborated by excellent growth in GST revenues Jan'25. E-way bills for Jan'25 hit a record high, indicating that Feb'25 GST collections are likely to maintain the momentum

Union brews urban consumption boost to join resurgent rural demand

- Union's decision to realign personal income tax slabs, TDS and TCS aims at stimulating urban consumption, and will put ~Rs. 1 trn in the hands of the middle class and create ~Rs. 770 bn in additional consumption (0.2% of GDP) in FY26. This special focus on urban consumption is owing to differential between growth of urban/rural consumption

- Rural indicators remain robust with recovery in 2W sales, decent momentum in agriculture tractor registrations, and fair fertilizer offtake. Rabi sowing has exceeded last year's area by 1.5% and there is promise of a bountiful kharif crop. Multiple State and Union welfare schemes will also improve rural demand

UNION REITERATES ITS COMMITMENT TO FISCAL PRUDENCE

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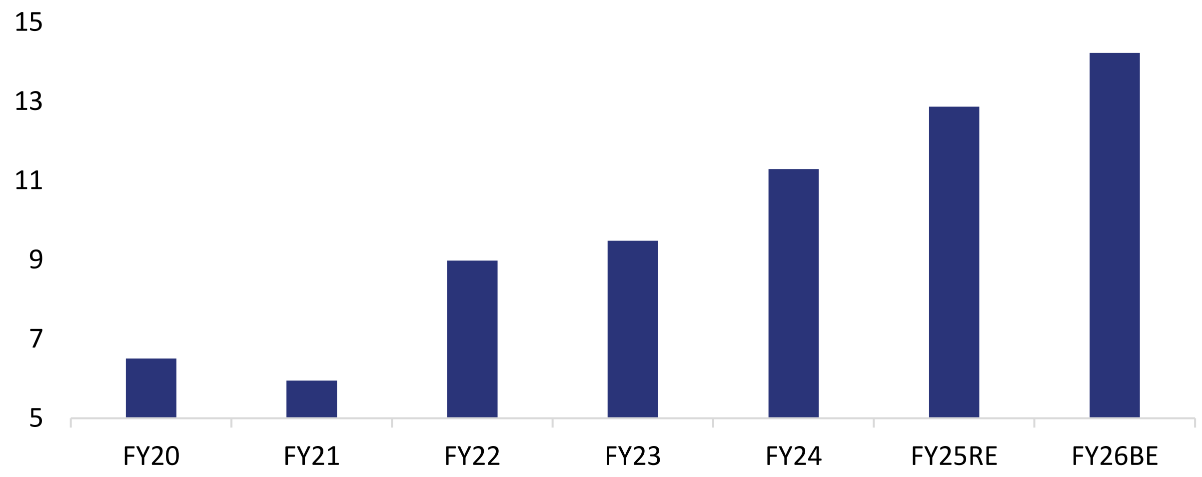
ITEM (Rs. bn)	FY24A	FY25RE	FY26BE	GROWTH FY26BE/FY25RE	9MFY24	9MFY25	GROWTH 9MFY25/9MFY24	9MFY25/FY25RE
Corporation Tax	9,111	9,800	10,820	10.4%	7,217	7,409	2.7%	76%
Income Tax	10,447	12,570	14,380	14.4%	6,856	8,378	22.2%	67%
Customs Duty	2,331	2,350	2,400	2.1%	1,582	1,702	7.6%	72%
Excise Duty	3,054	3,050	3,170	3.9%	2,025	1,996	-1.4%	65%
Service Tax	4	1	1		4	0		
GST	9,572	10,619	11,780	10.9%	6,867	7,559	10.1%	71%
Other Taxes	39	50	50	0.0%	274	459	67.4%	
Gross tax Revenue	**34,655**	**38,535**	**42,702**	**10.8%**	**24,825**	**27,504**	**10.8%**	**71%**
(-) Transfer to States, Uts	11,295	12,869	14,224	10.5%	7,473	9,012	20.6%	70%
Net tax Revenue	**23,273**	**25,570**	**28,374**	**11.0%**	**17,299**	**18,431**	**6.5%**	**72%**
Non-Tax Revenue	**4,018**	**5,310**	**5,830**	**9.8%**	**3,124**	**4,477**	**43.3%**	**84%**
Non-debt Capital Receipts	**598**	**590**	**760**	**28.8%**	**297**	**273**	**-7.9%**	**46%**
Total Receipts	**27,888**	**31,470**	**34,964**	**11.1%**	**20,719**	**23,180**	**11.9%**	**74%**
Revenue Expenditure	34,943	36,981	39,443	6.7%	23,806	25,468	7.0%	60%
Capital Expenditure	9,492	10,184	11,211	10.1%	6,736	6,853	1.7%	50%
Total Expenditure	**44,434**	**47,165**	**50,653**	**7.4%**	**30,542**	**32,321**	**5.8%**	**58%**
Revenue Deficit	**7,652**	**6,101**	**5,238**	**-14.1%**	**3,383**	**2,560**	**-24.3%**	**42%**
Fiscal Deficit	**16,546**	**15,695**	**15,689**	**0.0%**	**9,823**	**9,141**	**-6.9%**	**58%**
Nominal GDP	**295,357**	**324,114**	**356,979**	**10.1%**				

- The Union doubled down on its commitment towards a sustainable path of fiscal consolidation with fiscal deficit target set to decline to 4.4% by FY26, signaling an aggressive approach towards debt reduction and macro-economic stability. Downward revision in fiscal deficit in FY25RE is driven by election-induced slowing of capex and significant transfer from the RBI.
- Receipts rose 11.9% y/y in 9MFY25, driven by buoyant income tax receipts and non-tax revenues, while corporation tax remains slow. Capex seemed to pick up pace in Dec’24 growing 21.5% y/y to Rs. 470 bn, against a contraction of 12.3% in 8MFY25.

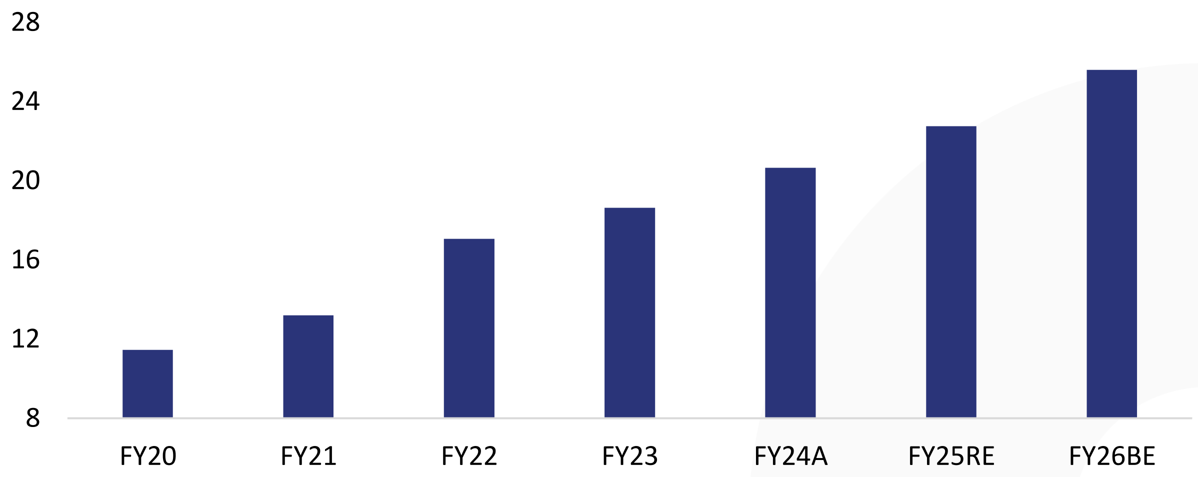
Source: Union Budget Documents, CGA, CEIC, SBICAPS

STATES TO GET HIGHER TRANSFERS IN FY26BE

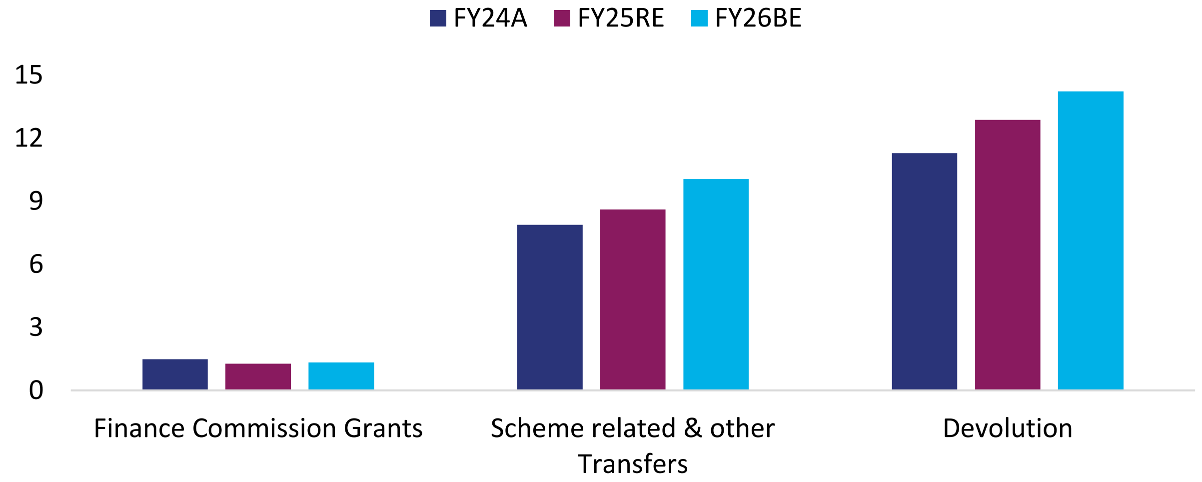
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



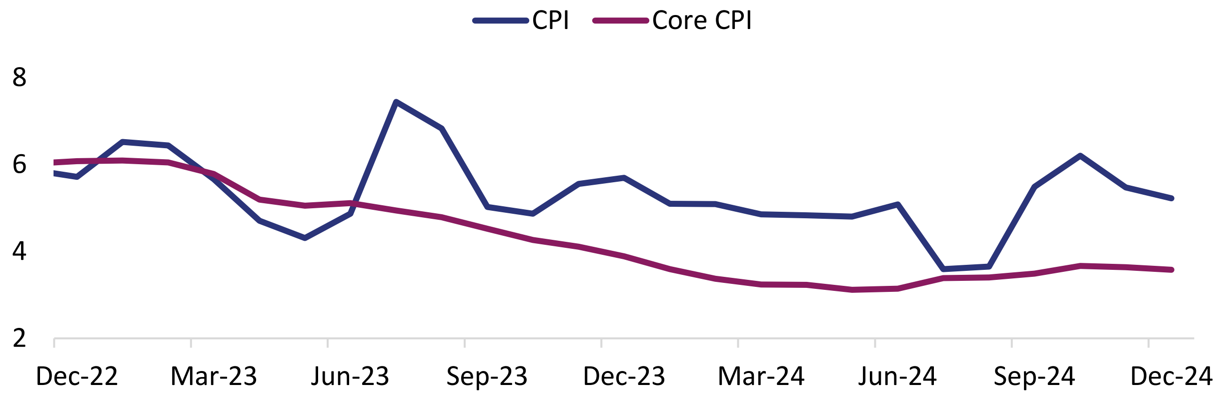
COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



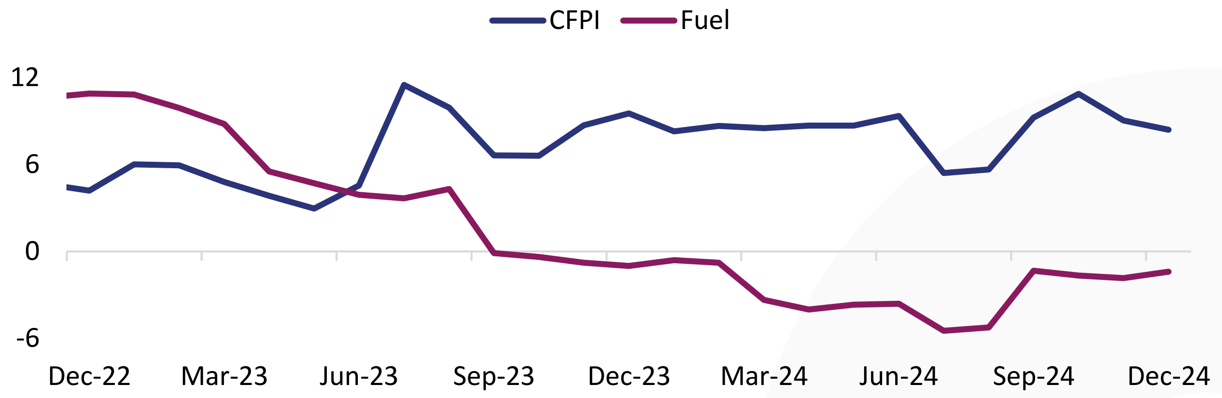
- States have rejoiced on higher transfers from Union, expected to grow further by ~Rs. 2.8 trn in FY26BE vs. FY25RE, higher than the Rs. 2.1 trn addition expected in FY25RE over FY24A, led by an equally higher devolution of taxes and scheme related transfers
- *Gross SGS issuances will likely increase to ~Rs. 11 trn in FY26 with major variation amongst States*

CPI ON DOWNWARD TRAJECTORY

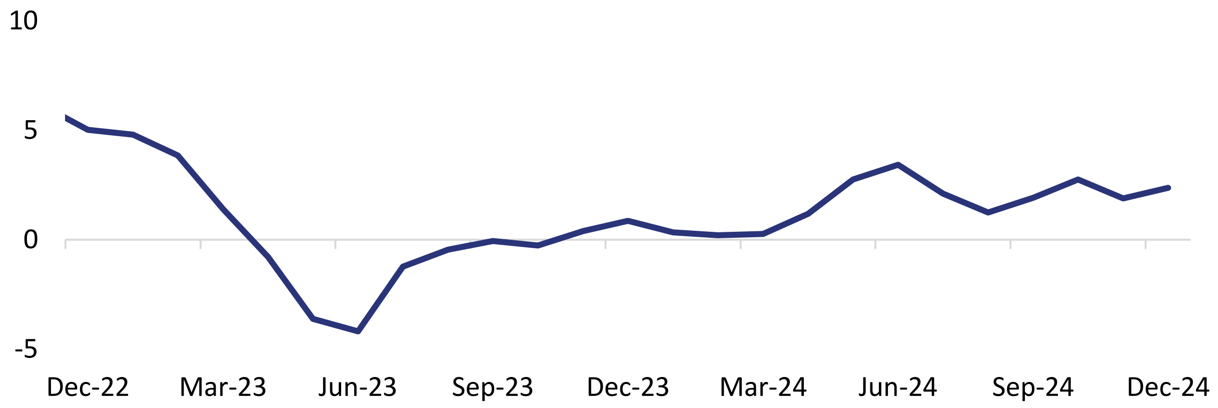
CONSUMER PRICE INDEX (CPI) & CORE CPI (Y/Y)



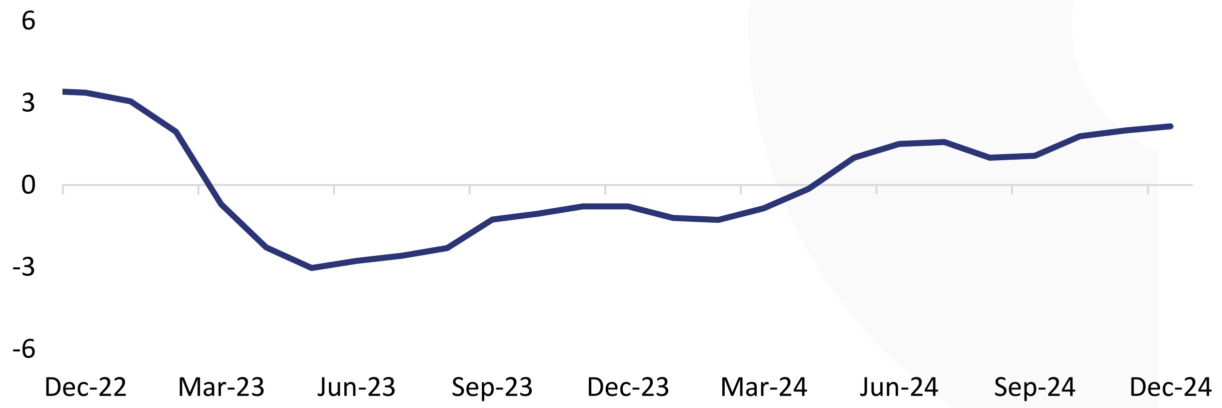
CFPI AND CPI: FUEL (Y/Y)



WHOLESALE PRICE INDEX (WPI) (Y/Y)



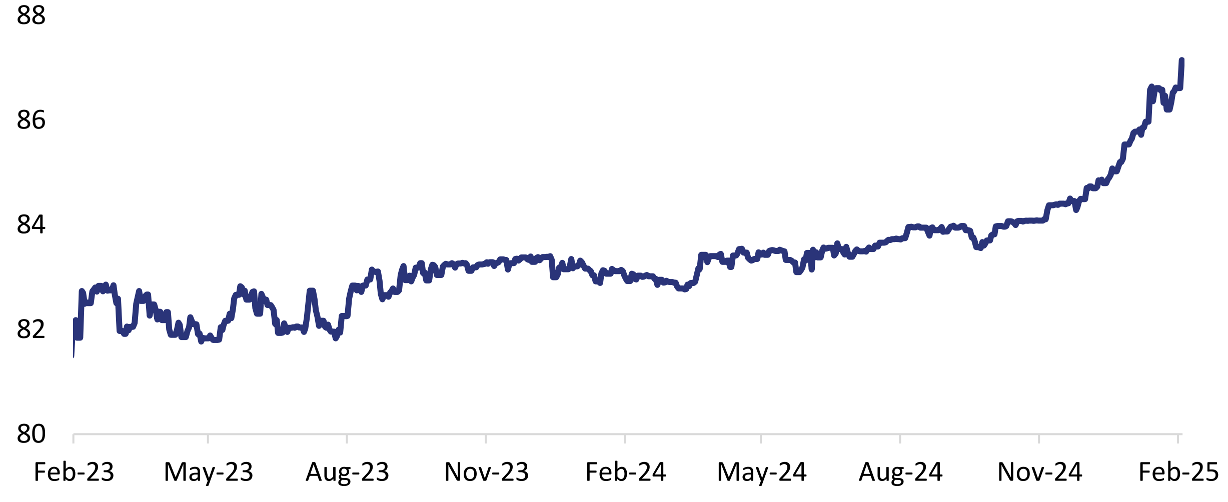
WPI: MANUFACTURED PRODUCTS (Y/Y)



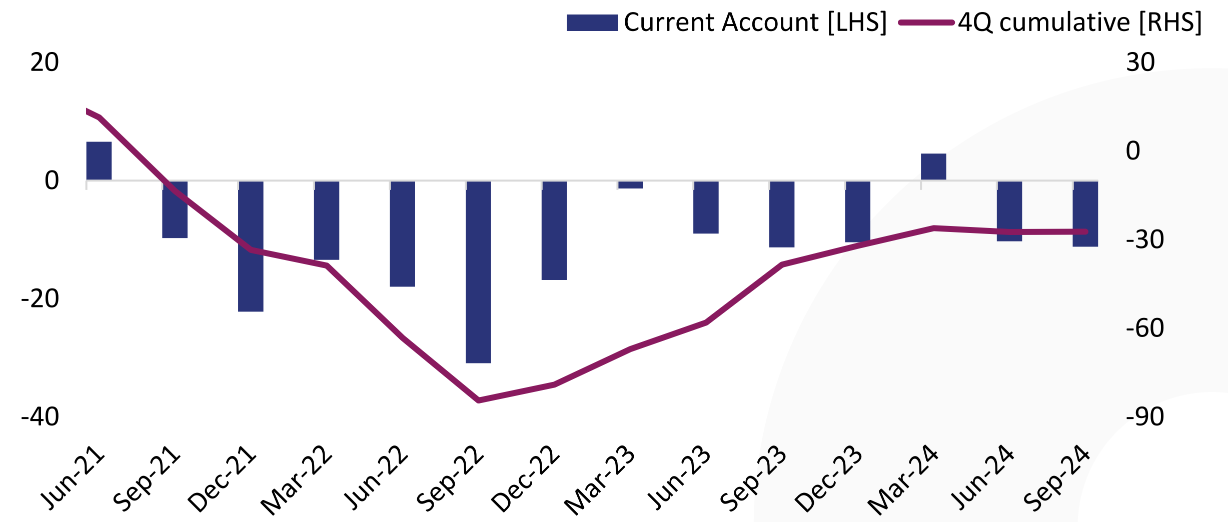
- CPI moved further downwards to 5.2% y/y in Dec’24, driven by downturn in food prices, which remain uncomfortably high. *In FY26, we expect CPI to chime in at ~4.4%, 20bps above RBI’s projections, though below FY24 number due to better crop production dipping food inflation offset by low base of Core*
- WPI rose 2.4% y/y in Dec’24, with its wobbly rise in H2CY24 primarily driven by base effects and higher food prices. Primary articles rose 6% y/y in Dec’24, offset by a smaller decline in fuel and power prices of 3.8% y/y.

DOLLAR STRENGTH PUTTING PRESSURE ON INR

USD/INR EXCHANGE RATE (Rs. per USD)



CURRENT ACCOUNT BALANCE (USD bn)

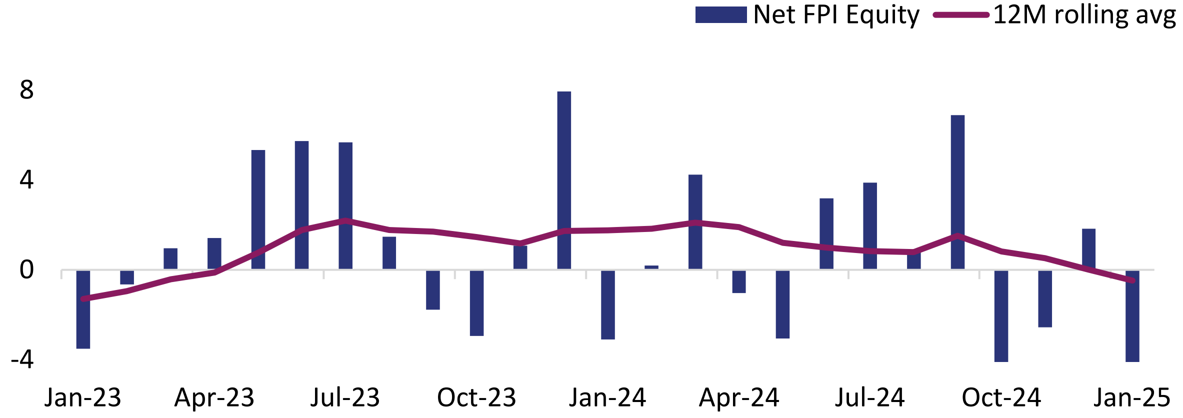


INDICATOR	FEB'24	MAR'24	APR'24	MAY'24	JUN'24	JUL'24	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25
Forex Reserves (USD Bn)	625.2	646.4	640.2	651.5	652.0	670.6	682.2	705.8	682.1	659.4	635.7	630.6
Goods Imports (%y/y)	13.7%	-6.4%	11.1%	7.3%	4.6%	6.3%	0.4%	-0.9%	-1.2%	16.0%	4.9%	
Oil Imports (%y/y)	0.0%	-9.3%	20.5%	28.0%	19.6%	17.4%	-32.4%	-10.9%	13.3%	6.5%	2.2%	
Non-oil Imports (%y/y)	20.0%	-5.2%	7.5%	-0.5%	0.0%	3.1%	12.1%	2.6%	-6.0%	19.5%	5.9%	
Goods Exports (%y/y)	11.9%	-0.6%	2.0%	13.3%	2.4%	-2.0%	-9.9%	-0.3%	16.6%	-5.1%	-1.0%	
Oil Exports (%y/y)	4.8%	-35.1%	9.7%	38.3%	-18.8%	-23.0%	-40.3%	-30.2%	-24.8%	-50.5%	-28.6%	
Non-oil Exports (%y/y)	13.8%	7.9%	0.2%	8.2%	7.6%	3.1%	0.1%	6.6%	25.5%	7.7%	5.0%	
Goods Trade Balance (USD Bn.)	-19.5	-15.3	-19.2	-22.1	-20.8	-23.0	-28.1	-19.7	-24.1	-31.8	-21.9	
Services Exports (%y/y)	3.4%	-1.4%	17.1%	9.7%	3.2%	16.6%	5.7%	14.6%	22.3%	13.9%	16.5%	
Services Imports (%y/y)	1.7%	-2.1%	20.0%	6.2%	-3.1%	16.0%	9.1%	13.5%	27.9%	26.0%	13.8%	
Overall Trade Balance (USD Bn)	-6.4	-1.9	-5.8	-9.3	-7.3	-8.4	-14.2	-3.7	-7.0	-17.0	0.0	

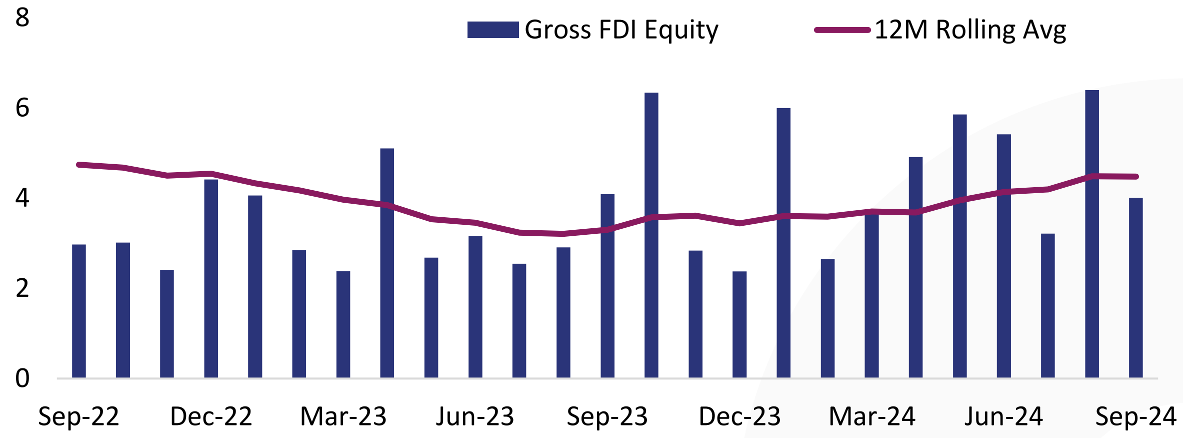
Source: CEIC, Bloomberg, SBICAPS

FPI EXCLUSION COUNTERED BY BOND INDICES INCLUSION

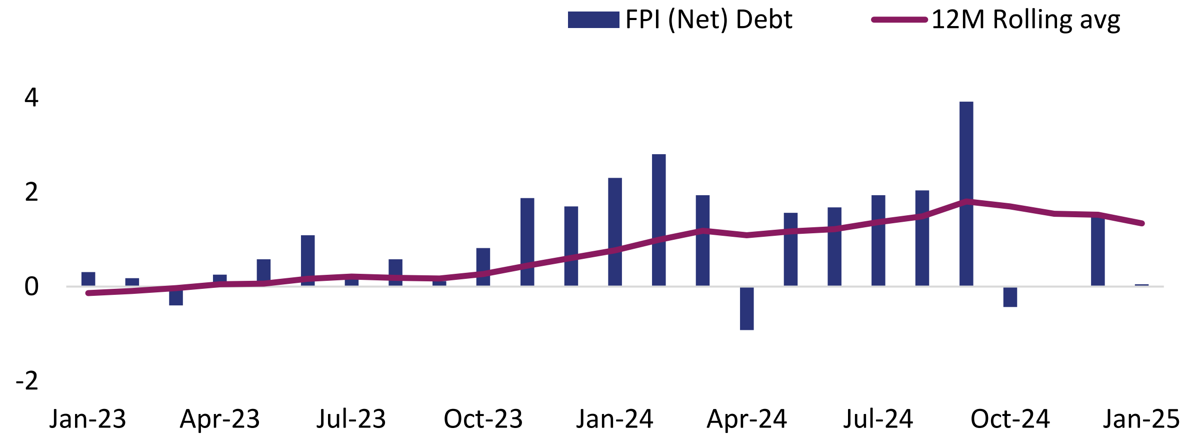
NET FPI EQUITY INFLOW (USD bn)



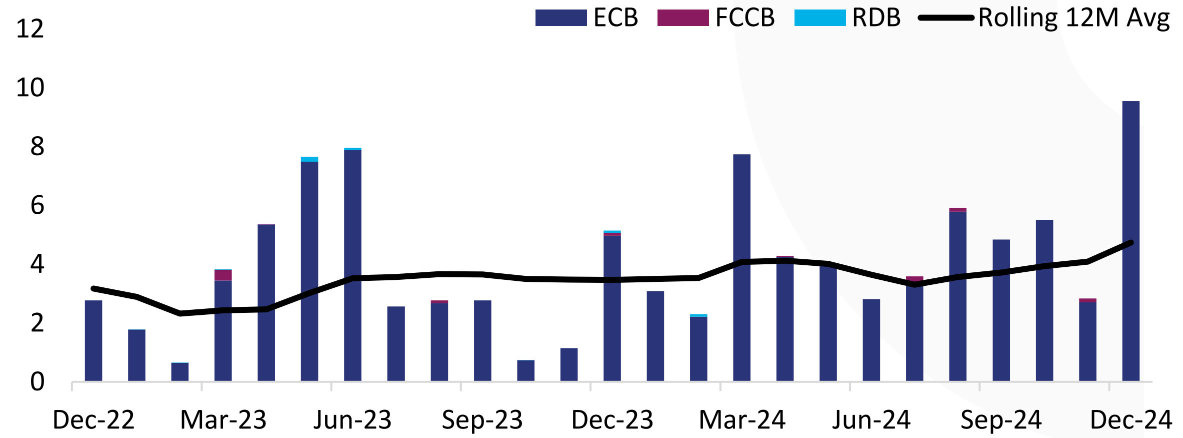
GROSS FDI EQUITY INFLOWS (USD bn)



NET FPI DEBT FLOWS (USD bn)



GROSS ECB ISSUED (USD bn)



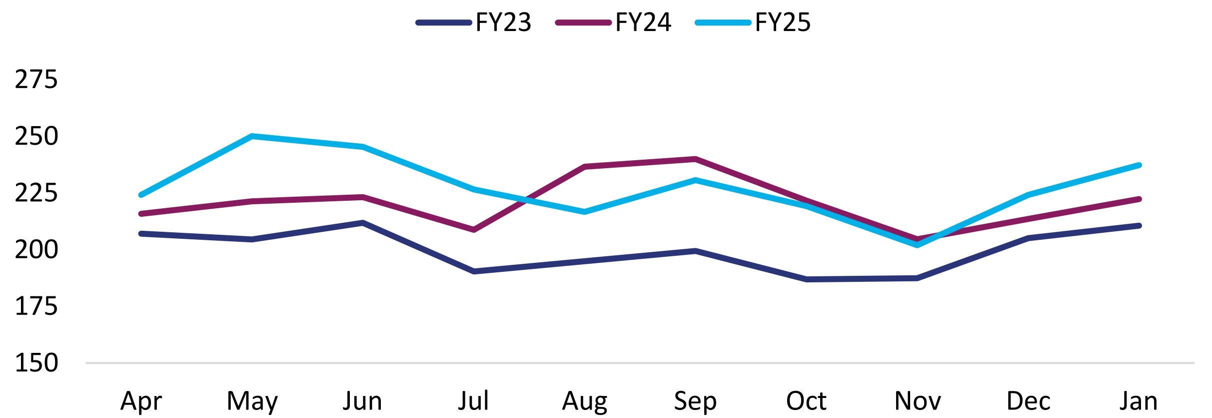
- FPIs poured out of domestic markets, with USD 9 bn worth of outflows from equity markets as uncertainty around prospective policies of new global order threatens slowdown in trade. Debt inflows through FAR securities offset outflows through other routes as bond inclusion flows remain strong
- Gross ECB registrations saw a sharp uptick in Dec'24, with significant traction in the approval route which saw NBFCs and Aviation companies raise copious sums

Source: NSDL, RBI, CEIC, SBICAPS

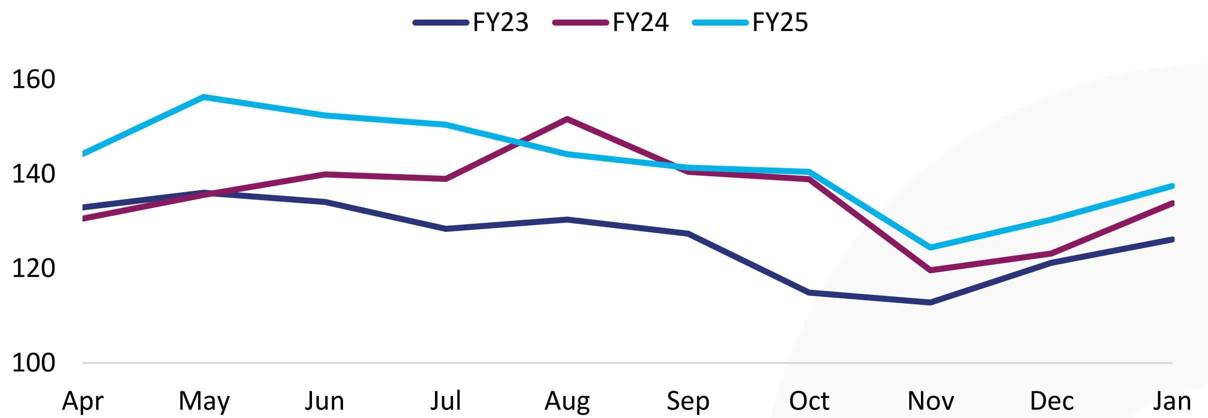
SECTORAL UPDATES

MODERATE TEMPERATURES LEAD TO MODEST RISE IN POWER DEMAND

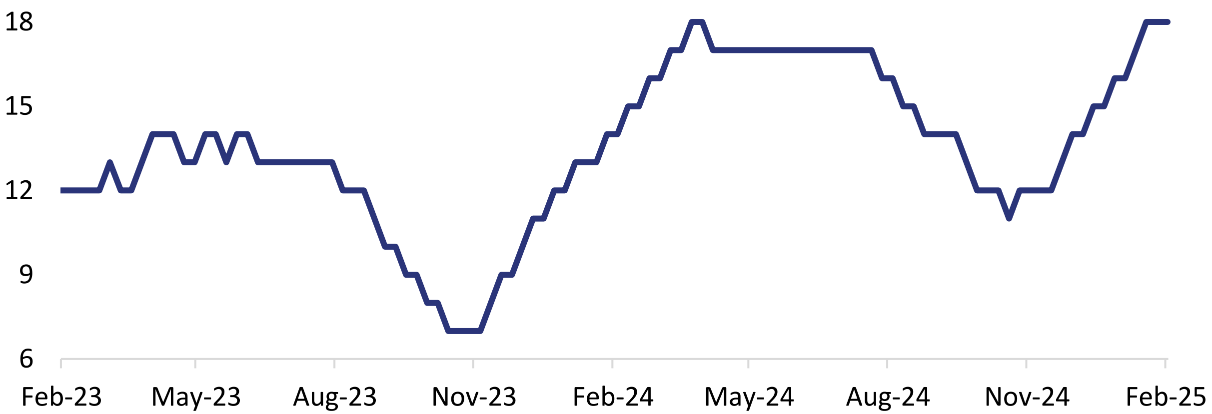
PEAK POWER DEMAND (GW)



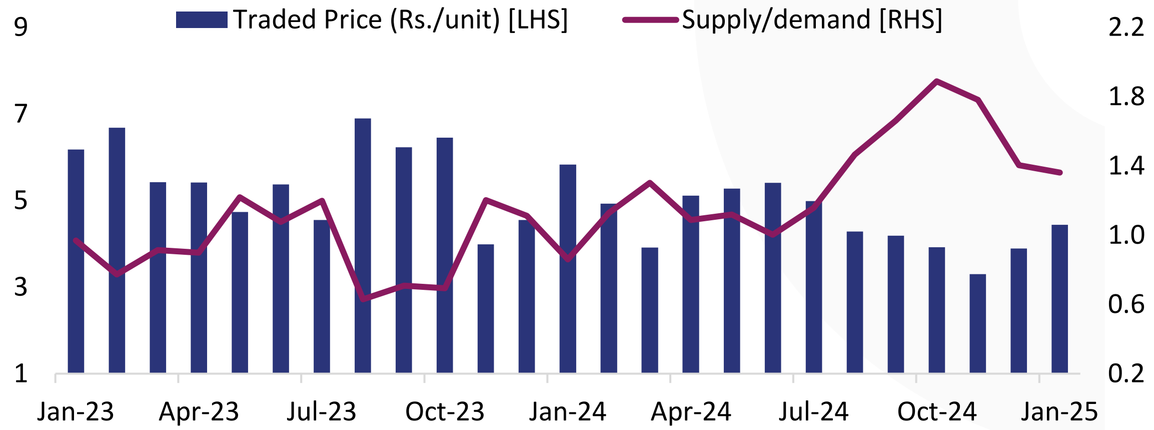
POWER SUPPLY (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM

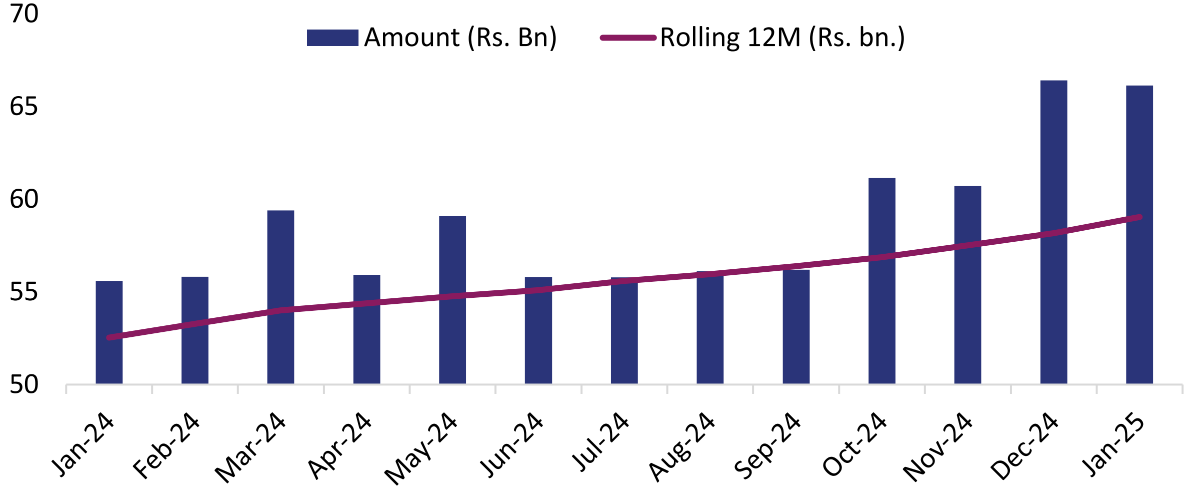


- Power consumption rose a modest 2.7% y/y to 138 BU, with temperate weather leading to lower use of heating appliances. DAM prices fell 23% y/y due to ample volumes on exchange.
- Coal production in Jan’25 stood at 100.4 mn tonnes, up 4.4% y/y, with captives showing an impressive 33% growth to 19 mn tonnes, its highest ever showing
- *Union has necessitated several measures in Budget FY25 to ensure energy security like development of 100 GW of nuclear energy by CY47, incentive for distribution reforms, amidst others*

Source: Bloomberg, IEX, CEIC, SBICAPS

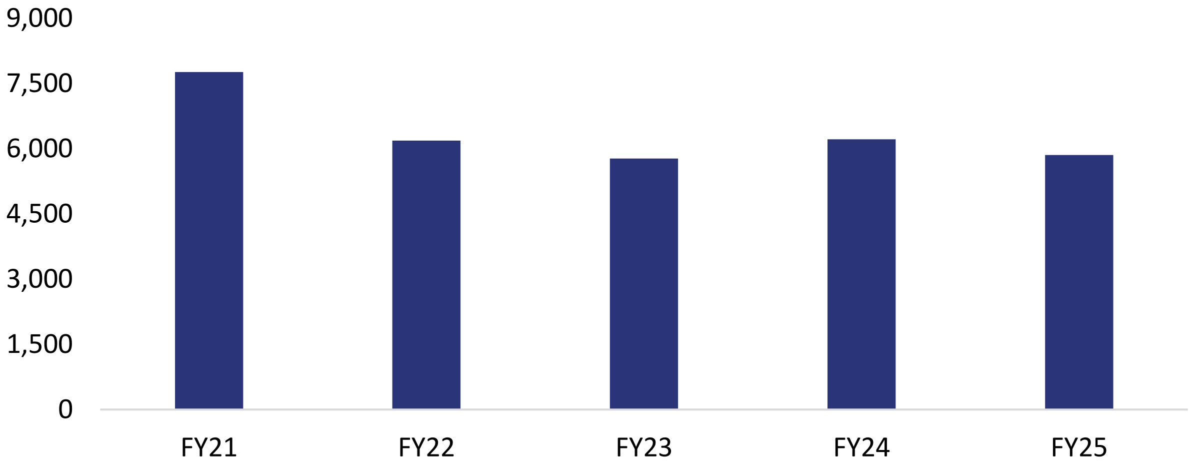
FASTAG COLLECTIONS SHOW SEARING MOMENTUM

FASTAG COLLECTIONS

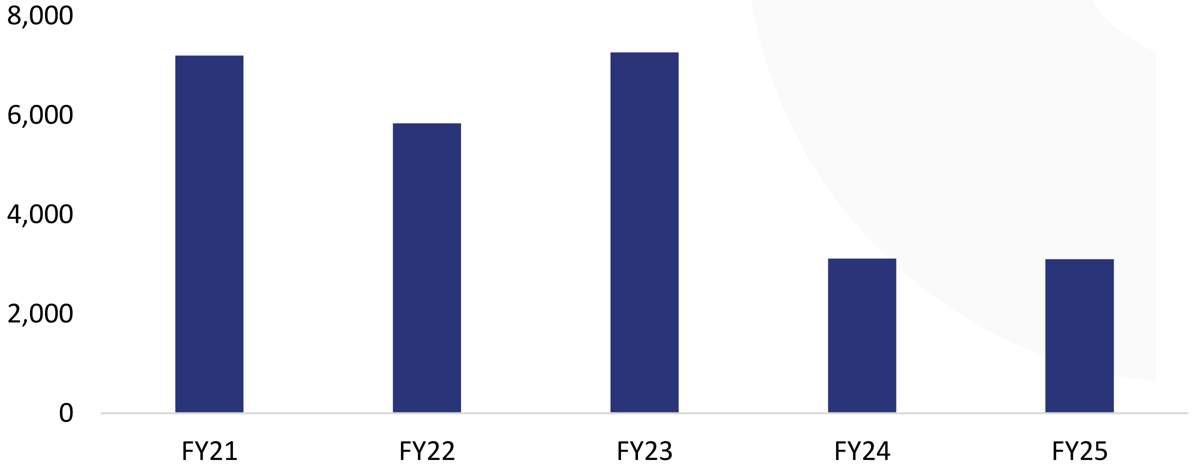


- Highway construction and awarding picked up steam in Q3FY25, after being sluggish due to spending restrictions in Q1FY25 and monsoons in Q2FY25.
- FastTag collections surged by 19% y/y in Jan'25 to Rs. 66.2 bn, slightly lower than the record high of Dec'24, reflective of return from a jubilant festive season travel

NATIONAL HIGHWAY AWARDING (km) – 9MFY



NATIONAL HIGHWAY CONSTRUCTION (km) – 9MFY



BANKING: CREDIT EXPANDS AS LENDING-DESPOSIT RATE GAP NARROWS

INDICATOR	JAN'24	FEB'24	MAR'24	APR'24	MAY'24	JUN'24	JUL'24	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25
CREDIT													
Non-food credit growth (%y/y)	16.2%	16.5%	16.3%	15.3%	16.2%	13.9%	15.1%	13.6%	13.0%	11.5%	10.6%	11.1%	11.4%
Industry credit growth (%y/y)	7.5%	8.4%	8.0%	6.9%	8.9%	7.7%	10.2%	9.7%	8.9%	7.9%	8.0%	7.2%	
Services credit growth (%y/y)	21.0%	21.4%	20.8%	19.5%	20.7%	15.1%	15.4%	13.9%	13.7%	12.7%	13.0%	11.7%	
Personal credit growth (%y/y)	17.0%	16.6%	16.0%	15.3%	17.8%	16.6%	17.8%	13.9%	13.4%	12.9%	13.3%	12.0%	
DEPOSITS													
Total Deposits (%y/y)	12.8%	13.6%	12.5%	13.3%	11.7%	11.3%	10.6%	10.9%	11.1%	11.7%	11.2%	11.5%	10.8%
Time Deposits (%y/y)	13.9%	14.0%	12.7%	13.1%	11.4%	11.5%	10.9%	10.9%	11.1%	13.2%	11.5%	11.4%	11.0%
Demand Deposits (%y/y)	5.0%	10.9%	11.5%	14.9%	14.1%	9.6%	8.2%	10.6%	11.7%	11.6%	8.9%	12.3%	9.4%
KEY RATIOS													
C/D Ratio (%)	77.7%	78.0%	78.1%	76.9%	77.5%	77.4%	77.3%	79.5%	79.6%	79.0%	79.5%	80.4%	80.4%
Investment/Deposit Ratio (%)	29.5%	29.7%	29.6%	29.1%	29.1%	29.6%	29.6%	29.9%	29.8%	29.8%	29.7%	29.6%	29.7%
KEY RATES													
1Y MCLR (Median-All SCB)	8.8%	8.8%	8.8%	8.9%	8.8%	8.9%	8.9%	8.9%	9.0%	9.0%	9.0%	9.0%	9.0%
WALR – fresh (%)	9.5%	9.4%	9.4%	9.6%	9.4%	9.3%	9.4%	9.4%	9.4%	9.5%	9.4%	9.3%	
WALR – o/s (%)	9.9%	9.8%	9.9%	9.8%	9.8%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	
WADTDR – fresh (%)	6.4%	6.4%	6.6%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.4%	6.5%	6.6%	
WADTDR – o/s (%)	6.8%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	7.0%	7.0%	7.0%	7.0%	
Repo Rate	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%

Source: RBI, SBICAPS; Data excludes impact of HDFC merger until Jul’24

RBI'S BONANZA FOR BANKS TO STIMULATE CREDIT GROWTH

Credit growth shows greenshoots of revival, while deposit pace stands ground

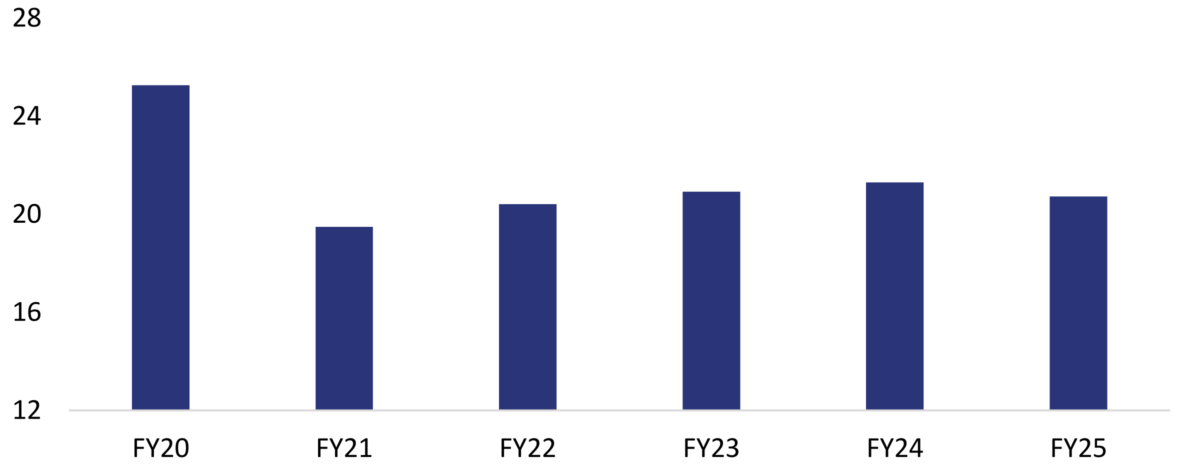
- Gap between credit and deposit growth rates has firmly narrowed in recent months with both oscillating on either sides of 11% mark. Credit growth shows signs of rebound after slowing down in H1FY25
- Deposit have continued to grow at a constant pace of ~11% throughout FY25, driven by chunky time deposits which include FDs. Union's decision to hike limit on TDS for fixed deposits is likely to provide fillip to deposits in the coming months.
- Lending and deposit rates show divergent movement as banks still scour for deposits. Banks have decisively lowered fresh lending rates to lowest since Jun'23 to attract more lenders, since capital market rates have firmly moved downwards. Noticeably, outstanding deposit rates have further risen to the highest since Jan'19, before the start of the then cut cycle

Rate cut and more from RBI offers relief for banks

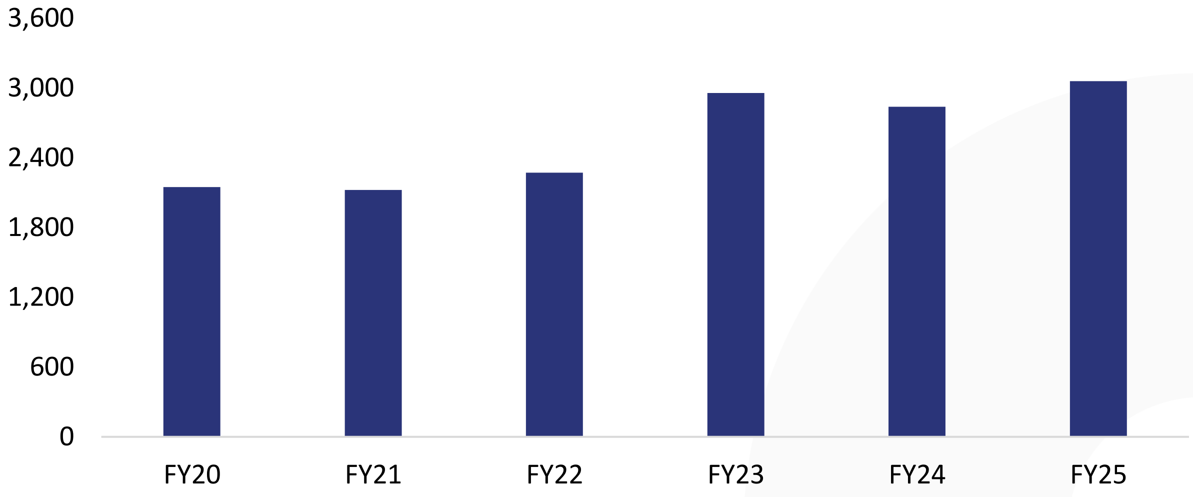
- Rate cut of 25bps along with significant measures to improve banking system liquidity will help banks increase their credit. The Governor indicated that the C/D ratio has reached desirable levels, and that unsecured loan growth is now manageable, which is a greenlight for banks
- The Governor assured that the proposed norms on LCR will not be implemented till atleast 31 Mar'26. Further, the delay in the roll-out of project finance loans will have a positive impact on both banks and key FIs. A third boost will be that no timeline has been fixed for the ECL rollout

INSURANCE REGAINS PACE AFTER FEW MONTHS OF STARK SLOWDOWN

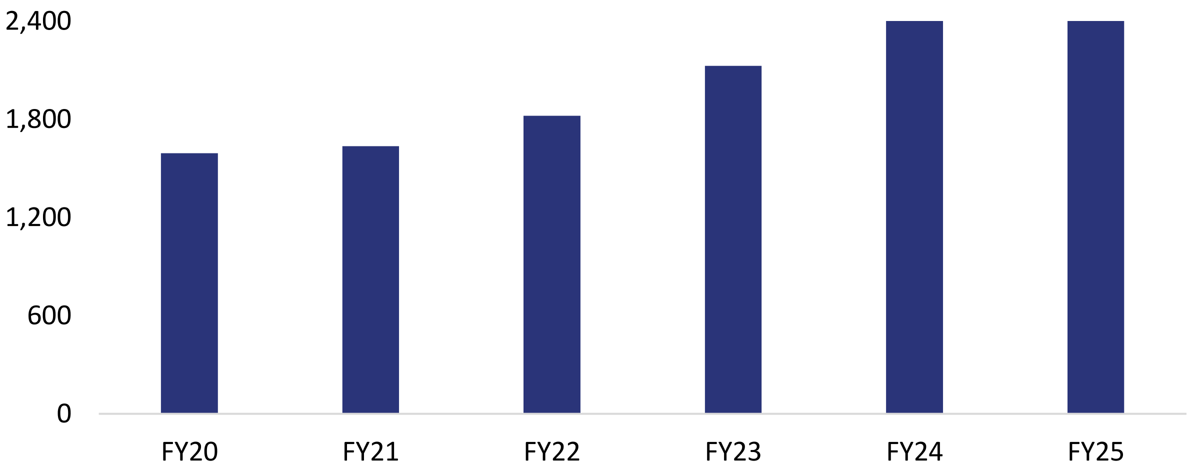
NEW LIFE INSURANCE POLICIES (mn units) – 10MFY



FIRST YEAR PREMIUM- LIFE INSURANCE (Rs. bn) – 10MFY



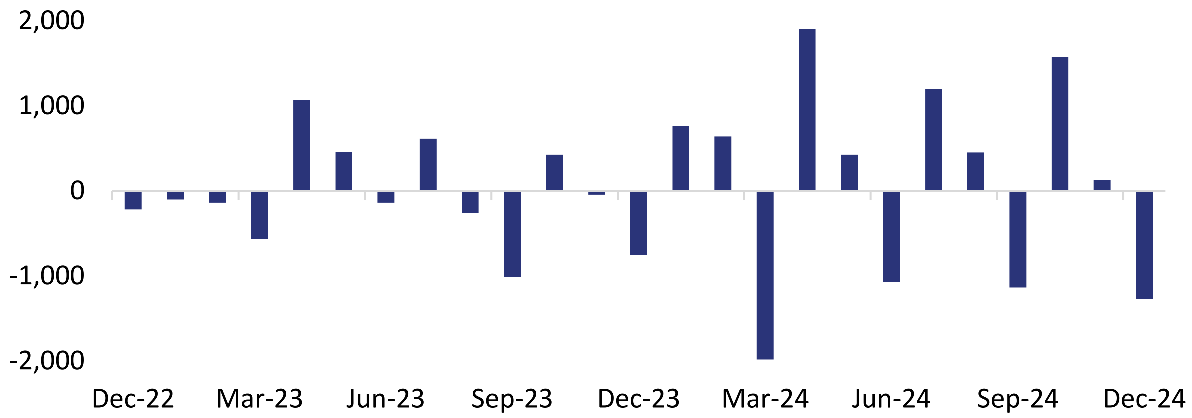
GROSS DIRECT PREMIUM- NON- LIFE INSURANCE (Rs. bn) – 10MFY



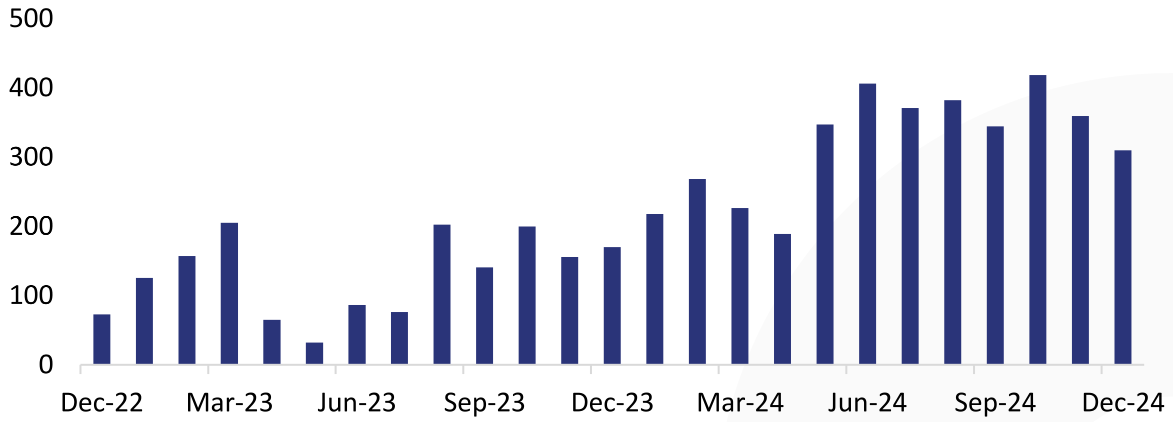
- Life insurers' new business premium dropped 8% y/y in Jan'25, owing to a steep fall in public sector, offset by flattish growth of the private sector.
- Non-life insurers' gross direct premium rebounded 7% y/y in Jan'25, after flattish growth in past few months owing partially to change in reporting requirements that defers premium recognition of long-term policies.

DEBT FUNDS DRIVE MUTUAL FUND OUTFLOWS IN DEC’24

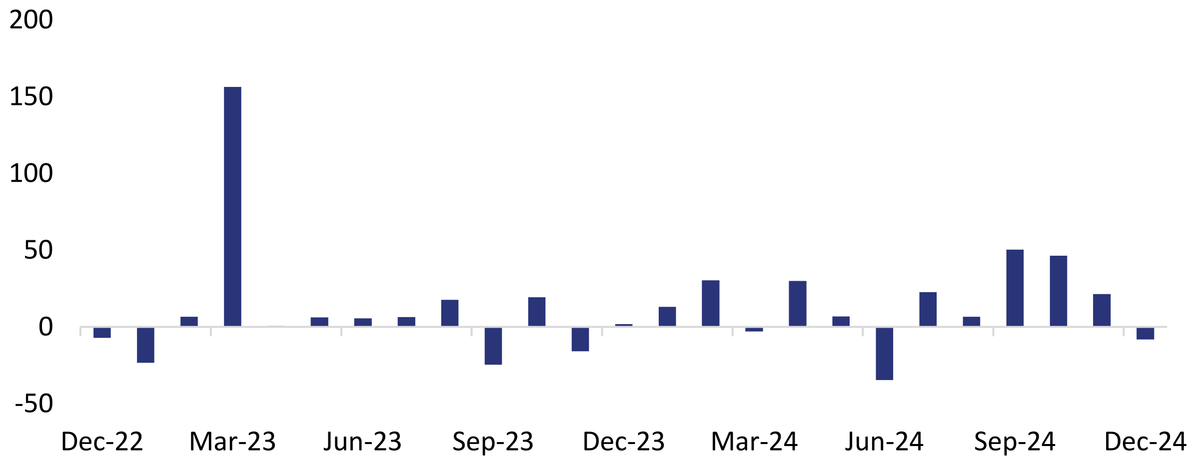
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



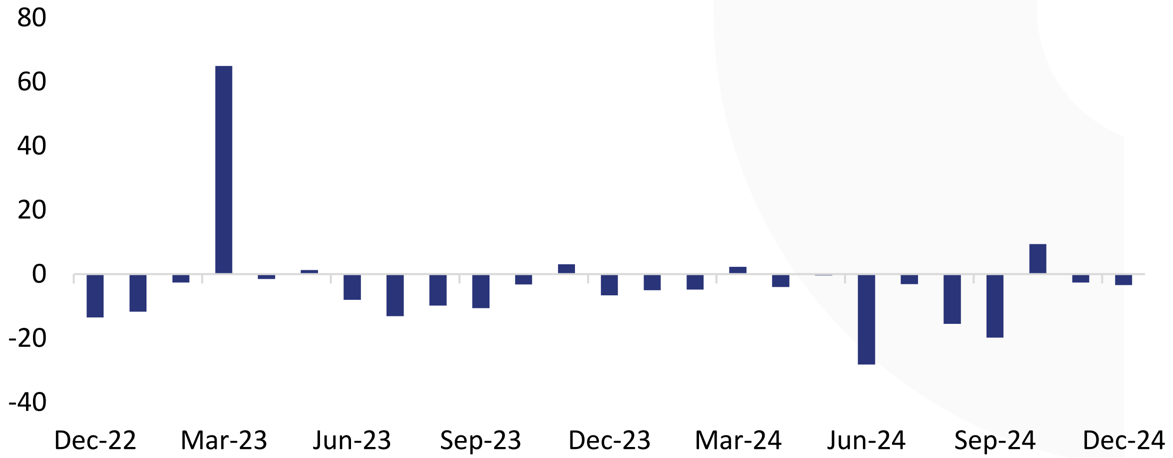
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)



BANKING AND PSU FUND NET INFLOW (Rs. bn)

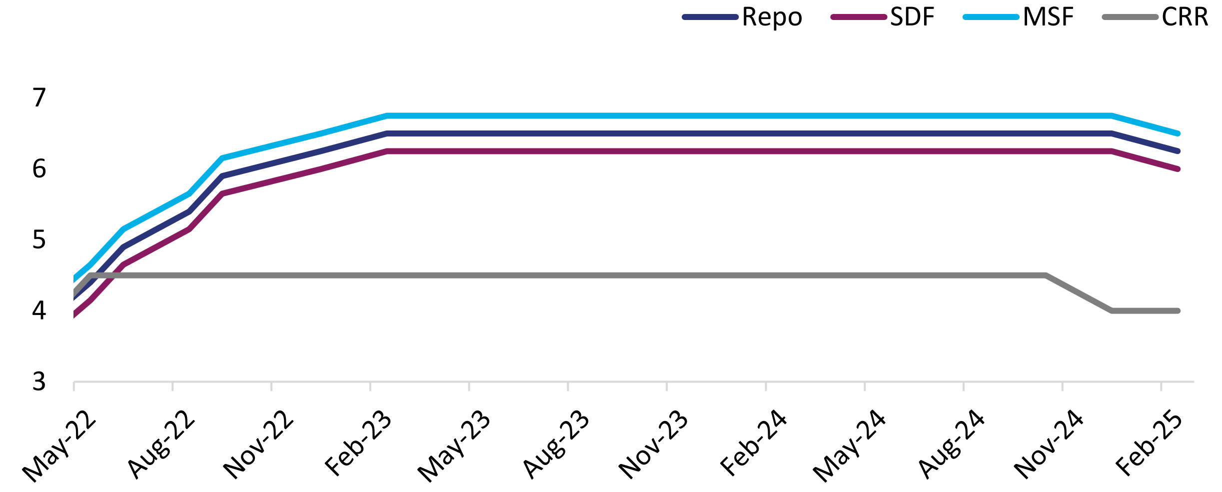


- Net outflows in mutual funds stood at Rs. 805 bn, driven by a Rs. 1.3 trn outflow from debt funds in Dec’24, despite low volatility in domestic yields. Liquid funds saw majority of the outflows at Rs. 665 bn in Dec’24. Notably, equity funds continued to see strong inflows amounting Rs. 310 bn, driven by sectoral and thematic funds.

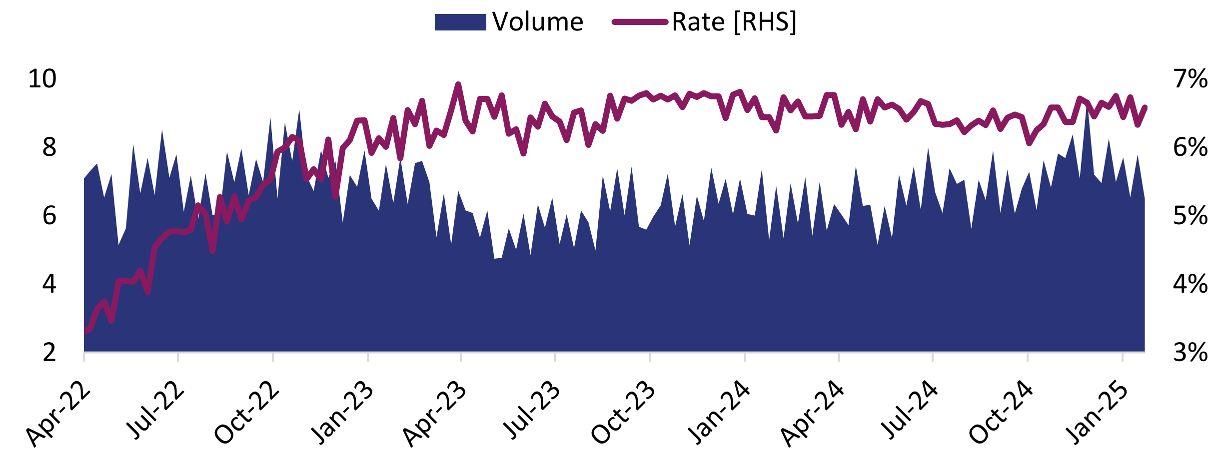
MONETARY POLICY AND YIELDS

RBI CUTS REPO RATE BY 25 BPS AFTER 2 YEARS

KEY RATES (%)



TREPS DAILY AVG VOLUME (Rs. trn) AND RATE (%)



STANCE OF POLICY

DATE	STANCE	VOTE
04-May-22	Remain accommodative, while focusing on withdrawal of accommodation	6-0
08-Jun-22	Withdrawal of Accommodation	6-0
05-Aug-22		
30-Sep-22	Withdrawal of Accommodation	5-1
07-Dec-22	Withdrawal of Accommodation	4-2
08-Feb-23		
06-Apr-23	Withdrawal of Accommodation	5-1
08-Jun-23		
10-Aug-23		
06-Oct-23		
08-Dec-23		
08-Feb-24		
05-Apr-24		
07-Jun-24	Withdrawal of Accommodation	4-2
07-Aug-24		
09-Oct-24	Neutral	6-0
05-Dec-24		
07-Feb-25		

- RBI's MPC unanimously delivered a 25 bps rate cut, taking the repo rate to 6.25%, in-line with expectations. The Governor elucidated that growth-inflation dynamics opens up policy space for MPC to support growth

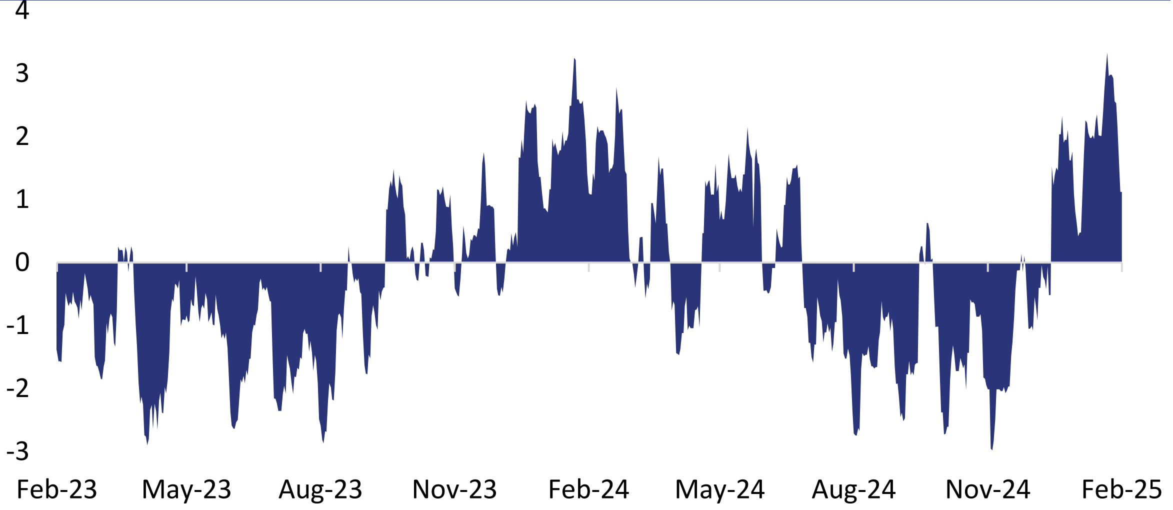
- Mr. Malhotra concluded stating further decisions on policy would depend on evaluation of incoming data, highlighting global risks

- *While the rate cut met expectations, the balanced commentary on the growth-inflation outlook suggests a potentially gradual easing cycle. We project an additional 50-75 basis points of rate cuts in CY25, contingent on global development*

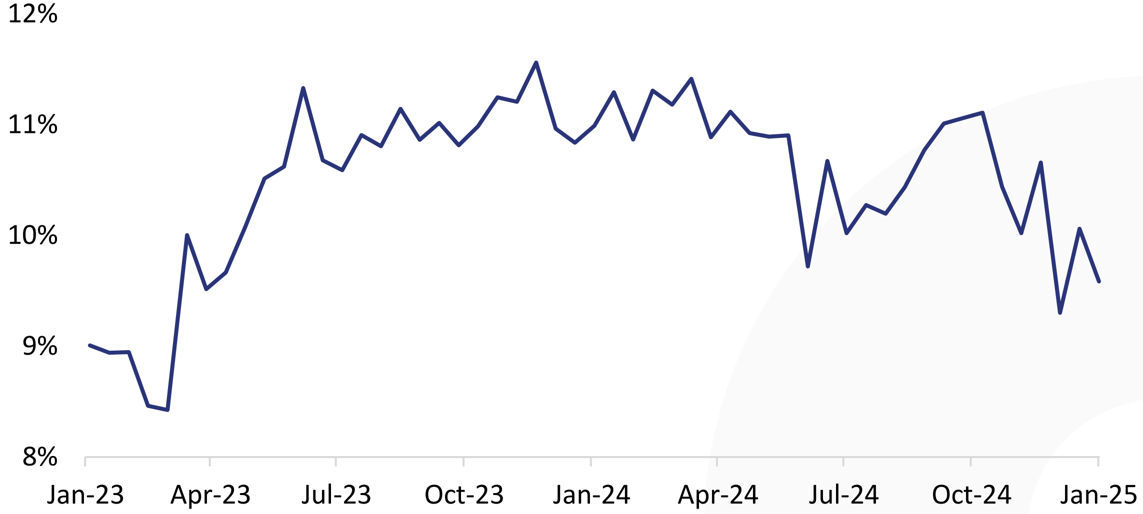
Source: RBI, CEIC, SBICAPS

SYSTEMTIC LIQUIDITY IN DEFICIT, TO REMAIN CALIBRATED

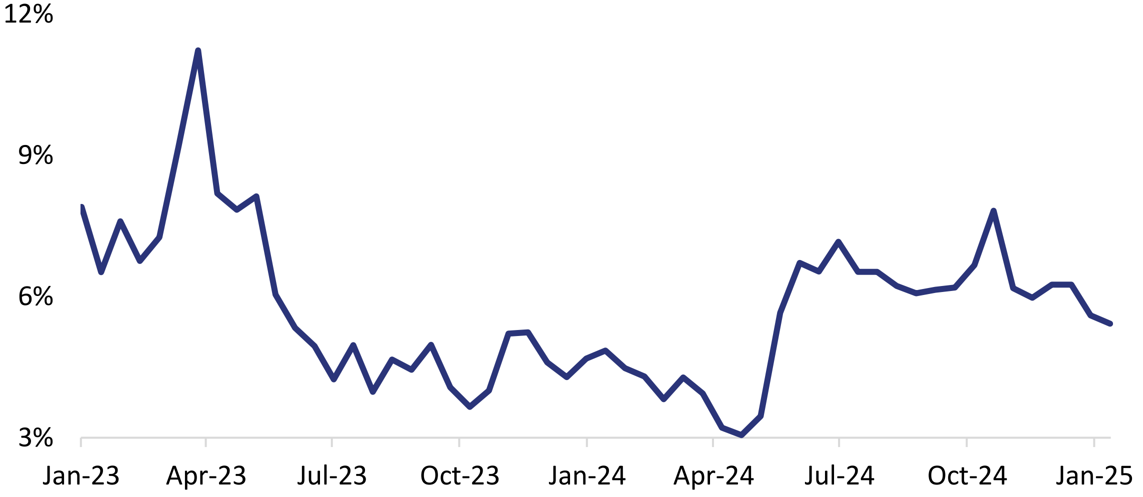
BLOOMBERG INDIA LIQUIDITY INDICATOR* (Rs. trn)



MONEY STOCK M3 (Y/Y)



CURRENCY WITH PUBLIC (Y/Y)

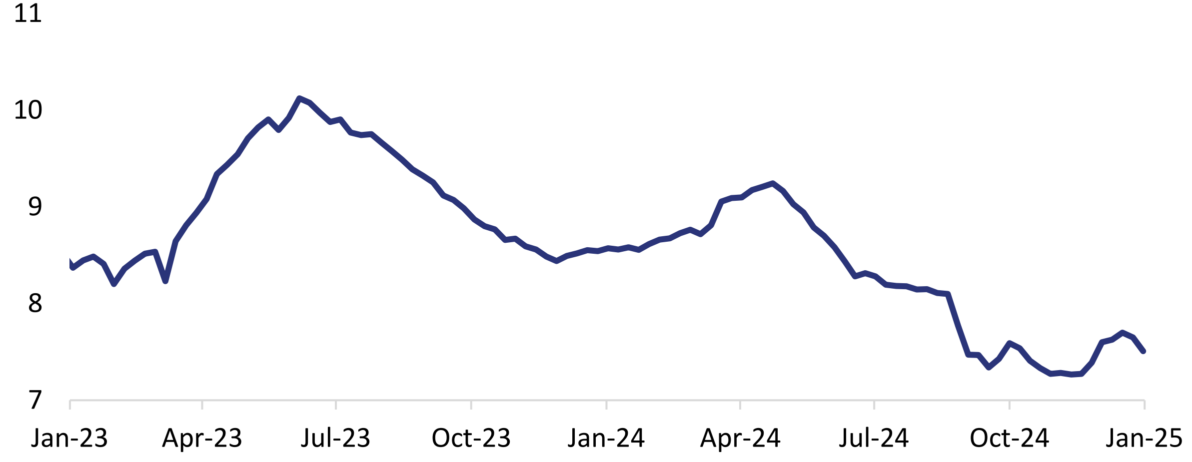


- Banking system liquidity was in deficit in Jan'25 with a record shortfall of Rs. 3.3 trn on 23 Jan'25. This was due to a combination of tax outflows, seasonal increase in cash in circulation, and outgo due to forex operations of RBI
- It has since improved due to a multi-pronged approach by RBI including VRR, OMO, and forex swaps to ease liquidity. The Governor also announced a deferred of proposed norms on LCR which will aid the situation
- RBI has urged banks and other FIs that are parking funds with the RBI in SDF to lend in the uncollateralised call money market, which will reduce the WACR which is the operating mandate of the RBI

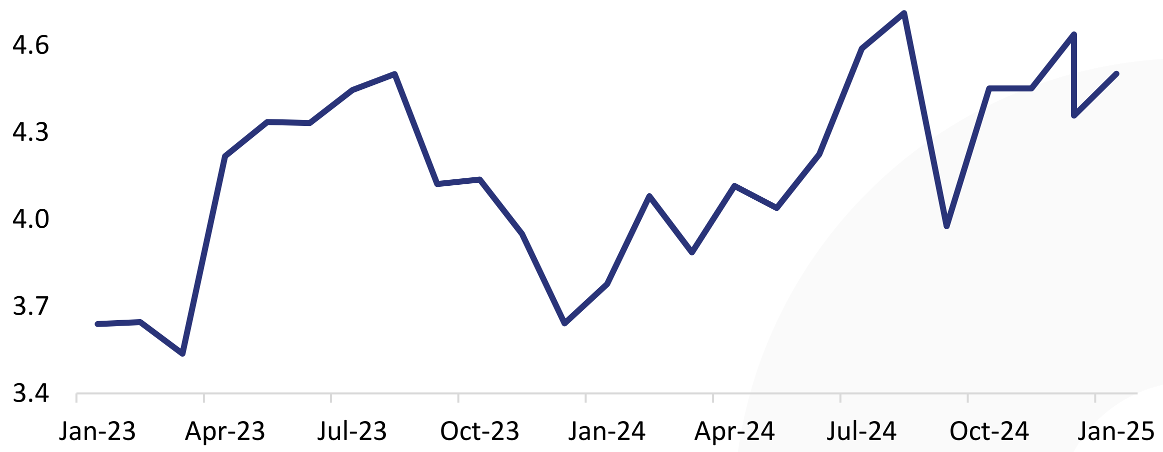
Source: Bloomberg, RBI, SBICAPS; *Negative values indicate surplus

FOREX DRIVEN LIQUIDITY CRUNCH LEADS TO HEIGHTENED VOLATILITY

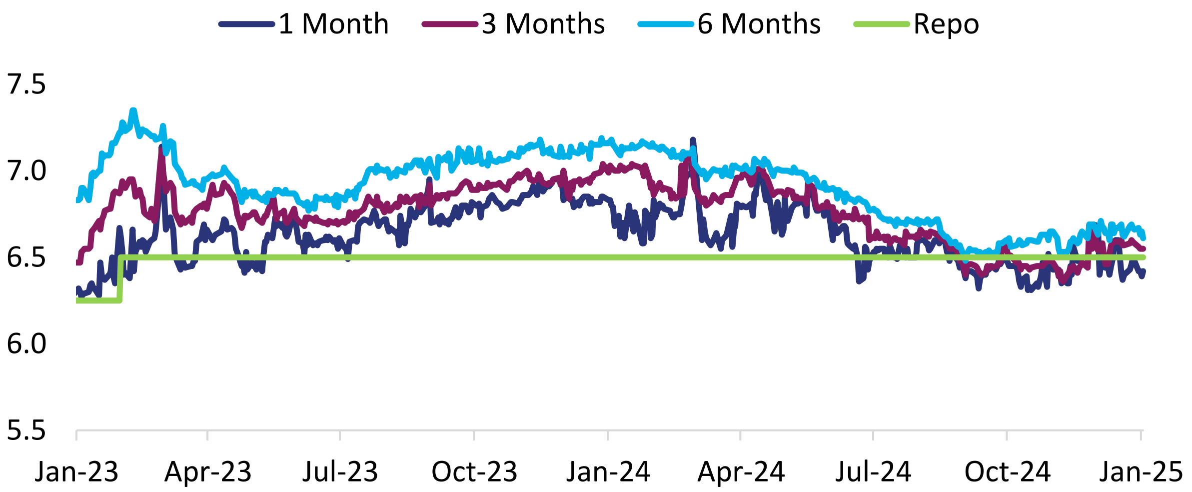
T-BILL OUTSTANDING (Rs. trn)



COMMERCIAL PAPER OUTSTANDING (Rs. trn)



T-BILL SECONDARY YIELDS & REPO (%)

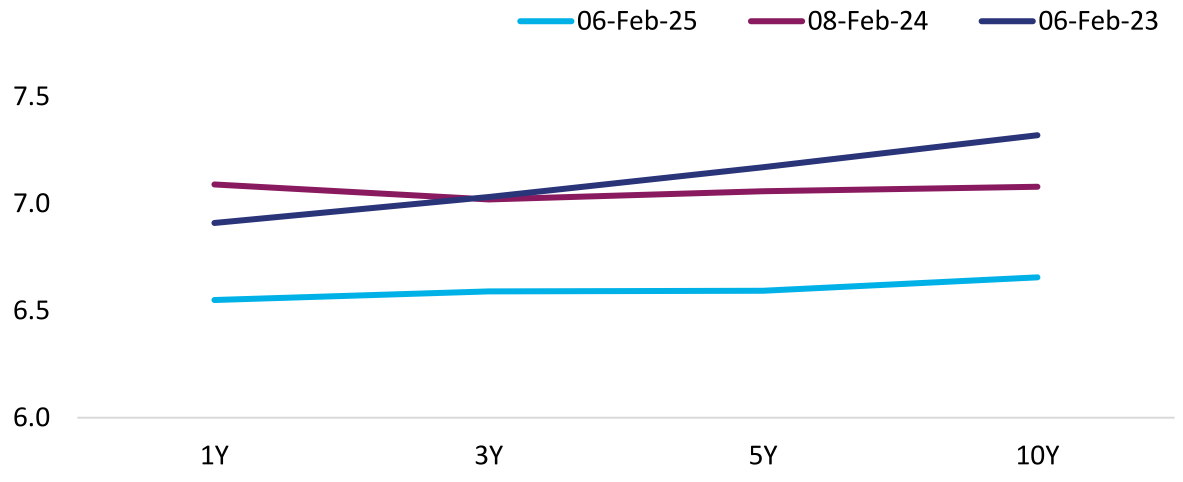


- T-bills outstanding moderated in Jan’25, albeit exceeding notified amount by ~28%, despite taut system level liquidity
- T-bill rates got firmly grounded on expectation of rate cuts and materialization of impact of CRR cuts, marred by bouts of volatility as RBI’s forex interventions sucked durable liquidity out of the system
- Commercial paper issuances rose ~0.2 trn m/m on net basis in Jan’25, despite ~10 bps rise in mid Jan’25 owing to heightened volatility, with NBFCs gasping for liquidity

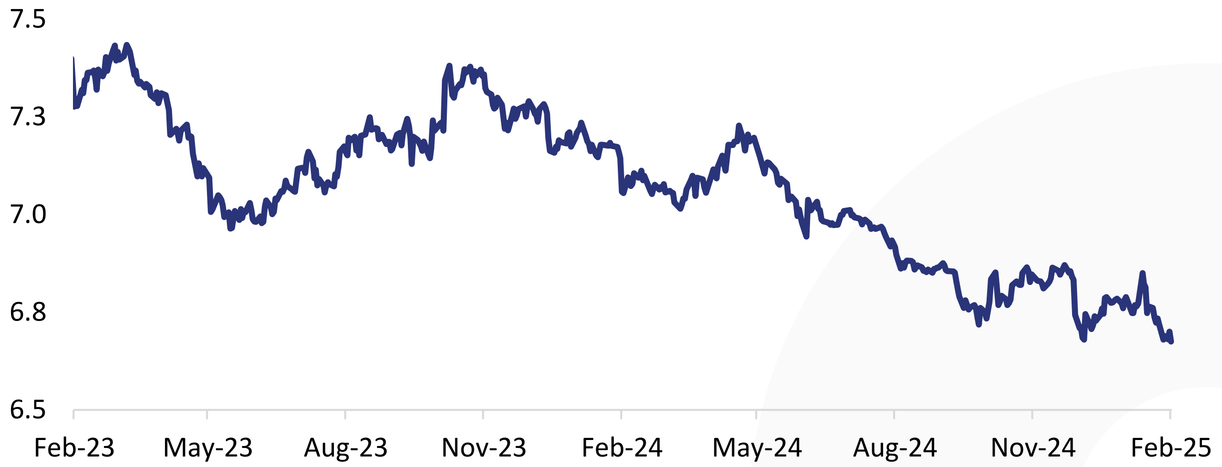
Source: RBI, CEIC, SBICAPS

DOMESTIC YIELDS REMAINS VOLATILE

YIELD CURVE (%)



G-SEC YIELD (10 YEARS) (%)



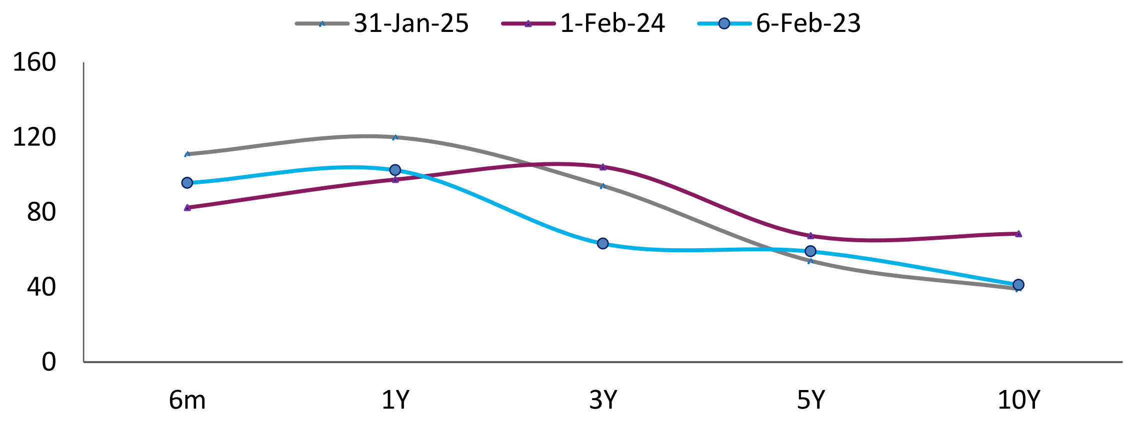
G-SEC YIELD (5 YEARS) (%)

- Indian 10Y G-Sec traded in a wide 14 bps range throughout Jan'25, spiking to a local high of 6.82% on 15th Jan'25, on initiation of new US administration
- Yield curve yielded to a bullish steepening, as the RBI cut the policy repo rate by 25 bps to 6.25%
- 10Y G-sec yields have risen post rate cut as cut was expected, and liquidity remains tight

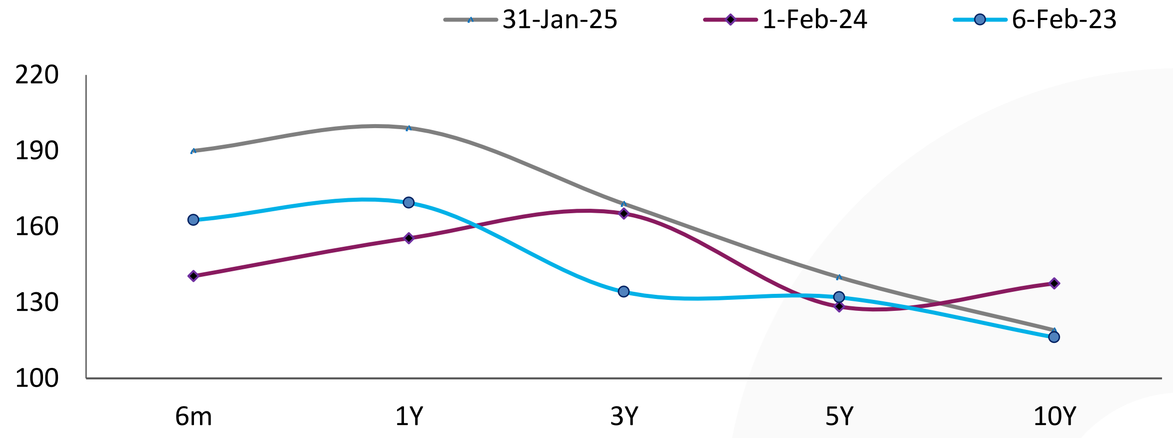
OIS RATES EASE AS LIQUIDITY CONDITION EASES

SBICAPS
Complete Investment Banking Solutions

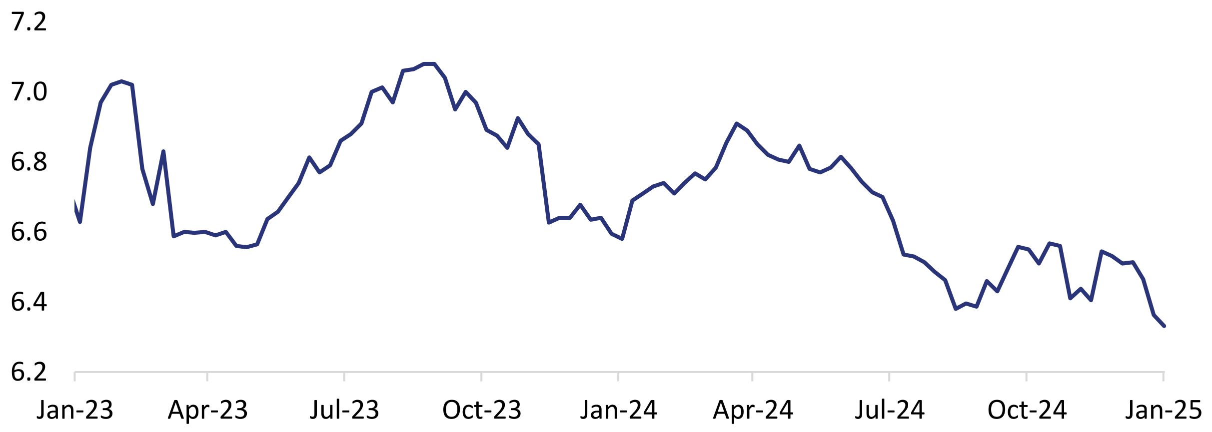
FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



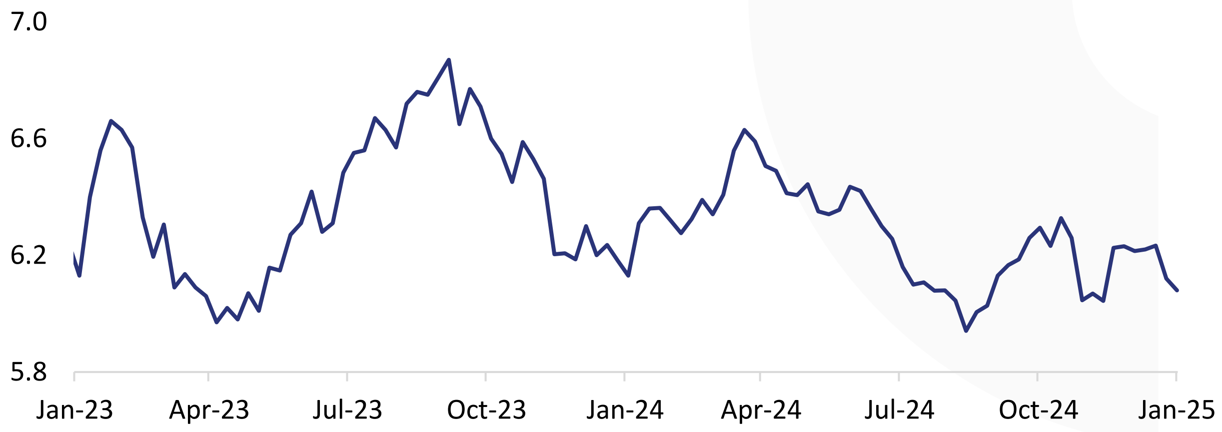
FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1- YEAR (%)



OIS 5 –YEAR (%)



- OIS rates have descended below previous lows by end of Jan’25 as expectations of rate cuts run rife, after spiking in Dec’24 due to increased volatility.

Source: Bloomberg, FIMMDA, SBICAPS

OUTLOOK ON G-SEC YIELDS

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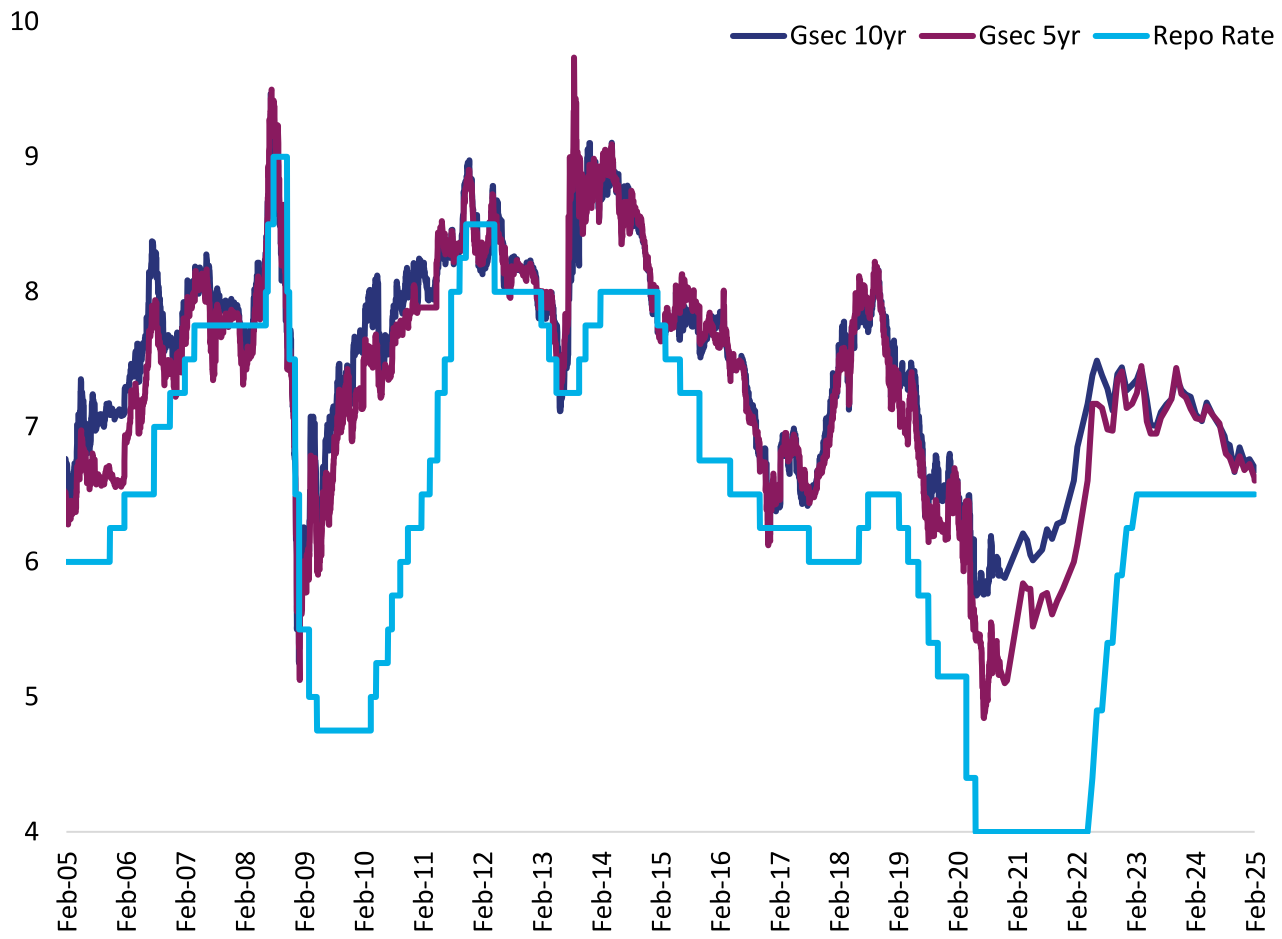
KEY RATES (%)



- We expect headline inflation (CPI) to average ~4.4% in FY26 with evenly balanced risks
- We expect general government (Union + State) fiscal deficit ~7.1% of GDP in FY26

YIELD OUTLOOK

We expect 10Y G-Sec yields to remain in the range of ~6.5%-7.0% in the coming months

Below are the upside and downside risks to our yield outlook:

Yield softening triggers

- Inclusion in global bond indices
- Liquidity surplus
- Softening in commodity prices due to global slowdown

Yield hardening triggers

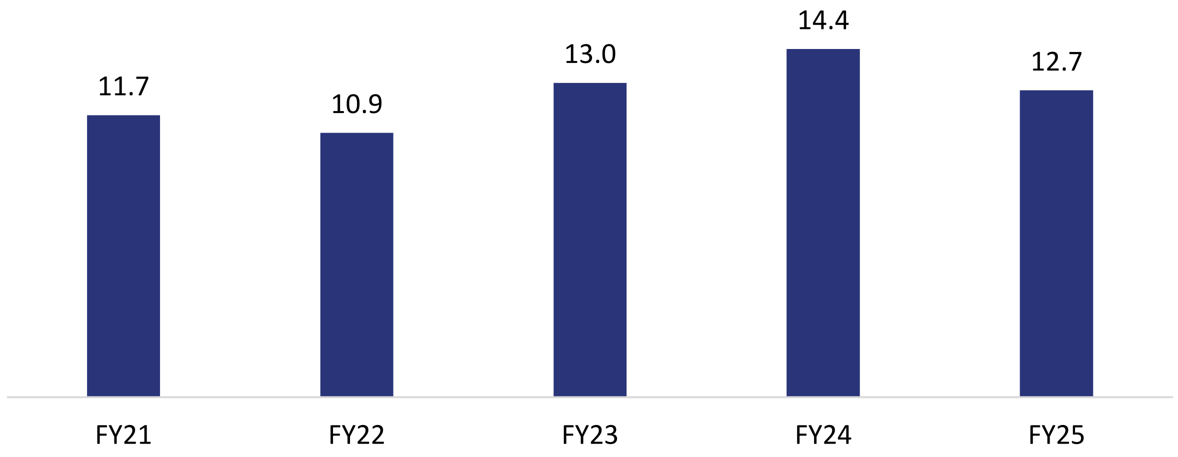
- Higher CPI print than estimate
- Higher crude price- impact on fiscal position and inflation
- Higher government borrowing
- Currency volatility as seen in CY13 and CY18
- Slower than hitherto expected US rate cut trajectory

Source: Bloomberg, SBICAPS

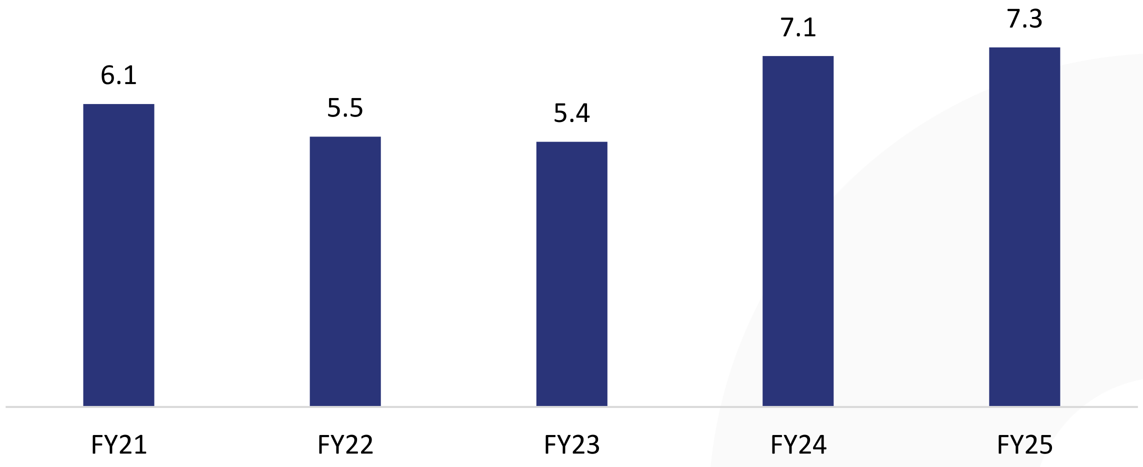
CAPITAL MARKETS

RBI CONDUCTS EXTENSIVE OMO IN JAN’25

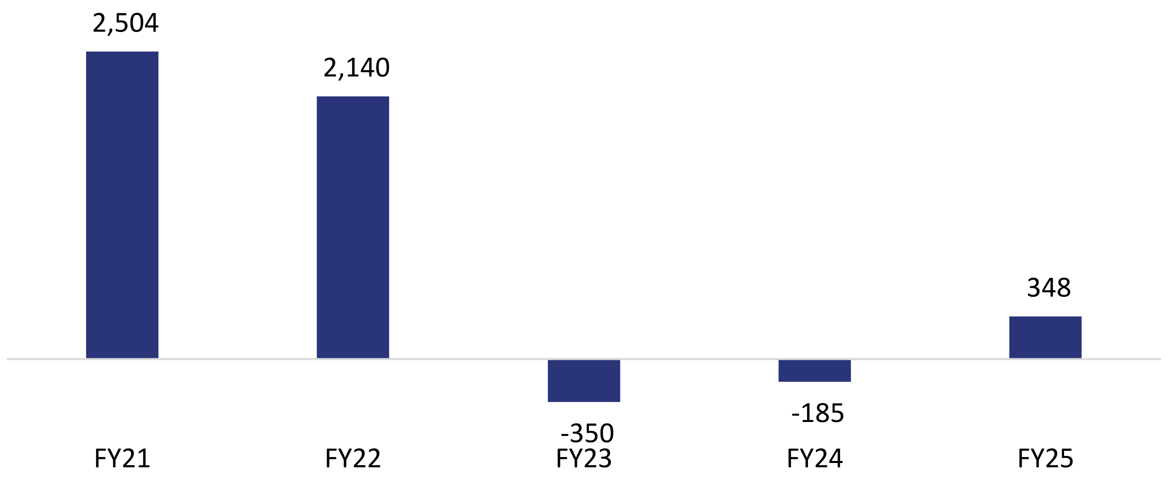
G-SEC: GROSS AMOUNT RAISED YTD (Rs. trn) – 10MFY



SGS BIDS ACCEPTED YTD (Rs. trn) – 10MFY



CUMULATIVE NET OMO PURCHASES (Rs. bn) – 10MFY

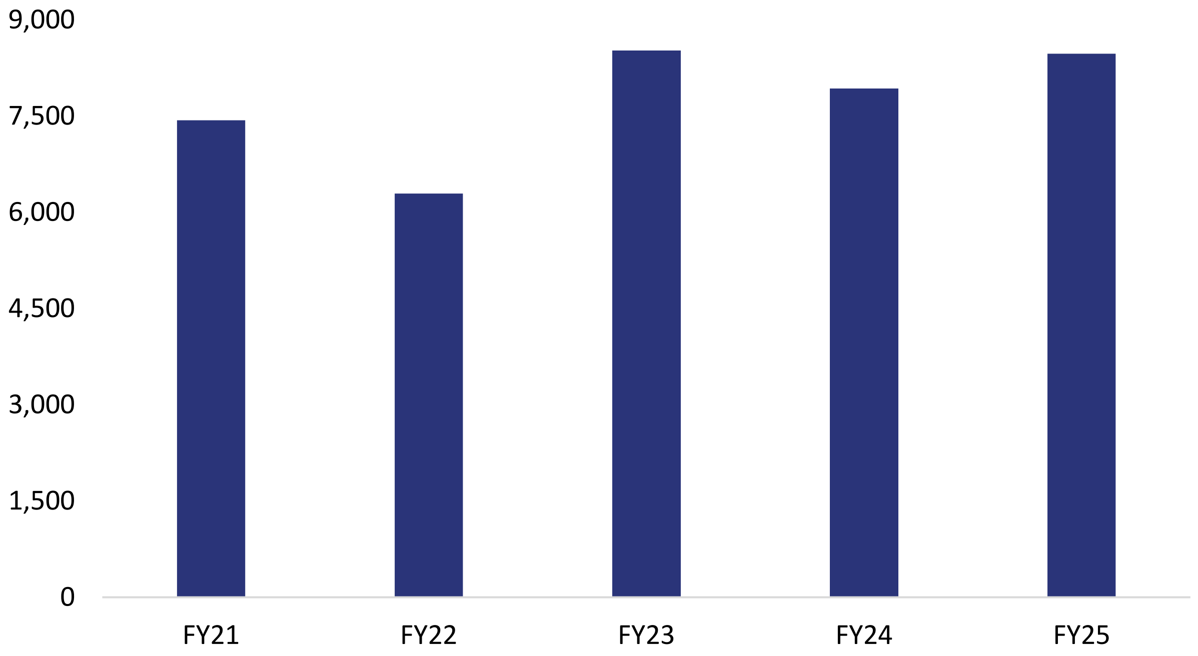


- Gross borrowing is projected at Rs. 14.82 trn as per FY26BE, with net borrowing at Rs. 11.54 trn. The increase in gross borrowing reflects higher repayments, as net borrowings are expected to decrease
- RBI conducted significant OMO purchases to the tune of Rs. 588 bn in Jan’25, wiping out the net sales built up in 9MFY25. This was RBI’s attempt to replenish liquidity into the system taken out by its forex machinations

Source: RBI, CEIC, SBICAPS

CORPORATE DEBT ISSUANCE SLOWS DOWN IN JAN'25

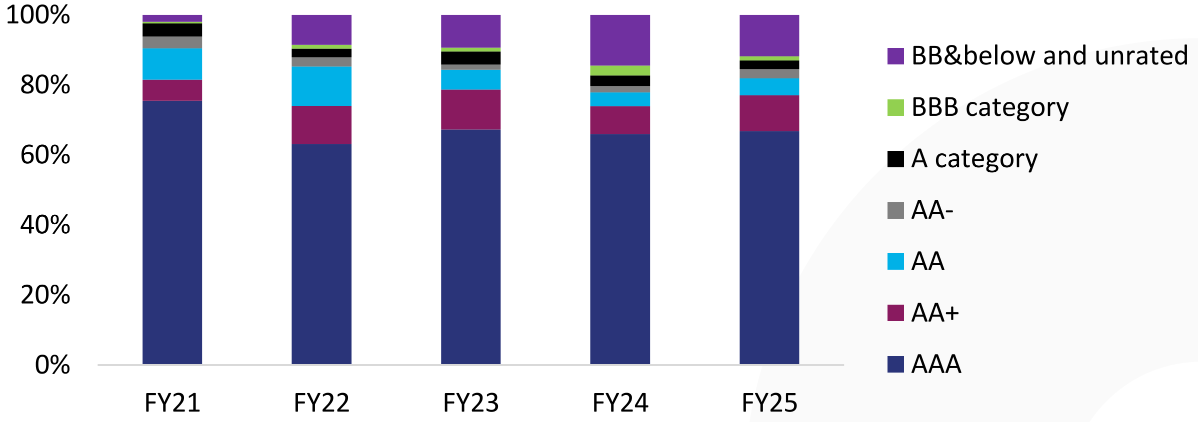
GROSS PRIVATE PLACEMENTS – 10MFY (Rs. bn)



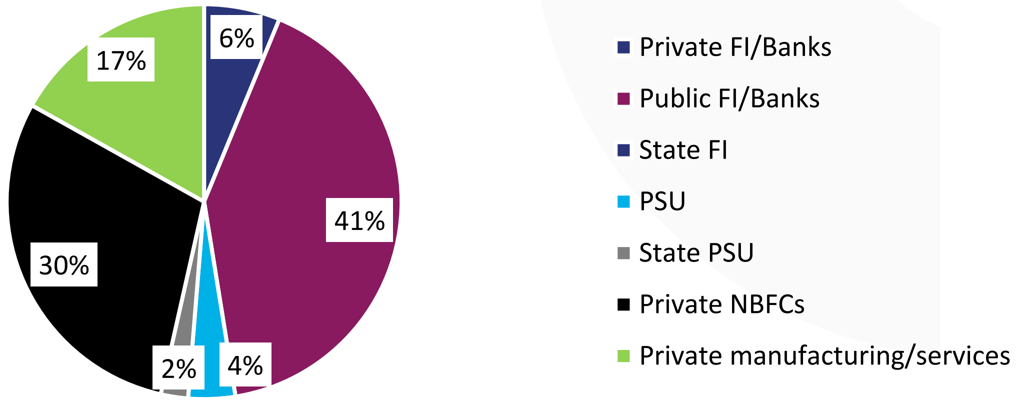
- Private placements are up 7% y./y in 10MFY25 on a generous base. Notably, private placements fell 11% y/y in Jan'25, owing to a expectation of rate cut and a liquidity crunch

- Public FIs/Banks have seen increased activity in 10MFY25, growing ~23% y/y, with significant increase in share receded from private manufacturing/services.

GROSS ISSUANCE WITH RATING SPLIT (%) - 10MFY

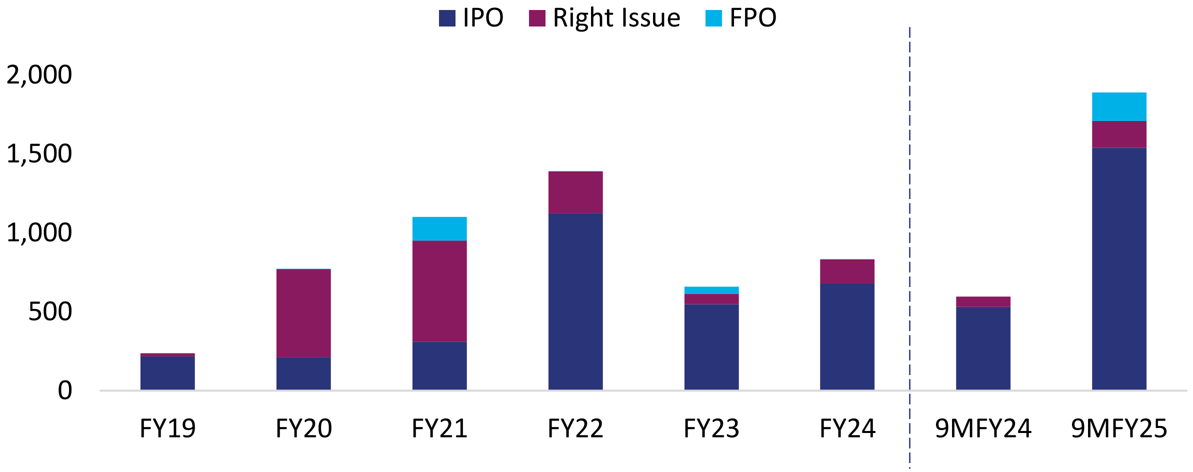


ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- 10MFY25

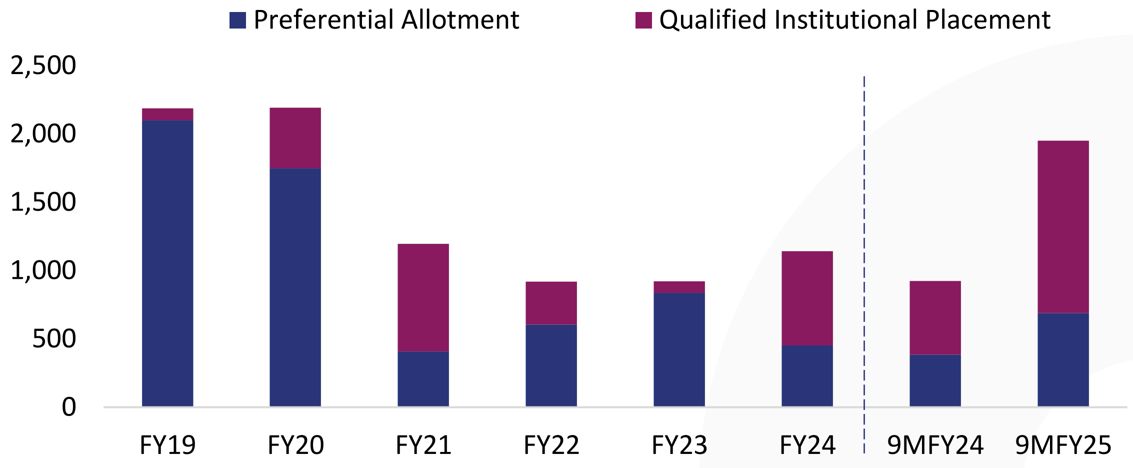


RECORD EQUTIY MOBILISATION THROUGH PRIMARY MARKETS IN FY25

EQUITY MOBILISATION THROUGH PRIMARY MARKETS - PUBLIC AND RIGHTS ISSUE (Rs. Bn)



EQUITY MOBILISATION THROUGH PRIMARY MARKETS – PRIVATE (Rs bn)



EQUITY CAPITAL RAISED - PUBLIC AND RIGHTS ISSUE (Rs. bn)

Sector	FY24	9MFY25
Automobile and Auto Components	6.0	342.3
Telecommunication	1.3	227.2
Financial Services	128.3	158.4
Power	2.7	103.0
Construction	7.7	91.7
Others	279.4	263.5
Total	530.2	1,186.2

- Equity mobilization through primary equity capital markets in 9MFY25 is already ~2.3x FY24 levels
- Beyond public markets, private primary markets also continue to gain steam, reaching ~Rs. 2 trn (1.8x FY24 levels) led by unprecedented QIPs

Source: SEBI, SBICAPS

GLOBAL SNAPSHOT

GLOBAL TRADE DYNAMICS MOULDS ASSET CLASSES RETURNS

COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	2%	15%
Copper	5%	13%
Aluminium	4%	18%
Iron Ore 62% Fe*	9%	-16%
Gold	7%	42%
Brent Crude	-6%	-8%
Natural Gas	-14%	85%
Newcastle Coal	-9%	-11%

EQUITY INDICES	%1M CHANGE	%1Y CHANGE
S&P 500	3.4%	19.9%
Nikkei 225	-0.8%	5.3%
STOXX Europe 600	6.1%	11.9%
FTSE 100	5.5%	14.9%
BSE Sensex 30	0.0%	8.0%
Hang Seng	12.8%	36.6%
IBOV	4.8%	-2.7%

CURRENCIES	%1M CHANGE	%1Y CHANGE
DXY Index	-1.3%	4.0%
USD/EUR	-0.7%	4.4%
USD/JPY	-3.6%	1.8%
USD/GBP	-1.6%	1.8%
USD/CNY	-0.4%	1.6%
USD/INR	1.8%	5.5%

Note: Positive numbers indicate strengthening USD

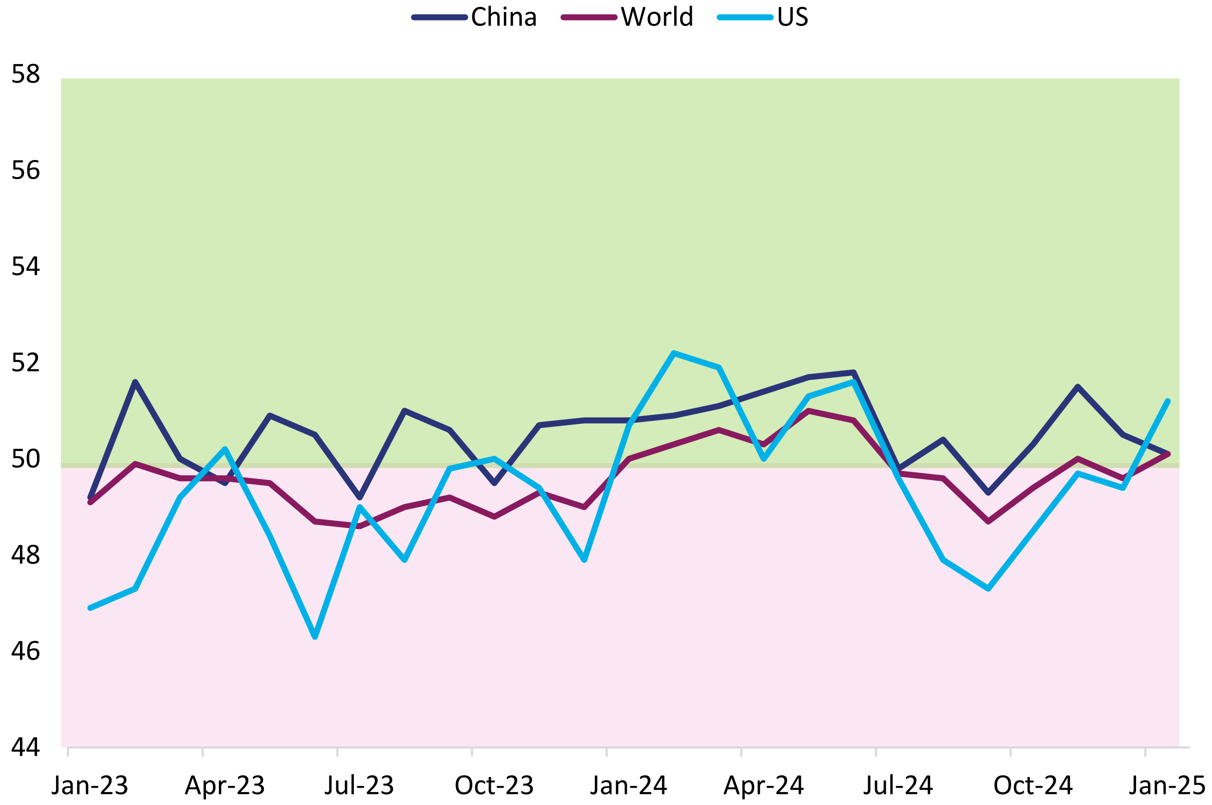
- Intensifying tariff actions led to unrelenting bullishness in the USD against basket of global currencies from which it has hence receded. Tougher restrictions on Russian and Iranian oil has led to stiffening of crude oil prices, with mild recovery in base metals
- Backdrop of strong growth with a changing world order led to volatile rise in global equities in Jan’25. Notably, Asian markets rallied in the 2nd half of Jan’25, with POTUS Trump moderating his views on tariffs and China’s AI revolution.

1Y & 1M change are as of 07 Feb’24, * CFR China

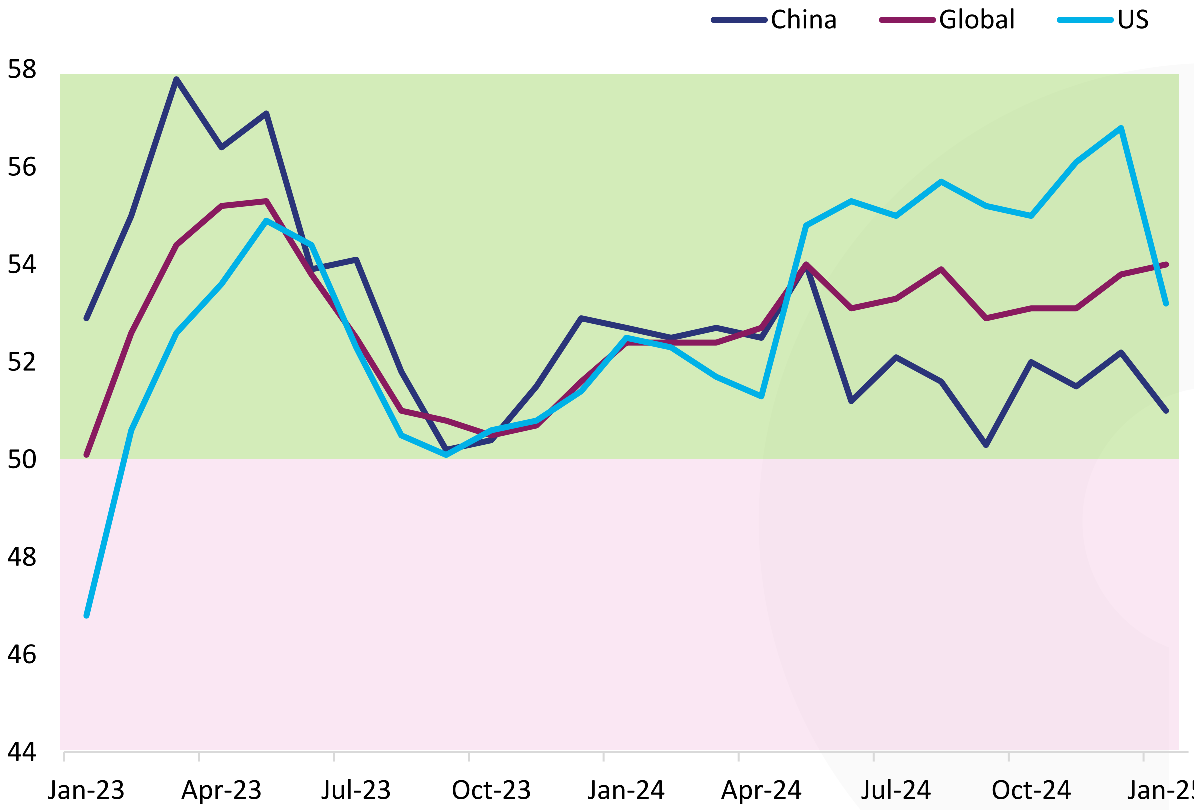
Source: Bloomberg, SBICAPS

ECONOMIC GROWTH BALANCES OUT IN JAN'25

GLOBAL PMI- MANUFACTURING



GLOBAL PMI- SERVICES

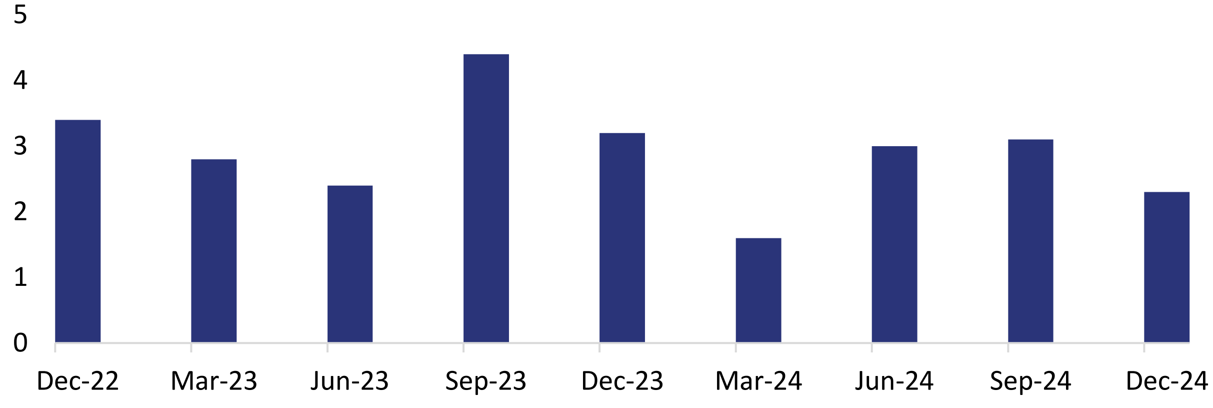


- Global manufacturing PMI rebounded to 50.6, turning expansionary for the first time in 7 months, with solid gains in new orders offset by slowing exports trend. Regional disparities persist, with strong showings from US and China offset by morose conditions in Euro Area and Japan
- Service sector expansion slowed to 12-month low of 52.2 in Jan'25, with slower demand growth and rising price pressures. Softer rise in services activity was balanced by manufacturing vigour, leading to composite PMI remaining expansionary at 51.8 in Jan'25.

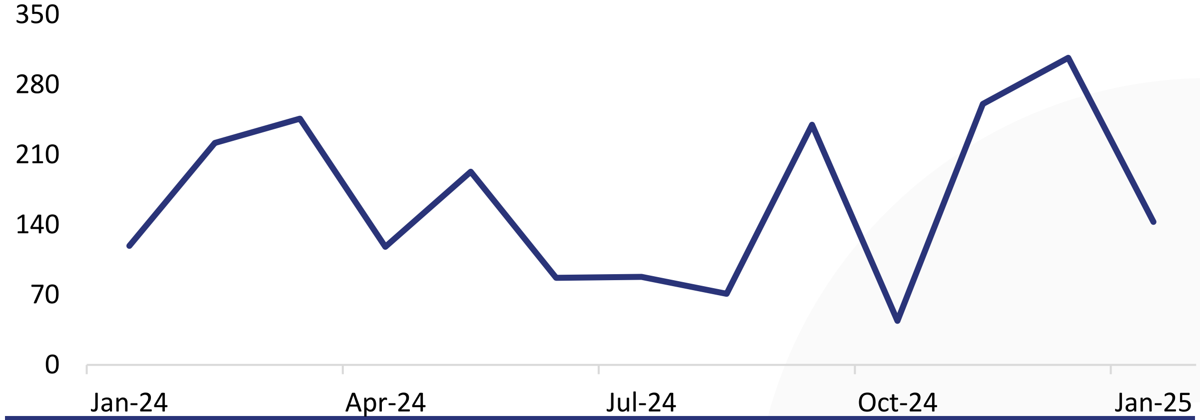
Source: S&P Global, Bloomberg, SBICAPS

CONSUMER SPENDING HOLDS UP US ECONOMIC RESILIENCE IN CY24

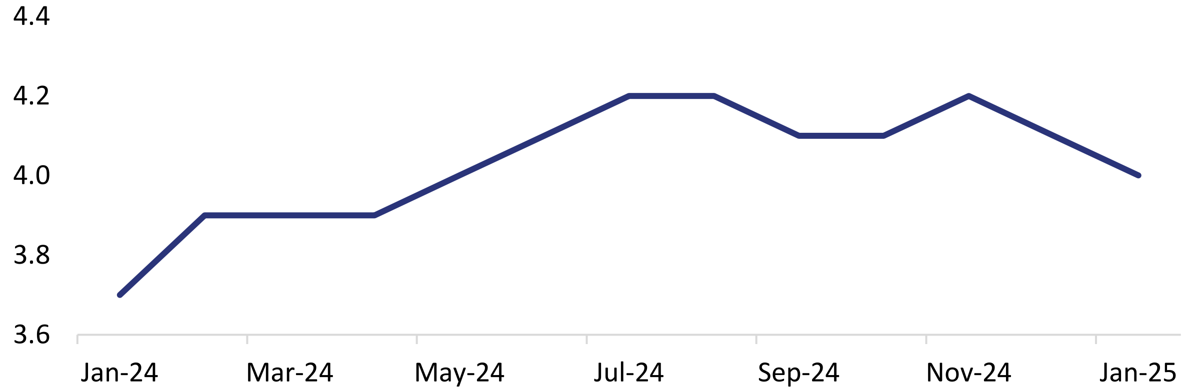
US REAL GDP GROWTH (% Q/Q SAAR)



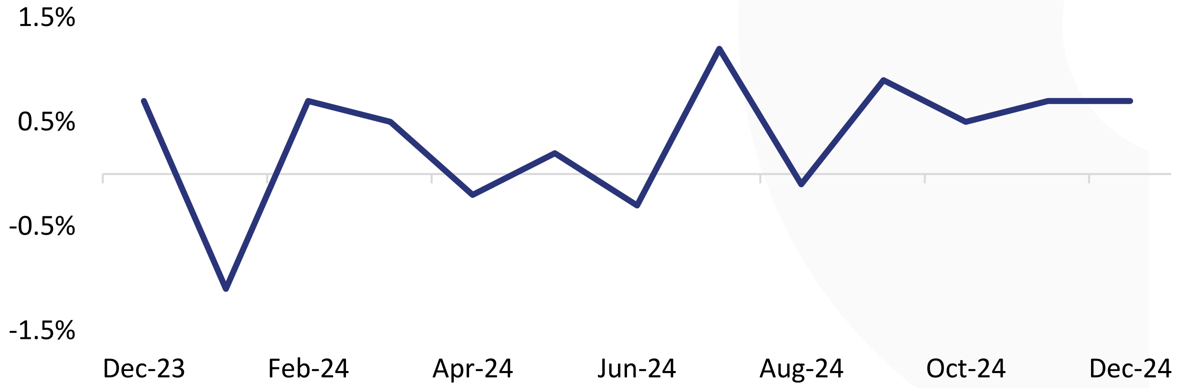
CHANGE IN NON-FARM PAYROLL ('000 M/M)



UNEMPLOYMENT RATE (%)



RETAIL SALES (M/M)



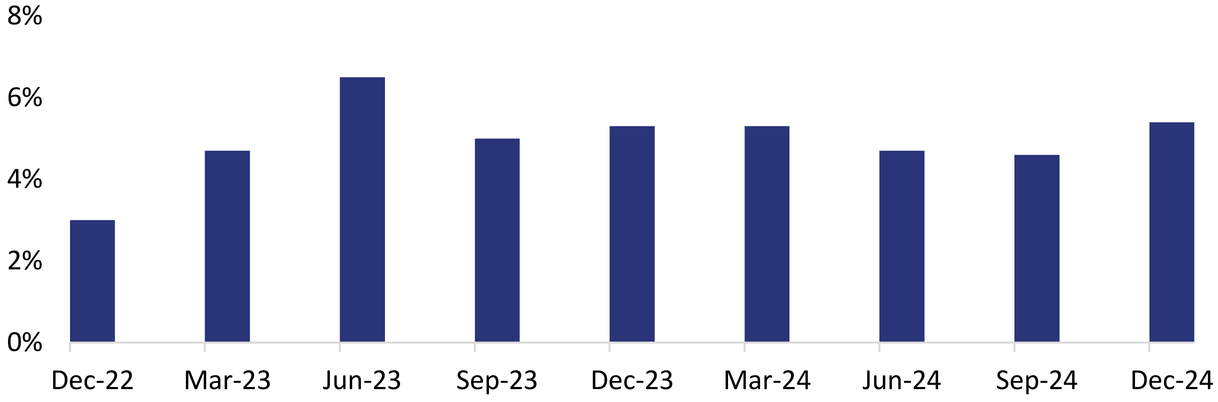
- US real GDP rose 2.3% q/q saar in Q4CY24, underwhelming market expectations, driven by 4.2% q/q saar rise in consumer spending and buoyant government spending, offset by slumping private investments. Real GDP grew 2.8% y/y in CY24, from 2.9% y/y in CY23. Retail sales corroborates strong consumer spending amidst strong holiday shopping season.

- US payrolls growth slowed to 140k additions in Jan'25, caused partly by major upward revisions to previous 2-months' data amidst a slowdown due to wildfires California and cold weather across the country. Headline numbers depict labour market strength when considering unemployment rate reduced 0.1 pp to 4% in Jan'25.

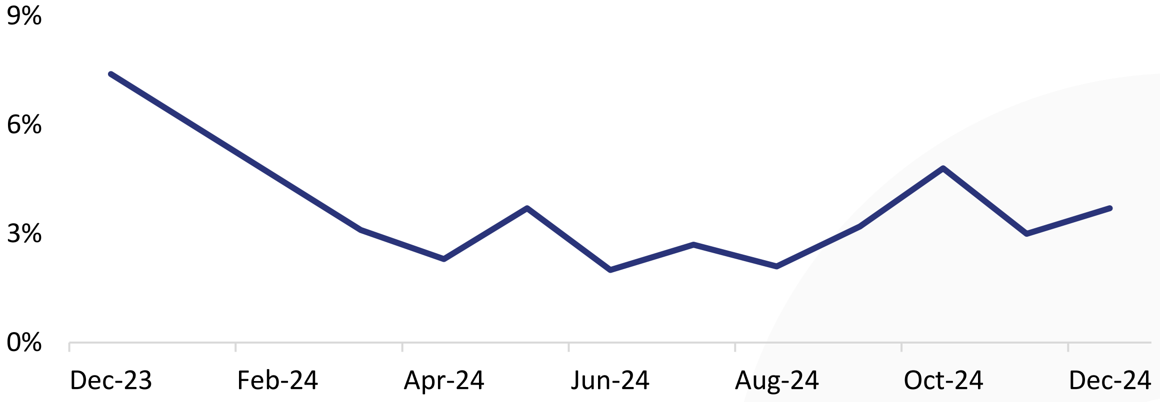
Source: Bloomberg, US BLS, SBICAPS

FESTIVE SEASON BOOSTS HOPES OF CHINESE RECOVERY

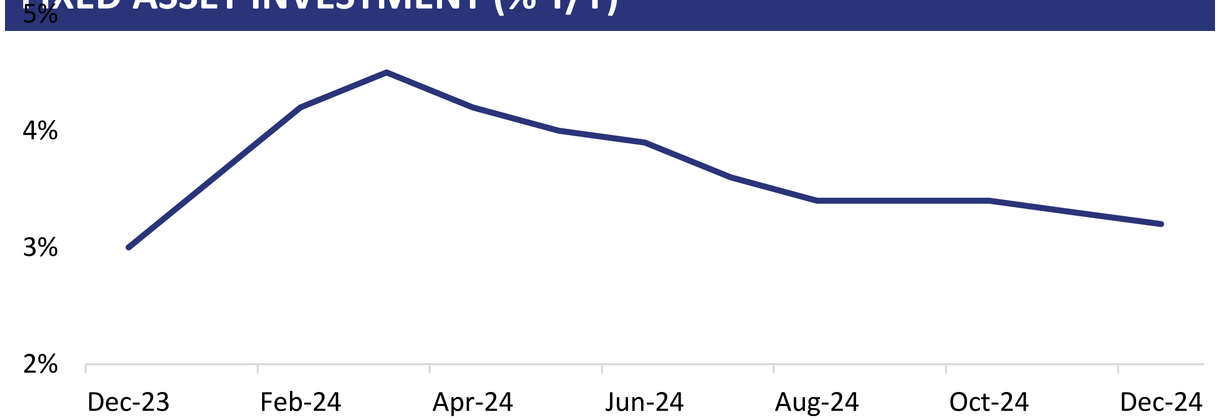
CHINA REAL GDP GROWTH (% Y/Y)



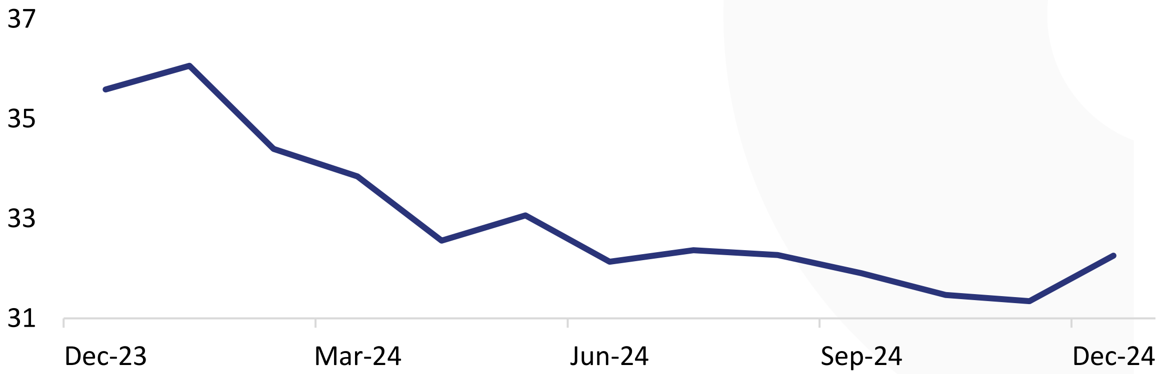
RETAIL SALES (% Y/Y)



FIXED ASSET INVESTMENT (% Y/Y)



AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



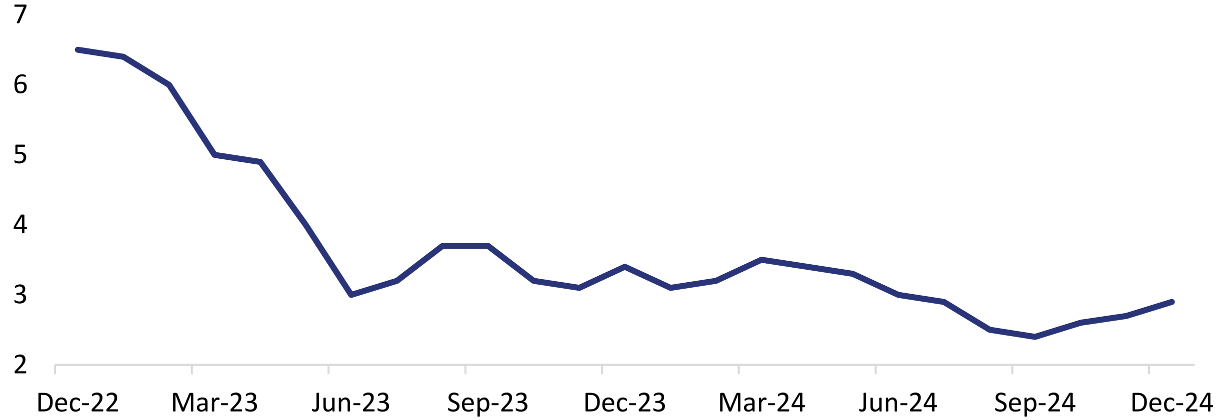
- China's real GDP expanded 5.4% y/y in Q4CY24, supported by slew of measures to prop up latent demand, taking the economic growth to 5% y/y in CY24, in line with targets. China announced slew of restrictions targeting trade with US, including export controls on key minerals and tariffs on US imports, in retaliation to US trade offensive.

- Festive seasons boosted retail sales to grow by 3.7% y/y and industrial output by 6.2% y/y in Dec'24, exceeding market expectations. Chinese banks extended CNY 990 bn in new yuan loans in Dec'24, due to government measures to stimulate credit demand. New yuan loans totalled CNY 18.1 trn in CY24, its lowest since CY19, reflective of reluctance in leveraging.

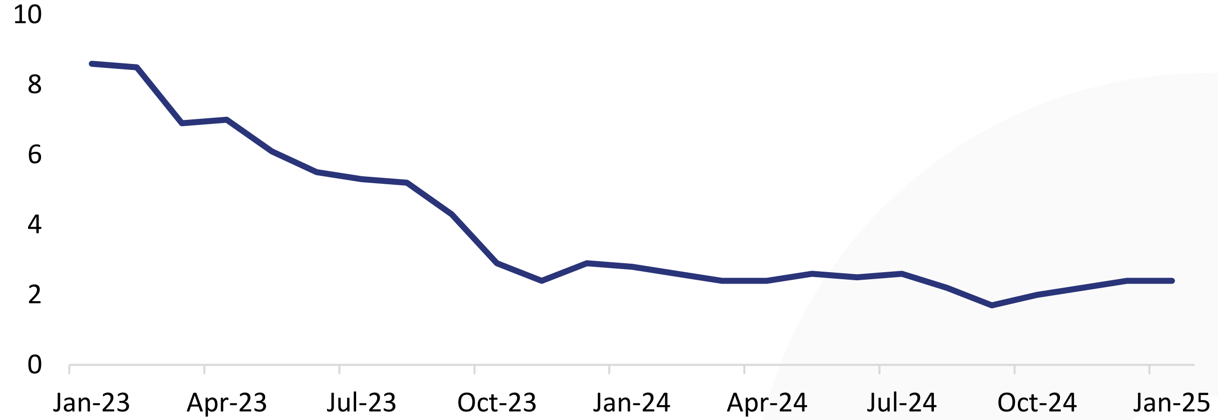
Source: Bloomberg, SBICAPS

INFLATIONARY WOES RE-EMERGE, AMIDST RISING TRADE UNCERTAINTY

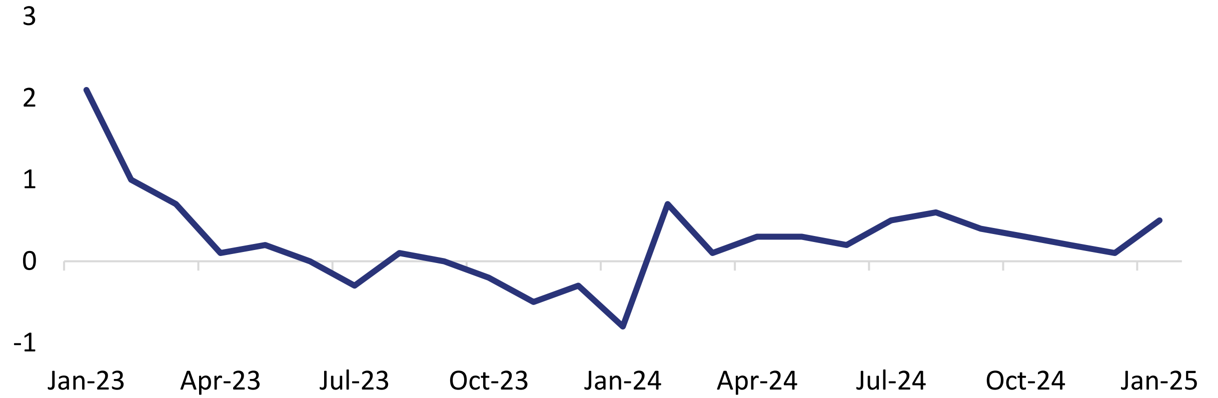
US CPI (% Y/Y)



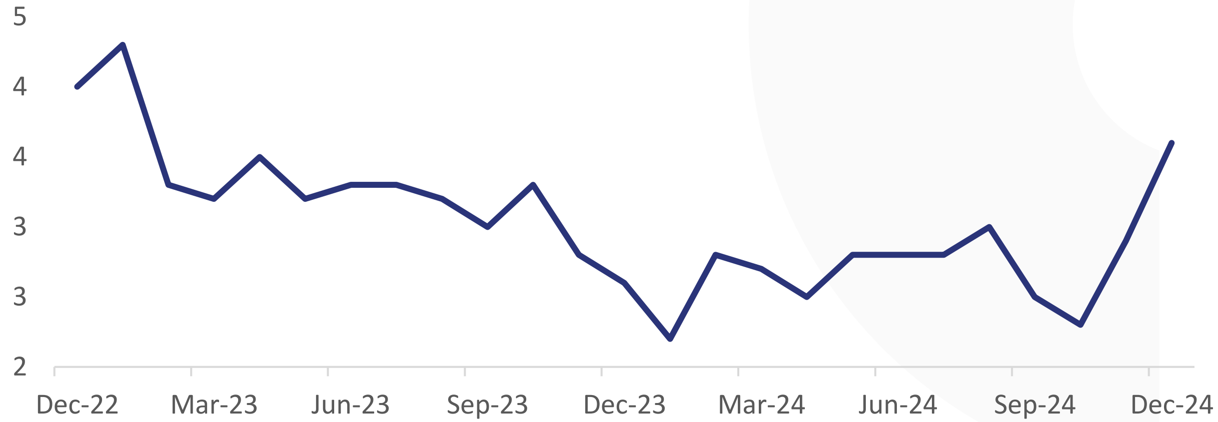
EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



JAPAN CPI (% Y/Y)



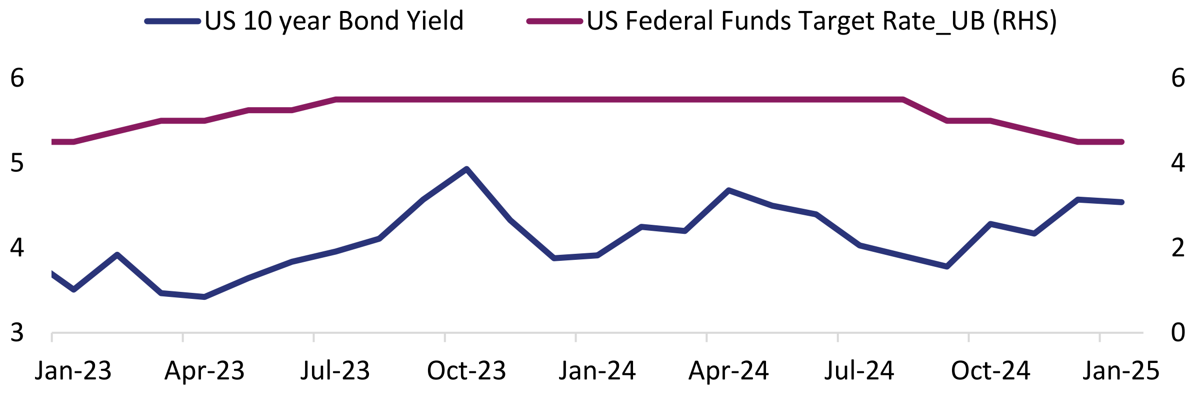
- US inflation is experiencing a stubborn spell with PCE rising to 2.6% y/y in Dec'24, and core PCE stuck at 2.8% y/y reflective of stalling inflation progress. Eurozone inflation accelerated against expectations in Jan'25, driven by stubborn services inflation and resurgence of energy prices.

- Asian Central Banks rejoice in the inflation uptick as sustainable price rise bodes well for BoJ's bid for hike, while festive season demand spurs China's inflation to 5-month high in Jan'25.

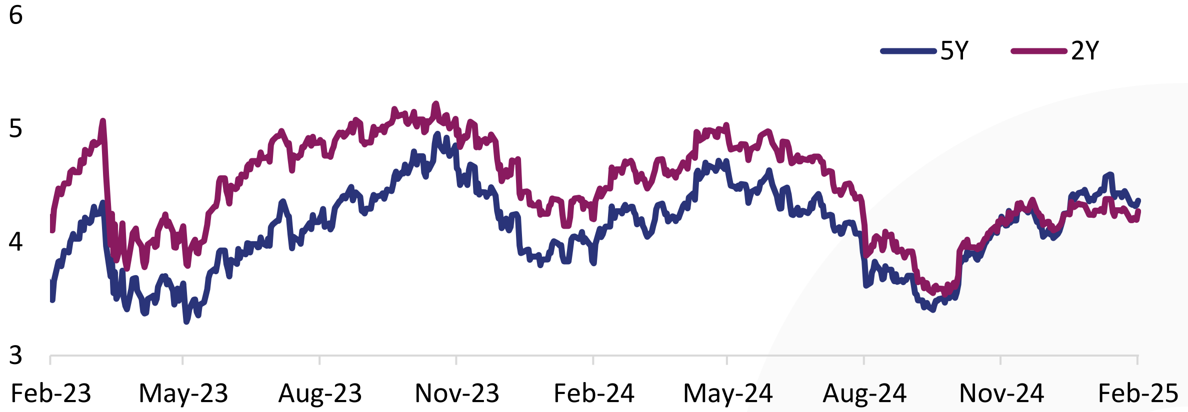
Source: Bloomberg, SBICAPS

US YIELDS SUBJECT TO SHALLOWER RATE CUT EXPECTATIONS

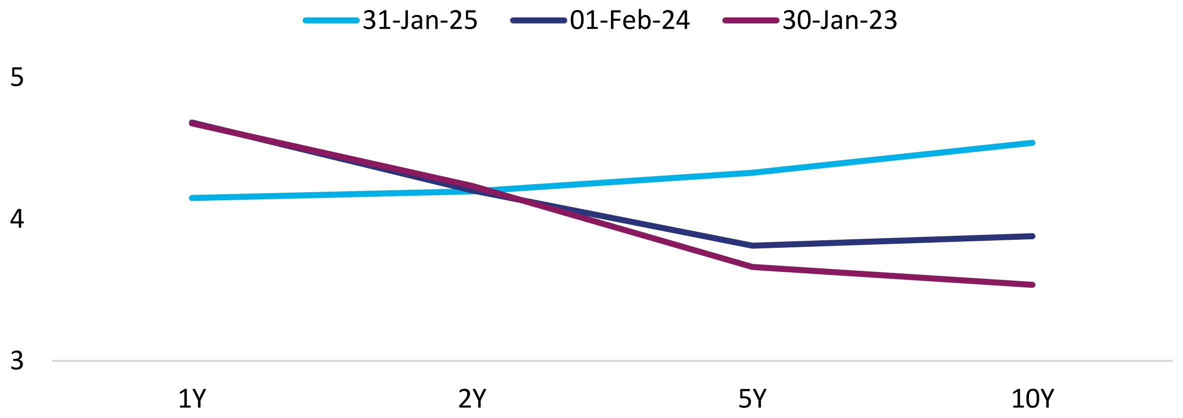
US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



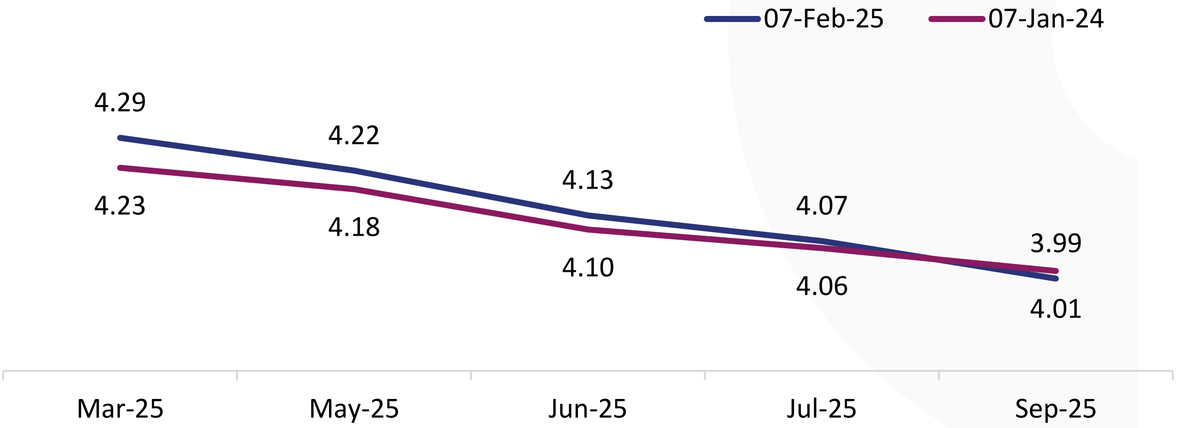
US 2Y AND 5Y G-SEC YIELD (%)



YIELD CURVE (%)



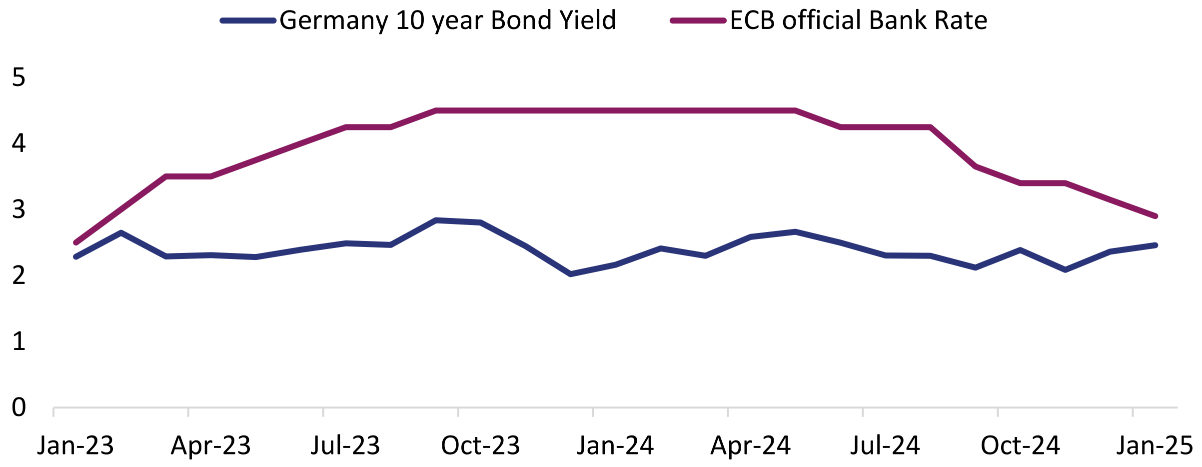
MARKET-IMPLIED PATH OF US FED POLICY RATE (%)



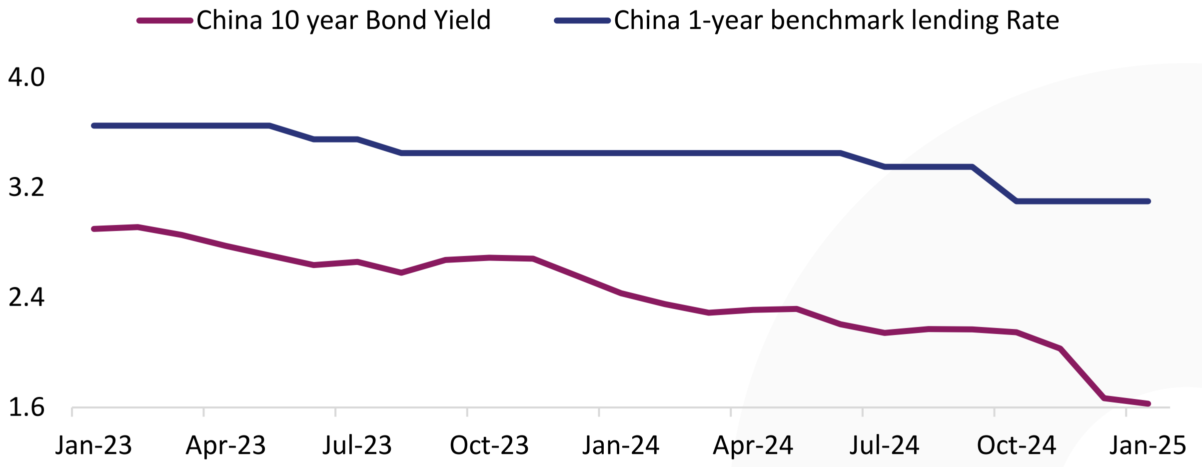
- US yields ended Jan’25 on the same levels where they started ~4.5%, albeit with extreme volatility, with a range of ~30 bps, rising on the back of tariff laden policies of new administration, while receding due to softer than expected inflation print. US Fed officials have been alluding to pause in rate cuts, owing to strong demand and progressing disinflation.

GLOBAL CENTRAL BANKS DIVERGE ON MONETARY POLICY ACTIONS

EUROZONE 10-YEAR BOND YIELD VS POLICY RATE (%)



CHINA 10-YEAR BOND YIELD VS POLICY RATE (%)



POLICY RATE OF OTHER MAJOR CENTRAL BANKS

REGION	FEB'20	MAR'21	MAR'22	MAR'23	CURRENT
England	0.75%	0.10%	0.75%	4.25%	4.75%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	0.50%
Brazil	4.25%	2.75%	11.75%	13.75%	13.25%
Australia	0.75%	0.10%	0.10%	3.60%	4.35%
Canada	2.00%	0.50%	0.75%	4.50%	3.00%
S. Korea	1.25%	0.50%	1.25%	3.50%	3.00%
S. Africa	6.25%	3.50%	4.25%	7.75%	7.50%
Russia	6.00%	4.50%	20.00%	7.50%	21.00%

- Japan raised policy rates by 25 bps to their highest since 2008 at 0.5%, underscoring confidence that rising wages will keep inflation at 2% target moving forward.
- Europe saw coordinated efforts in lowering interest rates with ECB slashing rates by 25 bps to 2.75%, citing weak growth outlook. BoE followed suite with 25 bps cut to 4.5%, with stark slowdown prompting policymakers to consider more easing
- Americas saw extremely divergent policy actions with Mexico enacting an outsized 50 bps cut to 9.5% and Canada delivering a 25 bps cut to 3%. Brazil hiked policy rate by 100 bps to 13.25%

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06

ECONOMIC CALENDAR

GLOBAL ECONOMIC CALENDAR – (11 FEB – 28 FEB)

DATE	AREA	EVENT	PERIOD
10	CH	New Yuan Loans CNY YTD	Jan
10	CH	Aggregate Financing CNY YTD	Jan
12	**IN**	**Industrial Production YoY**	**Dec**
12	**IN**	**CPI YoY**	**Jan**
12	**IN**	**Trade Balance**	**Jan**
13	US	Federal Budget Balance	Jan
13	JN	PPI YoY	Jan
13	UK	GDP YoY	4Q P
14	**IN**	**Wholesale Prices YoY**	**Jan**
14	EC	GDP SA YoY	4Q P
14	EC	Employment QoQ	4Q P
14	US	Retail Sales Advance MoM	Jan
14	US	Industrial Production MoM	Jan
14	US	Business Inventories	Dec
14	CH	BoP Current Account Balance	4Q P
17	JN	GDP Annualized SA QoQ	4Q P
17	JN	Industrial Production YoY	Dec F
18	EC	ZEW Survey Expectations	Feb
18	US	NAHB Housing Market Index	Feb
19	JN	Trade Balance	Jan
19	CH	New Home Prices MoM	Jan
19	UK	CPI YoY	Jan
19	US	Housing Starts	Jan
19	US	Building Permits	Jan P
20	US	FOMC Meeting Minutes	
20	CH	1-Year Loan Prime Rate	
20	CH	5-Year Loan Prime Rate	
21	JN	Natl CPI YoY	Jan
21	UK	GfK Consumer Confidence	Feb
21	JN	Jibun Bank Japan PMI Composite	Feb P
21	IN	HSBC India PMI Composite	Feb P
21	EC	HCOB Eurozone Composite PMI	Feb P
21	UK	S&P Global UK Composite PMI	Feb P
21	US	S&P Global US Composite PMI	Feb P
21	US	U. of Mich. Sentiment	Feb
21	US	Existing Home Sales	Jan
24	EC	CPI YoY	Jan
25	CH	1-Yr Medium-Term Lending Facility Rate	
26	US	New Home Sales	Jan
26	US	Building Permits	Jan
27	US	GDP Annualized QoQ	4Q S
27	US	Durable Goods Orders	Jan P
27	US	Pending Home Sales NSA YoY	Jan
28	JN	Industrial Production YoY	Jan P
28	JN	Retail Sales YoY	Jan
28	**IN**	**GDP YoY**	**4Q**
28	**IN**	**Fiscal Deficit YTD INR**	**Jan**
28	**IN**	**GDP Financial Year Estimate YoY**	**2025 S**
28	**IN**	**Eight Infrastructure Industries**	**Jan**
28	US	Advance Goods Trade Balance	Jan
28	US	PCE Price Index YoY	Jan

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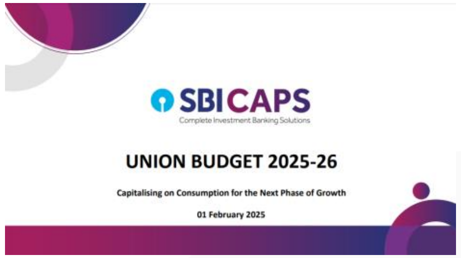
07 FEBRUARY 2024

RBI MPC
USING POLICY TOOLS TO REMOVE BARRIERS FOR GROWTH

February 2025

UNION BUDGET 2025-26
Capitalising on Consumption for the Next Phase of Growth

February 2025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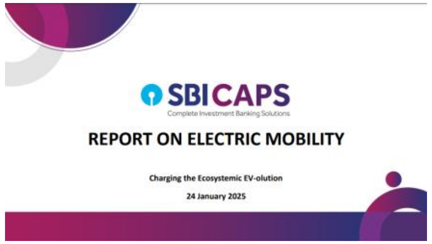
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Charging the Ecosystemic EV-olution
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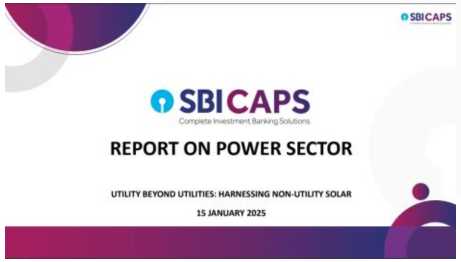
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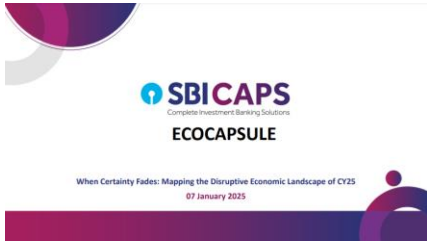
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January 2025

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THE H2ERO OF NET ZERO?

December 2024


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THE H_2ERO OF NET ZERO?
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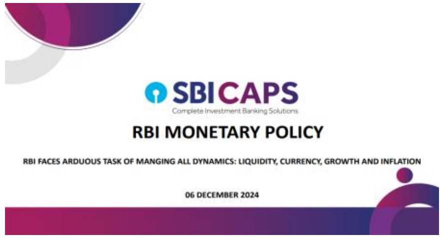
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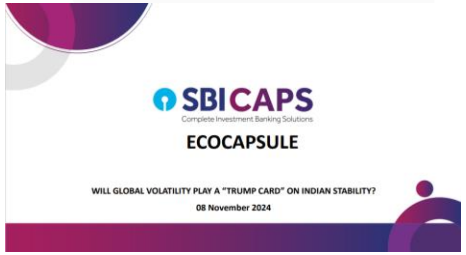
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