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Abstract

April 2025 was characterised by several geopolitical and economic developments. The United States announced, implemented, and eventually paused a targeted tariff regime, pending further bilateral negotiations. These developments engendered heightened uncertainty across the global economy. The IMF's World Economic Outlook (WEO) April 2025 has projected a marked drop in global growth rates for 2025 and 2026. Inflation trajectories towards central bank targets will now be slower and more drawn-out in advanced economies and quicker in emerging economies, compared to projections in the WEO October 2024. As a result, central bank policy rate pathways have begun to diverge, leading to potential implications for capital flows and financial markets. As countries continue to negotiate, the US announced interim trade deals with the UK and China in the first half of May 2025.

Building upon the momentum established in the latter half of FY25, economic activity demonstrated resilience in the first month of FY26, despite a challenging global environment. High-frequency indicators for April 2025, including Goods and Services Tax (GST) collections, E-way bill generation, diesel consumption, and the Purchasing Managers' Index (PMI) for both manufacturing and services, collectively reflect a healthy level of industrial and commercial activity. Notably, several of these indicators attained their highest or second-highest levels during April 2025. This progress is underpinned by robust demand conditions within the economy. While domestic passenger vehicle sales numbers reached an all-time high for the month of April in 2025, retail sales of tractors remained steady. The steady macroeconomic performance of the Indian economy amidst a volatile global outlook over the past few years has led to a sovereign credit rating upgrade from BBB (low) to BBB, with a stable outlook from the global credit ratings agency, Morningstar DBRS.

On the inflation front, in April 2025, retail inflation continued its downward trend, easing from 3.34 per cent in March to 3.16 per cent. This marks the lowest year-on-year inflation rate since July 2019, indicating a positive shift toward price stability. The overall reduction in inflation can largely be attributed to a notable decline in food inflation, which has now reached its lowest level since November 2021. The outlook for food inflation is expected to remain benign on the back of a good rabi crop harvest, an increase in the area sown under summer crops and a healthy procurement of foodgrains. Additionally, the forecast of an above-normal monsoon by the Indian Meteorological Department bolsters this outlook.

Indian bond yields are softening on the back of low and stable inflation, and RBI debt purchases, while the bond yields on the US Treasury have tightened. In turn, the risk premium of India's G-Secs has decreased notably, reaching a historical low of just over 160 basis points versus the 10-year US Treasury yield. In the future, India will benefit from supply chain adjustments, diverse foreign direct investment sources, and greater collaboration with global investors seeking resilience and growth, supported by its existing trade connections.

An analysis of state finances reveals that with about a constant level of committed expenditure; states are facing less of a budget constraint to undertake discretionary revenue expenditure. While many states running revenue surpluses could undertake more capex, states with revenue

deficits may rein them in, while retaining capex spend. Curbing states' debt would not only enhance their own debt sustainability but also help reduce overall government debt, supporting improved fiscal health and greater macroeconomic stability.

The external sector performance remains resilient, with FY26 commencing on a favourable note. India's total exports (merchandise and services) grew by 12.7 per cent YoY in April 2025, despite heightened trade policy uncertainty. In pursuit of a diversified trade policy, India and the UK signed a forward-looking free trade agreement aligned with India's vision of *Viksit Bharat*. Additionally, India's steady performance in services exports and remittance inflows continues to serve as an important buffer for its current account. The Indian rupee strengthened in April 2025 and remains one of the best-performing major currencies against the US dollar. With this stability and a stronger external position, India's foreign exchange reserves remain adequate, providing an import cover of approximately eleven months.

Labour market indicators have shown encouraging trends. White-collar hiring witnessed a revival with core sectors such as pharma, real estate and global capability centres (GCCs) registering double-digit growth. The employment sub-indices of the PMI point to a continued recovery in hiring, with the index remaining in the expansionary zone for the fourteenth consecutive month. Formal job creation is also on the rise, as indicated by the growing net payroll additions under the Employee Provident Fund Organisation.

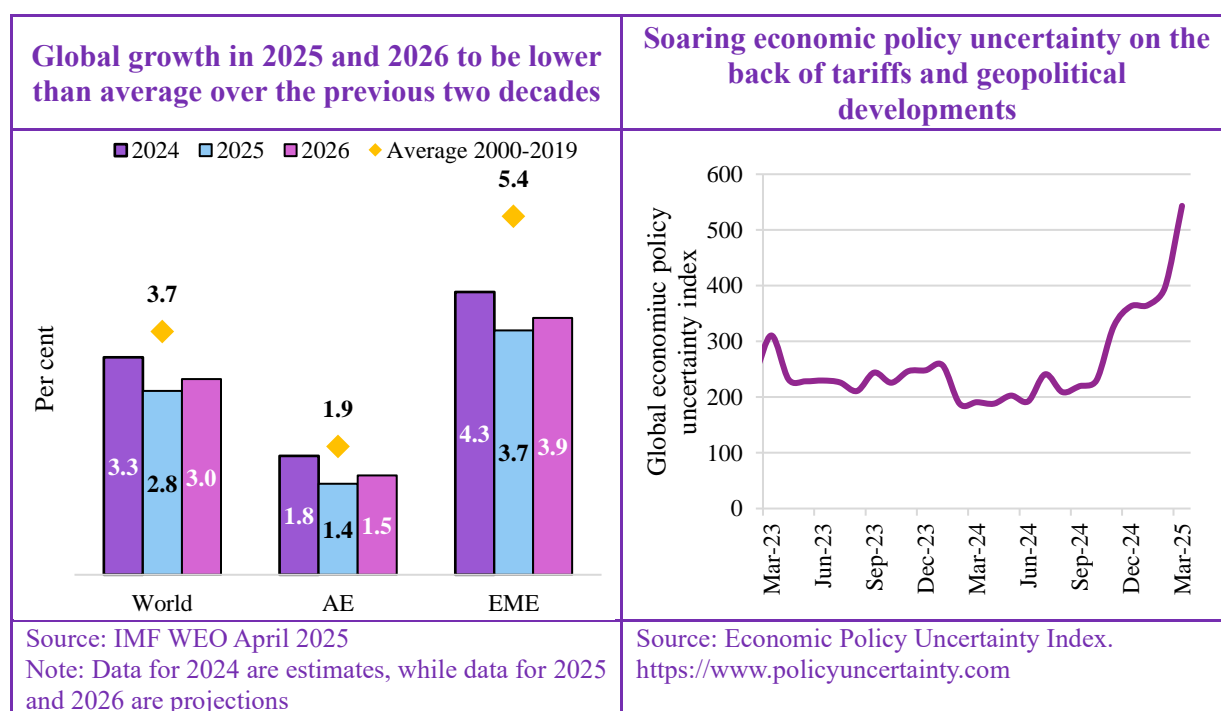
As of April 2025, India remains the fastest-growing major economy despite a revision of growth rates amid rising global uncertainties and trade tensions. Multiple agencies project India's growth to be a range of 6.3 – 6.7 per cent in FY26, supported by robust domestic fundamentals, stable macroeconomic management, and growing government capital expenditure, while declining inflation strengthens this outlook. However, external risks persist, notably from a 26 per cent US tariff on Indian imports, though a temporary suspension is in place as bilateral negotiations continue. A successful trade deal could mitigate these risks and boost exports, even as private investment remains cautious in the face of global uncertainty.

Ultimately, investors look both for absolute and relative strengths of an economy and the market to invest in. In that respect, the trade-related and other global uncertainties faced by India are faced by several other nations but most of them lack the advantages that India has: macroeconomic stability, fiscal policy that is focused on quality of expenditure and prudence delivering lower cost of capital to the country, a benign inflation and monetary policy backdrop and financial and corporate sectors with strong balance sheets.

This may be no moment for self-congratulation but, equally, it is a moment to remember one's strengths and leverage them to make oneself not just attractive but also indispensable to investors.

Volatile trade policy shifts weigh on global economic outlook

1. The month of April witnessed the beginning of a rapidly evolving geopolitical and economic scenario. Sweeping tariff impositions by the United States on all countries were followed by retaliatory escalations by China and the EU. These country-specific tariffs were eventually suspended at least until July 9, 2025, pending further negotiations, and as on date, a flat 10 per cent tariff applies to imports from all countries, effective April 10, 2025.¹ Some economists and business leaders have expressed concerns that these measures could raise consumer prices, reduce imports and global trade in general, and risk pushing the US economy towards recession due to higher inflation and dampening consumer spending. While the measures may result in increased tariff revenues for the U.S.,² they could also lead to adjustments in global supply chains and heightened trade tensions. As businesses across the globe front-loaded their imports /exports and resorted to stocking of inventory, the global developments also led to a string of sovereign rating revisions, including a downgrade of US and China and an upgrade for India.



2. In this context, global economic growth is now poised to moderate. In its World Economic Outlook (WEO) issued in April 2025, the International Monetary Fund (IMF) projected the global economy to grow by 2.8 per cent in 2025 and 3 per cent in 2026. This is a significant downward revision from the earlier projection of 3.3 per cent for both years in the January 2025 WEO update and much below the historical (2000–19) average of 3.7 per cent. These revisions are largely attributed to the recent shifts in global tariff policies on account of countries reordering their policy priorities, which have added to the already existing structural

¹ An update on the state of US Tariffs as of 12th May 2025 can be found at the following link: <https://budgetlab.yale.edu/research/state-us-tariffs-may-12-2025>

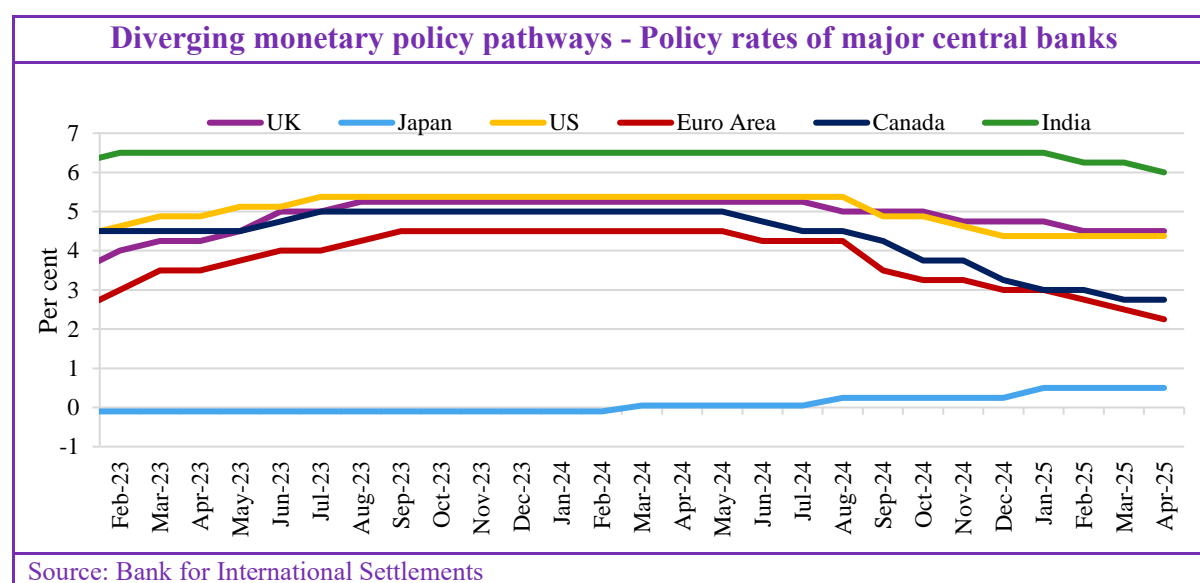
² JP Morgan expected the tariffs to generate potentially nearly \$400 billion, or about 1.3% of US GDP (Source: <https://www.jpmorgan.com/insights/global-research/current-events/us-tariffs>)

challenges across economies, as discussed in Chapters of the Economic Survey 2024–25.³ Consequently, economic policy uncertainty across the globe has soared to record levels and continues to remain elevated.

3. Higher effective tariffs have also changed the inflation trajectories across economies. Inflation is now expected to rise notably in advanced economies (AEs), while slowing marginally in emerging market and developing economies (EMDEs) than as expected in the WEO October 2024. It is interesting, however, that inflation rates in the US and in Canada surprised on the downside in April. On balance, the global inflation trajectory is expected to remain the same.

Inflation trajectories of AEs rising and those of EMDEs marginally falling						
	Global inflation		Inflation in AE		Inflation in EMDE	
	Oct '24	Apr '25	Oct '24	Apr '25	Oct '24	Apr '25
2025	4.3	4.3	2.0	2.5	5.9	5.5
2026	3.6	3.6	2.0	2.2	4.7	4.6
Source: Databases of IMF WEO April 2025 and October 2024						
Note: Apr '25 refers to WEO (April 2025) and Oct '24 refers to WEO October 2024						

4. The difference in economic activity and inflation trajectories has a notable implication for future monetary policy pathways, particularly in AEs. It is observed in the graph below that while the monetary policy easing cycle by major AE central banks began simultaneously, policy paths have diverged of late. While the US Federal Reserve and the Bank of England have chosen to keep policy rates steady, the European Central Bank (ECB) and Bank of Canada have implemented sharper rate cuts, anticipating the impending slowdown. In India, the Reserve Bank of India (RBI) lowered the repo rate from 6.25 per cent to 6 per cent, marking the second rate cut since February 2025, when it was reduced for the first time since the rate-hiking cycle began in April 2022. These developments could impact the evolution of cross-border capital flows. India is likely better placed in this regard, as its monetary policy is aligned with external and domestic price and output developments.



³ <https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf>

5. As countries gathered at the negotiating table, the US announced interim trade deals with the UK⁴ and China⁵ in the first half of May 2025. However, heightened policy uncertainty and volatile and adverse trade policy shifts continue to present key downside risks to the global outlook. Other downside risks identified in the WEO include escalating conflicts and geopolitical tensions, demographic shifts, shrinking foreign labour force in major advanced economies, higher inflation, increased debt servicing liabilities, more limited international development assistance, and more extreme weather events related to climate change.

Domestic economy remains resilient in April 2025 amid global turmoil

6. In India, the growth momentum gained since the second half of FY25 has continued into the first month of FY26 as well. Despite a challenging global environment, economic activity appears to remain resilient. GST Collection reached an all-time high of ₹2.4 lakh crore in April 2025, registering a growth of 12.6 per cent. E-way bill generation increased to the second-highest level of 11.9 crore in April 2025, with a year-on-year growth of more than 20 per cent for the second consecutive month. This robust momentum in goods movement signals sound business activity and is also indicative of stronger GST collections in May 2025. Diesel consumption rebounded in April 2025, driven by the increased agricultural, industrial and commercial activity. The diesel consumption for April was a record high and the second highest recorded across all months. Meanwhile, petrol consumption remained steady.

7. Industrial production, as measured by the Index of Industrial Production (IIP), grew by 4 per cent YoY in FY2025. The output of the 8 core infrastructure industries increased by 0.5 per cent YoY in April 2025. The slow growth was primarily caused by a 4.5 percent decline in refinery production. Since more than one-fifth of these products are exported, the decrease was largely due to weakening global demand. However, the output of other key industries such as cement, coal and steel grew by 6.7 per cent, 3.5 per cent and 3.0 per cent, respectively. Also, manufacturing activity gauged by the manufacturing PMI, remains in the expansionary zone, on the back of strong expansion in order books and robust demand. Total sales were supported by rapid expansion in export orders, which may indicate a potential shift in production to India, as businesses adapt to the evolving trade landscape and US tariff announcements.

8. In April 2025, the Services PMI stood in the expansionary zone at 58.7, above the long-run average of 54.2. New export orders gained momentum, reaching their fastest pace since July 2024. Also, port traffic increased by 7.0 per cent in April 2025, indicating higher trade activity.

9. High-frequency indicators for the first month of the FY26 show that demand conditions have remained resilient in April 2025. UPI payments continue to grow at a double-digit rate both in volume and value on a Year-over-Year (YoY) basis. Rural demand, proxied by tractor

⁴Details regarding the US-UK trade deal can be found at the following link: <https://www.whitehouse.gov/fact-sheets/2025/05/fact-sheet-u-s-uk-reach-historic-trade-deal/>

⁵Details regarding the interim US-China deal can be found at the following link: <https://www.whitehouse.gov/briefings-statements/2025/05/joint-statement-on-u-s-china-economic-and-trade-meeting-in-geneva/>

sales, remained steady and grew by 7.7 per cent in April 2025. Disaggregating the auto sales, it is observed that domestic passenger vehicle sales for the month of April grew by 3.9 per cent, with the number of units sold reaching an all-time high for the month since 1991. However, sales of two and three-wheeler vehicles at the wholesale level moderated due to the high base effect. Yet, the underlying trend remains healthy, as the sales increased by 3.6 per cent compared to the three-year average sales for April. Additionally, retail sales of these segments remained steady, growing at 3.3 per cent on a YoY basis, as reported by the Federation of Automobile Dealers Associations.

10. India's steady macroeconomic performance over the last few years also led to a sovereign credit rating upgrade by the global sovereign credit rating agency, Morningstar DBRS. The agency upgraded India's Long-Term Foreign and Local Currency – Issuer Ratings from BBB (low) to BBB with a Stable trend. A similar upgrade was provided for short-term currency ratings as well. Key drivers for the upgrade included India's structural reforms through infrastructure investments, digitalisation, macroeconomic stability, fiscal consolidation, sustained growth, and a resilient banking system.⁶

Private Investment rises in FY25

11. The Ministry of Statistics and Programme Implementation (MoSPI) released the results of the first round of the Forward-Looking Survey on Private Sector Capex Investment on 29th April 2025.⁷ A total of 2,172 enterprises, out of a sample size of 5380, submitted complete information for all five years of the reference period, forming a fixed panel. The aggregated (unweighted) CAPEX data from this panel of enterprises is given in the table below:

Actual Capex (₹ lakh crore)			Intended Capex (₹ lakh crore)	
FY22	FY23	FY24	FY25	FY26
3.9	5.7	4.2	6.6	4.9

12. The survey results show an overall increase of 66.3 per cent in aggregate capex over the four-year period from FY22 to FY25. Despite challenges like geopolitical tensions and high borrowing costs, about 30 per cent of firms planned to invest in upgradation in FY25, supporting the sharp increase of 55.5 per cent in capex for that year. The slightly lower intended CAPEX for FY26, though still above FY24 levels, reflects cautious planning after a strong

⁶ <https://dbrs.morningstar.com/research/453675/morningstar-dbrs-upgrades-india-to-bbb-trend-changed-to-stable>

⁷ In 2022–23, the Parliamentary Standing Committee recommended that the Ministry of Statistics and Programme Implementation (MoSPI) develop a comprehensive methodology to capture capital expenditure (CAPEX) data from the private sector. Survey instruments designed to capture data on past investments, projected CAPEX for the next two years, and the breakdown of investments by asset type were developed in alignment with the specifications of the Department of Economic Affairs (DEA), Ministry of Finance. Responding to this recommendation, the National Statistical Office (NSO) conducted the inaugural Forward-Looking Survey on Private Sector CAPEX Investment Intentions between November 2024 and January 2025. - https://www.mospi.gov.in/sites/default/files/press_release/press_note_CAPEX_25042025_Final_29042025.pdf

FY25.⁸ Overall, the trend indicates growing corporate confidence and a judicious approach to investment amid an evolving global economic scenario. In FY25, among the sectors, manufacturing enterprises account for the largest share in capex spending at 43.8 per cent, followed by those in ‘Information and Communication Activities’ (15.6 per cent) and ‘Transportation and Storage Activities’ (14 per cent). MoSPI views this round as experimental and plans to refine the process for future surveys.

13. Similar trends were noted in the CMIE Capex Database, which reported new investment project announcements by the private sector amounting to ₹14.4 lakh crore during the quarter ending March 2025. This marks the highest quarterly investment announcement recorded in the history of the database.⁹ Corroborating this, during Q4 of FY25, high-frequency indicators like domestic production of capital goods and infrastructure/ construction goods registered a growth of 6.6 per cent and 7.6 per cent, respectively. Among the coincident indicators of construction activity, both steel consumption and cement production reverted to double-digit growth in Q4 of FY25.

14. Joining the trend of increasing capex, the 68th round of RBI’s Order Books, Inventories, and Capacity Utilisation Survey (OBICUS), showed that capacity utilisation in the manufacturing sector increased to 75.4 per cent in Q3:2024- 25 from 74.7 per cent in the same quarter of the previous year. Seasonally adjusted capacity utilisation at 75.3 per cent was well above the long-term average of 73.8 per cent.

Retail inflation continues to soften at the beginning of FY26

15. The beginning of FY26 has brought encouraging news on the inflation front, with a notable decrease in the retail inflation rate. Data indicates a decline from 3.34 per cent in March 2025 to 3.16 per cent in April 2025. This marks the lowest year-on-year inflation recorded since July 2019, signalling a positive trajectory for price stability in the economy. This moderation in overall inflation is further substantiated by a significant easing in food inflation during the same period.

Significant decline in food inflation

16. The food inflation rate witnessed a substantial reduction, falling from 2.7 per cent in March 2025 to an even lower 1.8 per cent in April 2025. This represents the most benign food inflation rate observed since November 2021, offering considerable relief to consumers. This notable decline in food inflation can be primarily attributed to decreased inflation across several essential food categories, including vegetables, pulses, cereals and meat & fish. These four groups of food items contribute more than half of the consumer food price index basket and saw significant moderation in inflation, indicating a broad-based moderation in food prices.

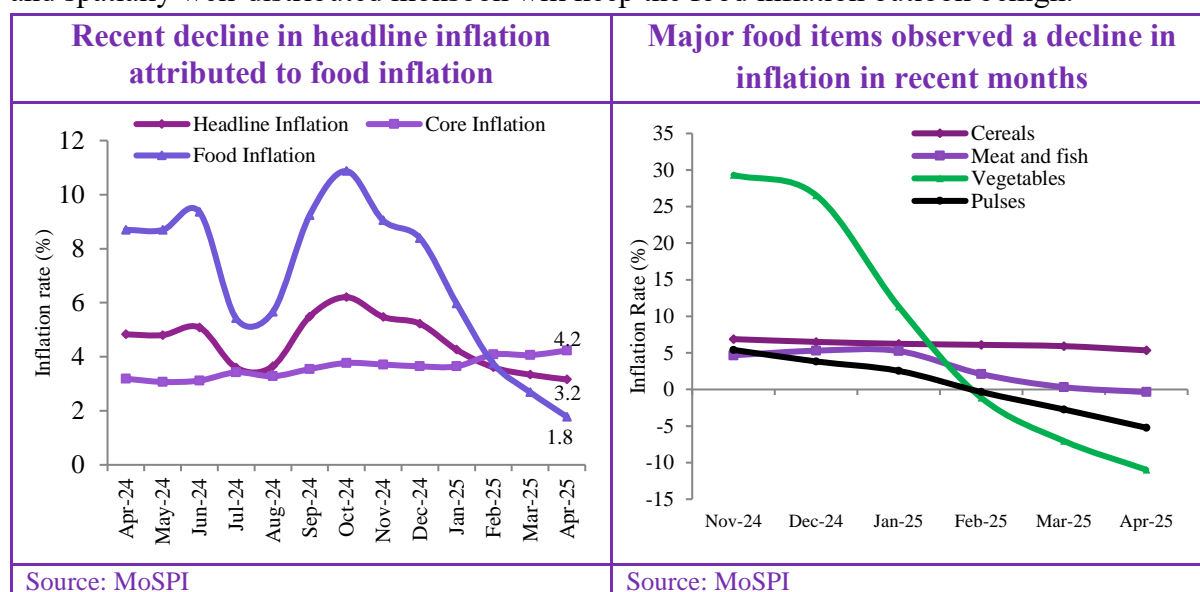
⁸ The data indicates a cautious approach by respondents in declaring their future capital expenditure plans. Therefore, the Capex data for 2025– 26 should be interpreted with caution, considering the conservative approach and apprehension shown by the responding enterprises in reporting these figures publicly.

⁹ [Economic Outlook of CMIE](#)

17. Specifically, within the food grains, the inflation rate for cereals has shown a positive downward trend, decreasing from 5.9 per cent in March 2025 to 5.3 per cent in April 2025. Government initiatives such as Bharat Atta and Bharat Rice, coupled with open market sales of wheat and rice, have played a crucial role in keeping cereal prices in check. Furthermore, pulses and vegetables continued to exhibit deflationary trends in April 2025, registering (-)5.2 per cent and (-)11 per cent respectively. Moderation in pulses price was supported by subsidised sales of pulses under Bharat brand and a favourable harvest of kharif and rabi pulses, which is expected to increase by 3.8 per cent in 2024-25 as compared to 2023-24.

18. Going forward, inflationary pressures stemming from food items are expected to remain low on account of a good rabi harvest, an increase in the area sown under summer crops, and healthy buffer stocks of foodgrains. As of May 9, 2025, 98.3% of the Rabi sown area had been harvested. Complete harvest has been achieved for Wheat, Pulses, Rapeseed and Mustard, and most minor oilseeds. The total area sown under summer crops stands at 78.8 lakh hectares (ha), marking a significant increase from 71.9 lakh ha in the previous year. Key gains came from summer rice: 32.0 lakh ha (an increase of 3.44 lakh ha), Pulses: 22.7 lakh ha (an increase of 1.5 lakh ha), Coarse Cereals: 14.6 lakh ha (an increase of 1.6 lakh ha) and Oilseeds: 9.5 lakh ha (an increase of 0.3 lakh ha). As of May 12, 2025, wheat procurement under the Rabi Marketing Season (RMS) 2025-26 reached 291.7 lakh metric tonnes (LMT), an increase from 253.0 LMT in the previous year. Rice procurement under the Kharif Marketing Season (KMS) 2024-25 stood at 720.96 LMT, achieving approximately 85% of the target. The combined stock of rice and wheat has reached 566.1 LMT, exceeding the buffer norm of 210.4 LMT.

19. The India Meteorological Department (IMD) has forecast an early onset of the southwest monsoon with above-normal seasonal rainfall expected (105% of the long-period average). Pre-monsoon showers have already begun in parts of the country. An above-normal and spatially well-distributed monsoon will keep the food inflation outlook benign.



Monetary and financial sector developments

20. In FY25, gold emerged as the best-performing asset class, increasing by 41 per cent in dollar terms. This was largely driven by continued central bank purchases, and it being considered as a relatively safer asset amid growing global uncertainty.¹⁰ In April 2025, concerns about the global economy and the effects of changes in trade policy have led to some sharp swings in financial markets. Following weeks of volatility at the start of 2025, financial markets have experienced sharp corrections and substantial losses. Changes in risk perceptions have also impacted the demand as well as the price of traditional safe-haven assets like gold.

21. Amidst the ongoing global uncertainty challenges, UNCTAD (April 2025) noted that gold prices kept surging despite a stronger dollar in the last six months, contrary to the usual negative relation between the dollar index and gold price.¹¹ Additionally, this rise has occurred irrespective of whether the real interest rates were increasing or decreasing. This highlights gold's broad-based appeal as a safeguard against both monetary and geopolitical risks.

22. The trade and tariff-related policy announcements have triggered a significant sell-off in global equity markets, with varying intensity across different indices. The MSCI World Index has decreased by 5.5 per cent from April 1, 2025, to April 16, 2025, since the announcement, reflecting a risk-off sentiment in developed markets. The MSCI Emerging Markets Index also fell by 4.7 per cent over the same period, indicating that emerging markets are not completely insulated. More substantial corrections have occurred in developed economies, particularly in the United States.¹² Subsequently, the markets recovered in the second half of April, with the MSCI World Index increasing by 0.90 per cent as of April 30, 2025, over April 1, 2025, while the MSCI Emerging Market Index increased by 1.30 per cent.¹³

23. In contrast, India's Nifty 50 has shown resilience, recording a modest gain of 0.4 per cent even in the first half, from April 1, 2025, to April 16, 2025.¹⁴ Following a global market recovery in the second half of April, the index ended with a return of 5.04 per cent as of April 30, 2025, over April 1, 2025.¹⁵ Indian equities evidently provided superior returns, emphasising their importance in wealth creation. This superior performance can be attributed to India's relatively modest contribution of net exports to economic growth compared to East Asian nations in the wake of proposed US tariffs, its muted impact on the country's GDP growth, and the monetary policy response of a 50-basis-point rate cut amidst declining inflation and an increasing realisation of India's macroeconomic stability and opportunities in a rapidly evolving geopolitics and economics.

¹⁰ World Gold Council, data can be accessed from <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q1-2025>

¹¹ UNCTAD Trade and development foresights 2025 – Under pressure: Uncertainty reshapes global economic prospects. https://unctad.org/system/files/official-document/gdsinf2025d1_en.pdf

¹² NSE Market Pulse, April 2025

¹³ <https://www.msci.com/indexes>

¹⁴ NSE Market Pulse, April 2025

¹⁵ <https://www.nseindia.com/reports-indices-historical-index-data>

24. Indian bond yields are softening on the back of RBI debt purchases, which have happened over the months of April and May. Even as India's bond yields hover around 6.2 per cent, the bond yields on the US Treasury have risen to around 4.5 per cent. The rise in the US yields comes on the back of a Moody's sovereign downgrade (from Aaa to Aa1) in response to the US fiscal situation and its outlook.¹⁶ In turn, the risk premium of India's G-Secs has fallen from 223 basis points (bps) as of April 16, 2025 to 166 bps as of May 21, 2025.¹⁷

Banking sector performance

25. A slew of measures was undertaken to inject liquidity of about ₹6.9 lakh crore between January-March 2025, coupled with government spending picking up pace during the later months of March.¹⁸ In FY26, there has been a liquidity infusion of ₹2.65 lakh crores as of May 19, 2025¹⁹ resulting in an improvement in the system liquidity, with surplus liquidity standing at ₹2.3 lakh crores as of May 20, 2025.²⁰ As a result, the weighted average call rate softened and remained near the repo rate, and the spreads of 3-month commercial paper and 3-month commercial deposit rates over the 91-day Treasury bill rate have also softened during mid-April to May, as compared to March. This indicated an improvement in liquidity conditions and lower credit risk in the short-term money market²¹

26. As of May 2, 2025, the growth in deposits at scheduled commercial banks is continuing to fall behind the growth in credit. Bank credit has increased by 10.9 per cent YoY, while deposits have risen by 10.3 per cent YoY. This has resulted in a credit-to-deposit ratio of 79.39.²²

27. Global financial conditions are likely to remain volatile, and emerging market economies (EMEs) are susceptible to feedback loops and spillover effects.²³ However, India's ability to withstand these challenges presents a compelling case in both the near and long term. It is no surprise, therefore, that foreign portfolio investors, who resumed investing in Indian stocks just around mid-April have continued to do so in May.

28. India provides a stable market as it is not overly reliant on exports but has some export-oriented sectors (such as IT and Pharmaceuticals, along with a portion of manufacturing) and distinct domestic drivers of growth.²⁴

¹⁶ Moody's Press release dated May 16, 2025

<https://www.moodys.com/web/en/us/about-us/usrating.html>

¹⁷ <https://finance.yahoo.com/news/investors-await-another-monday-jolt-145946996.html>

¹⁸ RBI Monthly Bulletin, April 2025

¹⁹ RBI Monthly Bulletin, May 2025 - <https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/>

²⁰ RBI's Press release dated May 20, 2025

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=60487

²¹ Ibid. note 17

²² RBI's weekly statistical supplement, dated May 16, 2025

https://rbidocs.rbi.org.in/rdocs/Wss/PDFs/WSS16052025_E649433BD5C1246F1AC26B385C2F26983.PDF

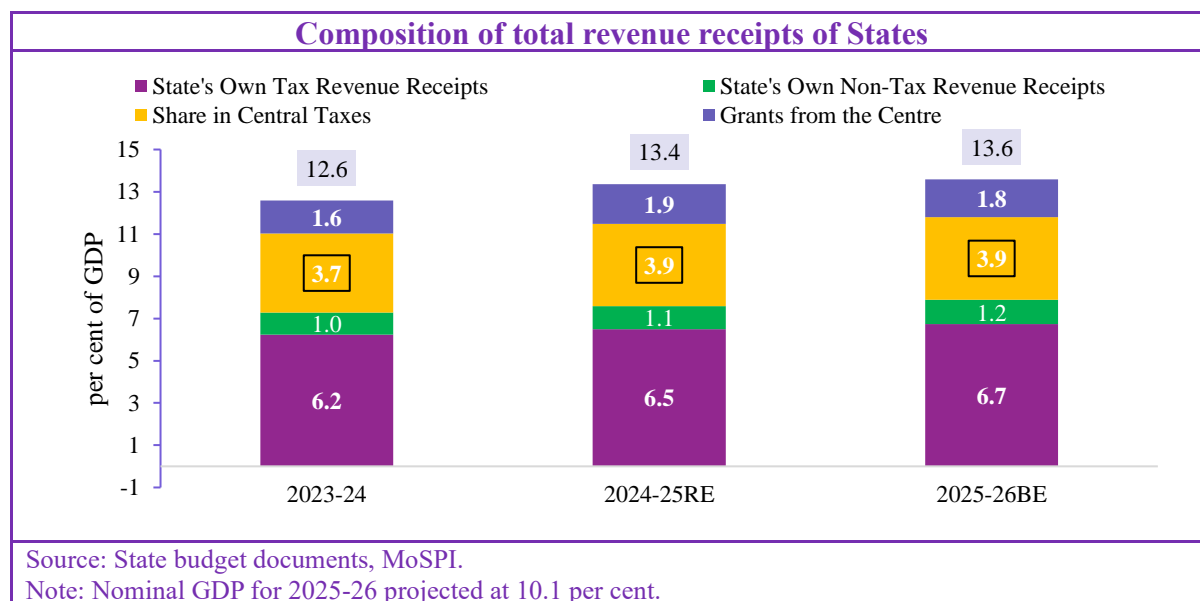
²³ Ibid. note 16

²⁴ Bernstein Research (India Strategy)

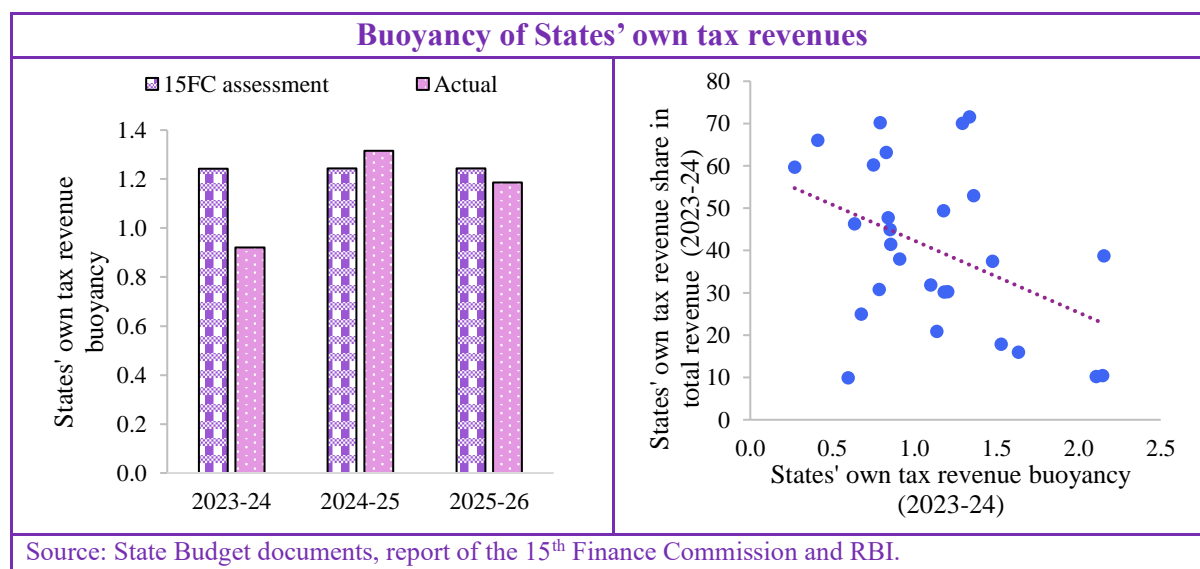
Public finances

State finances

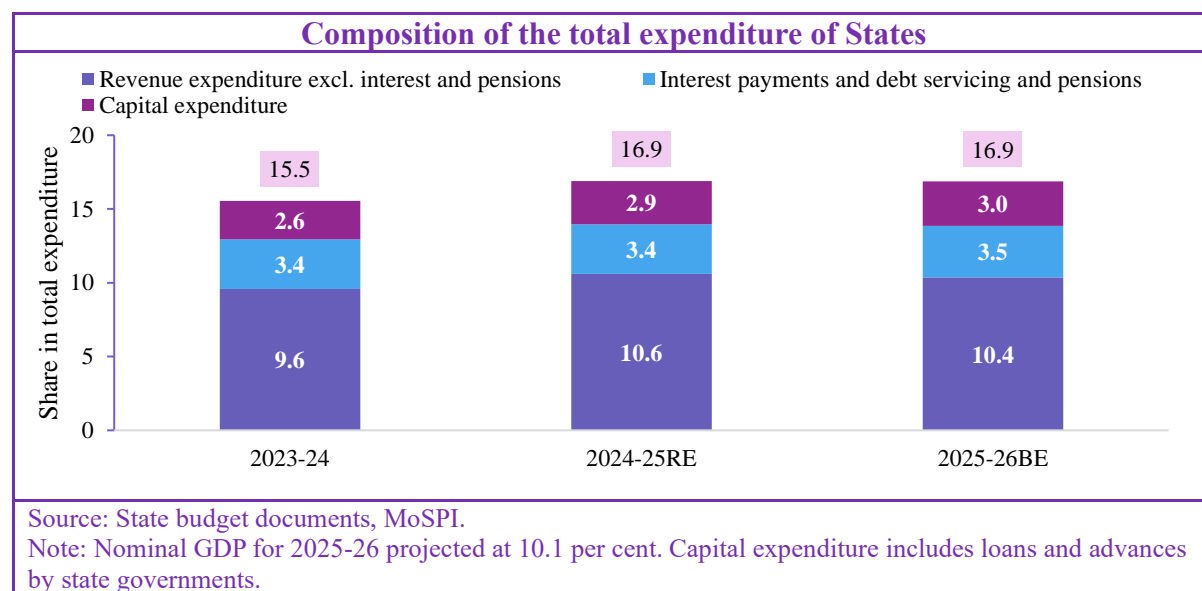
29. Combined States' total revenue receipts are estimated to increase from 12.6 per cent of nominal GDP in 2023-24 to around 13.4 and 13.6 per cent of GDP in 2024-25 (RE) and 2025-26(BE), respectively. Broadly, own revenue resources are in the range of 57-58 per cent of total revenues, while the rest comprises share in central taxes and grants from the Centre. For states as a collective, these are entirely absorbed in revenue account expenditures itself.



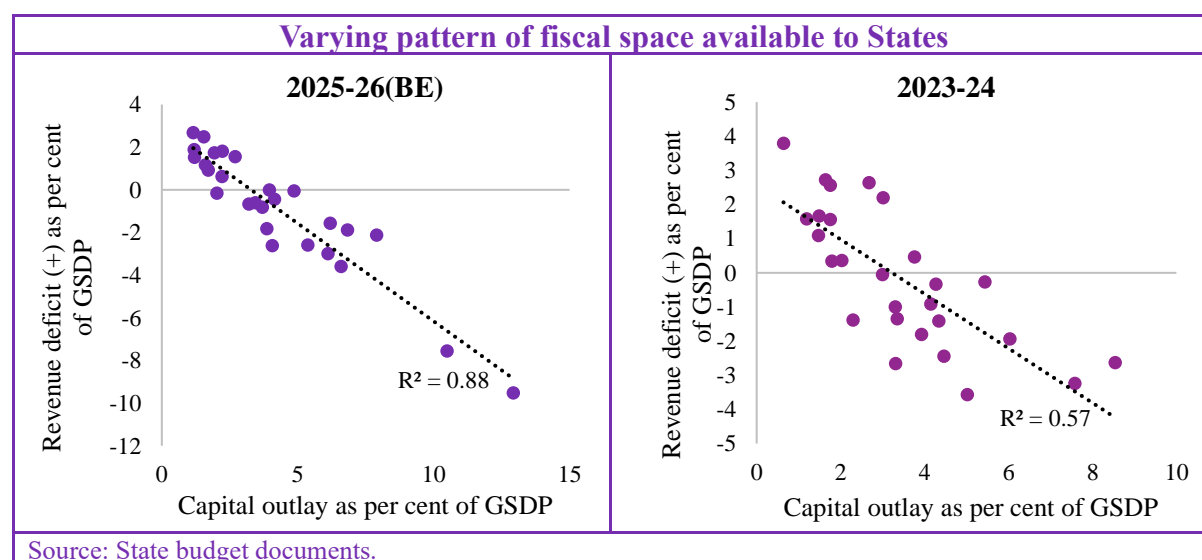
30. Of the own revenue receipts, the buoyancy in own tax revenue of States has been lower than the projection of the 15th Finance Commission, in 2023-24 and 2025-26. However, on evaluation of own tax revenue buoyancy between States, it is seen that States with a greater reliance on resources from the centre are also seen to have higher tax buoyancies on an average. It may be inferred that states with greater reliance on centre witness faster growth on a lower tax base.



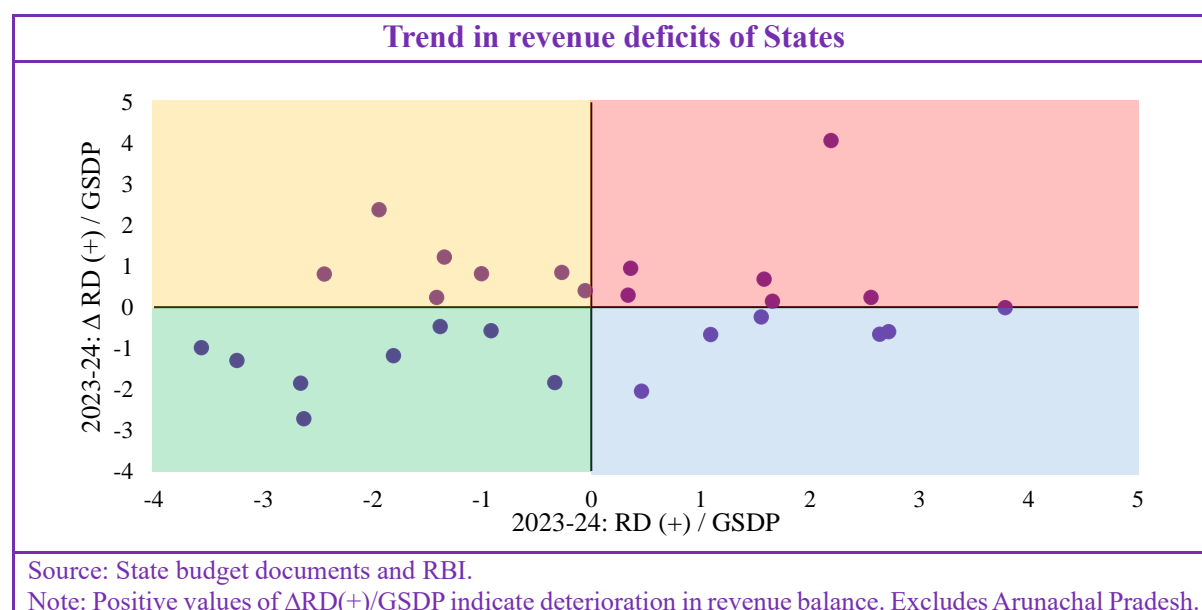
31. Interest payments and pensions are committed expenditures, of about 3.4-3.5 per cent of GDP during 2023-24 to 2025-26BE. Discretionary revenue expenditure rose from 9.6 per cent of GDP in 2023-24 to 10.6 per cent of GDP in 2024-25 (RE), whereas capital expenditure is also estimated to increase from 2.6 to 2.9 per cent of GDP during the same period. Thus, with about a constant level of committed expenditure, states are facing less of a budget constraint to undertake discretionary revenue expenditure.



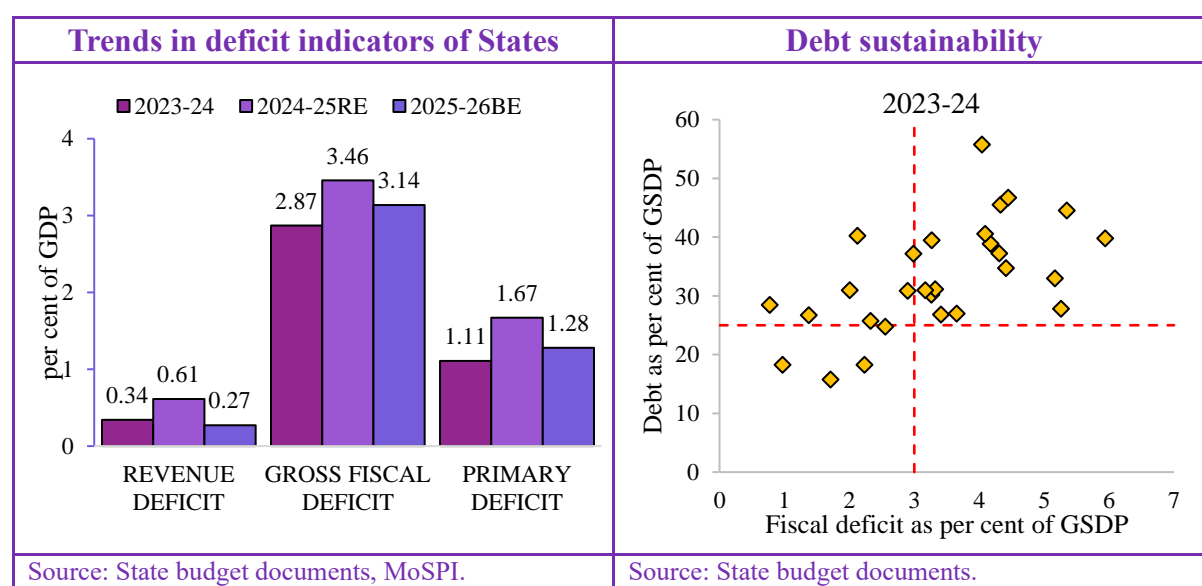
32. The resultant revenue balance is a crucial determinant of feasible headroom to undertake capital outlay, with revenue surplus aiding capital outlay and revenue deficit constraining it. An examination of 2025-26 budget announcements reveals that states are well cognizant of this phenomenon on a forward-looking basis, with revenue surplus strongly correlated with capital outlays. Whereas, on an actual basis in 2023-24, other factors seem to weigh in more, as states are relatively more widely scattered across the trend. While many States running revenue surpluses could undertake more capex, States with revenue deficits may rein them in, while retaining capex spend.



33. The position of revenue deficits is assessed below in terms of improvement/deterioration from 2022-23 to 2023-24 and the actual position in 2023-24 relative to GSDP. The States in the green and blue zones are those that have improved their revenue account balance, with the green zone States in revenue surplus and the blue zone States in revenue deficit. Conversely, yellow zone States remain in revenue surplus despite a reduction therein, whereas red zone States see a further deterioration in revenue deficits to varying extents. Thus, states particularly in the red quadrant need to exercise caution and work towards improving revenue balances in the near term.



34. Overall, all deficit indicators are seen to increase in 2024-25 RE compared to 2023-24, with moderation in 2025-26 BE.



35. While combined fiscal deficit of States is seen to increase from 2.87 per cent of GDP in 2023-24 to 3.46 per cent of GDP in 2024-25(RE), the increase in outstanding liabilities of States is from 27.6 per cent of GDP to 28.0 per cent of GDP during the same period.

Decomposition across States reveals wide variation as seen in the chart above. Reining in the States' debt is essential not only for their own debt sustainability but to move general government debt on a downward trajectory, contributing to better fiscal health as well as macroeconomic stability.

Global trade and its discontents

36. Trade policy uncertainty has surged, leading to a 90.9 per cent increase in the Trade Policy Uncertainty Index in April, compared to March.²⁵ The average index value for Q1 of CY 2025 is 188 per cent higher than the average of Q4 of CY 2024. This increase is a result of significant changes in trade and tariff policies among major countries.²⁶ Developing countries, particularly those more integrated into global supply chains, will experience a significantly larger impact due to these changes in trade policies. The early signs of this are visible in the form of front-loading of orders in late 2024 and early 2025, driving global trade.²⁷

37. However, this momentum is expected to diminish or even decline due to successive rounds of restrictive trade measures and geoeconomic confrontations, which severely disrupt global production lines and international trade flows. This, in turn, is likely to reduce economic activity worldwide.²⁸

38. Globally, trade in services has shown strong momentum during the first quarter of 2025, largely unaffected by changes in trade and tariff policies among major economies. However, ongoing policy uncertainty may hinder investment in service sectors that rely on global interconnectivity, potentially harming overall trade in services.²⁹

39. In May 2025, India and the UK concluded years-long negotiations on the forward-looking free-trade agreement (FTA). This agreement aligns with India's vision of Viksit Bharat 2047, as it encompasses not only goods and services but also focuses on people, possibilities and prosperity. The FTA is expected to have a positive impact on manufacturing in both labour-intensive and technology-intensive sectors. It opens up export opportunities for various industries, including the labour-intensive segments such as textiles, marine products, leather, footwear, sports goods, toys, gems and jewellery.³⁰ Additionally, it benefits important sectors such as engineering goods, auto parts, engines, and organic chemicals. India stands to gain significantly from one of the UK's most ambitious FTA commitments in services, which will

²⁵ The TPU index is based on automated text searches of the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalised to a value of 100 for a one per cent article share. The TPU Index starts in 1960. Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020), "[The Economic Effects of Trade Policy Uncertainty](#)," *Journal of Monetary Economics*, 109, pp.38-59.

²⁶ <https://www.matteoiacoviello.com/tpu.htm>

²⁷ Ibid. note 11

²⁸ Ibid. note 11

²⁹ Ibid. note 11

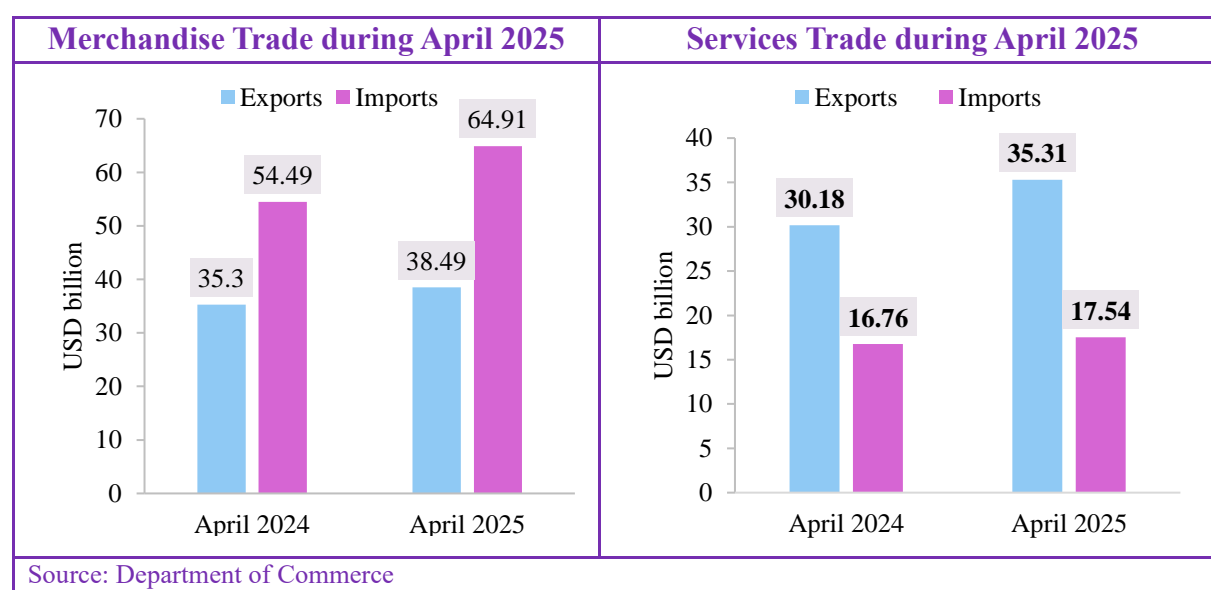
³⁰ PIB release of the Ministry of Commerce & Industry, dated May 06, 2025.
<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2127321>

create new opportunities and jobs. Moreover, the FTA aims to promote good regulatory practices and enhance transparency, aligning with India's own focus on domestic reforms to improve the ease of doing business.³¹

India's external sector performance during April 2025

40. India's total exports (merchandise & services) began on a positive note, rose to USD 73.8 billion from USD 65.5 billion in April 2024, registering a growth rate of 12.7 per cent YoY in April 2025.^{32,33} This comes amid heightened trade policy uncertainty, with the WTO foreseeing a contraction of 0.2 per cent in merchandise trade in 2025.³⁴ Merchandise exports increased by 9.0 per cent YoY in April 2025. The main drivers of export growth were tobacco, coffee, electronic goods, mica, coal & other ores, minerals, including processed minerals. In April 2025, merchandise imports rose by 19.2 per cent YoY, resulting in a 37.7 per cent YoY increase in the merchandise trade deficit.³⁵

41. Trade growth in services continues to remain resilient. In April 2025, service exports and imports are estimated to be 17.0 per cent and 4.6 per cent higher compared to the corresponding month last year, respectively.³⁶



42. In the future, India is set to gain from supply chain adjustments, a wider range of foreign direct investment sources, and increased collaboration with global investors looking for resilience and growth. This advantage is bolstered by India's existing trade connections.

³¹ Ibid. note 28

³² The latest data for the services sector released by the RBI is for March 2025. The data for April 2025 is an estimation, which will be revised based on the RBI's subsequent release.

³³ PIB release of the Ministry of Commerce & Industry, dated May 15, 2025

³⁴ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2128909>

³⁵ WTO's Global Trade Outlook and Statistics, April 2025

³⁶ https://www.wto.org/english/res_e/booksp_e/trade_outlook25_e.pdf

³⁷ Ibid. note 31

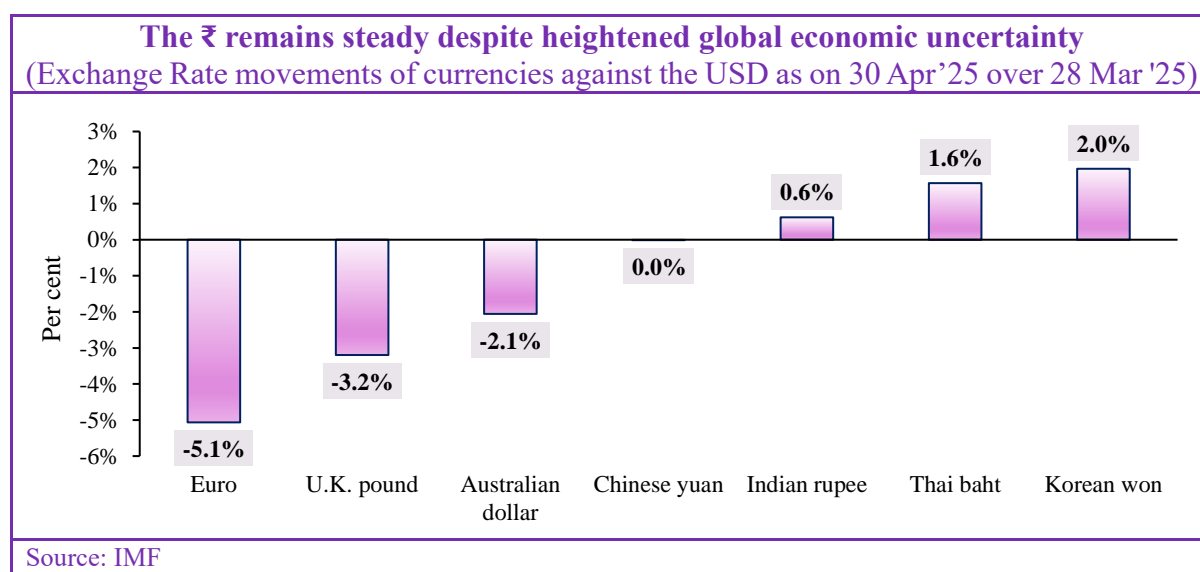
³⁸ Ibid. note 31

Additionally, India's steady performance in services exports and remittance inflows continues to serve as an important buffer for its current account.³⁷

Capital flows

43. Gross FDI inflows remained broadly stable at USD 81 billion in FY25, indicating continued investor confidence. Rising repatriations and a simultaneous increase in outward FDI indicate both profit-booking by foreign investors and growing global expansion by Indian firms. As a result, net FDI remained rather subdued at USD 0.4 billion during FY25. That Indian overseas direct investment increased nearly by USD 12.5 billion during the year FY25, even as uncertainty reigned in the world, warrants attention, especially given their cautious attitude towards domestic investment.

44. The key risks for FY26 are the uncertainty around trade tariffs, as prolonged uncertainty could keep FPI flows volatile.³⁸ In March 2025, there was a rebound in net foreign portfolio investment (FPI) inflows. In April 2025, net FPI outflows amounted to ₹0.20 lakh crore. While equity inflows resumed in early FY26, the debt segment witnessed net outflows.³⁹ To boost foreign participation in the debt market, the RBI has relaxed investment norms for corporate bonds by removing short-term investment and concentration limits.⁴⁰ These measures are expected to enhance foreign investor access to India's corporate and sovereign debt markets.



45. The rupee remained strong, appreciating to ₹85.1 against the US dollar by end-April 2025 from the level of ₹ 86.6 as of end-March 2025. The Indian rupee continues to be one of the best-performing major currencies against the US dollar. While it appreciated by 0.6 per cent, the Euro depreciated by more than 5 per cent, the Mexican peso appreciated by 4 per cent and the Malaysian ringgit by 2.7 per cent vis-à-vis USD as on April 30, 2025, over March 28, 2025. Reflecting this stability and a stronger external position, India's foreign exchange

³⁷ RBI Monthly Bulletin, April 2025

³⁸ Ibid. note 35

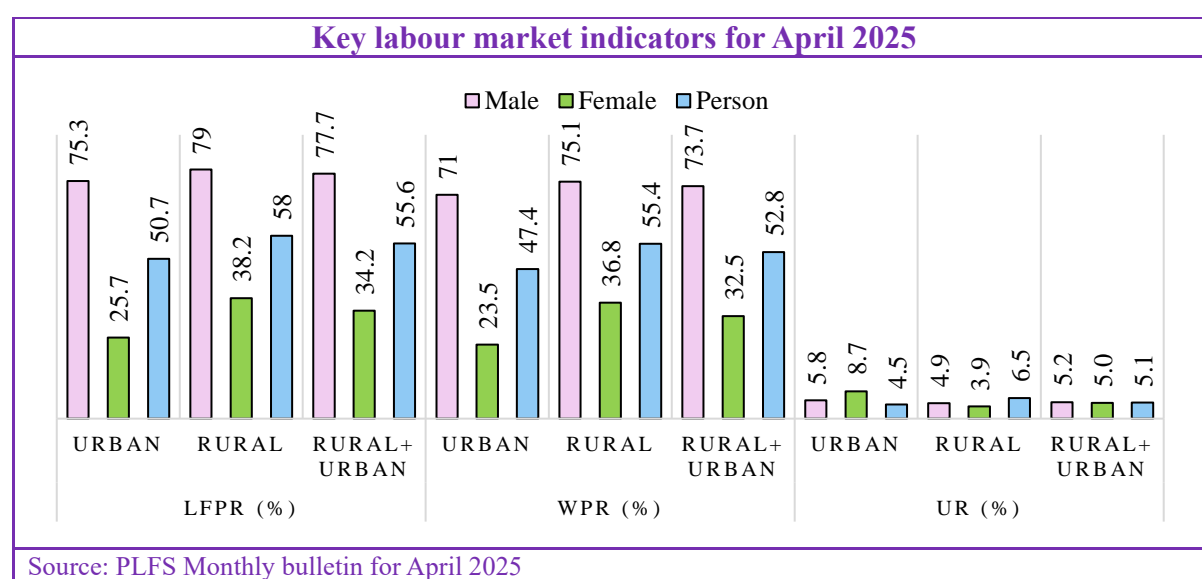
³⁹ Based on NSDL data

⁴⁰ RBI Circular dated May 08, 2025 ([Reserve Bank of India - Notifications](#))

reserves rose to USD 690.6 billion as of May 9, 2025, providing an import cover of ~11.3 months.

Encouraging Labour Market Trends

46. The Ministry of Statistics and Programme Implementation (MoSPI) published the first monthly bulletin of the revised Periodic Labour Force Survey (PLFS) for April 2025.⁴¹ The bulletin presents key labour market indicators—labour force participation rate (LFPR)⁴², worker population ratio (WPR)⁴³ and unemployment rate (UR)⁴⁴—for both rural and urban areas, based on the Current Weekly Status (CWS)⁴⁵ of individuals. As per the Monthly PLFS, the LFPR for persons aged 15 years and above stood at 55.6 per cent, and the WPR at 52.8 per cent.



47. The unemployment rate for persons aged 15 years and above stood at 5.1 per cent in April, with male unemployment at 5.2 per cent and female unemployment at 5.0 per cent. However, the youth unemployment rate (15-29 years of age) for females was higher at 14.4 per cent than for males at 13.6 per cent. This could be attributed to an increasing number of young women pursuing higher education and vocational training. Notably, women account for 85.7 per cent of enrolments under the Jan Shikshan Sansthan (JSS) programme⁴⁶ and comprise 49 per cent of trained candidates under the National Institute for Entrepreneurship and Small Business Development programme (NIESBUD).⁴⁷

⁴¹ PLFS Monthly Bulletin April 2025: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2128833>

⁴² LFPR is defined as the percentage of persons in labour force (i.e. working or seeking or available for work) in the population.

⁴³ WPR is defined as the percentage of employed persons in the population.

⁴⁴ UR is defined as the percentage of persons unemployed among the persons in the labour force.

⁴⁵ The activity status determined on the basis of a reference period of last 7 days preceding the date of survey is known as the current weekly status (CWS) of the person.

⁴⁶ Data for FY25; JSS Dashboard: <https://tinyurl.com/36fhnxrp>

⁴⁷ Data as of 19 May 2025; NIESBUD dashboard: <https://tinyurl.com/556taknd>

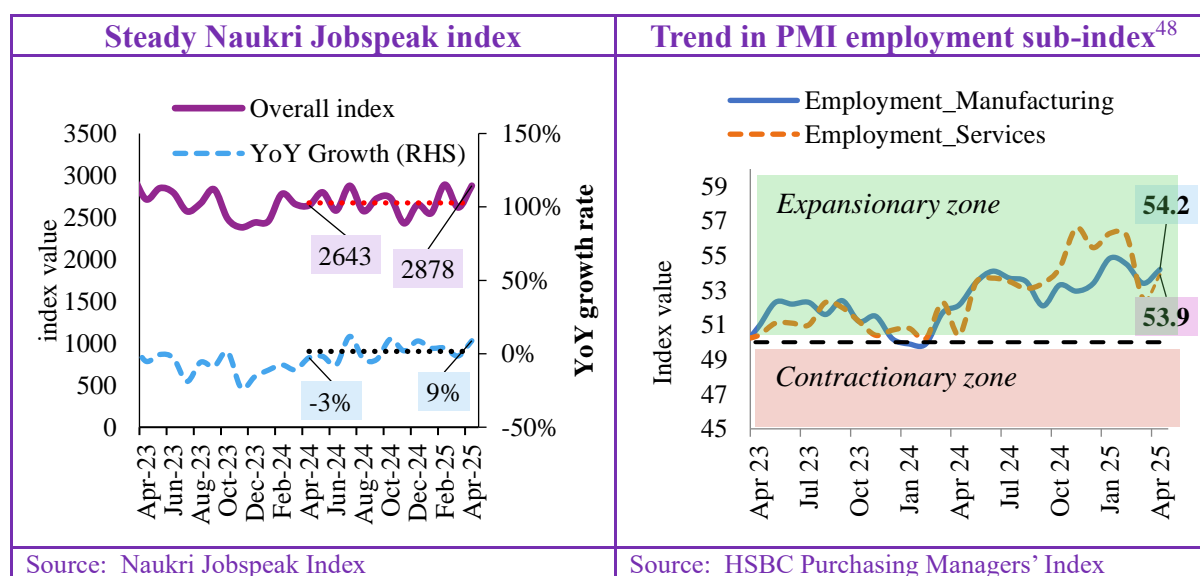
Rising formalisation of the job market

48. The labour market is experiencing a trend towards greater formalisation, as evidenced by payroll data from the Employees' Provident Fund Organisation (EPFO). The EPFO had a net addition of 14.6 lakh members in March 2025. Persons in the age group of 18-25 years constitute 58.9 per cent of the new members added in March 2025, signifying that most individuals entering the organised workforce are predominantly young first-time job seekers.

Rise in white collar hiring

49. The Naukri JobSpeak index, a key indicator of India's white-collar job market, signalled a revival in hiring activity. This market witnessed a promising start in FY26 with the index registering a 9 per cent YoY growth in April 2025. The revival in hiring activity comes after the slowdown in hiring experienced in March 2025. The data shows a widespread recovery, with several sectors recording double-digit YoY growth in hiring activity in April 2025. The core sectors, such as pharma (+ 14 per cent YoY), real estate (+11 per cent YoY), global capability centres (GCCs) (+10 per cent YoY), and oil & gas (+9 per cent YoY), led this recovery

50. Hiring in manufacturing and services experienced a revival in April 2025 after a mild slowdown in March 2025, with the employment sub-index continuing to be in the expansionary zone for the fourteenth consecutive month. Employment in the services sector continued to grow strongly, rising above March levels and the long-term average. Similarly, the manufacturing sector registered an increase in the pace of job creation, as reflected by the employment sub-index being in the expansionary zone.



Positive outlook for the labour market

51. The Rural Economic Conditions and Sentiments Survey (RECSS), conducted by the National Bank for Agriculture and Rural Development (NABARD), provides quantitative and

⁴⁸ The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month and below 50 an overall decrease. The indices are also seasonally adjusted.

qualitative data for assessing the state of the rural economy. The survey offers backwards-looking (economic conditions) and forward-looking (household sentiments) information on a limited set of key variables such as income, consumption, savings, employment prospects, etc.⁴⁹

52. The Round V (May 2025) of the RECSS reveals positive sentiments among rural households regarding economic conditions.⁵⁰ Over 50 per cent of the surveyed households expect improvement in income and employment in the upcoming quarter, while only 8 per cent anticipate a deterioration in employment conditions. Household inflation perceptions have moderated, supporting sustained rural demand. Additionally, 79.1 per cent of households reported increased consumption over the past year, further indicating improved economic conditions in rural areas. Government transfers, both in cash and kind, have supported rural demand, contributing around 10 per cent to the average monthly income of rural households.

Conclusion and Outlook

53. As per the IMF's World Economic Outlook (April 2025), India's real GDP growth for 2025-26 is pegged at 6.2 per cent, 30 basis points lower than its previous forecast in January 2025. However, India is still expected to be the fastest-growing major economy and faced the least amount of cut amongst other global economies. These revisions are on account of higher levels of global uncertainties and trade tensions. Multiple agencies project India's growth to be in the range of 6.3 – 6.7 per cent in FY26, supported by robust domestic fundamentals, stable macroeconomic management, and growing government capital expenditure, while declining inflation strengthens this outlook.

54. India's economy as of April 2025 is characterised by robust domestic fundamentals, prudent macroeconomic management, and a capacity to withstand external shocks. Strong private consumption, especially the rural rebound, and robust services exports remain the primary engines of growth. The services sector continues to post healthy expansion, offsetting some of the softness in merchandise exports. The Indian rupee has remained relatively stable, and foreign exchange reserves continue to provide a cushion against external shocks. Government capital expenditure has played a pivotal role in supporting economic activity, providing a buffer against external shocks. The government's direct tax exemptions and fiscal measures, along with the rate cuts from the RBI, are expected to further stimulate consumption and investment. These could accelerate the recovery and lift growth towards the upper end of forecasts of 6.3 per cent to 6.8 per cent, given in the latest Economic Survey.

⁴⁹ The survey is designed to be carried out as six bi-monthly rounds per year, with the first survey round conducted in September 2024. Each round of the RECSS covers a sample size of around 600 villages, which covers 6000 households (10 households from every sample village). https://www.nabard.org/auth/writereaddata/WhatsNew/1505255719RECSS%20Report%20-%20May%202025_Round%205.pdf

⁵⁰ The May 2025 round of the Rural Economic Conditions and Sentiments Survey (RECSS) was conducted during the last week of April 2025 and the first week of May 2025.

55. The inflation outlook remains optimistic, supported by low core inflation and a decline in food prices. Going forward, inflationary pressures stemming from food items are expected to remain low on account of a good rabi harvest, an increase in the area sown under summer crops, and healthy buffer stocks of foodgrains. The IMD's forecast of above-normal rainfall and falling crude oil prices further reinforces this disinflationary trend. Recent RBI surveys indicate a decline in inflation expectations, adding to the overall positive sentiment. Amidst the declining inflation rate, the monetary policy setting is conducive for fostering economic growth.

56. The imposition of reciprocal tariffs by the US, particularly a 26 per cent tariff on Indian imports effective April 2025, has injected uncertainty into India's export outlook. Although a 90-day suspension of new tariffs is in place pending bilateral negotiations, the risk of renewed trade barriers remains a key external vulnerability. Private sector capital expenditure could lag behind, with firms adopting a more cautious stance amid global uncertainty and tighter financial conditions. A successful US-India trade agreement could flip current headwinds into tailwinds, opening up new market access and energising exports.

57. However, global uncertainties remain. The outcome of a pause in the US-China reciprocal tariffs will be important. Further, the passage of the US Budget Bill for the next financial year and the reaction in the US bond market, in light of the recent downgrade of the US sovereign credit rating by Moody's, will also set the tone for financial markets globally in the final months of 2025.

58. India has the potential to remain as one of the most promising destinations for investment, amid global uncertainty. Foreign direct investors are likely to respond positively to policies that strengthen the country's medium-term growth prospects. In particular, policies that enhance the skills and productivity of the country's young workforce can significantly strengthen the virtuous cycle of investment and growth.

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Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
Agriculture								
Domestic Tractor Sales	Thousand	April	79.3	76.9	82.8	-11.1	-3	7.7
Reservoir Level	Bn Cu. Metres	15-May	57.4	45.3	55.5	1.1	-21.1	22.5
Wheat Procurement (RMS)	LMT	23-May	260.7	265.9	296.3	39.0	2.0	11.4
Rice Procurement (KMS)	LMT	22-May	718.8	766.2	-	-6.5	6.6	-
Rainfall Forecast ⁵¹	% of LPA	Jun-Sep	96.0	106.0	105.0	-3	10	-1
Credit to Agriculture and allied activities	₹ Lakh crore	March	20.7	22.9	-	20.1	10.2	
Industry								
IIP	Index	Apr - Mar	146.7	152.5	-	5.9	4	
8-Core Industries	Index	April	151.2	161.7	162.5	4.6	6.9	0.5
Domestic Auto sales	Lakh	April	16.7	20.9	18.1	16	25.1	-13.4
PMI Manufacturing	Index	April	57.2	58.8	58.2	2.5	1.6	-0.6
Power consumption	Billion kWh	April	132.2	144.3	147.3	0.5	9.2	2.1
Natural gas production	Bn Cu. Metres	Apr - Mar	36.4	36.1	-	5.8	-0.9	
Cement production	Index	April	192.0	192.3	205.1	12.3	0.2	6.7
Steel consumption	Mn Tonnes	April	10.1	11.4	11.9	9.9	12.2	4.6

⁵¹ Rainfall coming in at 96% – 104% of the Long Period Average (LPA) is considered as normal monsoon.

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
Inflation								
CPI-C	Index	April	178.1	186.7	192.6	4.7	4.8	3.2
WPI	Index	April	151.1	152.9	154.2	-0.8	1.2	0.9
CFPI	Index	April	175.9	191.2	194.6	3.8	8.7	1.8
CPI-Core	Index	April	177.8	183.4	191.2	5.1	3.2	4.2
Services								
Domestic Air Passenger Traffic	Lakh	Apr - Mar	2703.4	3067.9	3347.2	62.1	13.5	9.1
Port Cargo Traffic	Million tonnes	April	66.4	67.3	72.0	2.2	1.4	7
PMI Services	Index	April	62	60.8	58.7	7.1	-1.9	-3.5
Fuel Consumption	Million tonnes	April	18.7	20.2	20.1	1.4	7.8	-0.2
UPI (Volume)	Crore	April	889.8	1,330.4	1789.3	59.4	49.5	34.5
E-Way Bill Volume	Crore	April	8.4	9.7	11.9	12.2	14.5	23.4
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Feb	28.9	32.0	-	13.5	10.7	-
Revenue Expenditure	₹ Lakh crore	Apr-Feb	29.4	30.8	-	1.3	4.8	-
Capital Expenditure	₹ Lakh crore	Apr-Feb	8.1	8.1	-	37.2	0	-
Fiscal Deficit	₹ Lakh crore	Apr-Feb	15.0	13.5	-	3.2	-10	-
Revenue Deficit	₹ Lakh crore	Apr-Feb	7.3	5.7	-	-20.9	-21.9	-
GST Collection	₹ Lakh crore	April	1.9	2.1	2.4	11.6	12.4	12.6

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
External Sector								
Merchandise exports	USD Billion	April	34.6	35.3	38.5	-12.8	2	9
Non-petroleum exports	USD Billion	April	28.2	28.3	31.1	-11.4	0.2	10.1
Merchandise imports	USD Billion	April	49.1	54.5	64.9	-15.5	11.1	19.1
Non-oil non-gold/silver imports	USD Billion	April	34.2	34.9	40.9	-11.3	2	17.2
Net FDI	USD Billion	Apr - Mar	10.1	0.4	-	-63.8	-96.5	-
Exchange Rate (Average)	INR/USD	Apr	82.0	83.4	85.6	-7.1	-1.7	-2.5
Foreign Exchange Reserves	USD Billion	Apr	590.1	640.2	688.1	-1.1	8.5	7.5
Import Cover	Months	Apr	10	11.2	11	-	-	-
Monetary and Financial								
Non-Food Credit	₹ Lakh crore	2 May	138.6	165.6	182.2	15.6	19.5	10
10-Year Bond Yields	Per cent	April	7.21	7.17	6.4	0.1	0	-0.8
Repo Rate	Per cent	21 May	6.5	6.5	6	2.1	0	-0.5
Currency in Circulation	₹ Lakh crore	9 May	34.9	35.9	38.4	7.6	2.9	7
M0	₹ Lakh crore	9 May	44.6	46.9	49.3	10.2	5	5.3
Employment								
Net payroll additions under EPFO	Lakh	Apr-Mar	131.5	129.8	-	-5.1	-1.3	-
Number of persons demanded employment under MGNREGA	Crore	Apr	3.2	3.0	2.7	-3.4	-5	-9.7
Urban Unemployment Rate	Per cent	Oct-Dec	6.5	6.4	-	-0.7	-0.1	
Subscriber Additions: (NPS)	Lakh	Apr-Jan	7.5	6.4	-	20.9	-14.5	