*State of the Economy**

The global economy continues to grow at a steady but moderate pace, with divergent outlook across countries amid rapidly evolving political and technological landscapes. Financial markets remain on edge on the slowing pace of disinflation and the potential impact of tariffs. Emerging market economies (EMEs) are witnessing selling pressures from foreign portfolio investors (FPIs) and currency depreciation engendered by a strong US dollar. In India, high frequency indicators point towards a sequential pick-up in momentum of economic activity during H2:2024-25, which is likely to sustain moving forward. The Union Budget 2025-26 prudently balances fiscal consolidation and growth objectives by continued focus on capex alongside measures to boost household incomes and consumption. Retail inflation moderated to a five-month low in January, mainly due to a sharp decline in vegetable prices.

Introduction

The global economy is exhibiting steady growth amidst evolving political and technological landscapes, both of which have taken the centre stage in policy discourse during 2025 so far. The International Monetary Fund (IMF), in its January 2025 update of the World Economic Outlook (WEO), projected the global economy to grow by 3.3 per cent in 2025, close to that of 3.2 per cent in 2024, but below the average of 3.7 per cent witnessed during the first two decades of the 21st century. The growth outlook varies widely across economies - a stronger growth in the Unites States (US) is expected to offset the weakness in other advanced economies (AEs). For emerging market economies (EMEs), growth in 2025 is expected to broadly match that of 2024. The global growth and trade outlook, however, faces downside risks from the evolving US tariffs, the timing and magnitude of which remain highly uncertain. The US trade policy uncertainty has spiked to levels last seen during the 2019 episode of US-China trade war and restrictive trade policies and fragmentation could lead to a long-term shift in global trade patterns rather than a short-term disruption, and upward pressures on consumer and business costs.[1]

Global financial markets have been on a precipice, with every incoming information generating sharp gyrations. US equity markets rallied following the change in US administration and healthy corporate earnings.[2] The launch of R1 by DeepSeek[3], however, generated shockwaves that wiped off US$ 1 trillion from the equity valuations on a single day (January 27, 2025). Sovereign bond yields continue to exhibit two-way movements. The US dollar index surged following the tariff announcements, triggering capital outflows from emerging markets and intensifying currency pressures. Concerted policy actions would be needed to foster a more congenial external environment, enhance macroeconomic stability, reduce structural constraints, and address the effects of climate change to avoid a risk of many low-income countries not being able to catch-up to middle income status by 2050.[4]

Global consumer price inflation (CPI) declined in 2024 to 5.7 per cent (100 bps lower than a year

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[1] World Economic Forum, Chief Economists' Outlook, January 2025; Peterson Institute for International Economics, "Trump's threatened tariffs projected to damage economies of the US, Canada, Mexico, and China", February 17, 2025; Financial Times, "Threat of Trump tariffs adds to global economic uncertainty, IMF warns", January 11, 2025.

[2] US benchmark S&P 500 index rose by 5.0 per cent during January 10-25, 2025.

[3] R1, is a large language model (LLM), developed by DeepSeek, a Chinese artificial intelligence (AI) company at a radically lower cost using much less computing power than existing LLMs.

[4] Global Economic Prospects, World Bank, January 2025.

back).[5] The decline was more pronounced in the case of AEs, although the more recent prints have shown an increase in inflation in major AEs, with services inflation proving to be obdurate. Diverging inflation and growth outcomes are also reflected in monetary policy actions —the US holding rates steady, the UK and the euro area opting for a cut, and Japan raising its rate. The potential impact of trade conflicts on currency and financial markets further confounds the choices policymakers face.

In this challenging and increasingly uncertain global environment, the Indian economy is poised to sustain its position as the fastest growing major economy during 2025-26 as per the estimates of major multilateral agencies.[6] High frequency indicators show that the economy is on a path of recovery during H2:2024-25 from the loss of momentum witnessed in H1. Industrial activity has recorded an improvement over the previous quarter, as reflected in the Purchasing Managers' Index (PMI) in January. Pick-up in tractor sales growth, and fuel consumption, and sustained growth in air passenger traffic also point to a recovery in overall momentum. Rural demand continues to hold up, buoyed by increasing farm incomes. In rural areas, sales of fast-moving consumer good (FMCG) companies grew by 9.9 per cent in Q3:2024-25, much higher than 5.7 per cent in Q2. Urban demand also exhibited a recovery with 5 per cent growth in Q3, being nearly double of 2.6 per cent in the previous quarter.[7] The enterprise surveys conducted by the Reserve Bank corroborate this assessment (Annex 1). Listed non-government non-financial companies recorded acceleration in sales growth during Q3 as per early results. On a sequential basis, operating profit margins have also turned out to be higher in line with improved sales growth. Investment intentions of the private sector remained stable, with the total cost of projects sanctioned by banks/financial institutions (FIs) at close to ₹ one lakh crore in Q3:2024-25. External commercial borrowings (ECBs) and Initial Public Offerings (IPOs) for capex purposes also recorded an uptick during Q3.

The Union Budget 2025-26 has placed thrust on boosting consumption while maintaining the quality of expenditure, with effective capital expenditure/GDP ratio budgeted to improve to 4.3 per cent in 2025-26 from 4.1 per cent in 2024-25 (RE).

Uncertainty surrounding global trade and geopolitical landscape have had a bearing on domestic equity markets. The benchmark and broader markets declined on account of selling pressures from foreign portfolio investors (FPIs) as sentiments remained weak. The Indian rupee has depreciated in line with other emerging economies, weighed down by the strength of US dollar. Strong macroeconomic fundamentals, along with improvements in various measures of external sector vulnerability, have helped India tide over the ongoing wave of global uncertainty.

Headline CPI inflation moderated to a five-month low of 4.3 per cent in January 2025 as food prices, especially those of vegetables, recorded a sharp decline driven by the arrival of winter crops in the market. Core (CPI excluding food and fuel) inflation has exhibited a gradual increase since May 2024 but remains below 4 per cent.

In the bimonthly monetary policy meeting of February 2025, the Monetary Policy Committee (MPC) of the Reserve Bank reduced the policy repo rate by 25 bps to 6.25 per cent as growth-inflation dynamics opened up policy space to support growth, while remaining focussed on aligning inflation with the target. The MPC noted that excessive volatility in global financial markets and continued uncertainties about global trade policies, coupled with adverse

[5] IMF WEO January 2025 update.

[6] IMF projects India to grow at 6.5 per cent during 2025 (WEO, January 2025), while World Bank pegs India's growth at 6.7 per cent (GEP, January 2025).

[7] NielsenIQ India FMCG quarterly snapshot- Q4 2024.

weather events, pose risks to the growth and inflation outlook. Accordingly, the MPC voted to continue with a neutral stance, which provides the flexibility to respond to evolving macroeconomic conditions.

Set against this backdrop, the remainder of the article is structured into four sections. Section II covers the rapidly evolving developments in the global economy. An assessment of domestic macroeconomic conditions is set out in Section III. Section IV encapsulates financial conditions in India, while the last Section sets out the conclusions.

II. Global Setting

The global economy continues to grow at a steady but moderate pace, although growth outlook diverges significantly across countries. In its January 2025 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) revised the growth forecast for 2025 to 3.3 per cent, up by 10 basis points (bps) *vis-à-vis* the October WEO outlook, while retaining the global growth forecast for 2026 at 3.3 per cent. A broadly similar assessment is shared by the World Bank in its latest Global Economic Prospects (GEP) [Table II.1].

Table II.1: GDP Growth Projections for 2025 – Select AEs and EMEs

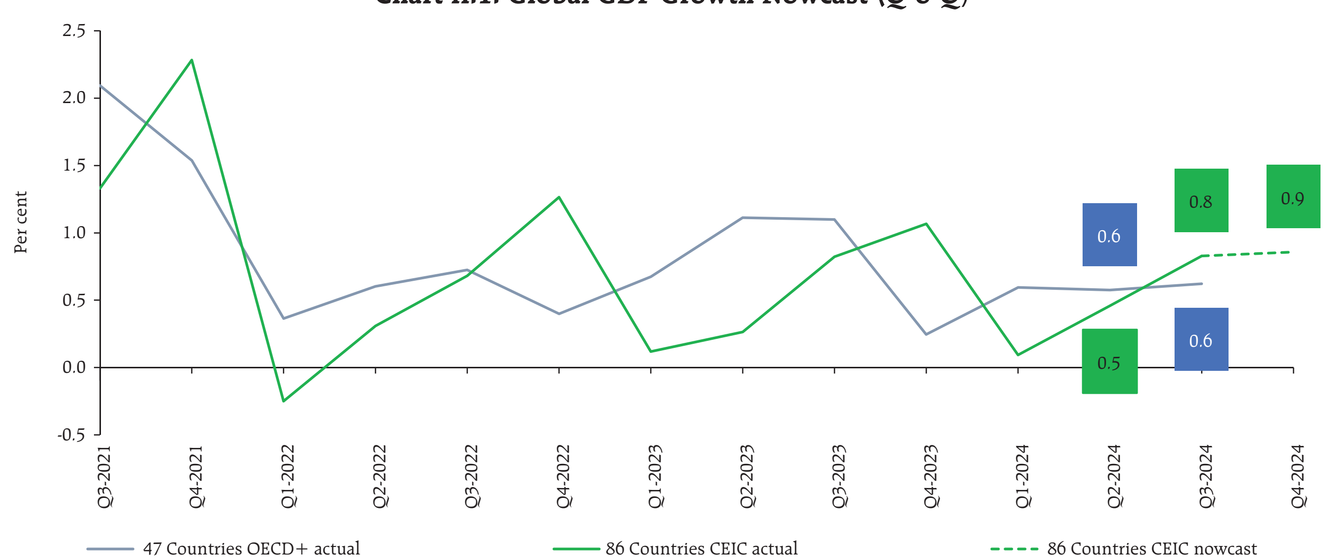
(Per cent)

Country	IMF		World Bank	
	Jan 2025 (Latest)	Oct 2024 (Previous)	Jan 2025 (Latest)	Jun 2024 (Previous)
World*	3.3	3.2	3.2	3.2
Advanced Economies				
US	2.7	2.2	2.3	1.8
UK	1.6	1.5	-	-
Euro area	1.0	1.2	1.0	1.4
Japan	1.1	1.1	1.2	1.0
Emerging Market Economies				
Brazil	2.2	2.2	2.2	2.2
Russia	1.4	1.3	1.6	1.4
India#	6.5	6.5	6.7	6.7
China	4.6	4.5	4.5	4.1
South Africa	1.5	1.5	1.8	1.3

Note: *: PPP weighted. #: India's data is on a fiscal year basis.
Sources: IMF; and World Bank.

Our model-based nowcast of global GDP indicates a marginal acceleration in global growth momentum in Q4:2024 (Chart II.1).

Chart II.1: Global GDP Growth Nowcast (Q-o-Q)



Sources: CEIC; OECD; and RBI staff estimates.

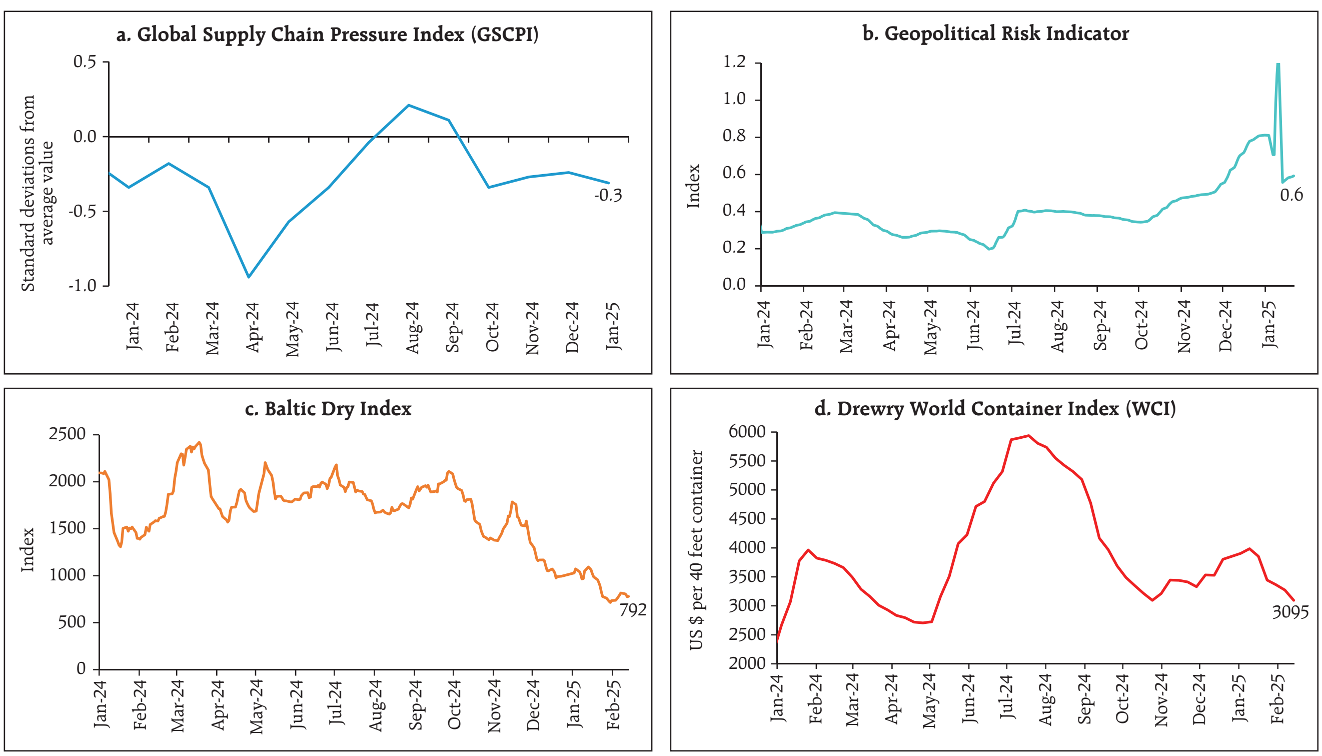
Global supply chain pressures moderated in January 2025 (Chart II.2a). The geopolitical risk indicator experienced a sharp spike in mid-January 2025, driven by both increased global trade protectionism and tensions in the Middle East. However, it subsequently declined following the Gaza ceasefire deal between Israel and Hamas (Chart II.2b). The Baltic Dry Index fell to a 23-month low at the end of January 2025 — its lowest level since February 2023 — as freight rates declined across all vessel segments ahead of the traditionally slow Lunar New Year period in Asia. Concomitantly, shipping costs moderated in January 2025 (Chart II.2c and II.2d).

Consumer sentiments worsened in the US, the UK, Japan and major EMEs, while it improved in the Euro area in January 2025 (Chart II.3a and II.3b). Financial conditions eased in major AEs but among EMEs, they tightened in China and Brazil (Chart II.3c and II.3d).

The global composite purchasing managers' index (PMI) moderated to a 12-month low in January 2025, as the upturn in the manufacturing sector was offset by a deceleration in the service sector business activity growth (Chart II.4). While the global manufacturing PMI returned to expansionary territory, reaching a 7-month high, the global services PMI declined to a 13-month low due to slower new business growth.

In January 2025, trade policy uncertainty reached the highest level since the onset of the pandemic (Chart II.5), primarily driven by concerns of new trade restrictions, tariff increases, and tighter immigration policies following the change in the US administration

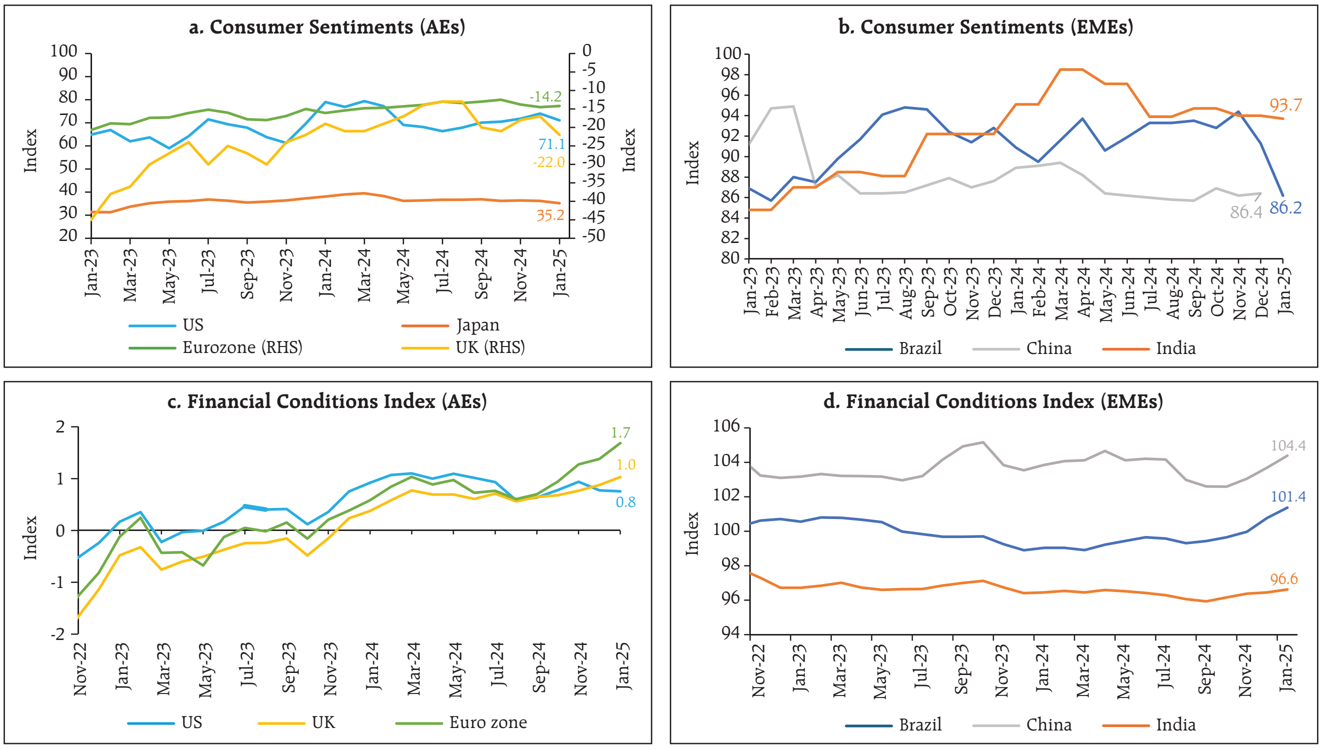
Chart II.2: Trends in Global Supply Chain Pressures and Geopolitical Risks



Notes: 1. GSCPI reflects data on transportation costs and manufacturing indicators.
2. The Baltic Dry Index provides a benchmark for the price of moving major raw materials by sea and consists of three sub-indices that measure different sizes of dry bulk carriers.
3. The WCI assessed weekly by Drewry reports actual spot container freight rates for major east west trade routes. The composite represents a weighted average of the 8 shipping routes by volume and is reported in USD per 40-foot container.

Sources: Federal Reserve Bank of New York; BlackRock Investment Institute, January 2025; and Bloomberg.

Chart II.3: Consumer Sentiment and Financial Conditions



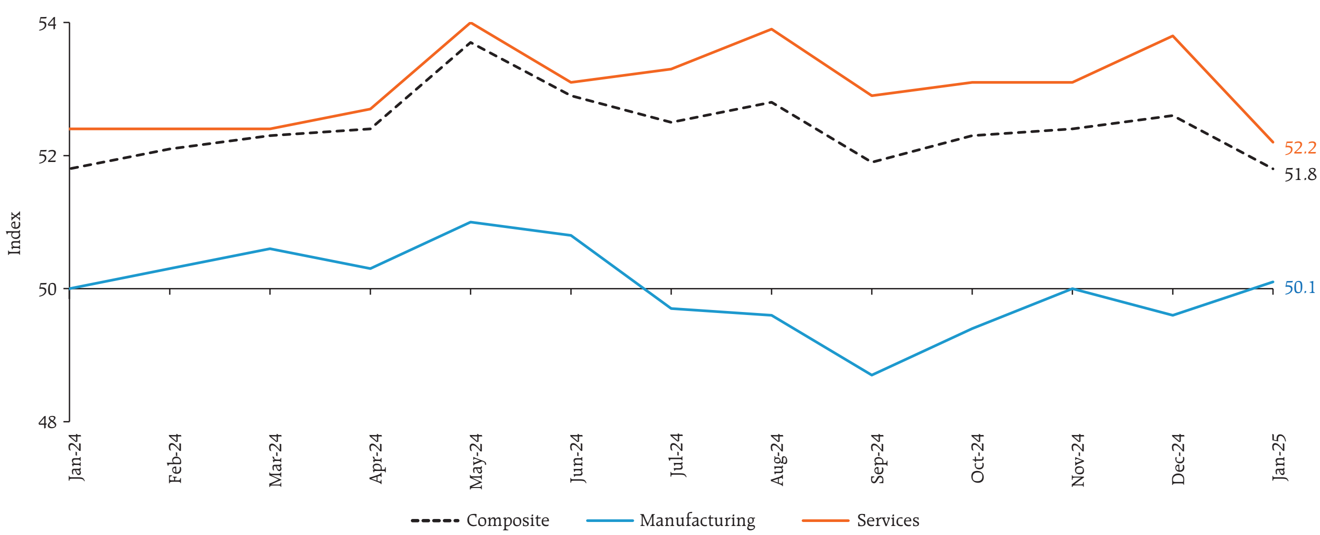
Notes: 1. Japan: A score above 50 indicates consumer optimism, below 50 shows lack of consumer confidence and 50 indicates neutrality.
2. Euro zone and UK: -100 indicate extreme lack of confidence, 0 denotes neutrality while 100 indicates extreme confidence.
3. India and US: Higher the index value, higher is the consumer confidence.
4. For financial condition index (pertaining to EMEs constructed by Goldman Sachs), a reading below 100 is accommodative and *vice versa*. As for the AEs, the index constructed by Bloomberg is a z-score where a positive value indicates accommodative/easy financial conditions and *vice versa*.

Source: Bloomberg.

and potential retaliatory measures from key trading partners.

The IMF has revised the world trade volume (goods and services) growth downwards by 20 bps

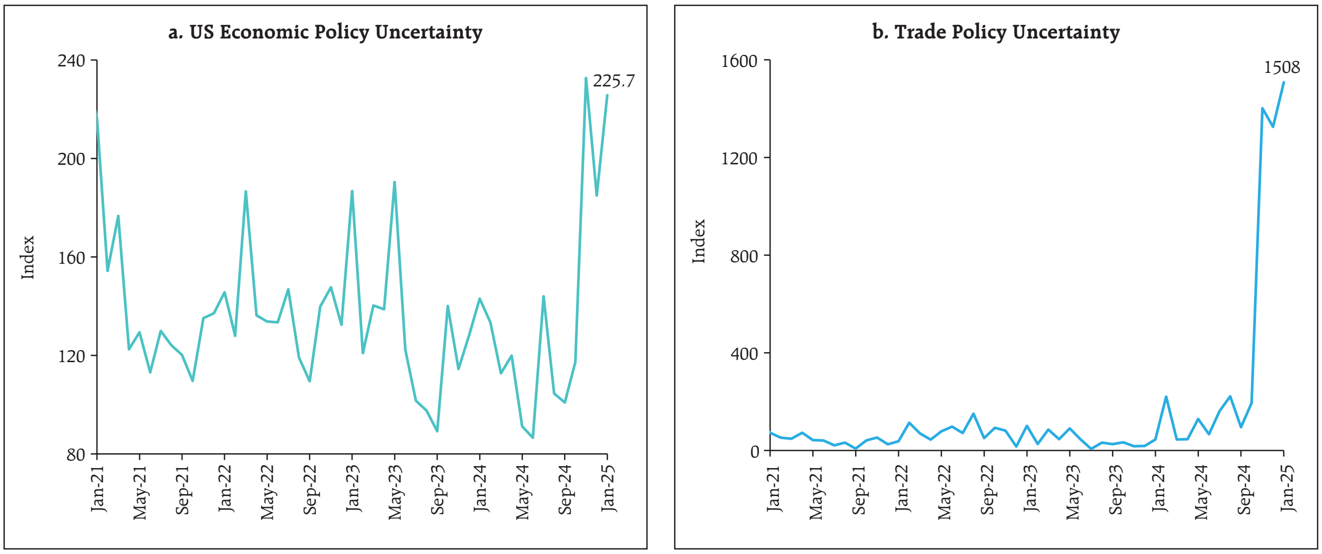
Chart II.4: Global Purchasing Managers' Index (PMI)



Note: A level of 50 corresponds to no change in activity and a reading above 50 denotes expansion and *vice versa.*

Source: S&P Global.

Chart II.5: Policy Uncertainty Index

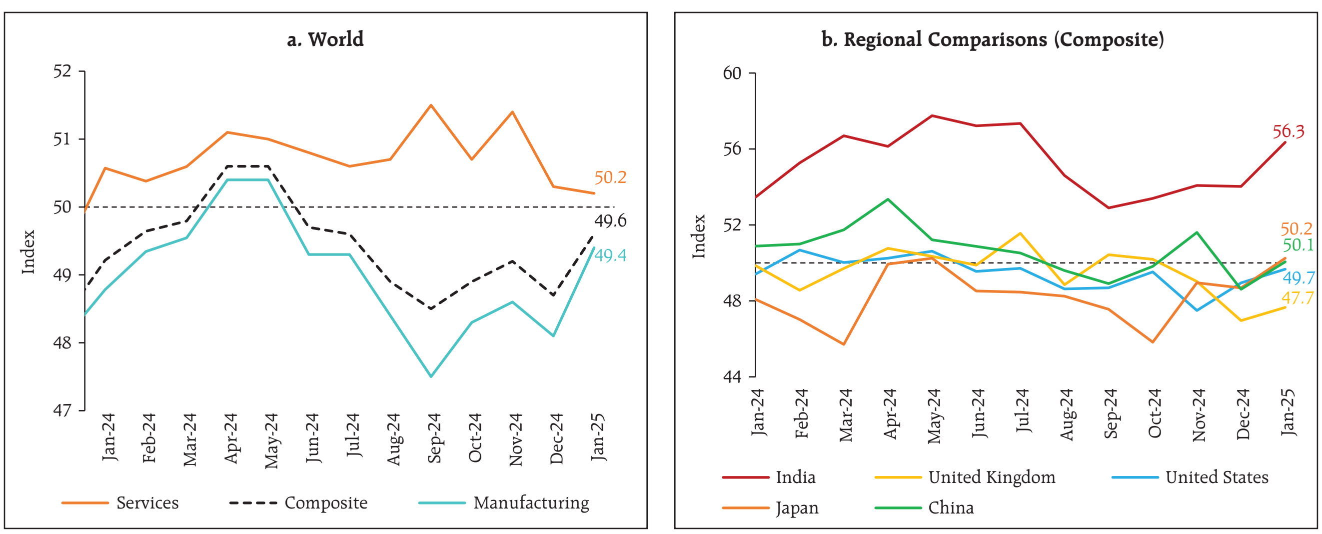


Sources: NY Fed Fred Database; and Baker, Bloom, and Davis (2016).

for 2025 to 3.2 per cent and by 10 bps for 2026 to 3.3 per cent.[8] The composite PMI for new export orders remained in contractionary territory in January 2025, despite a sequential pick-up driven by an increase in manufacturing export orders that offset the decline in services export orders. Export indices for Japan, India, and China recorded expansion, while those of the US and the UK witnessed contraction (Chart II.6a and II.6b).

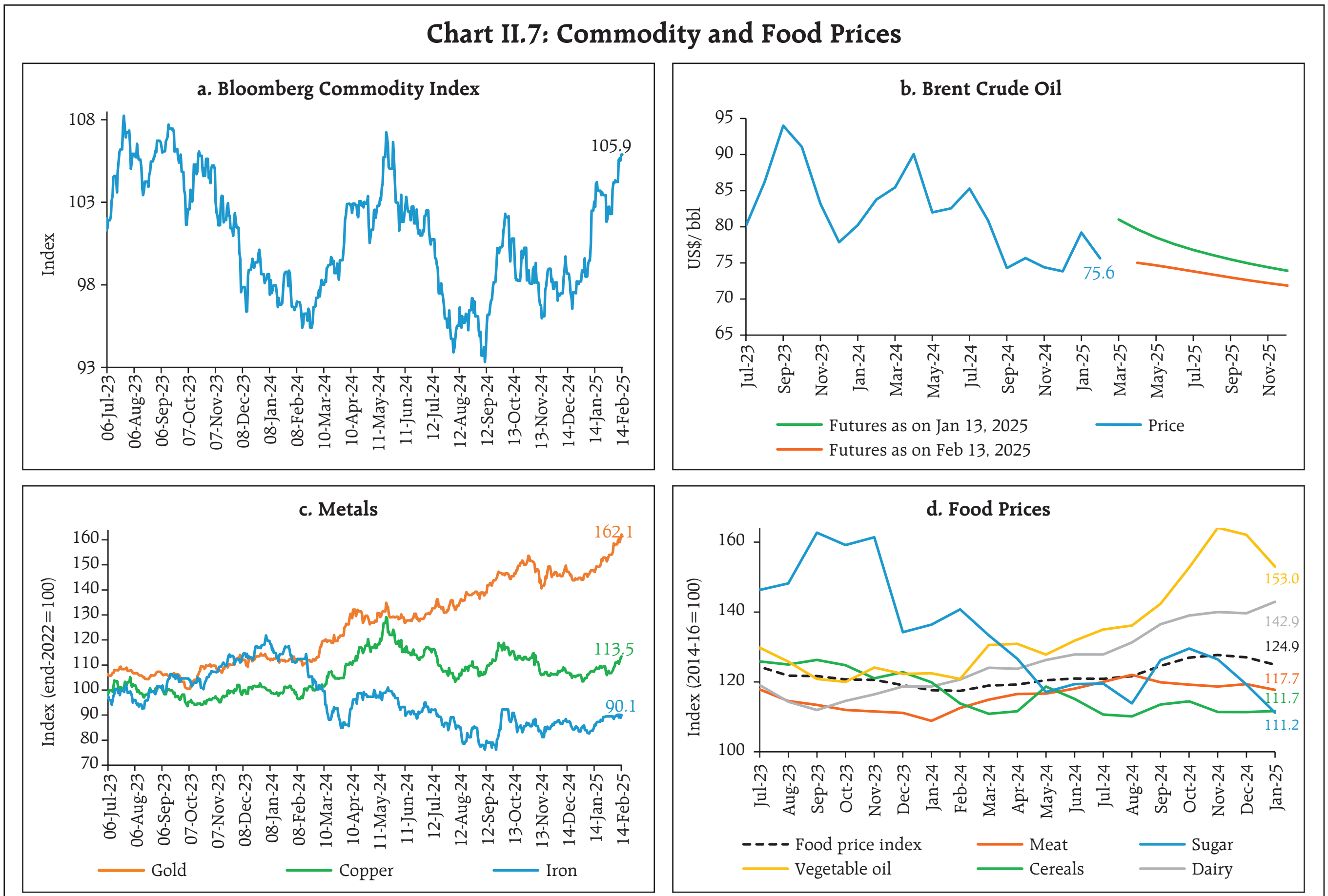
Global commodity prices generally increased in January as reflected in the Bloomberg commodity index, which recorded a m-o-m increase of 3.6 per cent (Chart II.7a). Crude oil prices increased by 7.2 per

Chart II.6: Global PMI: New Export Orders



Note: A level of 50 corresponds to no change in activity and a reading above 50 denotes expansion and vice versa.
Source: S&P Global.

[8] IMF WEO January 2025 update.



Sources: Bloomberg; World Bank Pink Sheet; and FAO.

cent (m-o-m) in January amidst fresh US sanctions on Russia's energy sector and cold weather pushing up demand (Chart II.7b). Base metal prices also increased in January, after China, the world's largest consumer of base metals, indicated additional stimulus measures to boost their economy. Precious metals, particularly gold prices, recorded sharp increases in January, supported by safe-haven demand amidst increased geo-economic and trade uncertainties (Chart II.7c). Food prices measured by the FAO's food price index declined by (-) 1.6 per cent in January 2025, primarily driven by decrease in the prices of sugar, vegetable oil and meat partially offset by increases in prices of dairy and cereals (Chart II.7d).

In the US, CPI inflation increased to 3.0 per cent (y-o-y) in January from 2.9 per cent in December. Inflation, in terms of the personal consumption expenditure (PCE) deflator also increased to 2.6 per cent in December from 2.4 per cent in November. Headline inflation in the Euro area accelerated to 2.5 per cent in January from 2.4 per cent in December. Inflation in Japan (CPI excluding fresh food) increased to 3.0 per cent in December, while in the UK it inched lower by 10 bps to 2.5 per cent (Chart II.8a). Among EMEs, CPI inflation in China rose to a five month high of 0.5 per cent in January; Russia and South Africa also witnessed an increase in inflation in December while in Brazil, it declined to 4.6 per cent in January (Chart II.8b). Core inflation remained steady in the Euro area in January 2025, but edged up marginally in the US. Services inflation decreased in both the US and the Euro area but remains elevated (Chart II.8c and II.8d).

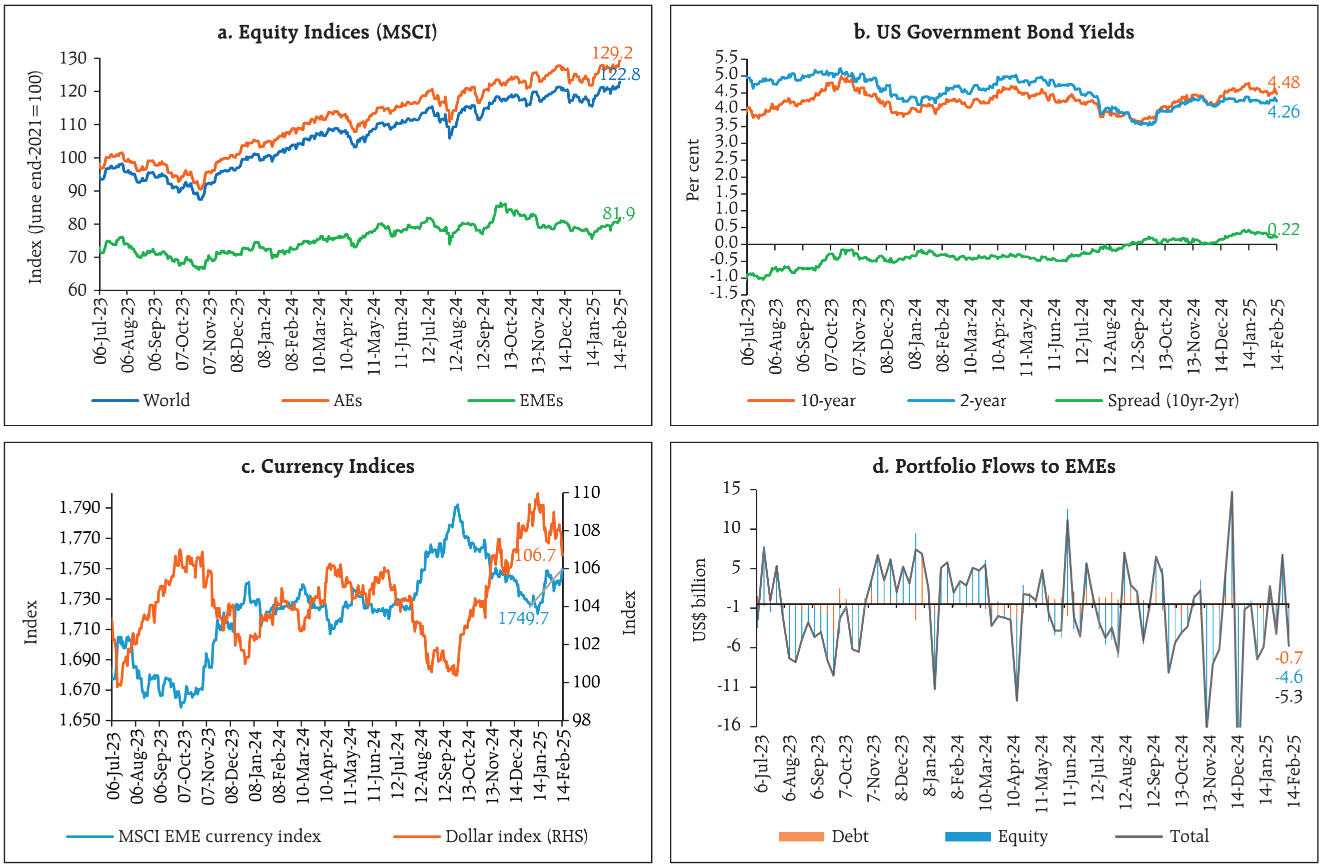
Chart II.8: Inflation - AEs and EMEs

Sources: Bloomberg; and OECD.

The Morgan Stanley Capital International (MSCI) world equity index surged by 3.3 per cent (m-o-m) in January, with greater gains in AE equity markets over those in EMEs even as volatility remained high on account of policy uncertainty (Chart II.9a). Yields on the US government securities hardened in the first fortnight of January as data releases such as strong retail sales and industrial production prints amidst low unemployment indicated underlying strength in the US economy. Yields softened in the second half, as inflation data releases and Federal Open Market Committee (FOMC) statement helped ease uncertainty. Yields again moved higher in February on higher than expected CPI inflation (Chart II.9b). The US dollar index (DXY) appreciated in the first half of January but gave up some of its gains subsequently. DXY remained volatile, responding to announcements of trade policy measures by the new US administration. The MSCI currency index for EMEs mirrored movements in DXY with a depreciating bias as capital outflows, particularly in the equity segment, exerted downward pressure (Chart II.9c and II.9d).

Divergent macroeconomic conditions are reflected in monetary policy actions across countries. Among AE central banks, the US, South Korea and Norway kept their policy rates unchanged. In contrast, the Euro area, Canada, and Sweden cut their policy rates by 25 bps in January while the UK and Czech Republic lowered their key rates by 25 bps in February (Chart II.10a). Japan, however, hiked its policy rate by 25 bps. Among EME central banks, China, Chile, Hungary, Columbia, Malaysia, Philippines and Peru maintained their policy rates. South Africa and Indonesia lowered their policy rates by 25 bps in January 2025 while

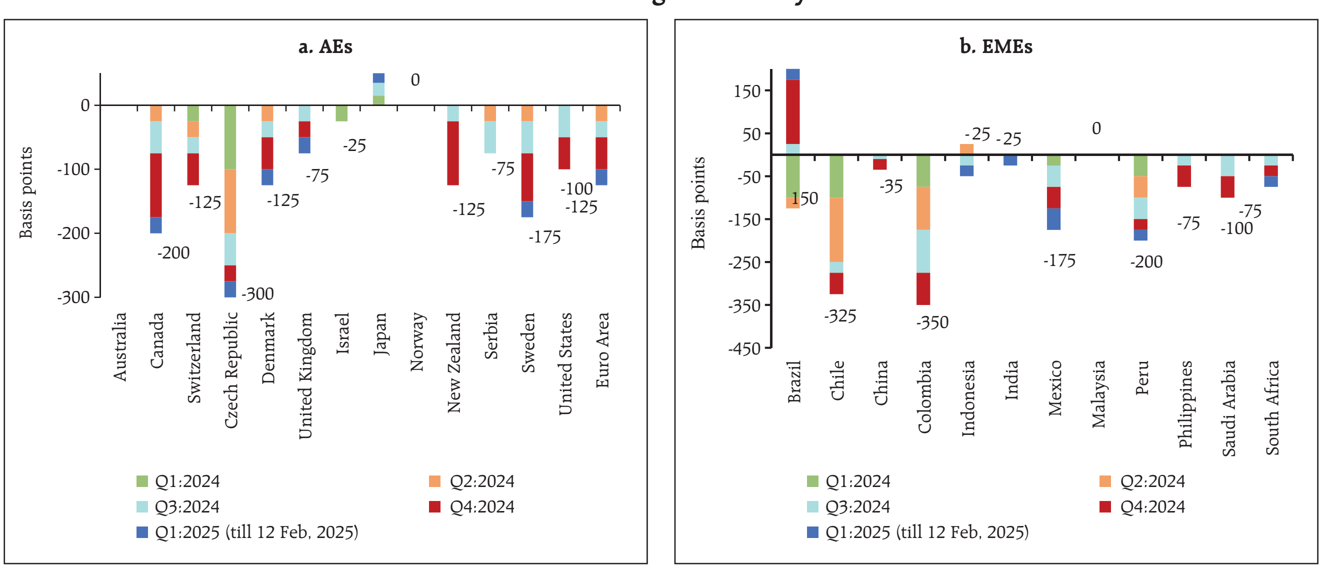
Chart II.9: Global Financial Markets



Sources: Bloomberg; and IIF.

Mexico and India cut their benchmark rates by 50 bps and 25 bps, respectively, in February. Brazil, on the other hand, hiked it by 100 bps in January (Chart II.10b).

Chart II.10: Changes in Policy Rates



Source: Bloomberg.

III. Domestic Developments

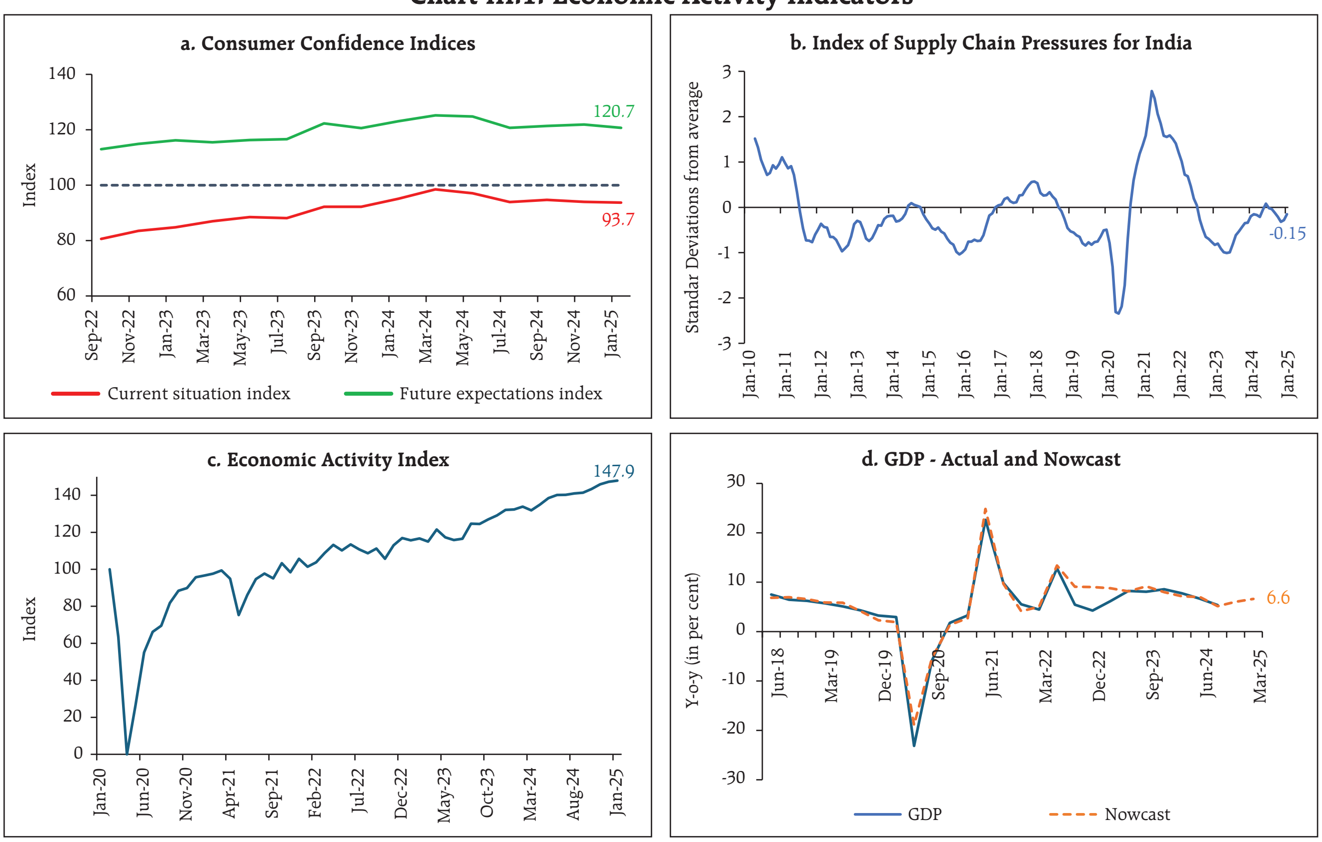
The Indian economy is regaining its growth momentum driven by recovery in consumption demand and overall investment. As per the latest RBI survey in January 2025, consumer confidence remains upbeat with the future expectations index (FEI) remaining firmly in optimistic territory *albeit* a slight sequential moderation although the current situation index (CSI), remained in pessimistic territory (Chart III.1a). Supply chain pressures remained below historical average levels, despite a marginal uptick in January (Chart III.1b). The economic activity index, constructed by extracting the common trend underlying twenty-seven high frequency indicators, indicates that activity sustained its pace in January and the GDP nowcast for Q4:2024-25 is placed at 6.6 per cent (Chart III.1c and Chart III.1d).

Aggregate Demand

High frequency indicators suggest that aggregate demand is recovering from the slowdown witnessed in H1. E-way bills growth accelerated to 23.1 per cent in January (Chart III.2a). Toll collections recorded strong growth both in volume and value terms (Chart III.2b).

Wholesale automobile sales experienced a turnaround in January, registering a growth of 2.5 per cent y-o-y, following two months of contraction (Chart III.3a). The two-wheeler segment saw a recovery, primarily driven by a surge in scooter sales although motorcycle sales contracted for the third consecutive month (Chart III.3b). Tractor sales recorded double digit growth for the second consecutive month. Vehicle registrations recorded an expansion in January,

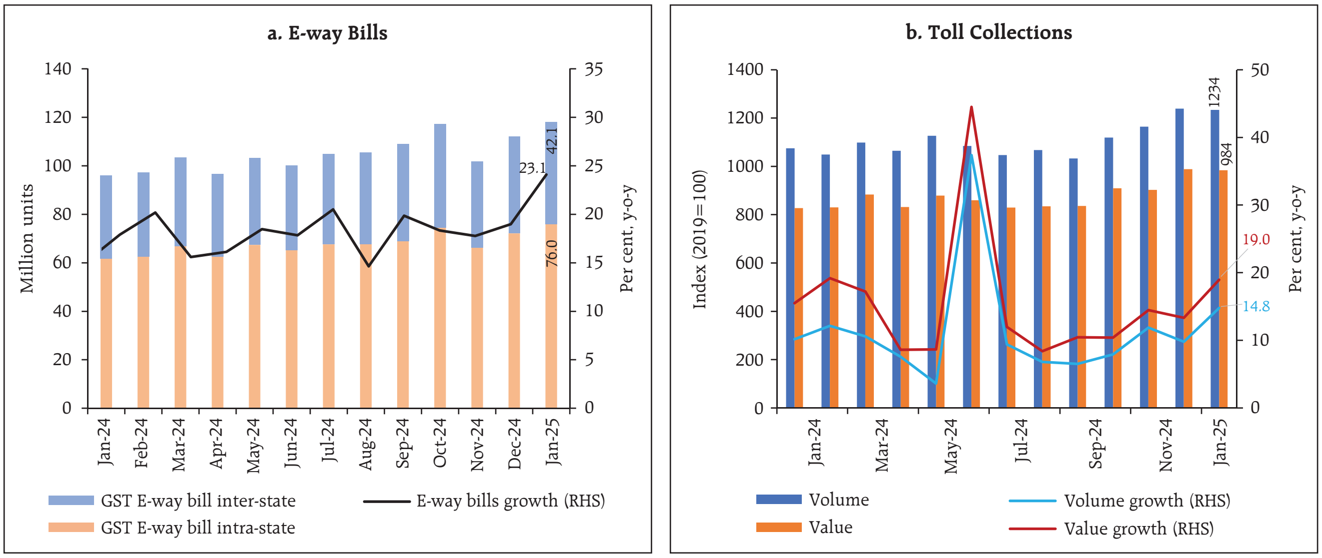
Chart III.1: Economic Activity Indicators



Notes: 1. The economic activity index (EAI) is constructed by extracting the common trend underlying twenty-seven high frequency indicators of economic activity using a Dynamic Factor Model. EAI is scaled to 100 in February 2020 and 0 in April 2020, the worst affected month due to mobility restrictions.
2. For GDP Nowcast, implicit number is available from first advance estimates (FAE).

Sources: National Statistical Office (NSO); and RBI staff estimates.

Chart III.2: E-way Bills and Toll Collections



Sources: GSTN; and RBI.

driven by an increase in both non-transport and transport vehicles segments (Chart III.3c). Petroleum consumption expanded by 3.1 per cent (y-o-y) in January (Chart III.3d).

Chart III.3: Automobile Sector Indicators

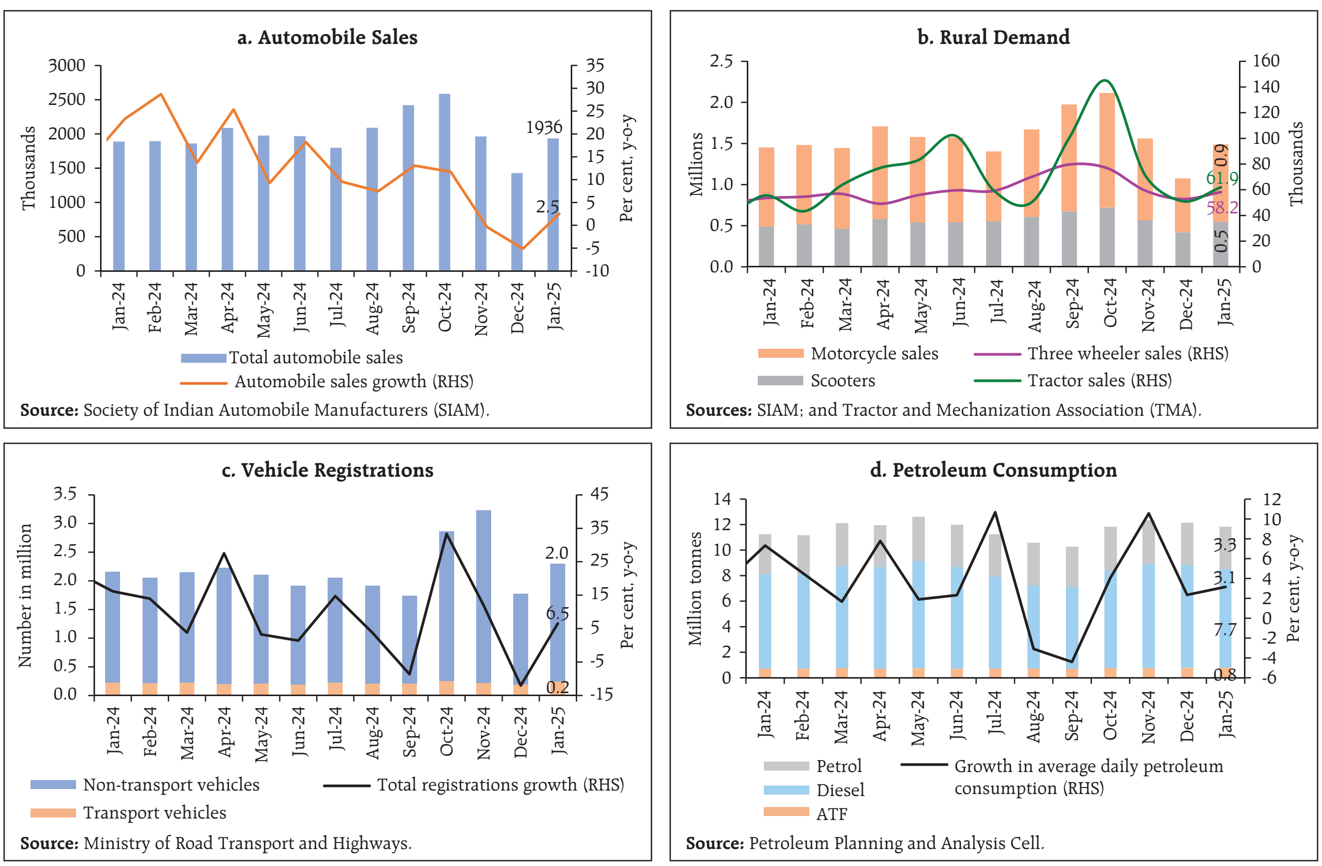
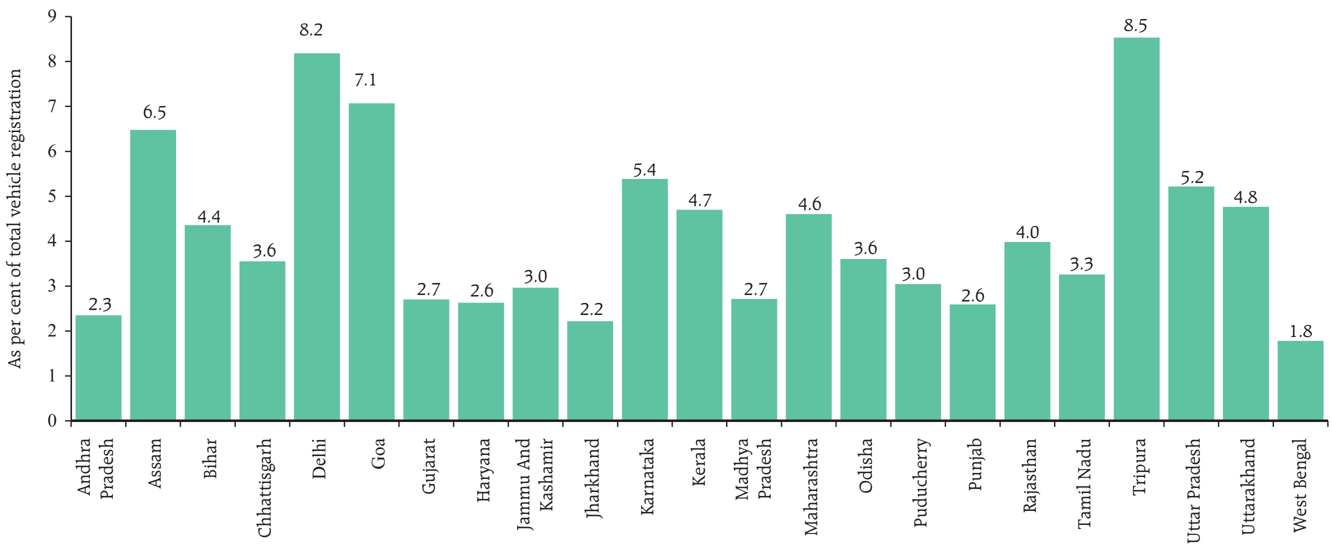


Chart III.4: State-wise EV Adoption Rates

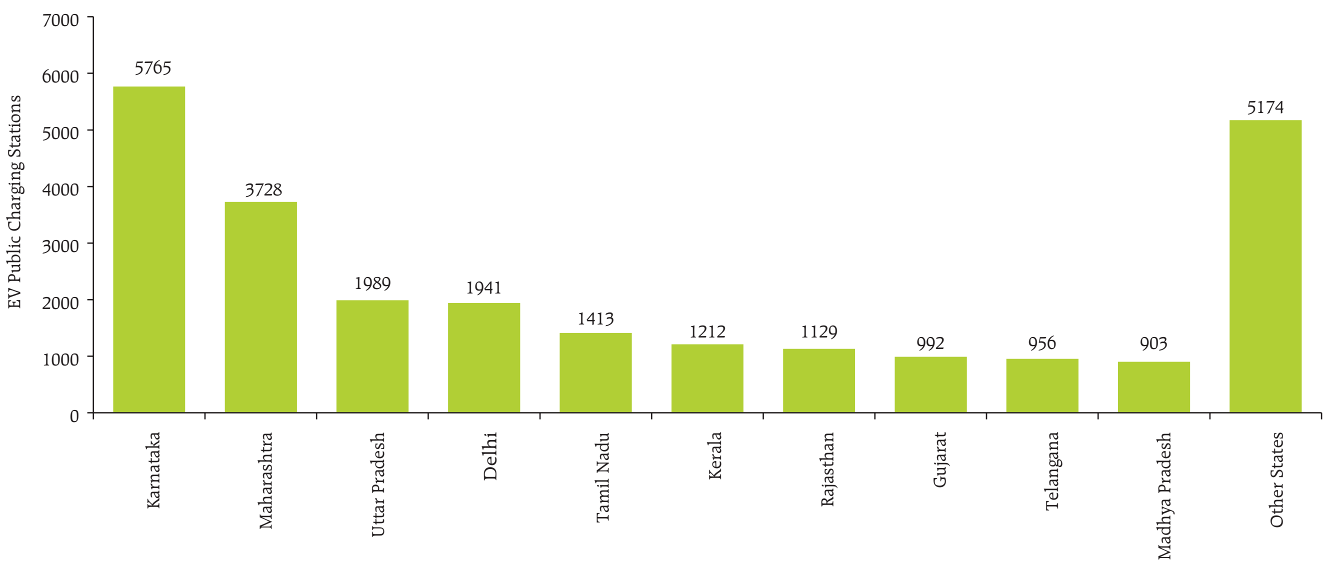


Source: 'Vahan Dashboard'.

India has seen a growing adoption of electric vehicles (EVs) in the past few years. In 2024, the share of EVs in total vehicle registrations increased to more than 7 per cent from less than 2 per cent in 2021. States/UTs such as Assam, Delhi, Goa, Karnataka, and Tripura have seen relatively higher EV adoption rates[9] (Chart III.4).

The PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) scheme launched in September 2024 aims to incentivise the adoption of EVs and has made provision for the development of Electric Vehicle Public Charging Stations (EVPCS)[10]. As of December 2024, Karnataka had the highest EVPCS, followed by Maharashtra and Uttar Pradesh (Chart III.5).

Chart III.5: Number of EV Public Charging Stations



Source: Ministry of Heavy Industries, PIB release dated December 20, 2024.

9 Adoption rates are calculated by dividing total EVs registration with total vehicle registration in the corresponding state for the period from January 2019 to February 2025.

10 An outlay of ₹10,900 crore for a two-year period was provided, out of which ₹2,000 crore has been kept for EVPCS.

Chart III.6: PMI Employment Indices

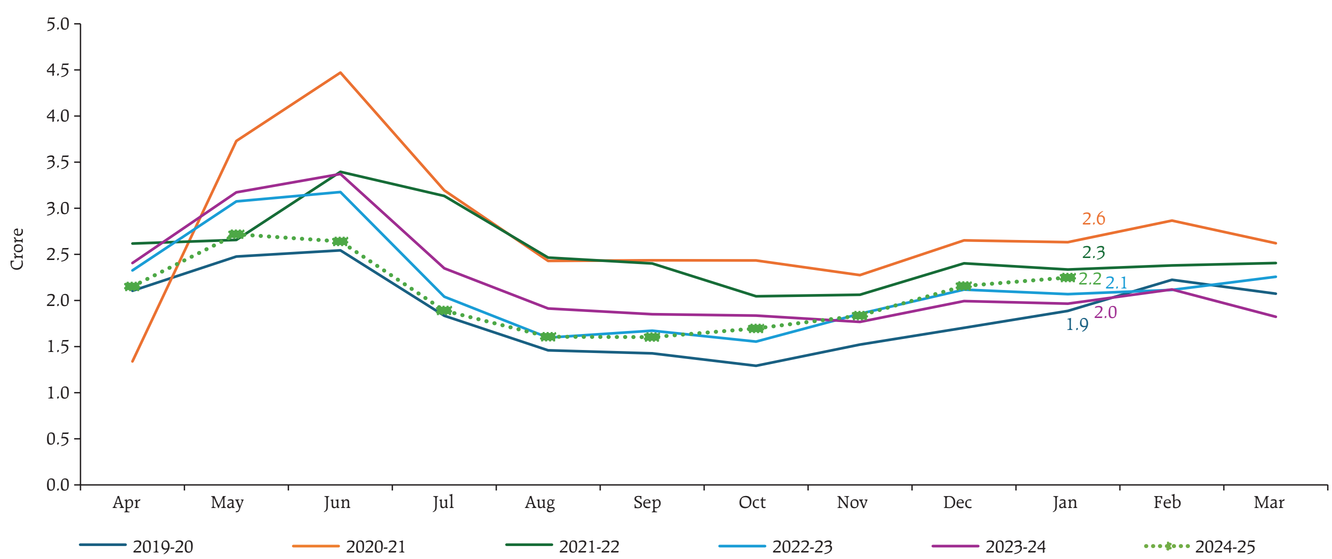
Note: A PMI value above 50 indicates expansion.
Source: S&P Global.

In January 2025, employment in the organised manufacturing sector grew at a record pace since the PMI survey's inception, while job creation in the services sector was also among the strongest in the series[11] (Chart III.6).

The demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) rose for the third consecutive month in January 2025 by 14.4 per cent (y-o-y) as *rabi* sowing came to close (Chart III.7).

India's merchandise exports at US$ 36.4 billion contracted by 2.4 per cent (y-o-y) in January 2025, mainly due to a decline in oil exports (Chart III.8).

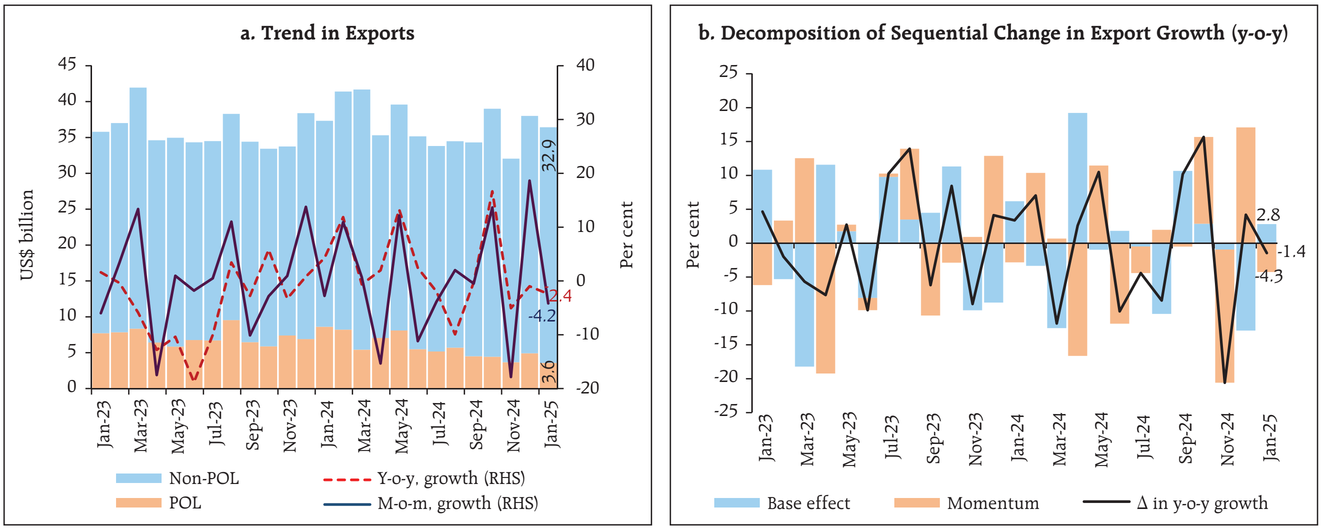
Chart III.7: Households' Demand for Work under MGNREGA



Source: Ministry of Rural Development.

[11] The survey began in 2005.

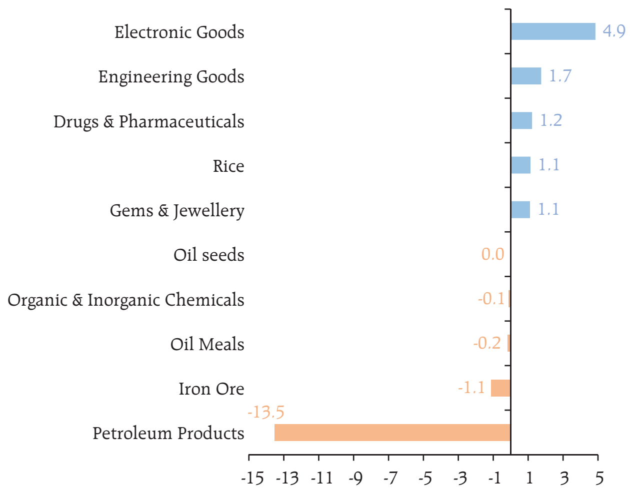
Chart III.8: India's Merchandise Exports



Note: POL: Petroleum, oil and lubricants.
Sources: PIB; DGCI&S; and RBI staff estimates.

The contraction remained contained in a few product groups as exports of only 5 out of 30 major commodities (accounting for 27.6 per cent of export basket) declined on y-o-y basis. Among the major groups, petroleum products and iron ore contributed negatively, while electronic goods, engineering goods, and drugs and pharmaceuticals lent support (Chart III.9).

Chart III.9: India's Merchandise Exports – Relative Contribution
(January 2025 over January 2024)



Sources: PIB; and RBI staff estimates.

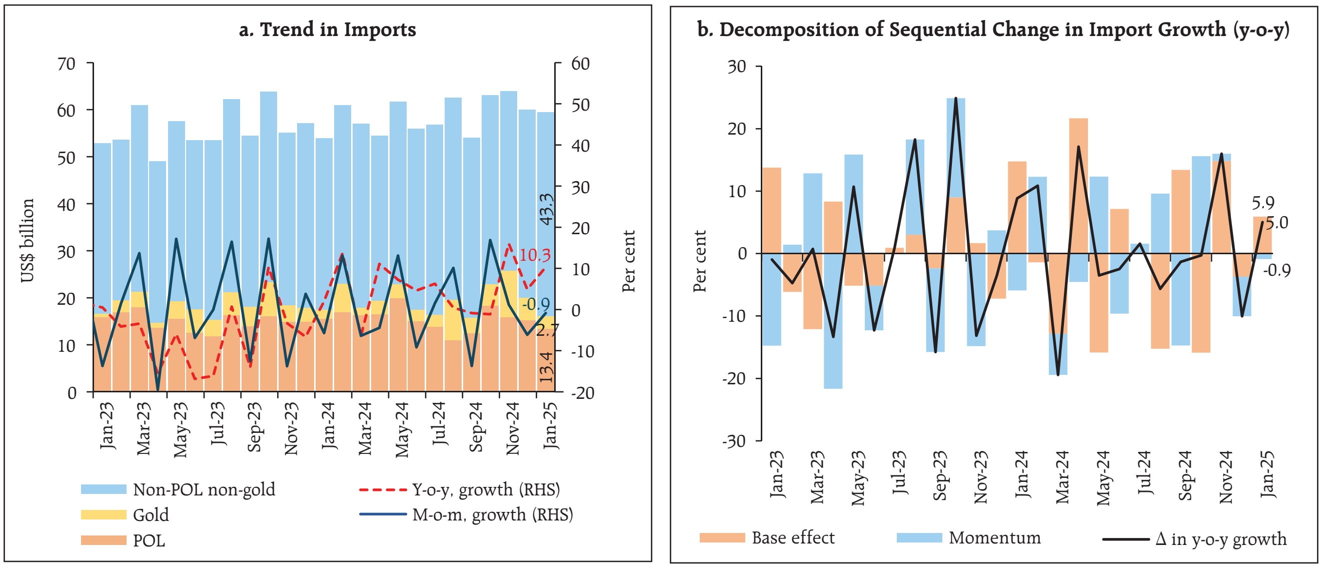
During April-January 2024-25, India's merchandise exports expanded by 1.4 per cent to US$ 358.9 billion, primarily led by engineering goods, electronic goods, rice, and drugs and pharmaceuticals, while petroleum products, gems and jewellery and iron ore dragged exports down.

Exports to 10 out of 20 major destinations expanded in January 2025. During April-January 2024-25, exports to 15 out of 20 major destinations expanded , with the US, the UAE and the Netherlands being the top three export destinations.

Merchandise imports at US$ 59.4 billion increased by 10.3 per cent (y-o-y) in January (Chart III.10). Out of 30 major commodities, 26 commodities (accounting for 59.7 per cent of import basket) registered an expansion on y-o-y basis.

Electronic goods, electrical and non-electrical machinery and gold were the major groups which contributed positively, while petroleum, crude and products and pearls, precious and semi-precious stones were the major groups that contributed negatively (Chart III.11).

Chart III.10: India's Merchandise Imports



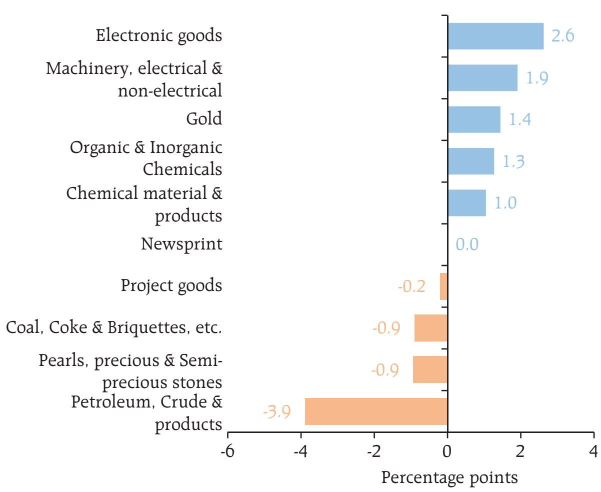
Sources: PIB; DGCI&S; and RBI staff estimates.

During April-January 2024-25, India's merchandise imports at US$ 609.1 billion increased by 7.4 per cent (y-o-y), mainly led by gold, petroleum, crude and products and electronic goods, while imports of coal, coke and briquettes, *etc.*, pearls, precious and semi-precious stones and iron and steel fell.

Imports from 13 out of 20 major source countries expanded in January, and imports from 15 out of 20 major source countries expanded during April-January 2024-25. Import from major source countries, *viz.*, China, Russia, and the UAE recorded a growth during April-January 2024-25.

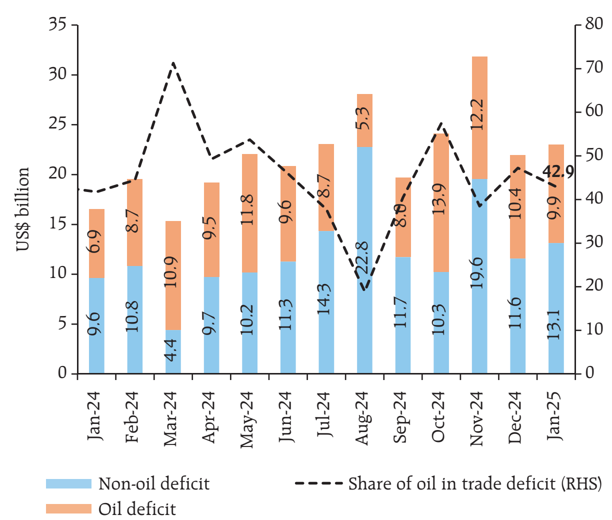
Merchandise trade deficit widened to US$ 23.0 billion in January 2025 from US$ 16.6 billion in January 2024. Both oil and non-oil deficit turned out to be higher in January as compared with a year ago (Chart III.12). The share of oil deficit in overall trade

Chart III.11: India's Merchandise Imports – Relative Contribution
(January 2025 over January 2024)



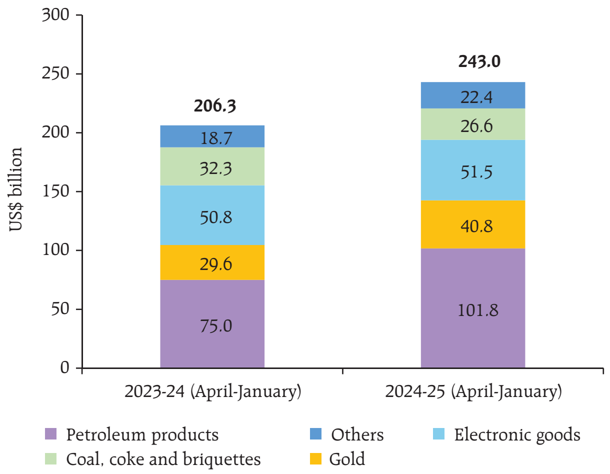
Sources: PIB; and RBI staff estimates.

Chart III.12: Decomposition of India's Merchandise Trade Deficit



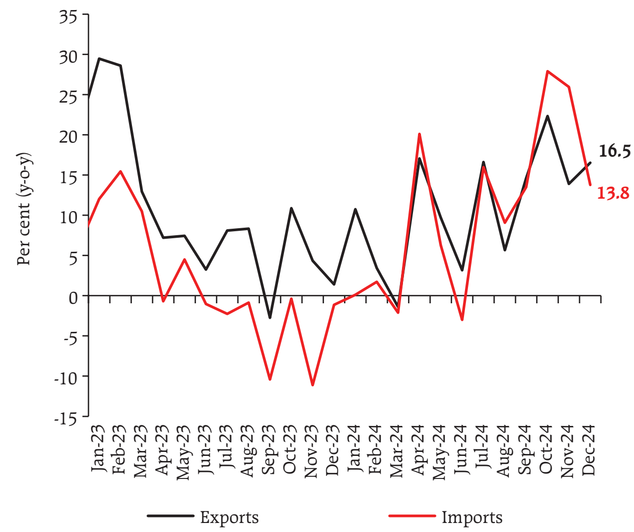
Sources: PIB; and DGCI&S.

Chart III.13: Commodity-wise Merchandise Trade Deficit



Note: Coal, coke and briquettes exports in January 2025 and December 2024 are assumed to be at the same level as in November 2024.
Sources: PIB; DGCI&S; and RBI staff estimates.

Chart III.14: Services Exports and Imports: Growth Rates



Source: RBI.

deficit was 42.9 per cent in January as compared with 41.8 per cent a year ago.

During April-January 2024-25, India's merchandise trade deficit widened to US$ 243.0 billion from US$ 206.3 billion a year ago. Petroleum products were the largest source of deficit, followed by electronic goods and gold (Chart III.13).

During December 2024, services exports robustly grew by 16.5 per cent (y-o-y) to US$ 36.9 billion while services imports expanded by 16.5 per cent (y-o-y) to US$ 17.8 billion (Chart III.14). Net services export earnings rose by 19.2 per cent (y-o-y) to an all-time high of US$ 19.1 billion during the month.

During April-December 2024, the gross fiscal deficit (GFD) and revenue deficit (RD) in absolute terms were lower than the corresponding period of the previous year[12]; while they were higher as per cent of the revised estimates (RE). The gross primary deficit remained lower than the corresponding period of the previous year, both in absolute terms and as per cent of RE (Chart III.15a and 15b).

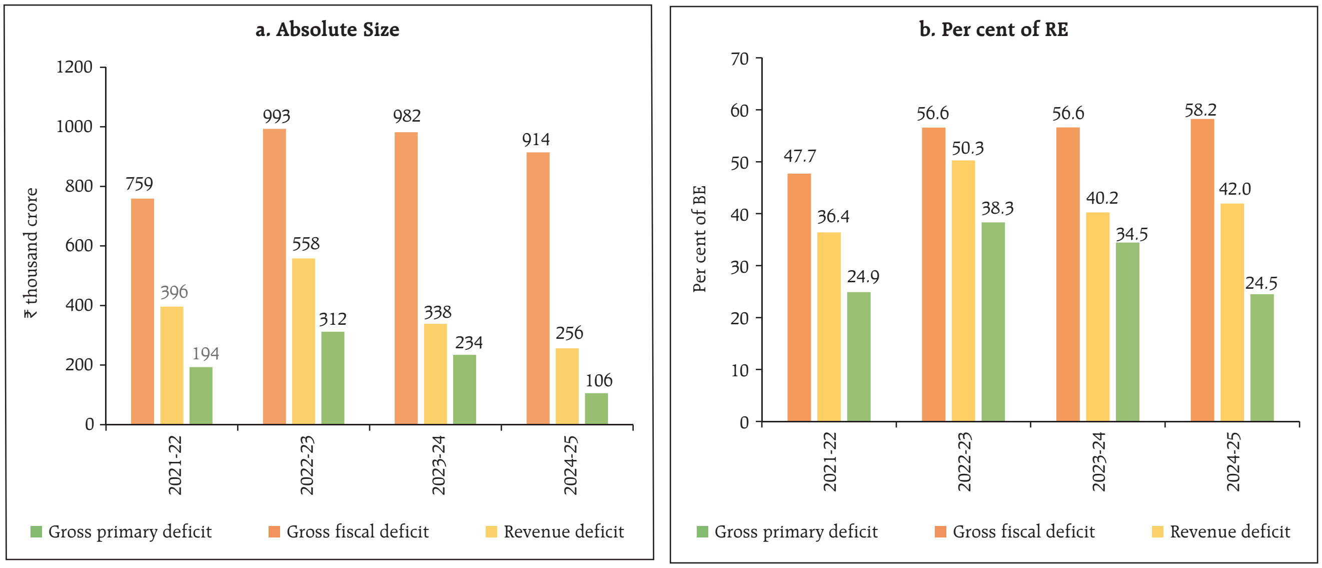
Amongst expenditure components, revenue expenditure recorded a y-o-y growth of 7.0 per cent in April-December 2024 in comparison to 2.3 per cent growth during the corresponding period of the previous year. Driven by food and petroleum subsidies, the expenditure outgo on major subsidies recorded a growth of 10.9 per cent, in comparison to a contraction of 21.0 per cent during the corresponding period of the previous year. Revenue expenditure net of interest payments and subsidies grew by 5.6 per cent (y-o-y) as compared with 4.5 per cent a year ago.

Capital expenditure recovered in November and December 2024[13], taking the y-o-y growth rate to 1.7 per cent during April-December 2024 (Chart III.16a). Among the top six ministries, which together account for around 95 per cent of the budgeted capital expenditure for 2024-25, Road Transport and Highways, Railways, Finance, and Housing and Urban Affairs registered expansion on a y-o-y basis while Defence, and Communications registered a

[12] According to the Controller General of Accounts (CGA).

[13] On a y-o-y basis, capital expenditure registered an expansion of 21.3 per cent and 95.3 per cent during November and December 2024, respectively.

Chart III.15: Budgetary Deficit of Central Government during April-December

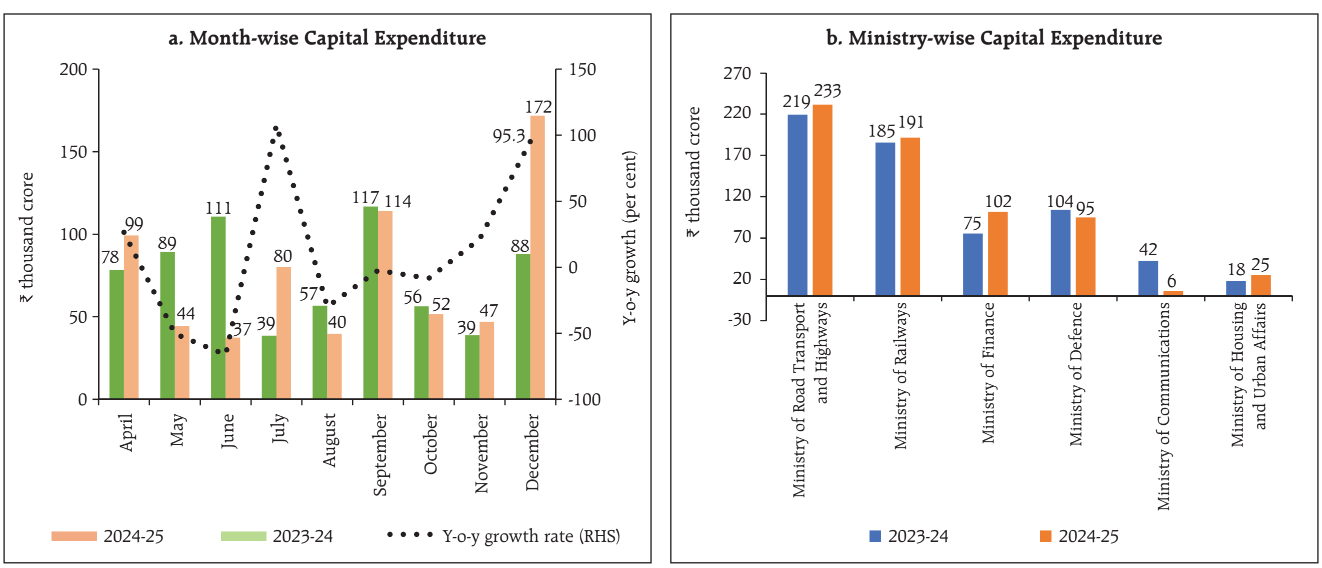


Sources: Controller General of Accounts (CGA); and Union Budget Documents.

contraction (Chart III.16b). Overall, the growth in total expenditure stood at 5.8 per cent during April-December 2024 *vis-à-vis* 8.4 per cent during the corresponding period of the previous year.

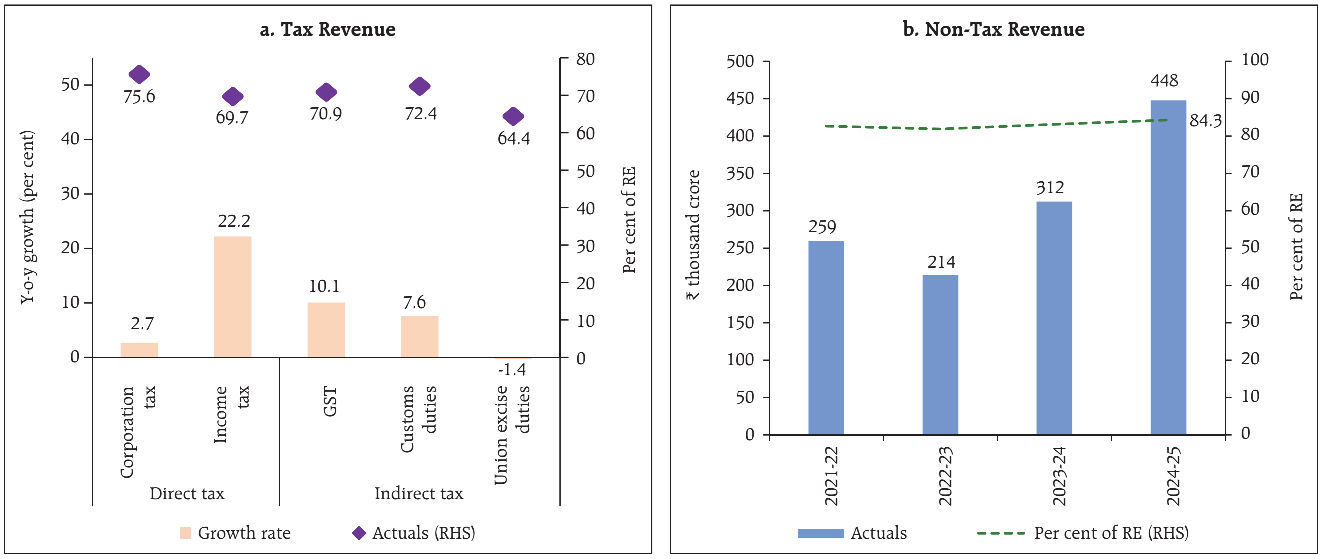
Gross tax revenues of the Central government grew by 10.8 per cent (y-o-y) in April-December 2024, primarily driven by income tax, goods and services tax (GST), and custom duties (Chart III.17a). Non-tax revenue attained 84.3 per cent of RE, attributable to the surplus transfer of ₹2.11 lakh crore from the Reserve Bank (Chart III.17b). Non-debt capital receipts, however, contracted due to decline in both recovery of loans and disinvestment receipts. The net tax revenue of the Union government increased

Chart III.16: Capital Expenditure



Source: CGA.

Chart III.17: Revenue Receipts of the Central Government during April-December

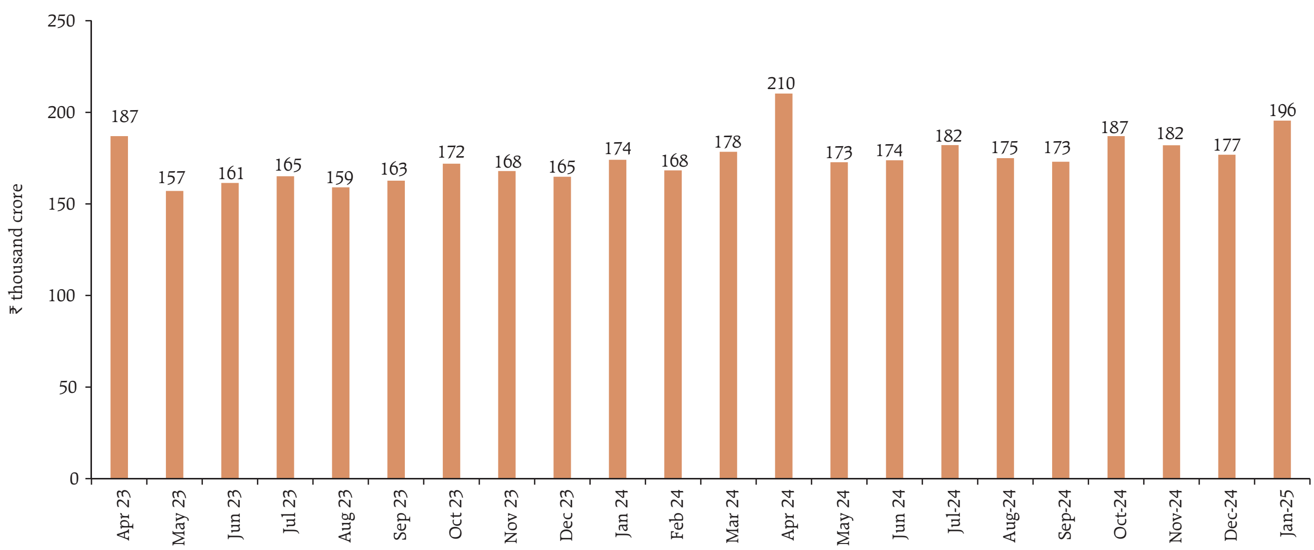


Source: CGA.

by 6.5 per cent during April-December 2024. Overall, the total receipts expanded by 11.9 per cent over the corresponding period of the previous year.

GST collections (Centre *plus* States) grew by 12.3 per cent (y-o-y) in January 2025 to reach ₹1.96 lakh crore (Chart III.18). The collection from domestic transactions[14] grew by 10.0 per cent (y-oy), while that on imports grew by 19.8 per cent. With tax refund for January 2025 growing by 23.9 per cent, the net GST collections rose by 10.9 per cent to ₹1.72 lakh crore. The cumulative gross GST collections for April-January 2024-25 were 9.4 per cent higher than the corresponding period a year ago.

Chart III.18: GST Collection



Sources: Press Information Bureau (PIB); and GST Portal.

[14] Collection from domestic transactions accounted for 75.3 per cent of the gross GST collection during January 2025.

The Union Budget 2025-26, announced on February 1, 2025, reaffirmed the government's commitment towards fiscal consolidation, with GFD placed at 4.4 per cent of GDP in 2025-26 (BE), below 4.8 per cent of GDP in 2024-25 (RE). The proposed consolidation is sought to be achieved through retrenchment of revenue expenditure to 11.0 per cent of GDP (*vis-à-vis* 11.4 per cent in 2024-25 RE), maintaining capital expenditure at 3.1 per cent of GDP (with effective capital expenditure higher at 4.3 per cent of GDP)[15] while boosting gross tax revenues to 12.0 per cent of GDP (*vis-à-vis* 11.9 per cent in 2024-25 RE). From 2026-27 to 2030-31, the Union government endeavours to keep fiscal deficit each year such that its debt is on declining path to attain a debt to GDP level of about 50 ±1 per cent by March 31, 2031.

As per provisional accounts, States' key deficit indicators as per cent of the budget estimates (BE) during April-December 2024 are higher than last year's level (Table III.1).

Table III.1: States' Fiscal Indicators (April-December)

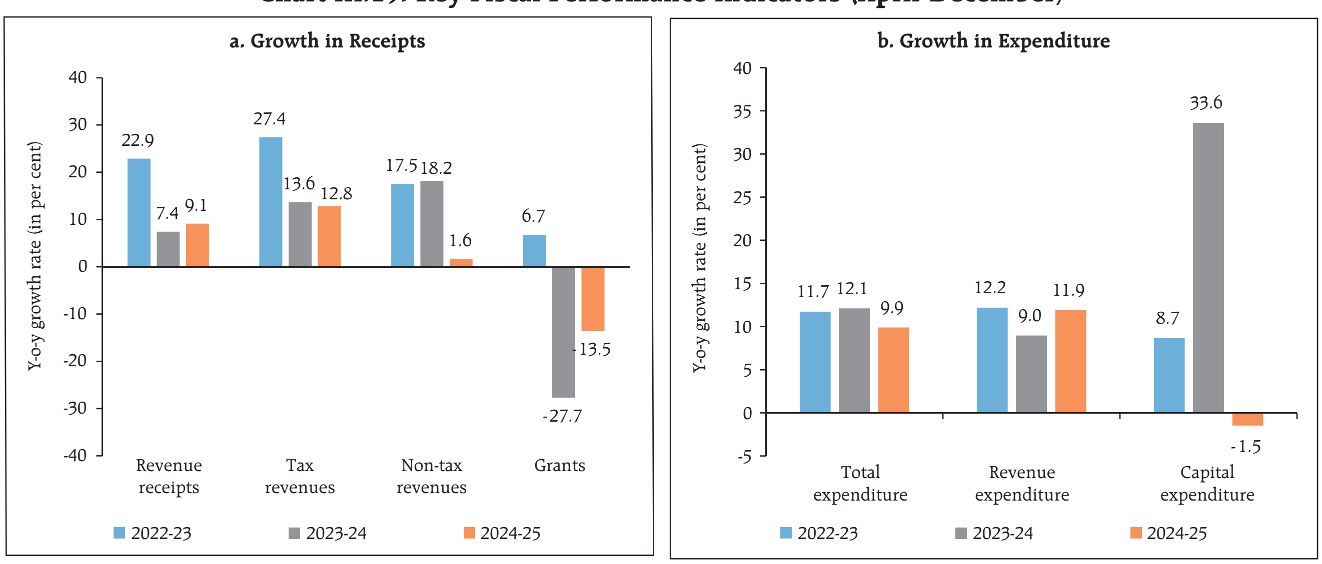
(per cent of BE)

Deficit Indicators	2022-23	2023-24	2024-25
Revenue deficit	4.2	52.3	98.3
Gross fiscal deficit	39.9	52.1	54.8
Primary deficit	15.0	39.9	44.9

Note: Data pertains to 23 States. BE: Budget Estimates
Source: Comptroller and Auditor General of India.

States' revenue receipts increased by 9.1 per cent, largely driven by higher tax revenues, even though grants from the Union government contracted (Chart III.19a). Growth in States' GST (SGST) and State excise moderated slightly, while Sales Tax/VAT saw a positive turnaround compared to last year. States' revenue expenditure recorded a double-digit growth, while capital expenditure declined during this period (Chart III.19b). Accordingly, the RECO[16] ratio climbed up to 7.0 in April-December 2024, from 6.0 in the same period last year.

Chart III.19: Key Fiscal Performance Indicators (April-December)



Note: Data pertains to 23 States.
Source: CAG.

15 Effective capital expenditure is capital expenditure *plus* grants-in-aid for creation of capital assets.

16 Revenue expenditure to capital outlay.

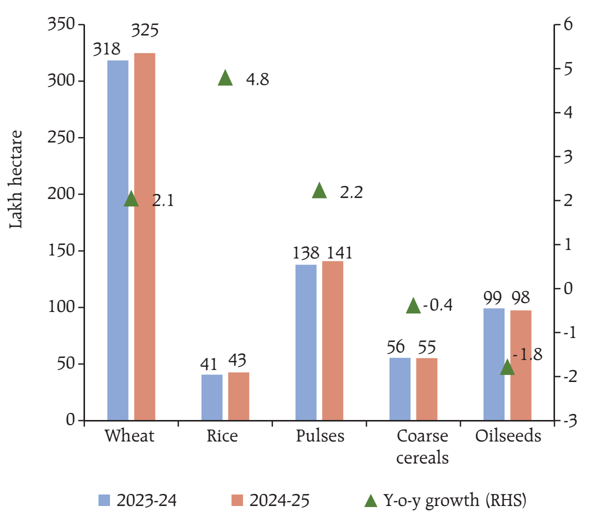
Aggregate Supply

Area sown during *rabi* season 2024-25 stood at 661 lakh hectares, 1.5 per cent higher as compared to last year. Area under wheat, which accounts for nearly half of the area sown under normal *rabi* area, grew by 2.1 per cent (Chart III.20). The expansion in pulses sowing was mainly driven by higher area under gram.

As per the first advance estimates, the production of horticultural crops during 2024-25 is placed at 362.1 million tonnes, 2.1 per cent higher than the final estimates of 2023-24. The y-o-y increase was driven by higher production of onion and potato (Chart III.21).

The Union Budget 2025-26 has focused on important areas such as enhancing productivity and sustainability in agriculture and improving agricultural infrastructure. It announced the launch of 'Prime Minister *Dhan-Dhaanya Krishi Yojana*' in 100 low productivity districts to enhance their agricultural productivity, improve irrigation facilities, augment post-harvest storage and facilitate availability of long-term and short-term credit for around 1.7 crore farmers. It also announced the launch of a 6-year "Mission for *Aatmanirbharta* in Pulses" with special focus on *tur*, *urad* and *masoor*.

Chart III.20: Status of *Rabi* Sowing (as on January 31, 2025)

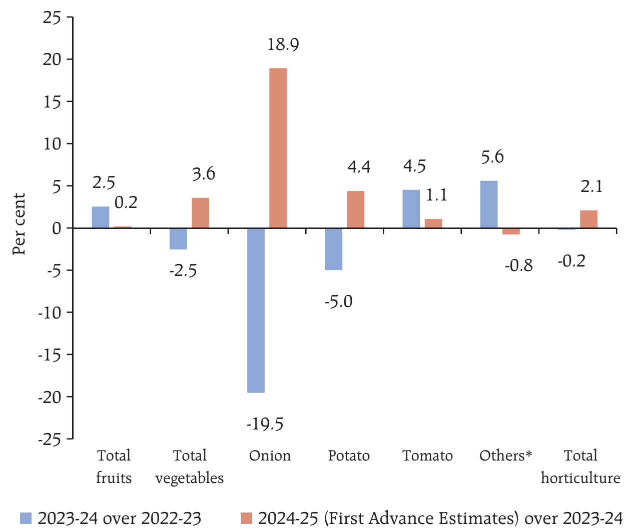


Source: Ministry of Agriculture and Farmers' Welfare.

The reservoir level (based on 155 major reservoirs) remains in a comfortable position at 58 per cent of the total reservoir capacity (as of February 13, 2025), which is higher than the previous year as well as the decadal average levels (Chart III.22). Comfortable reservoir position allays some of the concerns for *rabi* crops stemming from low winter rainfall (January-March) in the country[17].

As on February 01, 2025, the stock of rice held by the Food Corporation of India (FCI) stood at 676 lakh tonnes - nine times the buffer requirements. The government reduced the reserve price of rice under the open market sales scheme (OMSS) to ₹2,250 from ₹2,800 per quintal for sale to state governments and ethanol distilleries. Wheat stock at 162 lakh tonnes is 22 per cent higher than last year and is in line with the buffer norms. Rice procurement during the current marketing season at 443 lakh tonnes (as on February 16, 2025) is 3.4 per cent higher than last year (Chart III.23).

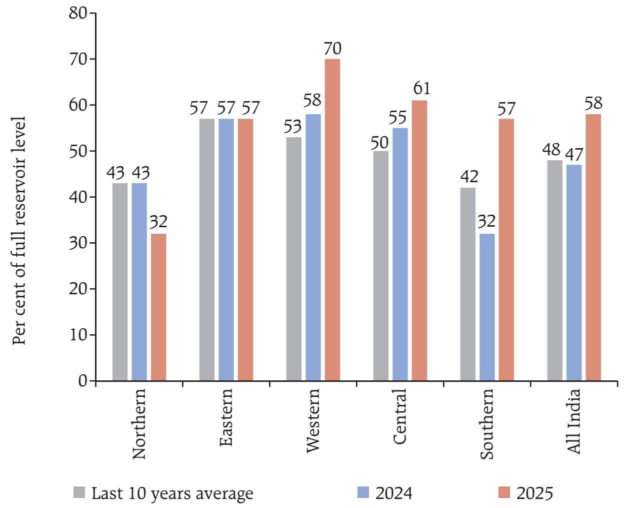
Chart III.21: Horticulture Production



Note: *: includes plantation crops, spices, flowers, aromatic and medicinal plants.
Source: Ministry of Agriculture and Farmers' Welfare.

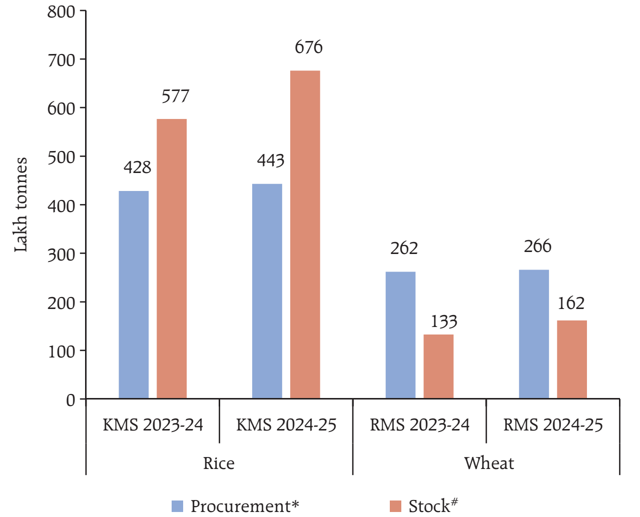
[17] Winter rainfall was 70 per cent below the long period average as of February 12, 2025.

Chart III.22: Reservoir Level (as on February 13, 2025)



Source: Central Water Commission.

Chart III.23: Procurement and Stocks of Foodgrains



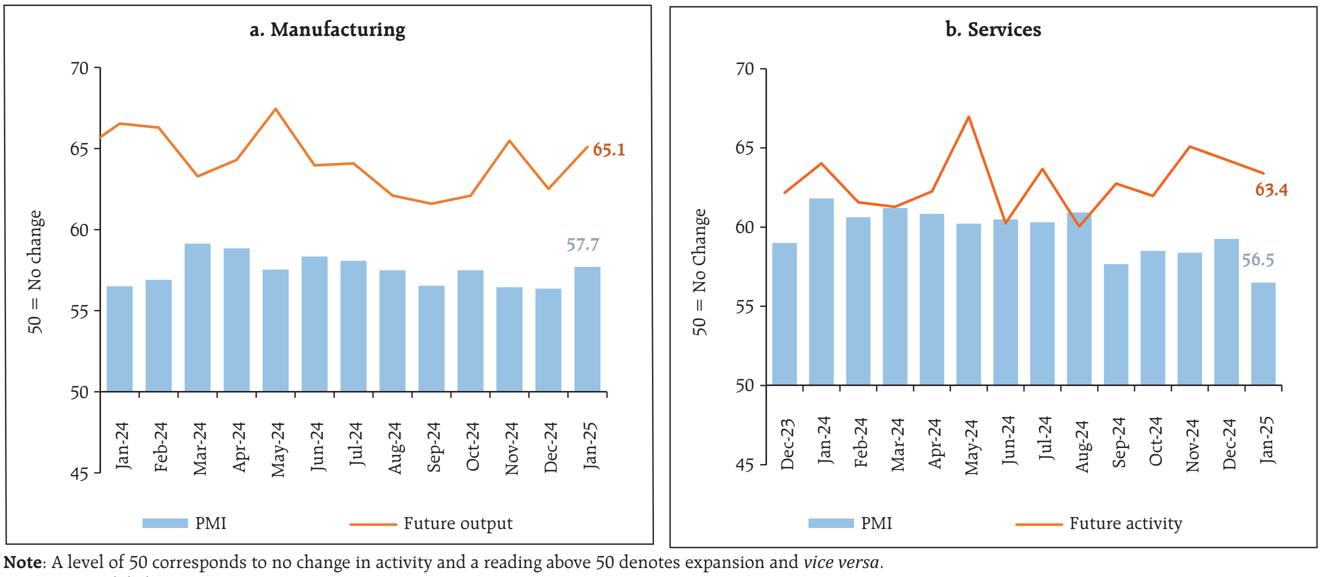
Note: *: Rice procurement is as on February 16 and wheat procurement is as on June 30; #: As on February 01.
Source: Food Corporation of India.

India's manufacturing PMI reached a six-month high in January, driven by new orders (domestic and export) and employment (Chart III.24a). The services PMI, however, moderated due to a slowdown in new business activity (Chart III.24b). Business expectations for manufacturing improved, while future output assessments for services dropped to a three-month low.

Port traffic increased from 3.4 per cent in December 2024 to 6.6 per cent in January 2025, driven by fertilisers, containerised cargo, and other miscellaneous cargo (Chart III.25).

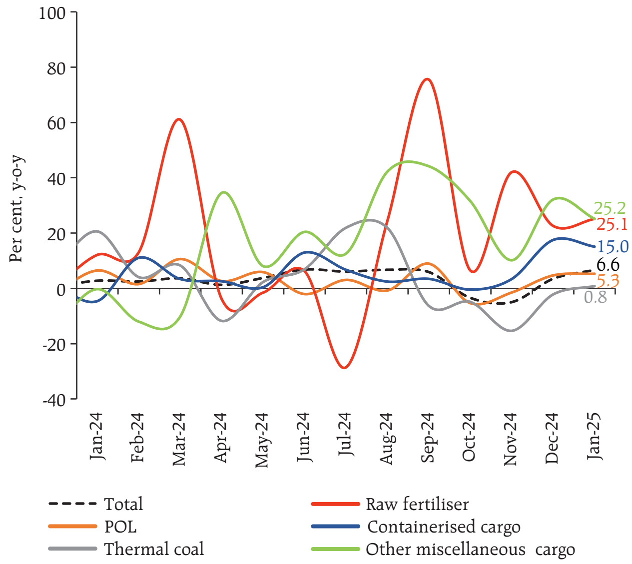
In the construction sector, steel consumption growth accelerated to 5.8 per cent (y-o-y) in January while the cement production levels reached a nine-month high, growing by 4.0 per cent in December (Chart III.26).

Chart III.24: Purchasing Managers' Index (PMI)



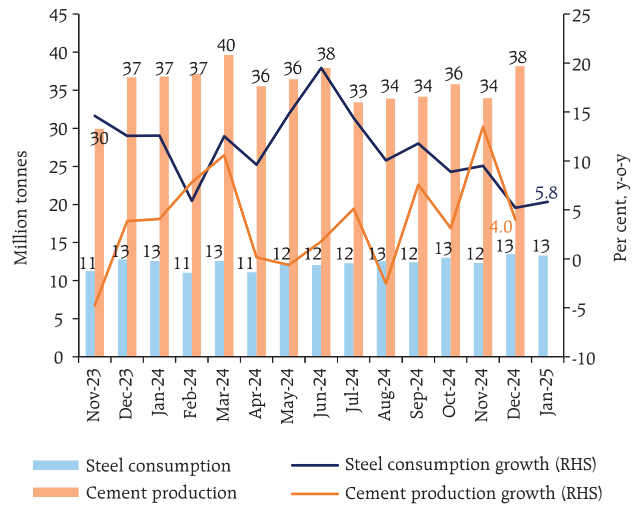
Note: A level of 50 corresponds to no change in activity and a reading above 50 denotes expansion and *vice versa*.
Source: S&P Global.

Chart III.25: Port Cargo



Source: Indian Ports Association.

Chart III.26: Steel Consumption and Cement Production



Sources: Joint Plant Committee; Office of the Economic Adviser; and Ministry of Commerce and Industry.

Available high frequency indicators for the services sector reflect resilience in economic activity with most indicators showing improvement in y-o-y growth (Table III.2).

Table III.2: High Frequency Indicators-Services

(y-o-y, per cent)

Sector	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
Urban demand	Passenger Vehicles Sales	9.5	8.9	1.2	4.3	4.9	-2.0	-1.6	-0.4	1.1	4.4	11.4	3.5
Rural demand	Two-Wheeler Sales	34.6	15.3	30.8	10.1	21.3	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1
	Three-Wheeler Sales	8.3	4.3	14.5	14.4	12.3	5.1	8.0	6.7	-0.7	-1.3	3.5	7.7
	Tractor Sales	-30.6	-23.1	-3.0	0.0	3.6	1.6	-5.8	3.7	22.4	-1.3	14.0	11.4
Trade, hotels, transport, communication	Commercial Vehicles Sales	-3.8		3.5			-10.9			1.3			
	Railway Freight Traffic	10.1	8.6	1.4	3.7	10.1	4.5	0.0					
	Port Cargo Traffic	2.1	2.7	1.3	3.8	6.8	5.9	6.7	5.8	-3.4	-4.9	3.4	6.6
	Domestic Air Cargo Traffic	11.5	8.7	0.3	10.3	10.3	8.8	0.6	14.0	8.9	0.3	4.3	
	International Air Cargo Traffic	30.2	22.5	16.2	19.2	19.6	24.4	20.7	20.5	18.4	16.1	10.5	
	Domestic Air Passenger Traffic *	5.8	4.7	3.8	5.9	6.9	7.6	6.7	7.4	9.6	13.8	10.8	14.1
	International Air Passenger Traffic *	19.3	15.0	16.8	19.6	11.3	8.8	11.1	11.2	10.3	10.7	9.0	9.8
	GST E-way Bills (Total)	18.9	13.9	14.5	17.0	16.3	19.2	12.9	18.5	16.9	16.3	17.6	23.1
	GST E-way Bills (Intra State)	21.1	15.8	17.3	18.9	16.4	19.0	13.1	19.0	18.3	5.4	17.9	23.3
	GST E-way Bills (Inter State)	15.0	10.7	9.6	13.6	16.3	19.6	12.5	17.7	14.4	44.1	17.1	22.8
	Hotel occupancy	1.8	2.7	-1.4	-2.6	-3.1	3.6	0.7	2.1	-5.3	11.1	-0.2	
	Average revenue per room	7.8	6.7	4.8	1.8	2.8	7.6	5.2	3.5	4.8	10.7	8.9	
	Tourist Arrivals	15.8	8.0	7.7	0.3	9.0	-1.3	-4.2	0.4	-1.4			
Construction	Steel Consumption	7.0	12.5	9.6	15.9	19.5	14.4	10.0	11.8	8.9	9.5	5.2	5.8
	Cement Production	7.8	10.6	0.2	-0.6	1.8	5.1	-2.5	7.6	3.1	13.5	4.0	
PMI Index#	Services	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5

<< Contraction ---------------------------------- Expansion >>

Note: **#:** Data in levels. ***:** December 2024 data are based on the monthly average of daily figures. The Heat-map is constructed for each indicator for the period July-2021 till date.

Sources: SIAM; Ministry of Railways; Tractor and Mechanisation Association; Indian Ports Association; Office of Economic Adviser; GSTN; Airports Authority of India; HVS Anarock; Ministry of Tourism; Joint Plant Committee; and IHS Markit.

Inflation

Headline inflation, as measured by y-o-y changes in the all-India consumer price index (CPI)[18], declined to a five-month low of 4.3 per cent in January 2025 from 5.2 per cent in December 2024 (Chart III.27). The 90 bps decline in inflation was on account of a negative price momentum of around 100 bps (m-o-m), partially offset by an adverse base effect of around 10 bps. The food group recorded a negative momentum of around 240 bps during the month, while that in fuel and core (excluding food and fuel) groups was positive at 40 and 30 bps, respectively.

Food inflation decelerated to 5.7 per cent in January from 7.7 per cent (y-o-y) in December. In terms of sub-groups, inflation moderated in cereals, eggs, vegetables, and pulses, but picked up in oils and fats, fruits, sugar and confectionary, non-alcoholic beverages, and prepared meals. Inflation remained steady in meat and fish, and milk and products while deflation in spices narrowed (Chart III.28).

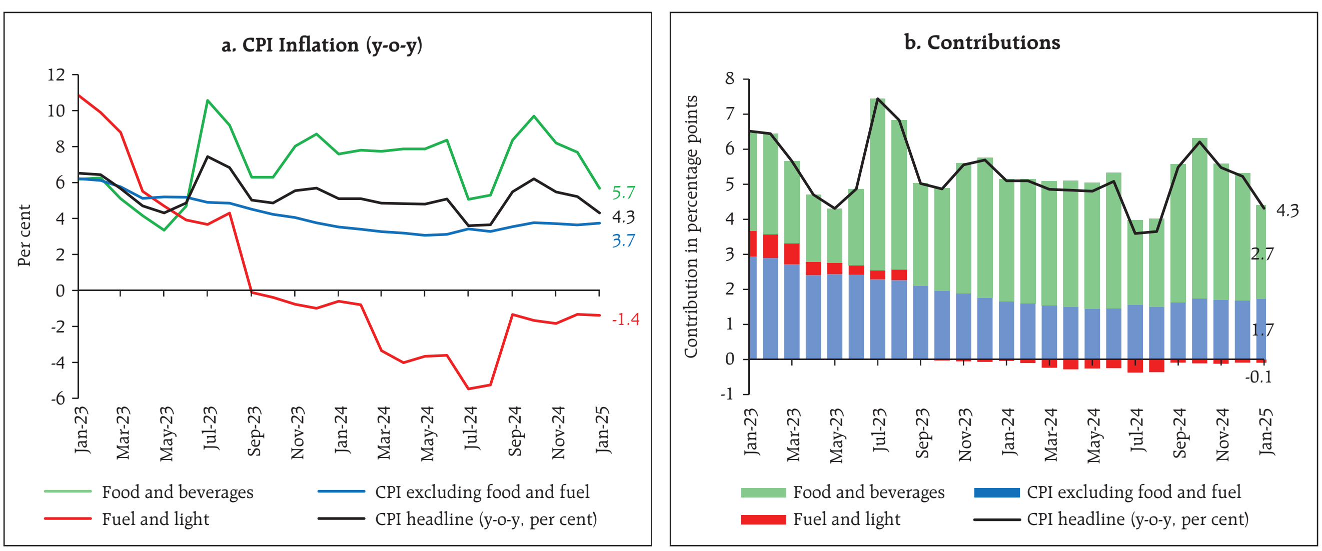
Fuel and light deflation was (-)1.4 per cent in January as compared with (-) 1.3 per cent in December, mainly on account of a higher rate of decline in kerosene prices while deflation in LPG prices remained steady. Electricity prices, however, recorded an increase in inflation.

Core inflation increased to 3.7 per cent in January 2025 from 3.6 per cent in December. Among the sub-groups, inflation edged up in housing, household goods and services, transport and communication, and personal care and effects subgroups; it remained steady in clothing and footwear, and health; and moderated in pan, tobacco and intoxicants, recreation and amusement, and education (Chart III.29).

In terms of regional distribution, rural and urban inflation was at 4.6 per cent and 3.9 per cent, respectively, in January 2025. At the state level, inflation rates ranged from 2.0 to 7.4 per cent. Majority of the states recorded inflation less than 6 per cent (Chart III.30).

High frequency food price data for February so far (up to 14th) show that rice prices remained largely unchanged, while wheat prices continued to edge up. Edible oil prices firmed up further while pulses

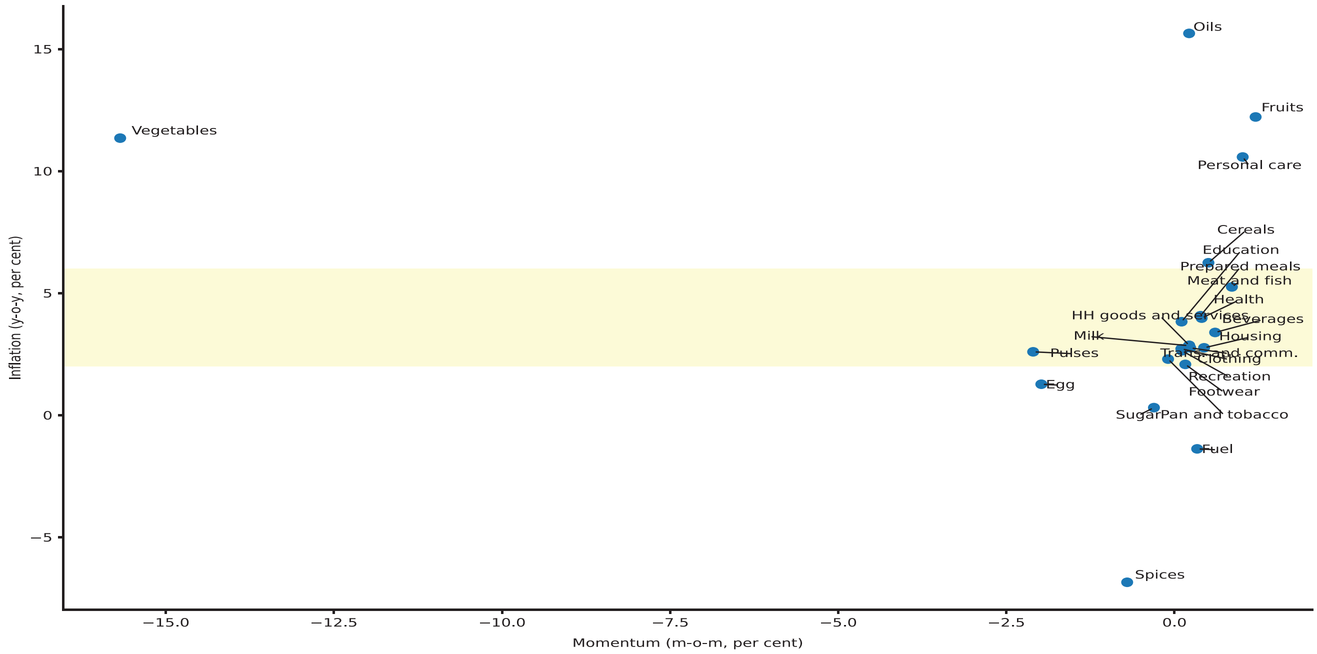
Chart III.27: Trends and Drivers of CPI Inflation



Sources: National Statistical Office (NSO); and RBI staff estimates.

[18] As per the provisional data released by the National Statistical Office (NSO) on February 12, 2025.

Chart III.28: Annual Inflation (y-o-y) and Momentum (m-o-m) across Sub-groups

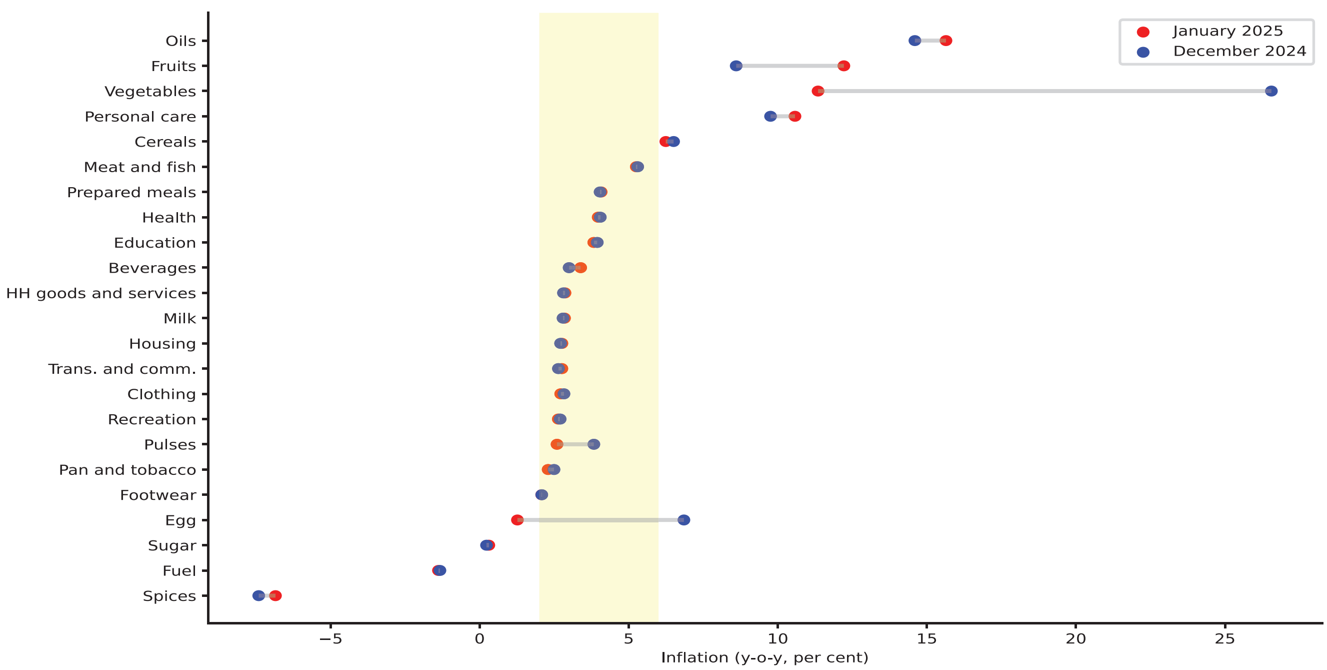


Sources: NSO; and RBI staff estimates.

prices recorded a broad-based moderation. Prices of key vegetables including potato, onion and tomato continued their correction (Chart III.31).

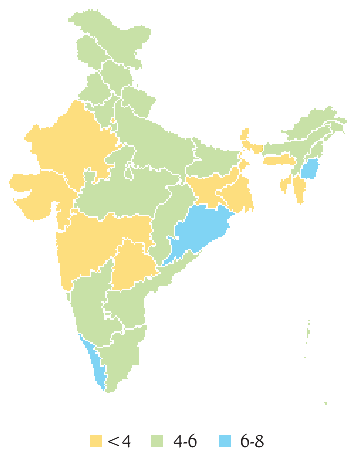
Retail selling prices of petrol, diesel and LPG remained unchanged in February thus far (up to 14th) while kerosene prices increased (Table III.3).

Chart III.29: Annual Inflation across Sub-groups (January 2025 versus December 2024)



Sources: NSO; and RBI staff estimates.

Chart III.30: Spatial Distribution of Inflation January 2025 (CPI-Combined, y-o-y), (per cent)



Note: Map is for illustrative purposes only.
Sources: NSO; and RBI Staff estimates.

As per the PMIs, input costs softened in January for the manufacturing sector but rose for the services sector. Selling price pressures moderated across manufacturing firms but increased for services firms (Chart III.32).

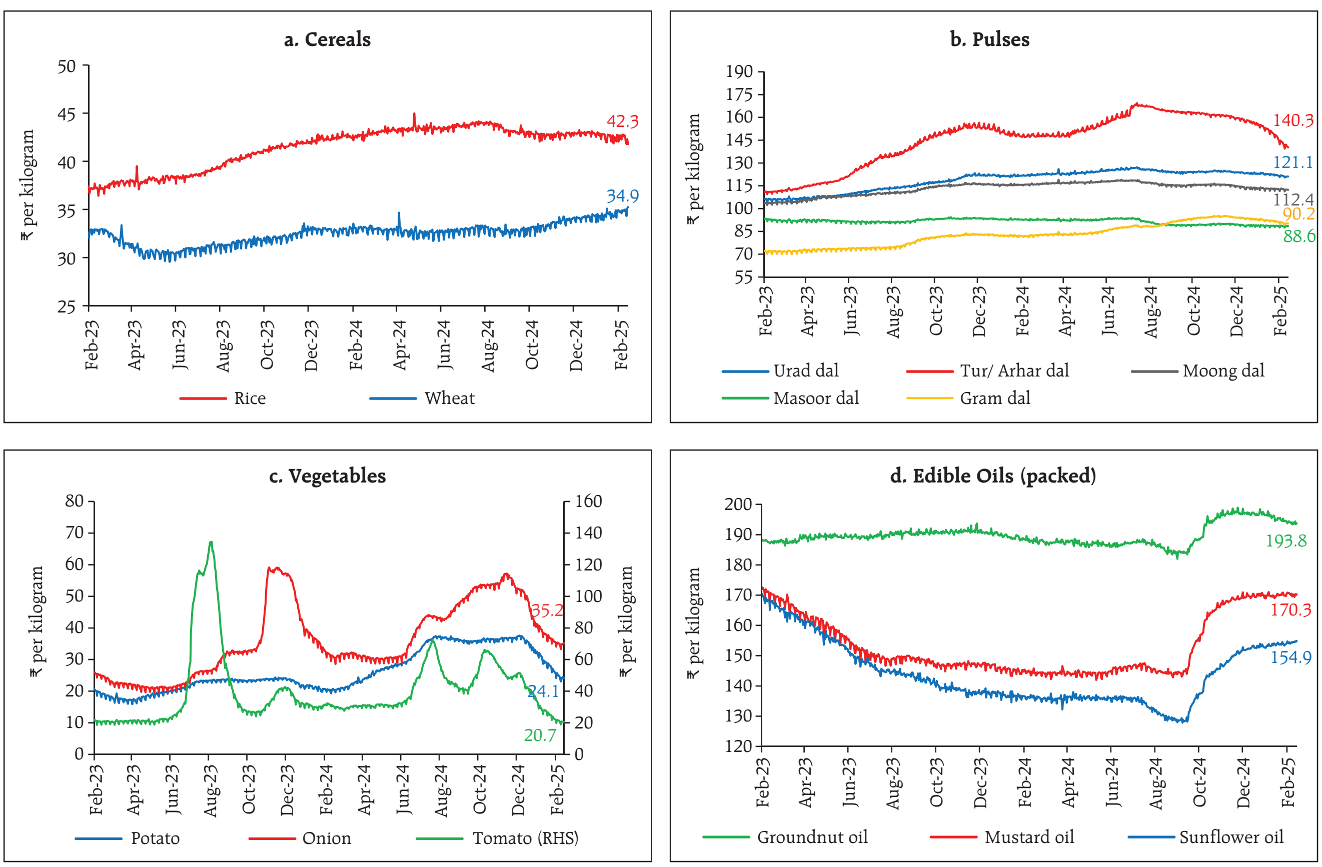
Table III.3: Petroleum Products Prices

Item	Unit	Domestic Prices			Month-over-month (per cent)	
		Dec-24	Jan-25	Feb-25 ^	Jan-25	Feb-25 ^
Petrol	₹/litre	101.02	101.02	101.02	0.0	0.0
Diesel	₹/litre	90.48	90.48	90.48	0.0	0.0
Kerosene (subsidised)	₹/litre	44.75	43.93	46.37	-1.8	5.6
LPG (non-subsidised)	₹/cylinder	813.25	813.25	813.25	0.0	0.0

Notes: 1. ^: For the period February 1-14, 2025.
2. Other than kerosene, prices represent the average Indian Oil Corporation Limited (IOCL) prices in four major metros (Delhi, Kolkata, Mumbai and Chennai). For kerosene, prices denote the average of the subsidised prices in Kolkata, Mumbai and Chennai.

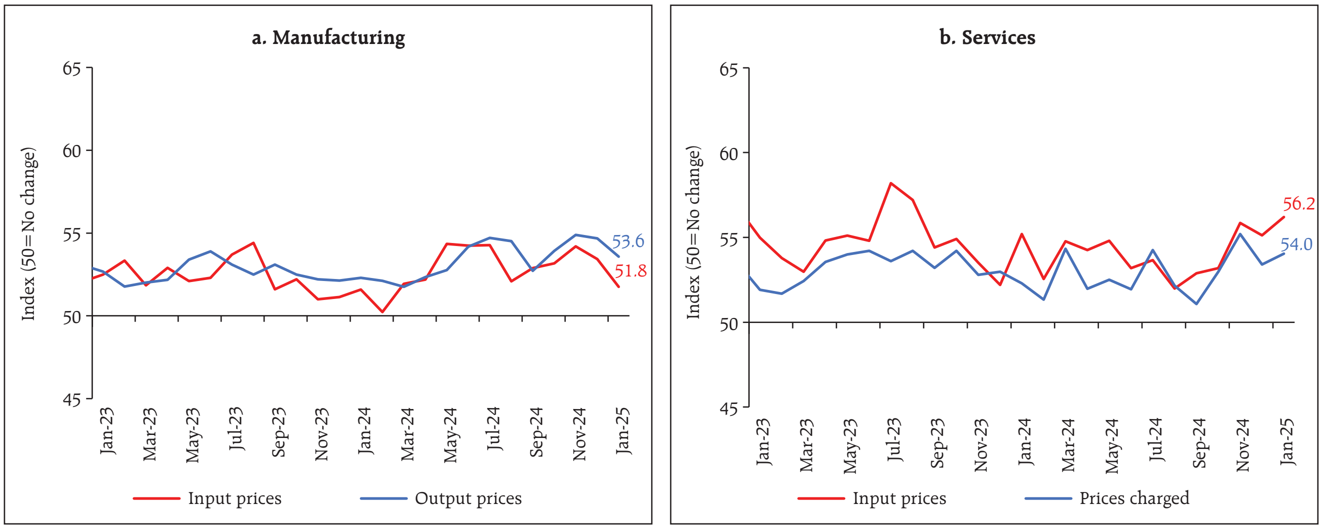
Sources: IOCL; Petroleum Planning and Analysis Cell (PPAC); and RBI staff estimates.

Chart III.31: DCA Essential Commodity Prices



Sources: Department of Consumer Affairs, GoI; and RBI staff estimates.

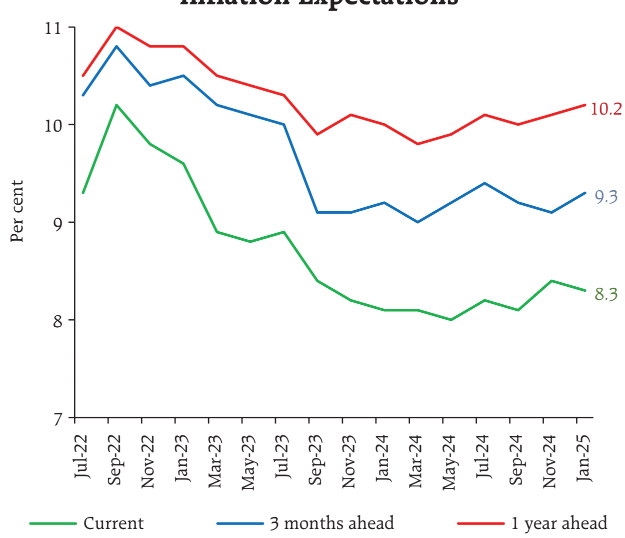
Chart III.32: PMI: Input and Output Prices



Note: A level of 50 corresponds to no change in activity and a reading above 50 denotes expansion and *vice versa.*
Source: S&P.

Households' perception of current inflation moderated by 10 bps and stood at 8.3 per cent in the January 2025 round of RBI's inflation expectations survey. Their inflation expectations for the next three months and one year, however, increased by 20 bps and 10 bps, respectively, over the previous round (Chart III.33).

Chart III.33: Households' Median Inflation Expectations



Source: Inflation Expectations Survey of Households, RBI.

IV. Financial Conditions

System liquidity has turned into deficit since mid-December 2024 due to build-up in government cash balances driven by the usual quarter-end advance tax outflows, monthly GST payments, capital outflows and currency leakage. To assure market participants of the availability of sufficient liquidity on a day-to-day basis, the Reserve Bank introduced daily variable rate repo (VRR) auctions effective January 16, 2025. In addition, one main 14-day VRR operation was conducted on January 24, 2025. Taking cognisance of the liquidity tightness, the Reserve Bank announced a slew of measures – open market operations, USD/INR buy/sell swap and longer-term VRR - on January 27, 2025 to meet the durable liquidity requirements of the banking system. The open market purchase auction of government securities (G-secs) on January 30 and February 13, and the USD/INR buy/sell swap on January 31 together injected liquidity to the tune of approximately ₹1.04 lakh crore. Besides, the Reserve Bank's purchases of G-secs through the Negotiated Dealing System – Order Matching segment (NDS-OM) during January injected durable liquidity of around

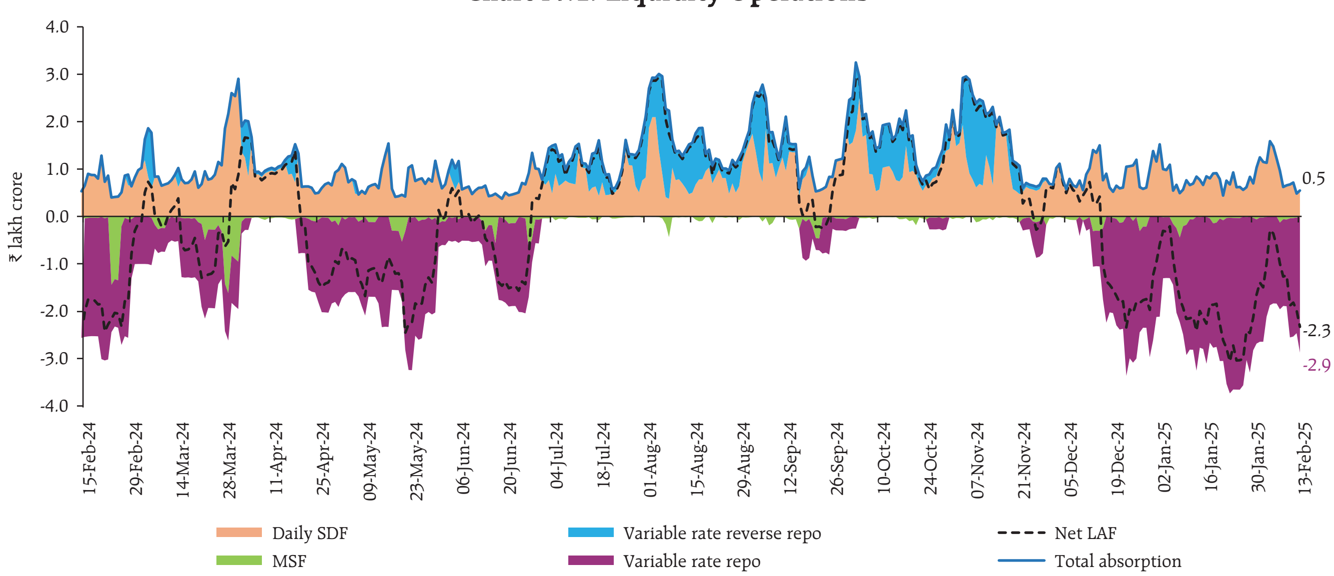
₹0.39 lakh crore in the system. The Reserve Bank conducted a 56-day VRR auction for a notified amount of ₹50,000 crore on February 7, 2025, followed by a 49-day VRR auction for a notified amount of ₹75,000 crore on February 14, 2025. In addition, one OMO purchase auction of Government of India securities for an aggregate amount of ₹40,000 crore is also scheduled on February 20, 2025.

Overall, the average daily net injection under the liquidity adjustment facility (LAF) stood at ₹1.92 lakh crore during January 16 to February 13, 2025 as compared to the average net injection of ₹1.6 lakh crore recorded during December 16, 2024 to January 15, 2025 (Chart IV.1). Consequent to the various liquidity measures taken by the Reserve Bank and the pick up in government spending, liquidity tightness somewhat moderated in early February. Banks' placement of funds under the standing deposit facility (SDF) averaged ₹0.84 lakh crore during January 16 to February 13, 2025, higher relative to the previous month. The co-existence of deficit liquidity conditions and funds deployed under the SDF is indicative of skewed distribution of liquidity in the banking system and behavioral aspects such as select banks' reluctance to onlend in the uncollateratised call money market.[19]

The weighted average call rate (WACR) – the operating target of monetary policy – moderated since mid-January with the introduction of daily VRR and the repo rate rate cut on February 7. It averaged 6.49 per cent during January 16 to February 13, 2025 as compared to 6.69 per cent during December 16, 2024 to January 15, 2025 (Chart IV.2a).

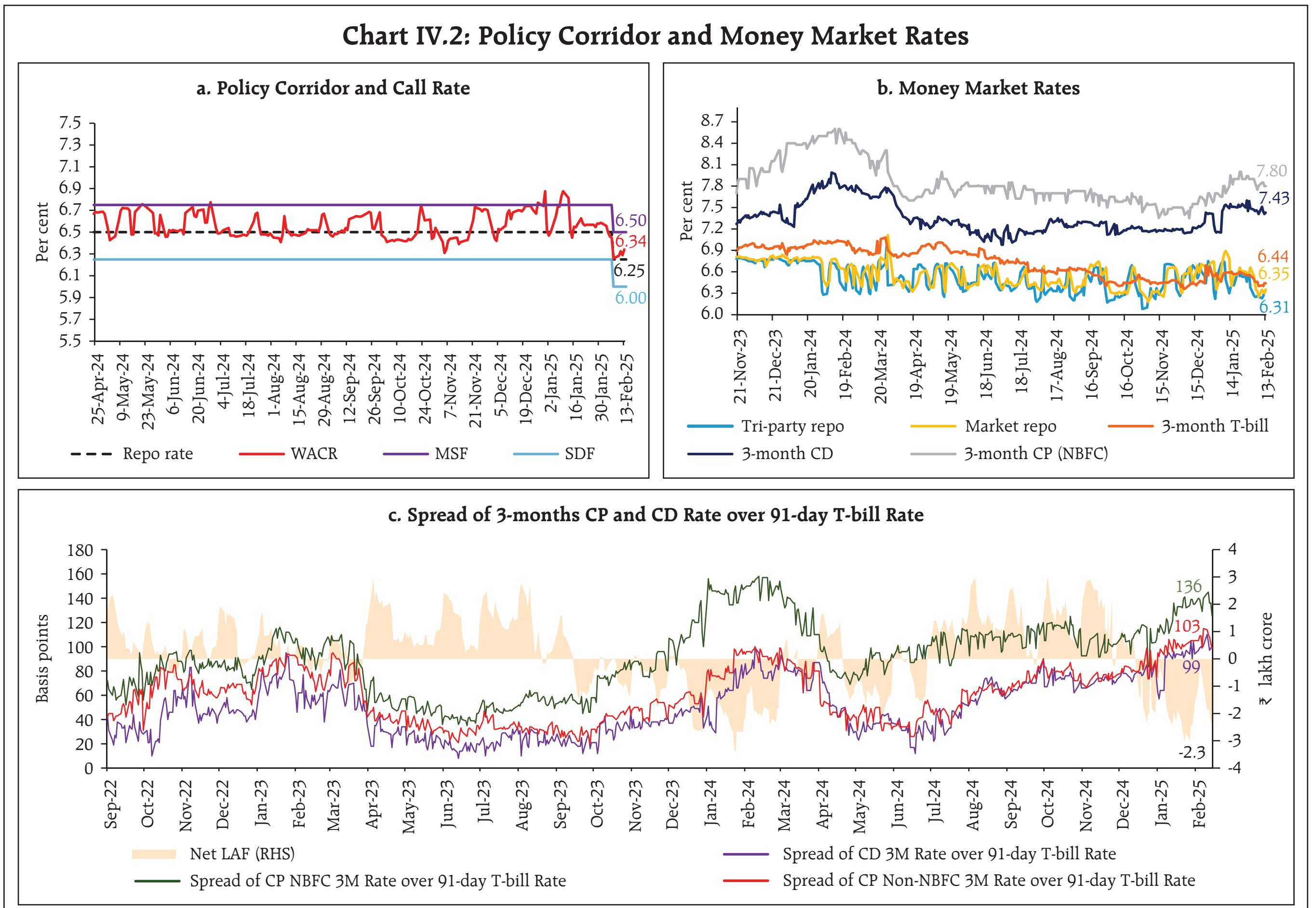
Across the term money market segment, interest rates on 3-month certificates of deposit (CDs) and 3-month commercial paper (CP) issued by non-banking financial companies (NBFCs) averaged 7.49 per cent and 7.88 per cent, respectively, during January 16 – February 13, 2025, up from 7.35 per cent and 7.68 per cent, respectively, during December 15, 2024 – January 15, 2025. The average yield on 91-day T-bill remained marginally moderated to 6.51 per cent during January 16 – February 13, 2025 from 6.54 per cent during December 15, 2024 – January 15, 2025 (Chart IV.2b).

Chart IV.1: Liquidity Operations



Source: RBI.

[19] Monetary Policy Statement 2024-25, Governor Statement, February 7, 2025.



Sources: RBI; CCIL; and Bloomberg.

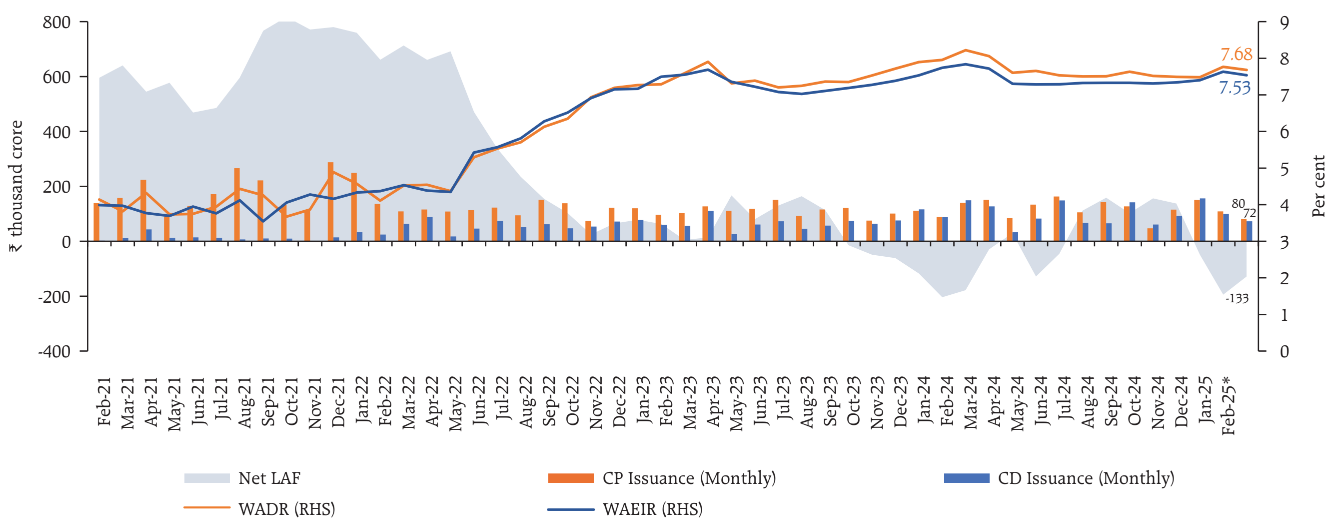
The spread of 3-month CPs (NBFC) rate over the 91-day T-bill rate was lower during January 18 - February 14, 2025 as compared to the corresponding period of the previous year. On the other hand, the spread of the 3-month CD rate over the 91-day T-bill rate edged up (Chart IV.2c).

The weighted average discount rate (WADR) of CPs during January 18 - February 14, 2025 remained lower than the levels recorded a year ago (Chart IV.3). Similar trend was observed for the weighted average effective interest rate (WAEIR) of CDs. WAEIR was lower at 7.58 per cent during January 18 - February 14, 2025 as compared with 7.86 per cent a year ago as the gap between credit and deposit growth narrowed.

In the primary market, issuances of CDs grew by 43.9 per cent (y-o-y) to ₹9.57 lakh crore during April 2024 to February 2025 (up to February 7) from ₹6.66 lakh crore in the corresponding period of the previous year (Chart IV.4). Similarly, CP issuances stood at ₹12.44 lakh crore during 2024–25 (up to January), up from ₹10.84 lakh crore during the corresponding period of the previous year.

The yield on the 10-year G-sec benchmark moderated to 6.75 per cent on February 13, 2025 from 6.85 per cent on January 15, 2025. This moderation was in line with the softening US treasury yields, a decline in crude oil prices, and RBI's liquidity injection operations (Chart IV.5a). The yield curve shifted downwards across the tenor. Between January 16 and

Chart IV.3: WADR and WAEIR



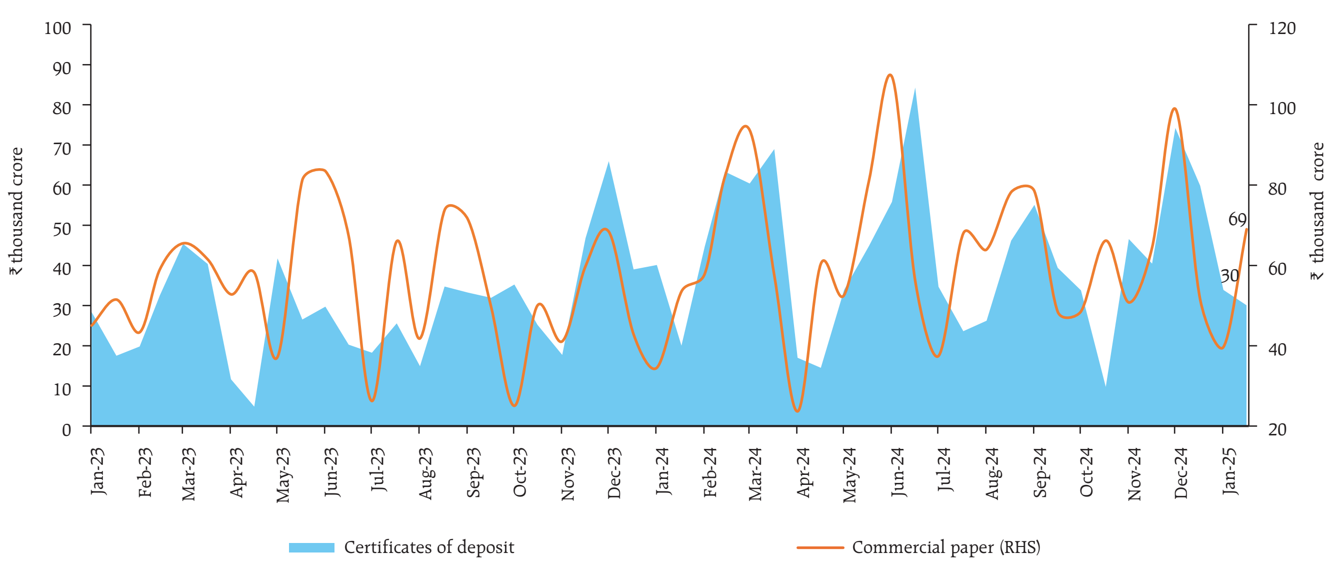
Note: *: up to February 14, 2025.
Sources: RBI; and CCIL- FTRAC.

February 13, 2025, the average term spread (10-year G-sec yield minus 91-day T-bills yield) narrowed to 24 bps from 27 bps in the previous month (Chart IV.5b).

The spread of the 10-year Indian G-sec yield over the 10-year US bond fell to 217 bps as on February 14, 2025 from 314 bps in mid-September and 286 bps a year ago. The volatility of yields in the Indian bond market further eased and remained low relative to US treasuries amidst positive sentiments on fiscal consolidation following the announcement of the Union Budget and from inclusion of Indian government bonds in global indices (Chart IV.6).

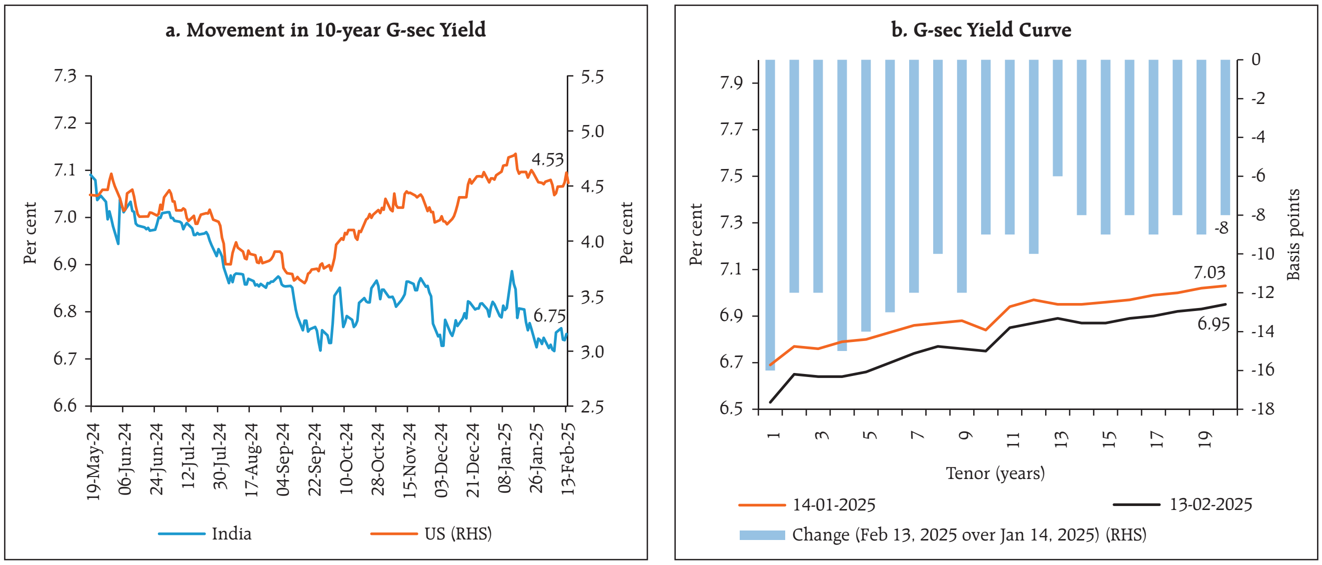
Corporate bonds issuances at ₹7.25 lakh crore were higher during 2024-25 (up to December) than ₹6.09

Chart IV.4: Certificates of Deposit (CDs) and Commercial Paper (CP) - Fortnightly Issuances



Source: RBI.

Chart IV.5: Developments in the G-sec Market

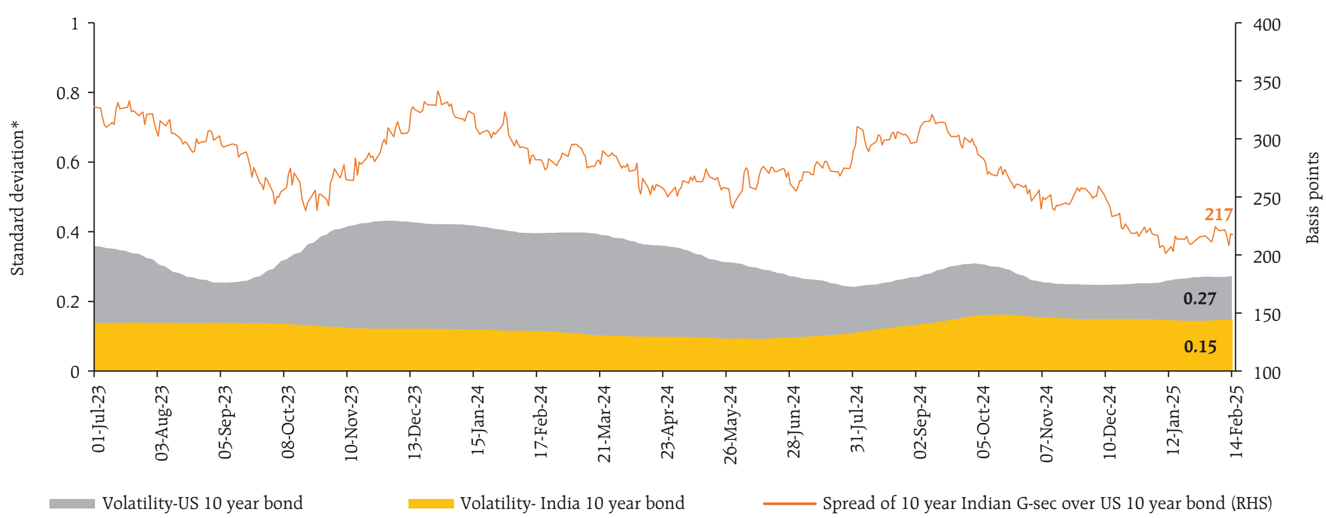


Sources: Bloomberg; CCIL; and RBI staff estimates.

lakh crore a year ago. Corporate bond yields generally softened across ratings and tenor spectrums while the corresponding risk premia showed mixed trend, during January 16 – Febraury 13, 2025 (Table IV.1).

Reserve money (RM), excluding the first-round impact of change in the cash reserve ratio (CRR), recorded a growth of 6.5 per cent (y-o-y) as on February 7, 2025 (5.9 per cent a year ago) [Chart IV.7]. Growth in currency in circulation (CiC), the largest component of RM, stood at 5.3 per cent (y-o-y) as on February 7, 2025 as compared with 3.7 per cent a year ago.

Chart IV.6 : Volatility and Spread-Bond Market



Note: *: 12-months rolling standard deviation.
Sources: Bloomberg; and RBI staff calculations.

Table IV.1: Financial Markets - Rates and Spread

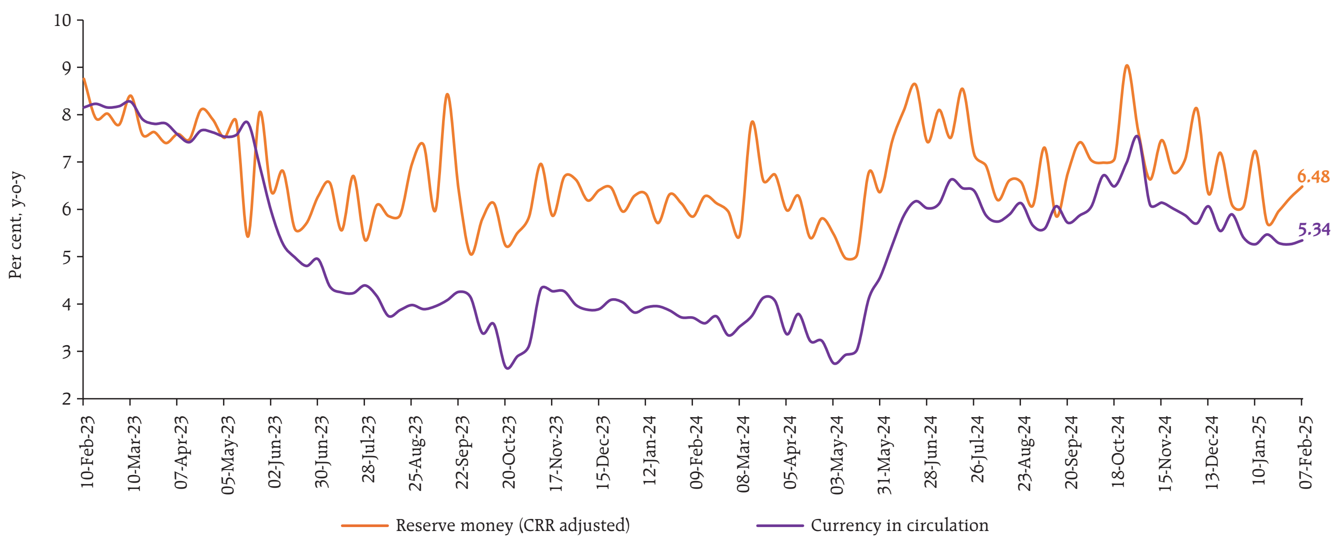
	Interest Rates (per cent)			Spread (basis points) (Over Corresponding Risk-free Rate)		
Instrument	**Dec 16, 2024 – Jan 15, 2025**	**Jan 16, 2025 – Feb 13, 2025**	**Variation (basis points)**	**Dec 16, 2024 – Jan 15, 2025**	**Jan 16, 2025 – Feb 10, 2025**	**Variation**
1	**2**	**3**	**(4 = 3-2)**	**5**	**6**	**(7 = 6-5)**
Corporate Bonds						
(i) AAA (1-year)	7.88	7.88	0	112	117	5
(ii) AAA (3-year)	7.74	7.65	-9	92	91	-1
(iii) AAA (5-year)	7.62	7.50	-12	76	74	-1
(iv) AA (3-year)	8.51	8.44	-7	169	170	1
(v) BBB- (3-year)	12.18	12.11	-7	535	538	3

Note: Yields and spreads are computed as averages for the respective periods.
Sources: FIMMDA.

Money supply (M_3) rose by 9.6 per cent (y-o-y) as on January 24, 2025 (11.0 per cent a year ago).[20] Aggregate deposits with banks, accounting for around 86 per cent of M_3, increased by 10.2 per cent (12.0 per cent a year ago). Scheduled commercial banks' (SCBs') credit growth was 12.5 per cent as on January 24, 2025 (16.1 per cent a year ago) [Chart IV.8].

SCBs' deposit growth (excluding the impact of the merger) was at 10.6 per cent as on January 24, 2025, up from 10.2 per cent as at end-December 2024, supported by positive momentum and favourable base effect witnessed in the first fortnight of January 2025 (Chart IV.9).

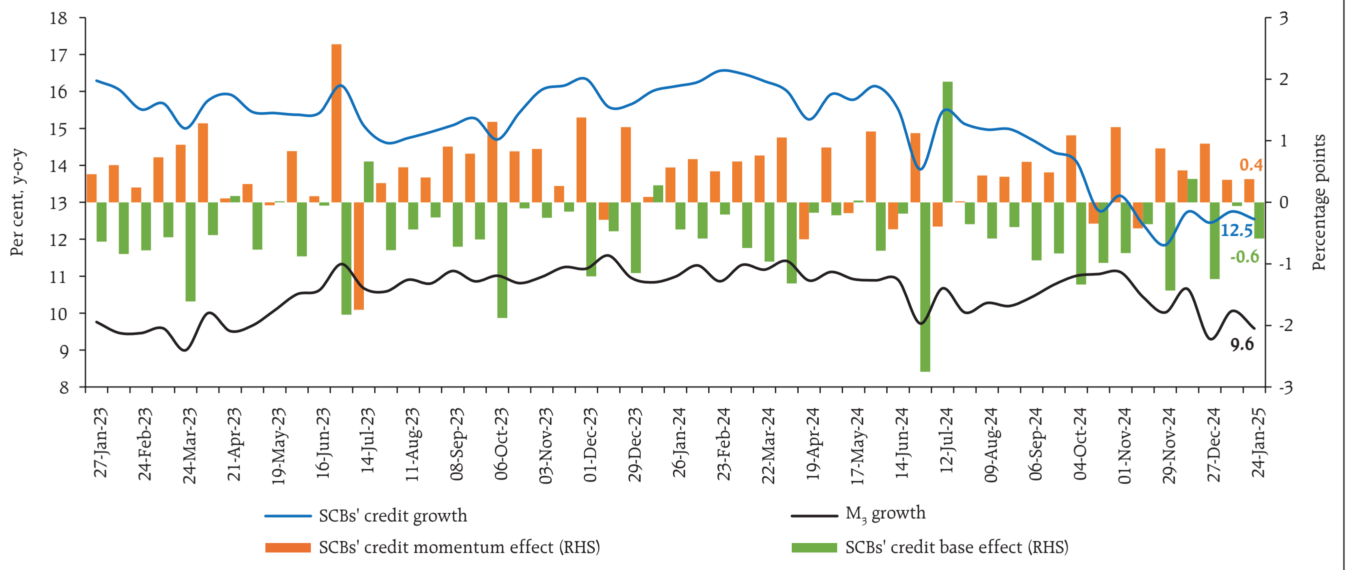
Chart IV.7: Reserve Money and Currency in Circulation



Note: Latest data for reserve money pertain to February 7, 2025.
Source: RBI.

20 Excluding the impact of the merger of a non-bank with a bank (with effect from July 1, 2023).

Chart IV.8: M_3 Growth and Credit Growth of SCBs - Base and Momentum Effect

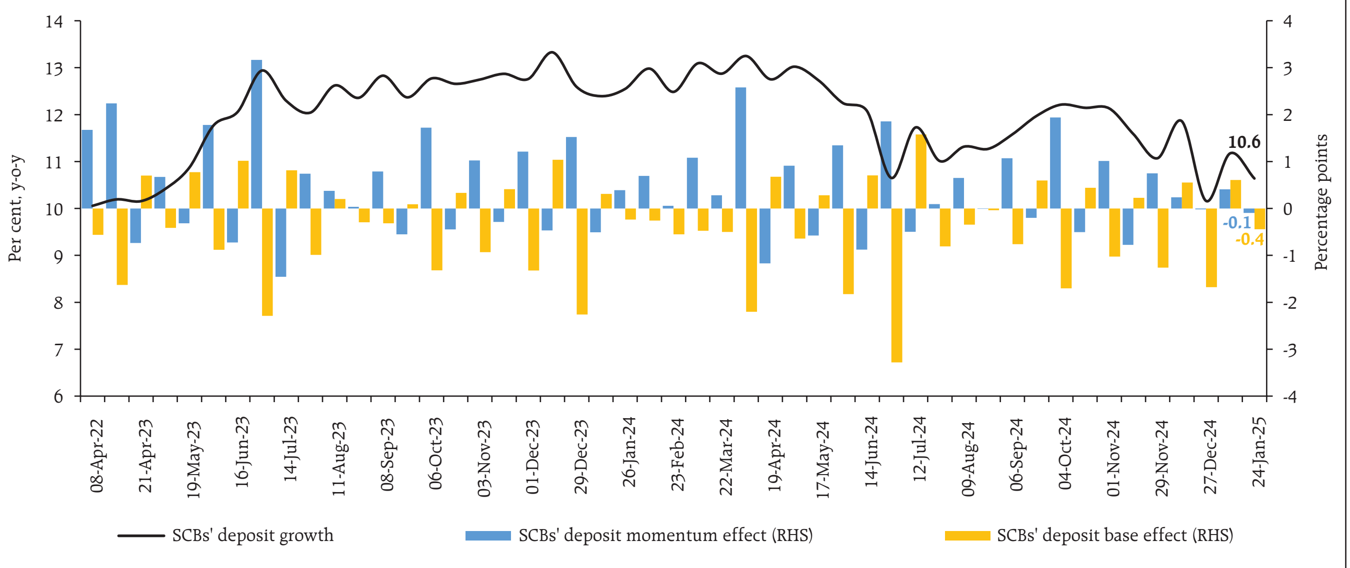


Source: RBI.

SCBs' incremental credit-deposit ratio increased to 91.6 per cent as on January 24, 2025 from 80.7 per cent as at end-October 2024 (Chart IV.10).

With faster adjustments in rates, the external benchmark-based lending rate (EBLR)[21] system has quickened the pace of monetary policy transmission

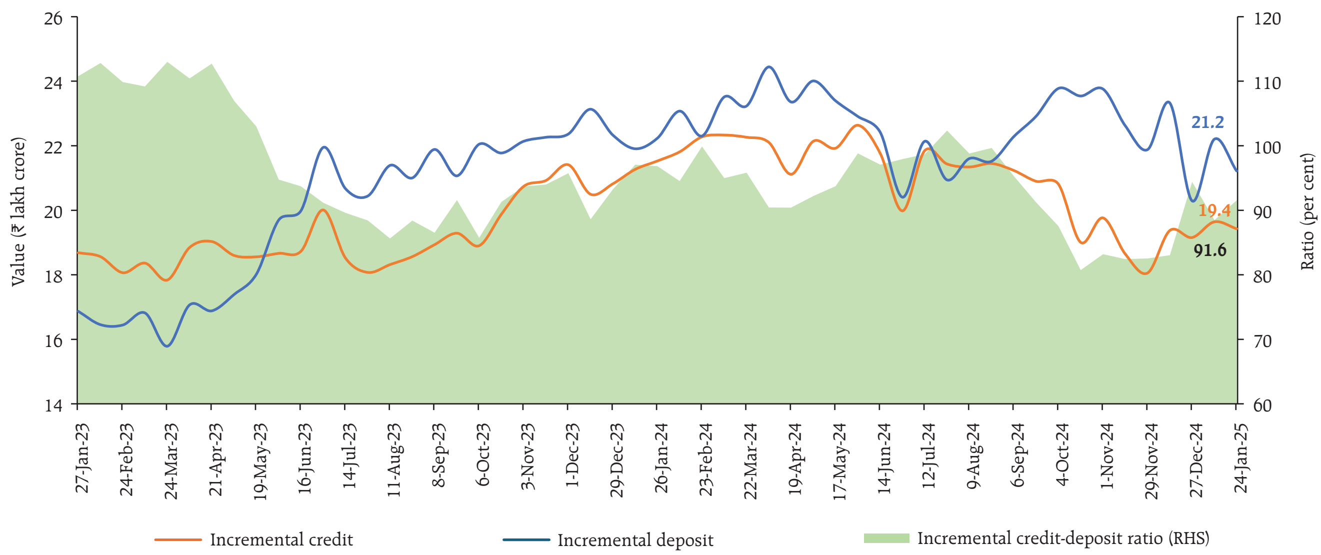
Chart IV.9: SCBs' Deposit Growth - Momentum and Base Effect



Source: RBI.

[21] The Reserve Bank mandated that all scheduled commercial banks (excluding regional rural banks and small finance banks) should link all new floating rate personal or retail loans and floating rate loans to micro and small enterprises (MSEs) to an external benchmark, *viz.*, the policy repo rate or 3-month T-bill rate or 6-month T-bill rate or any other benchmark market interest rate published by Financial Benchmarks India Private Ltd. (FBIL) effective October 1, 2019. The directive was extended to medium enterprises effective April 1, 2020.

Chart IV.10: Incremental Credit-Deposit Ratio



Source: RBI.

(RBI, 2023)[22]. In the bi-monthly policy of February 2025, the policy repo rate was reduced by 25 bps to 6.25 per cent. Accordingly, banks have started adjusting their repo-linked lending rates downward. The marginal cost of funds-based lending rate (MCLR) that have a longer reset period and are referenced to the deposit rates, are expected to get adjusted with a lag. In response to the 250 bps policy rate hike during May 2022 to January 2025, the 1 year-median MCLR of SCBs had increased by 178 bps. Consequently, the weighted average lending rates (WALRs) on fresh and outstanding rupee loans of SCBs increased by 174 bps and 115 bps, respectively, during May 2022 to December 2024 (Table IV.2). On the deposit side, the weighted average domestic term deposit rates (WADTDRs) on fresh and outstanding deposit increased by 254 bps and 197 bps, respectively, during the same period.

Transmission across bank groups indicates that the increase in the WALR on fresh rupee loans was higher for public sector banks (PSBs) *vis-à-vis* private banks (PVBs). In the case of outstanding loans,

Table IV.2: Transmission to Banks' Deposit and Lending Rates

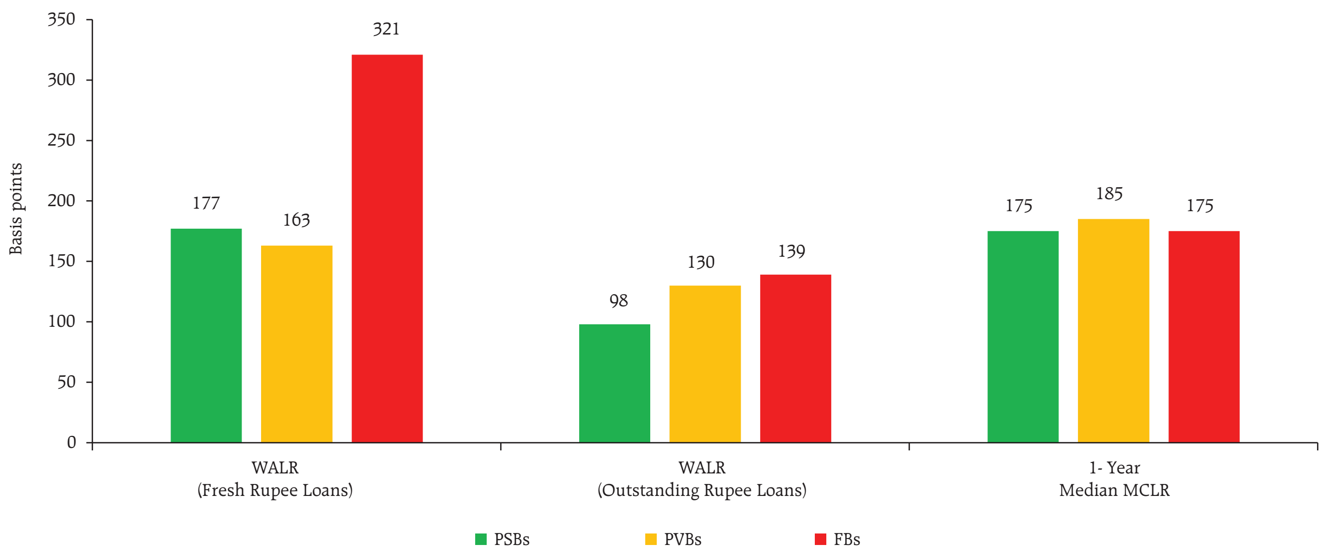
(Variation in basis points)

		Term Deposit Rates		Lending Rates			
Period	**Repo Rate**	**WADTDR-Fresh Deposits**	**WADTDR-Outstanding Deposits**	**EBLR**	**1-Yr. MCLR (Median)**	**WALR - Fresh Rupee Loans**	**WALR-Outstanding Rupee Loans**
Easing Phase Feb 2019 to Mar 2022	-250	-259	-188	-250	-155	-232	-150
Tightening Period May 2022 to Dec* 2024	+250	254	197	250	178	174	115

Notes: Data on EBLR pertain to 32 domestic banks.
*: Data on EBLR and MCLR pertain to January 2025.
WALR: Weighted Average Lending Rate; **WADTDR**: Weighted Average Domestic Term Deposit Rate;
MCLR: Marginal Cost of Funds-based Lending Rate; **EBLR**: External Benchmark-based Lending Rate.
Source: RBI.

[22] Kashyap, Y., *et al.*, (2023). Monetary Policy Transmission in India: Recent Dynamics, Reserve Bank of India Bulletin, November- 2023, https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=22192

Chart IV.11: Transmission across Bank groups; Lending Rates (May 2022 to December 2024)

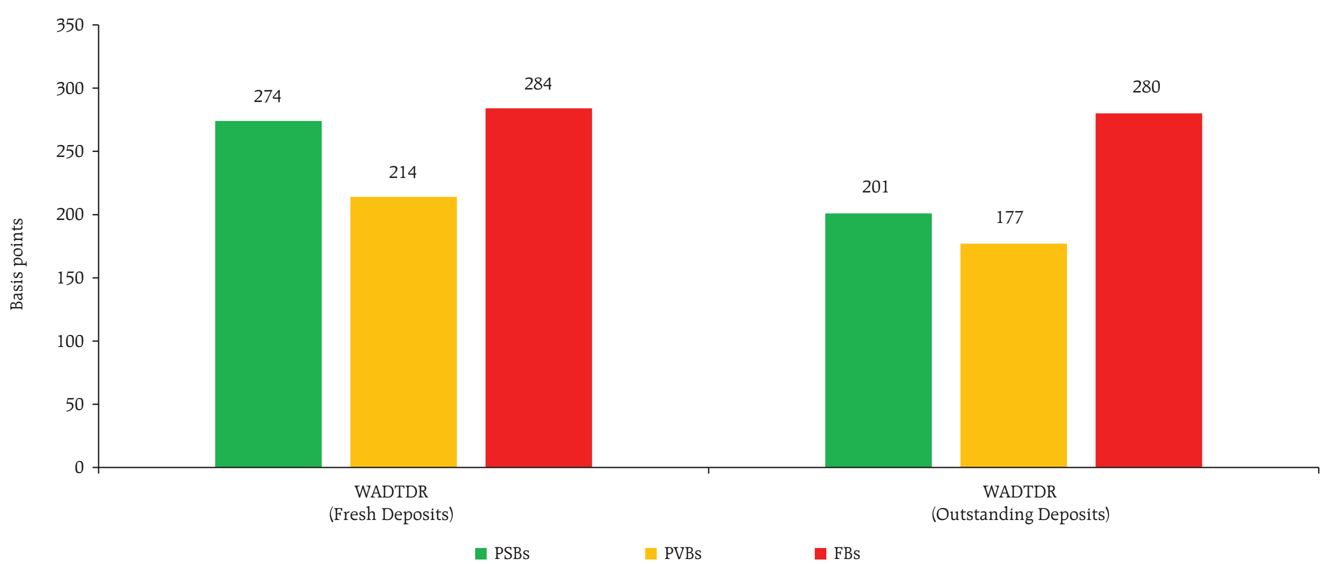


Source: RBI.

however, the transmission in PSBs was (Chart IV.11) lower. In deposits, transmission to WADTDRs of both fresh and outstanding deposits was higher for PSBs as compared to PVBs during May 2022 and December 2024 (Chart IV.12).

Based on the results of listed non-government non-financial companies[23], sales grew by 7.9 per cent (y-o-y) during Q3:2024-25, up from 5.4 per cent in the previous quarter. Sales of listed private manufacturing companies increased by 7.6 per cent (y-o-y) during Q3:2024-25 as compared to 3.5 per cent during the previous quarter (Chart IV.13). Automobiles, chemicals, food and electrical machinery industries, which together accounted for about 41 per cent share

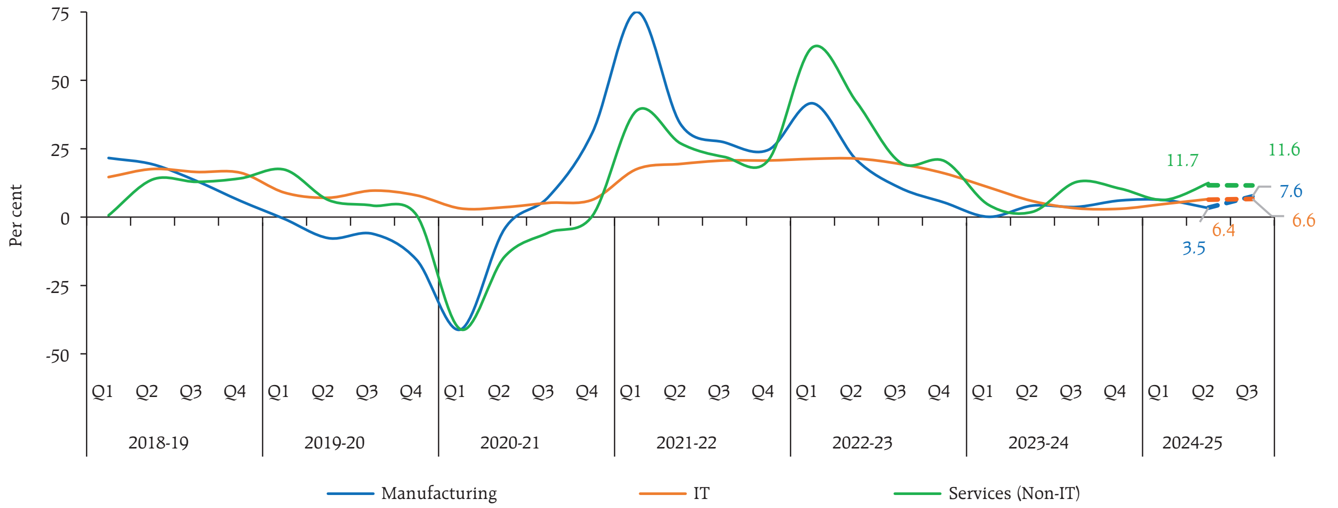
Chart IV.12: Transmission across Bank groups; Deposit Rates (May 2022 to December 2024)



Source: RBI.

[23] Based on 2263 listed non-government non-financial (NGNF) companies.

Chart IV.13: Nominal Sales Growth (Y-o-Y)

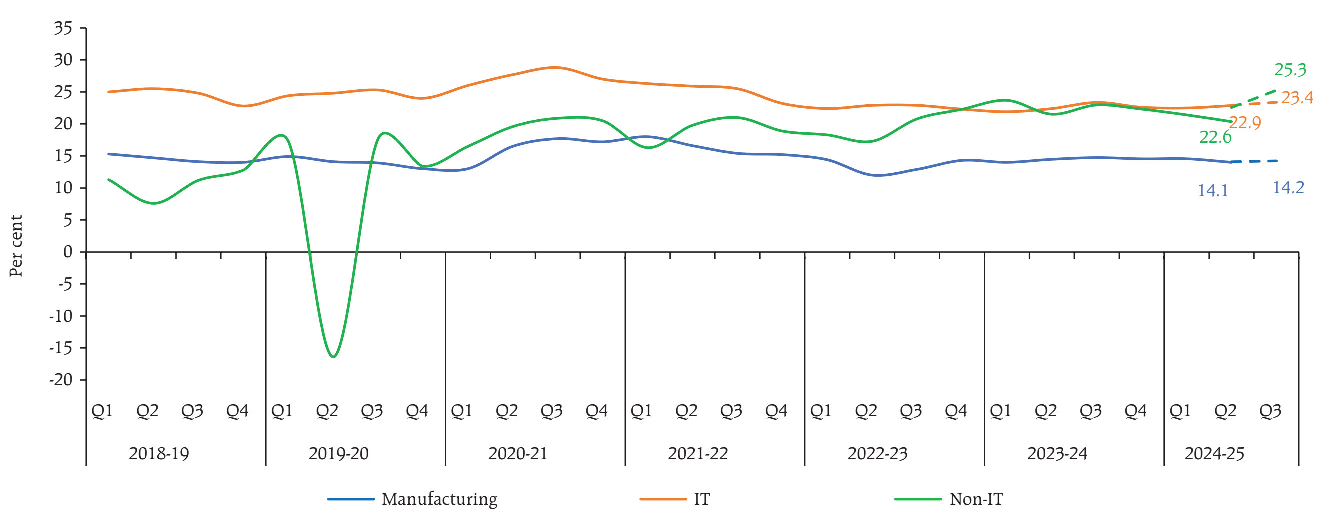


Notes: (i) Dotted lines indicate growth of common companies during Q2 and Q3 of 2024-25.
(ii) Based on results of 2263 listed private non-financial companies.
Sources: Capitaline database; and RBI staff calculations.

in total sales of the manufacturing sector, mainly contributed to manufacturing sales growth during Q3. Among the major industries, sales of petroleum, iron and steel and cement industries, however, contracted during Q3. Performance of non-IT services sector remained upbeat as indicated by the double digit sales growth. Sales growth of IT companies also inched up further but remained low during Q3:2024-25.

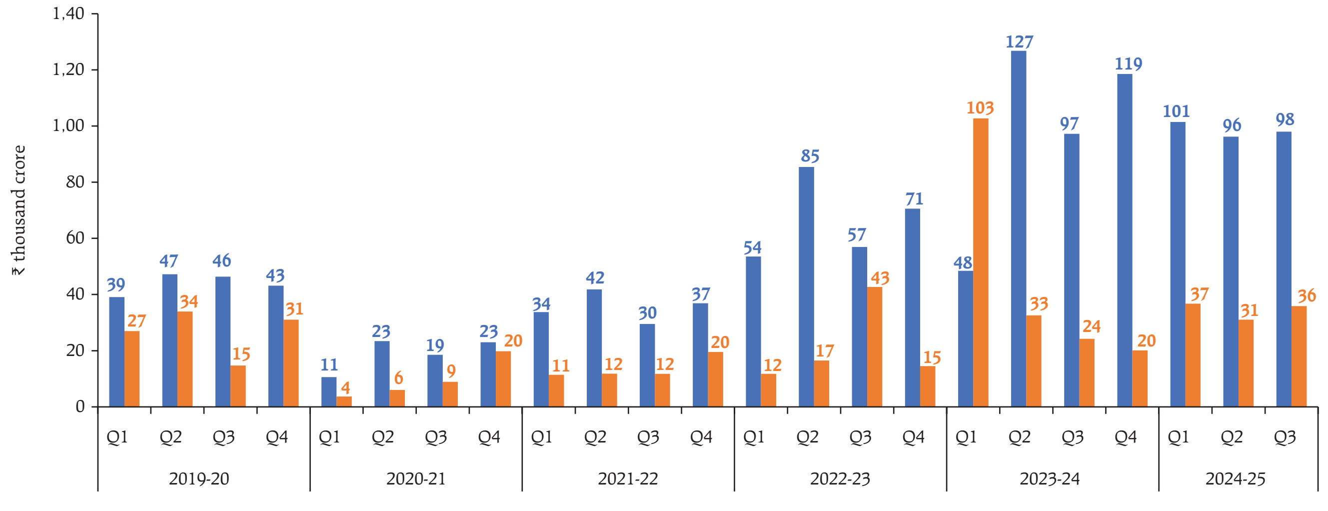
Despite rise in input costs and other expenses, the operating profits of manufacturing companies rose on a y-o-y as well as sequential basis during Q3:2024-25. Consequently, operating profit margin improved marginally during Q3 in comparison to the previous quarter. Within the services sector, the operating profit margins improved for both IT as well as non-IT service sector companies during Q3:2024-25, in line with their sustained sales growth (Chart IV.14).

Chart IV.14: Operating Profit Margins



Notes: (i) Dotted lines indicate growth of common companies during Q2 and Q3 of 2024-25.
(ii) Based on results of 2263 listed private non-financial companies.
Sources: Capitaline database; and RBI staff calculations.

Chart IV.15: Private Corporate Investment Intentions



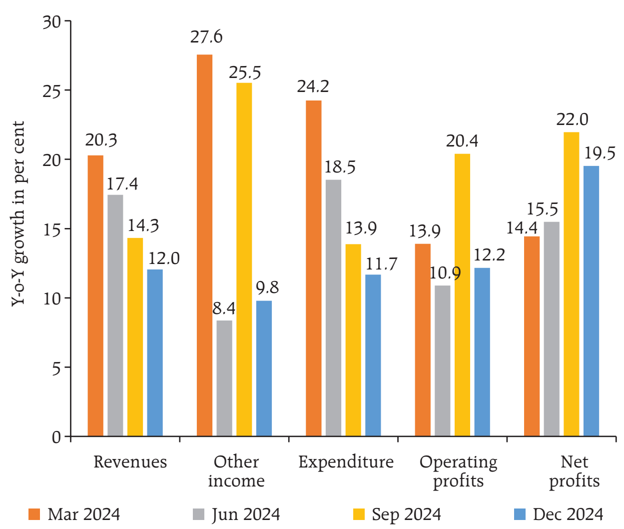
Source: RBI; Data on project finance gathered from banks/FIs; and RBI staff calculations.

Project finance data collected from select banks and financial institutes (FIs) indicate that during Q3:2024-25, total cost of projects sanctioned by banks/FIs at around ₹97,996 crore were marginally higher than ₹96,226 in the previous quarter. About 70 per cent of intended investment was concentrated in 'power', 'metals' and 'road and bridges' industries. Funds raised through ECBs and IPOs for capex purpose stood at ₹35,893 crore during Q3:2024-25 as compared to ₹31,027 crore in the previous quarter (Chart IV.15).

During Q3:2024-25, the Indian listed banking and financial sector companies[24] experienced a moderation in their top-line growth (Chart IV.16). Revenues, which primarily include interest income in the case of banks, exhibited double-digit growth for banking and financial sector companies, notwithstanding some moderation over the previous quarter. Growth of other income, which includes income from fees, commissions, profit and loss from investments, *etc.* slowed down in comparison to the previous quarter. Expenditure growth was slower than the revenue growth amid a moderation in salary growth. Further, decline in provisioning costs resulted in net profits growing at a faster rate than operating profits.

During January - February 2025 so far, the Indian equity markets registered moderate losses, with the BSE Sensex decreasing by 1 per cent (since January 15) to close at 75,939 on February 14, 2025 (Chart IV.17).

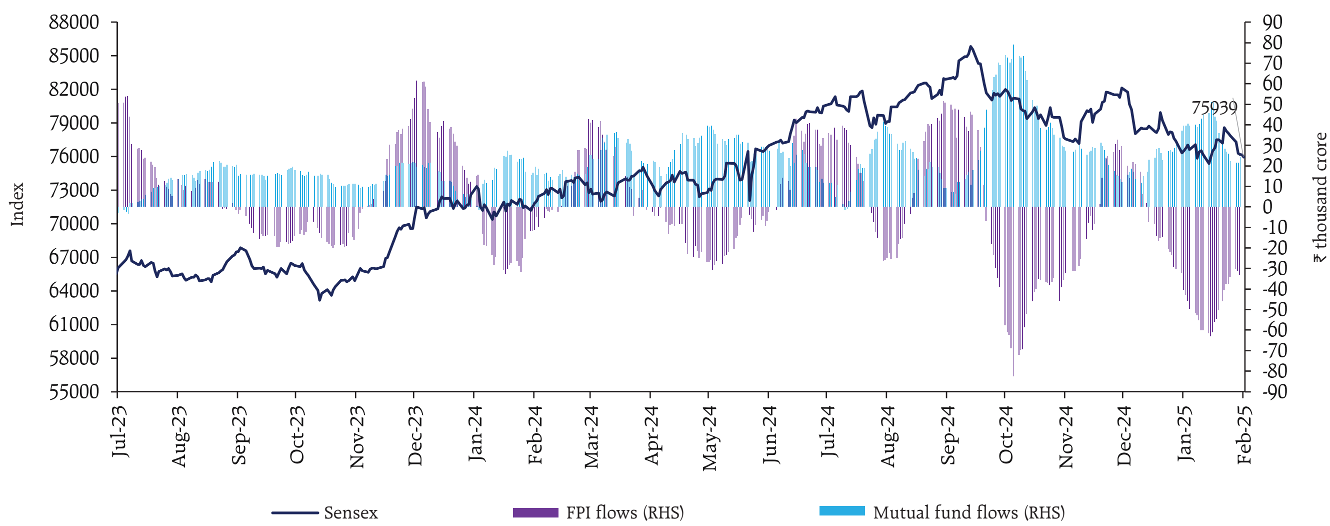
Chart IV.16: Performance of Listed Financial Companies



Sources: CMIE Prowess; and RBI staff estimates.

[24] Based on a sample of 328 companies constituting around 81 per cent of the total market capitalisation of listed banking and financial sector companies.

Chart IV.17: BSE Sensex and Institutional Flows

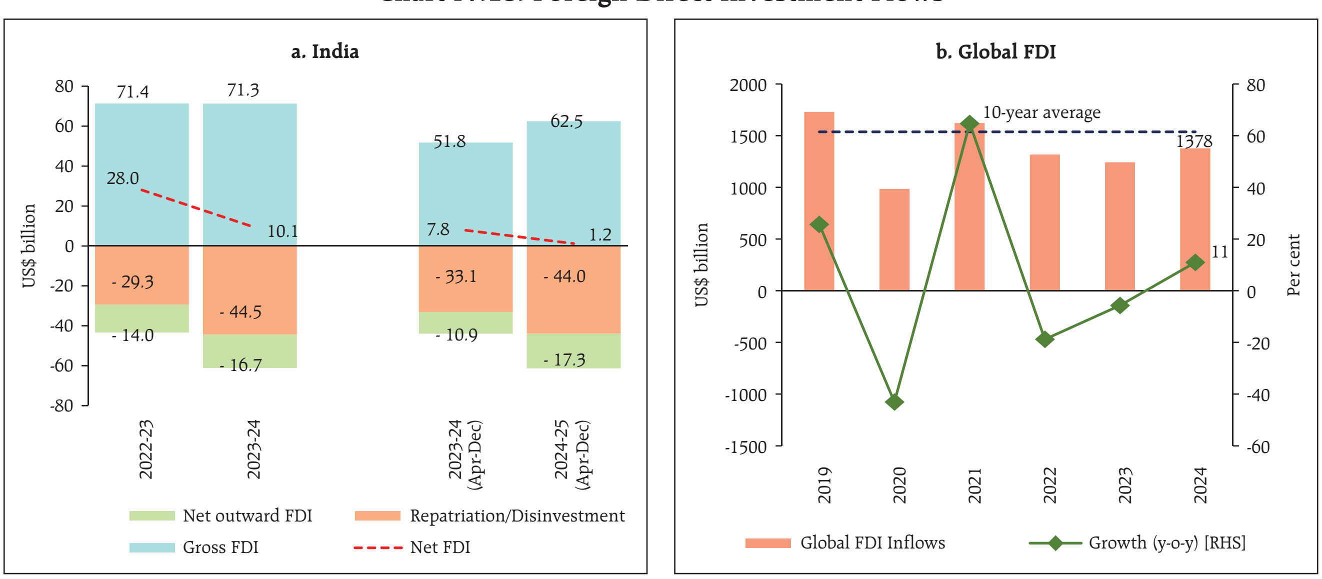


Note: FPI and MF flows are represented on 15-days rolling sum basis.
Source: Bloomberg.

The broader market indices underperformed the benchmark, with the BSE Midcap and BSE Smallcap indices declining by 8.3 per cent and 11.9 per cent, respectively, during the same period. In the second half of January, markets declined initially as investors assessed corporate earnings releases for Q3:2024-25 and uncertainties regarding the US outlook. The benchmark registered a sharp turnaround in the last week of January amid the announcement of measures by the Reserve Bank of India to boost the liquidity in the banking system and favourable cues from global markets. The markets remained rangebound thereafter, with positive cues from budget tax proposal on consumption before declining amid sustained FPI sell-offs.

Gross inward foreign direct investment (FDI) rose by 20.6 per cent (y-o-y) to US$ 62.5 billion during April-December 2024 (Chart IV.18a). Among sectors,

Chart IV.18: Foreign Direct Investment Flows



Sources: RBI; and UNCTAD.

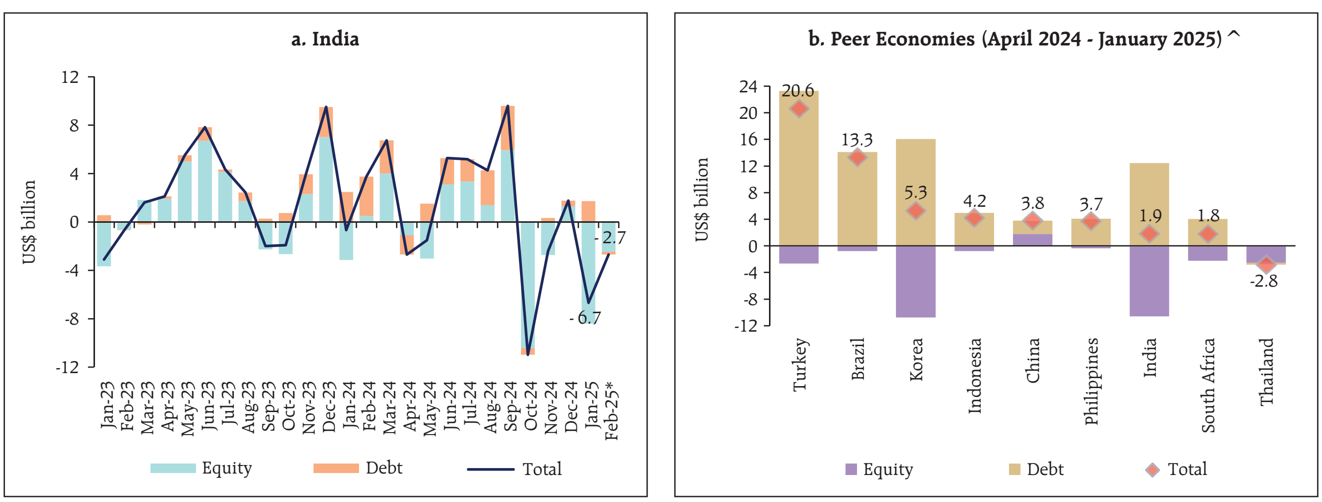
manufacturing, financial services, electricity and other energy, and communication services received more than 60 per cent of the gross equity inflows. Singapore, Mauritius, the UAE, the Netherlands, and the US, were the top investment sources, accounting for more than 75 per cent of the flows during the period. Net inward FDI (*i.e.*, gross inward FDI adjusted for repatriation) moderated slightly to US$ 18.5 billion during April-December 2024 from US$ 18.8 billion a year ago, reflecting a rise in repatriation. In 2024, global FDI rose by 11 per cent on a y-o-y basis but stayed below its 10-year average for the third straight year (Chart IV.18b).

FPI flows turned negative in January 2025, reflecting heightened global uncertainties. Net FPI outflows worth US$ 6.7 billion were recorded with equity outflows of US$ 8.4 billion amidst rising risk-off sentiments among investors (Chart IV.19a). The debt segment, however, showed signs of revival, with net inflows of US$ 1.7 billion, the highest since October 2024. On January 31, 2025, the Bloomberg Index Services included Indian government bonds in its Bloomberg Emerging Market (EM) Local Currency index, inducing more than US$ 1.0 billion inflow in the debt segment. During 2024-25 (April-January), debt inflows in India remained strong as compared to peer economies, cushioning the effect of equity sell-offs (Chart IV.19b). In February 2025 (up to February 13), the outpour continued with net FPI outflows amounting to US$ 2.7 billion.

Net inflows under non-resident deposits (NRD) rose to US$ 13.3 billion during April-December 2024 from US$ 9.3 billion a year ago, with inflows in all three accounts, namely, Non-Resident (External) Rupee Accounts [NR(E)RA], Non-Resident Ordinary (NRO) and Foreign Currency Non-Resident (Banks) [FCNR(B)] accounts. During April-December 2024, net external commercial borrowing (ECB) inflows stood at US$ 15.6 billion during April-December 2024, nearly three times the inflows recorded in the same period of the previous year (Chart IV.20).

Of the total ECBs registered during April-December 2024, more than 40 per cent were intended to be used for capital expenditure purposes. Further, the period also witnessed a substantial increase in refinancing of

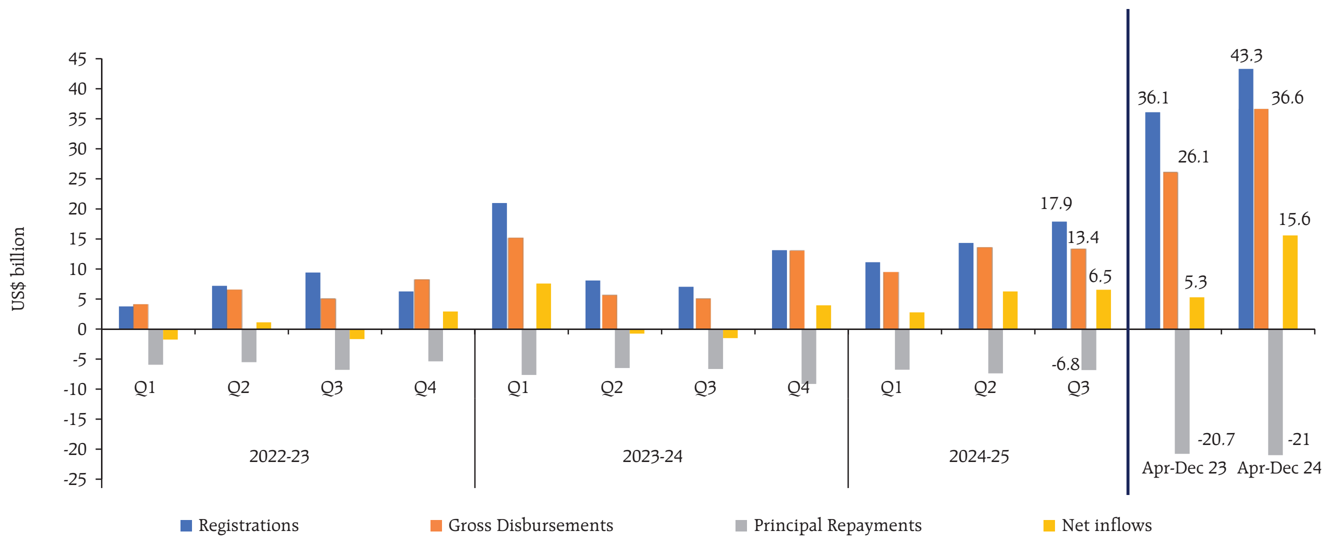
Chart IV.19: Net Portfolio Investments



Notes: 1. Debt also includes investments under the hybrid instruments.
2. *: Data up to February 13.
3. ^: Data for India and equity flows to other countries are up to January 2025 while debt flows for other countries is up to December 2024.

Sources: National Securities Depository Limited (NSDL); and Institute of International Finance.

Chart IV.20: External Commercial Borrowings - Registrations and Flows



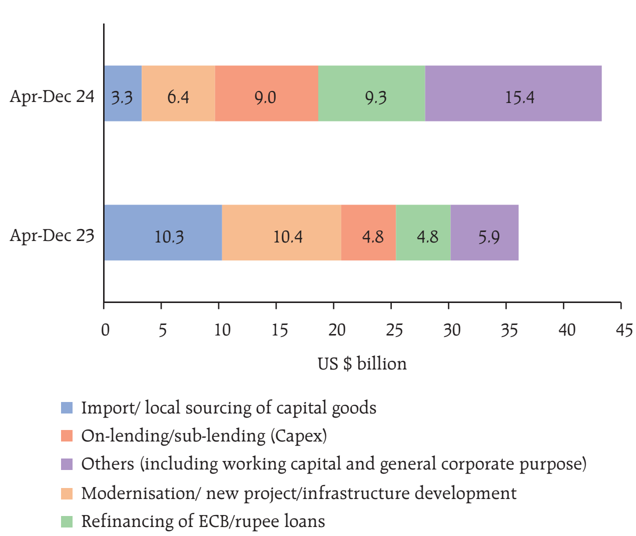
Source: Form ECB, RBI.

ECB/rupee loans in comparison with the previous year (Chart IV.21).

During April-December 2024, the share of effectively hedged ECBs, *viz.*, explicitly hedged loans, rupee denominated loans and loans from foreign parents increased to 78.1 per cent from 61.6 per cent over the same period of the previous year (Chart IV.22). This considerably aids in offsetting the interest and exchange rate sensitivity of such exposures.

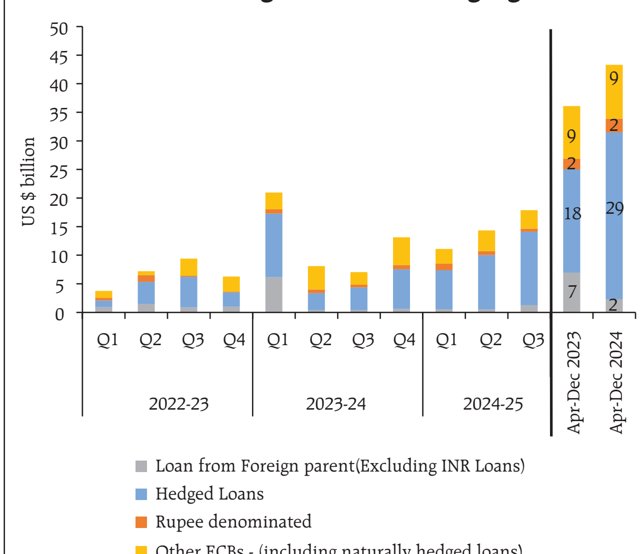
Since March 2024, global benchmark interest rates such as the secured overnight financing rate (SOFR) have declined up to 85 bps, reducing the overall cost of ECB by 25 bps during April - December 2024 (Chart IV.23).

Chart IV.21: End-use of the Registered ECBs



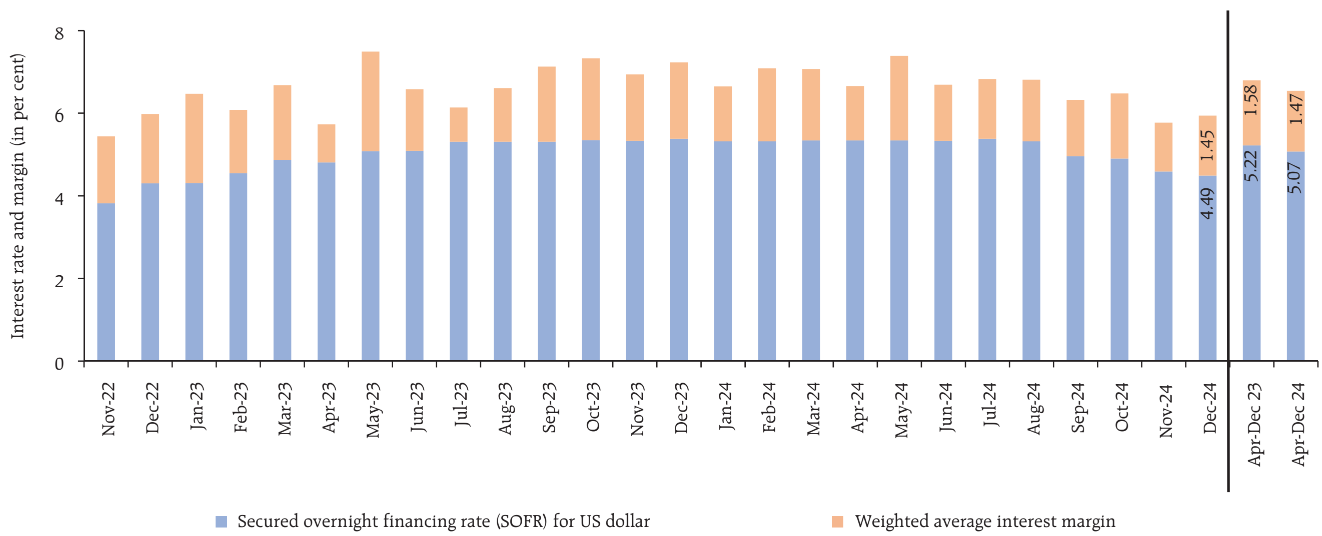
Source: Form ECB, RBI.

Chart IV.22: ECB Agreements - Hedging Position



Source: Form ECB, RBI.

Chart IV.23: Overall Cost of ECBs

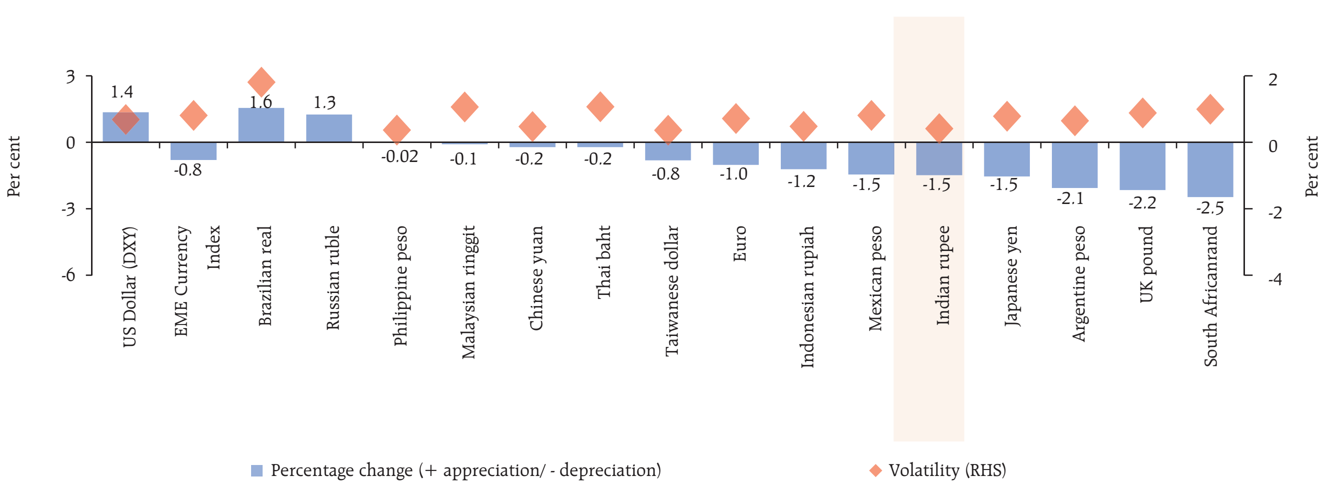


Sources: Form ECB; and RBI staff estimates.

A rising US dollar and FPI outflows from EMEs amidst growing global uncertainties exerted significant pressure on EME currencies during January 2025. The Indian rupee (INR) depreciated by 1.5 per cent (m-o-m) in January, in line with movements in most major currencies (Chart IV.24). In an environment of heightened global market turbulence, the INR exhibited relatively low volatility.

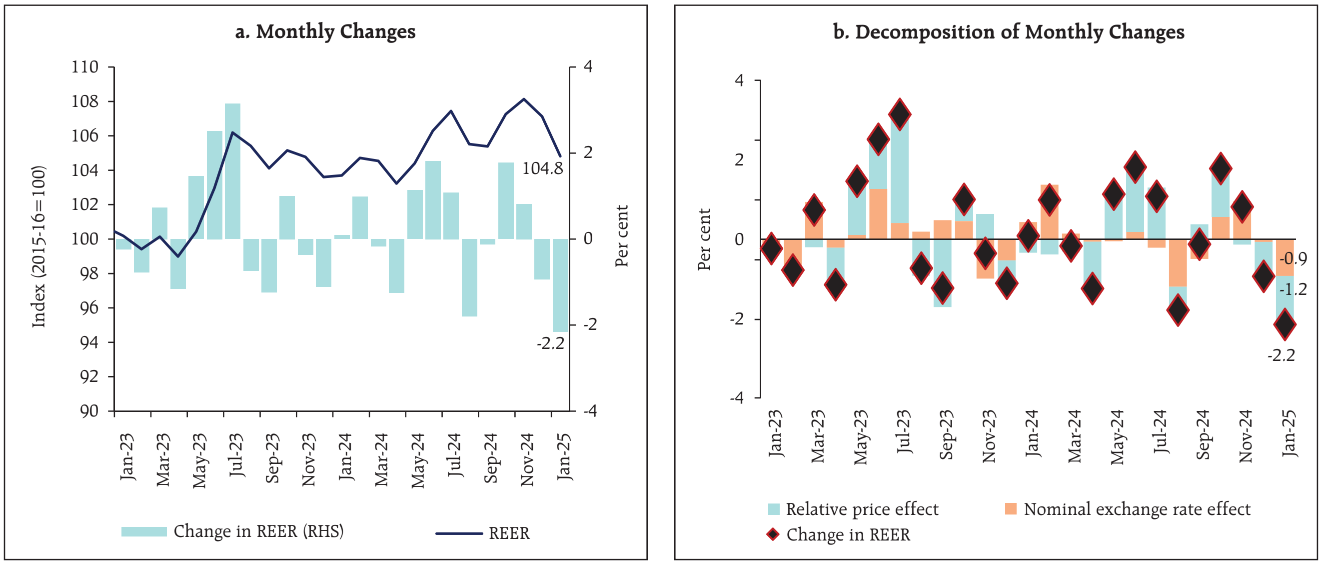
In terms of the 40-currency real effective exchange rate (REER), the INR depreciated by 2.2 per cent (m-o-m) in January 2025, due to depreciation of the

Chart IV.24: Movements of the Indian Rupee and Major Currencies against the US Dollar (January 2025 over December 2024)



Note: US dollar (DXY) measures the movements of the US dollar against a basket of major currencies (Euro, Japanese yen, British pound, Canadian dollar, Swedish krona, Swiss franc).
Sources: FBIL; Thomson Reuters; and RBI staff estimates.

Chart IV.25: Movements in the 40-Currency Real Effective Exchange Rate



Source: RBI.

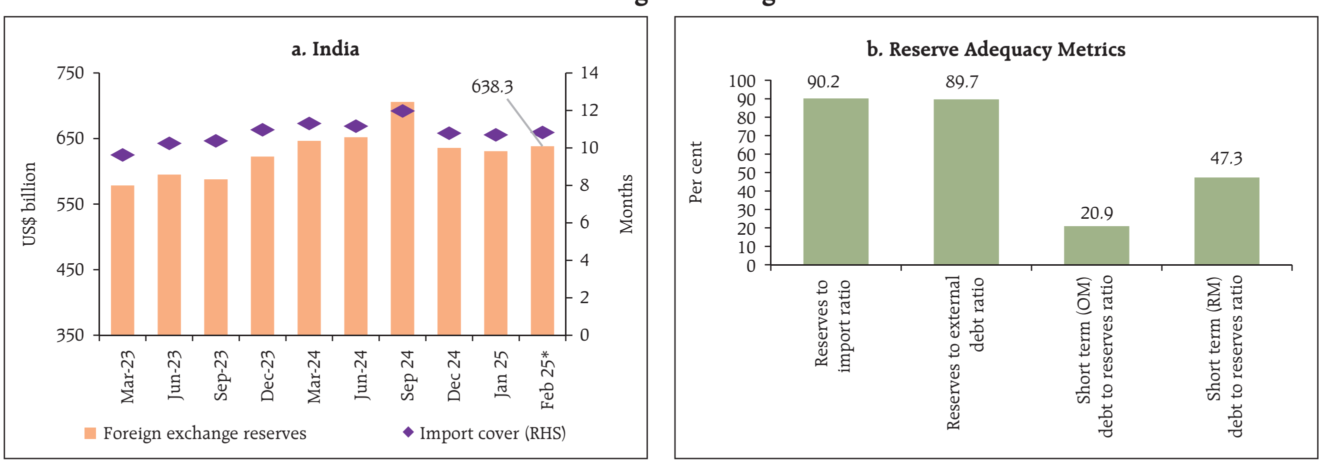
INR in nominal effective terms and negative relative price differentials (Chart IV.25).

As on February 7, 2025, India's foreign exchange reserves stood at US$ 638.3 billion, providing a cover for 10.8 months of imports and 89.7 per cent of external debt outstanding at end-September 2024 (Chart IV.26a). The foreign exchange reserves remained at sustainable levels based on various reserve adequacy metrics (Chart IV.26b).

Payment Systems

The Reserve Bank of India - Digital Payment Index reached 465.3 in September 2024, reflecting the growing penetration of digitalisation in the country.[25] In January 2025, digital transactions sustained

Chart IV.26: Foreign Exchange Reserves



Notes: 1. *: Data for February 7.
2. The import cover data for December 2024, January and February 2025 is based on annualised merchandise imports for the quarter ending September 2024 as per the balance of payments statistics.
3. OM: Original Maturity; RM: Residual Maturity. The reserve adequacy metrics have been calculated using the latest available reserves data and annualised merchandise imports and external debt for September 2024.

Sources: RBI; and RBI staff estimates.

[25] RBI Press Release, January 29, 2025. *"RBI – Digital Payments Index for September 2024"*.

Table IV.3: Growth in Select Payment Systems

(y-o-y in per cent)

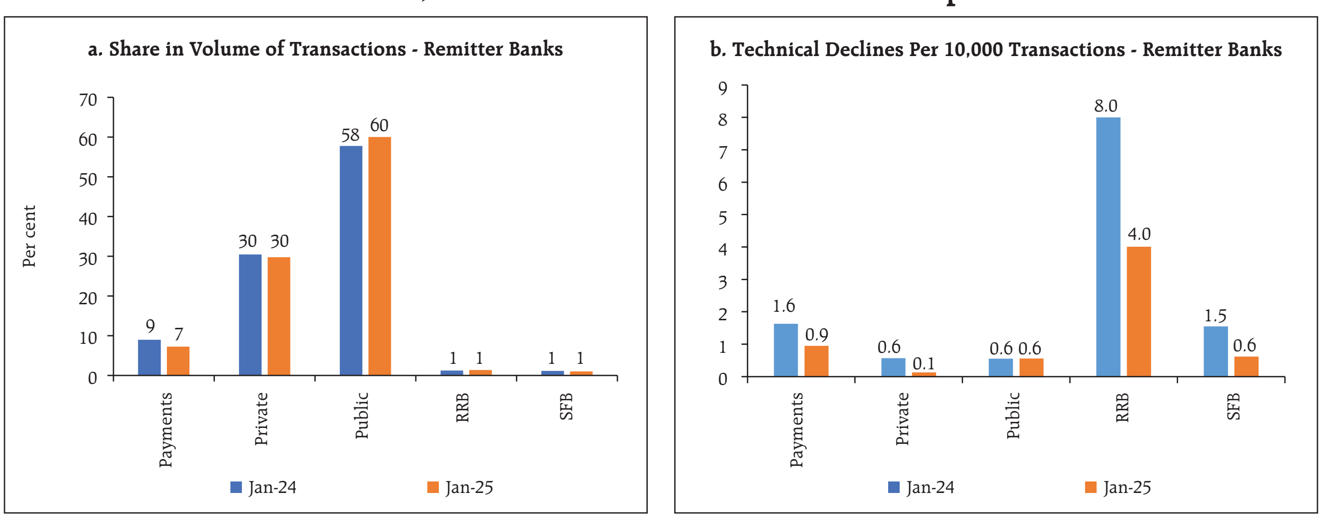
Payment Modes	Transaction Volume				Transaction Value			
	Dec-23	Dec-24	Jan-24	Jan-25	Dec-23	Dec-24	Jan-24	Jan-25
RTGS	7.1	13.8	13.1	16.1	15.7	20.6	17.1	19.1
NEFT	37.5	24.5	43.4	24.5	13.0	13.2	19.8	14.3
UPI	53.5	39.2	51.8	39.3	42.2	27.5	41.7	27.5
IMPS	2.7	-11.6	7.2	-12.7	17.2	5.5	18.6	7.1
NACH	10.9	28.2	22.8	17.2	4.6	27.6	21.5	22.5
NETC	13.0	9.8	10.2	14.8	18.6	13.3	15.5	19.0
BBPS	25.7	95.4	24.6	97.4	77.4	260.0	75.4	276.4

Note: **RTGS**: Real Time Gross Settlement, **NEFT**: National Electronic Funds Transfer, **UPI**: Unified Payments Interface, **IMPS**: Immediate Payment Service, **NACH**: National Automated Clearing House, **NETC**: National Electronic Toll Collection, **BBPS**: Bharat Bill Payment System.
Source: RBI.

broad-based growth momentum across payment modes, *albeit* with some moderation in growth in the retail payment segments (Table IV.3).

There was an increase in the share of PSBs in volume of transactions (from remitter bank side) during January 2025 as compared with the levels recorded a year ago (Chart IV.27a). The number of technical declines[26] per 10,000 UPI transactions reduced across most bank categories in January 2025 compared to January 2024[27], reflecting enhanced efficiency of banks' systems despite higher transaction volumes. The performance, however, remained uneven across bank groups (Chart IV.27b).

Chart IV.27: Trends in UPI Transactions - Bank Group-wise



Notes: Public: Public Sector Banks; **Private** Private Sector Banks; **SFB:** Small Finance Banks; **RRB:** Regional Rural Banks; **PAYMENT:** Payment Banks. Figures are based on volume of transactions reported for Top 50 Members by National Payments Corporation of India (NPCI).
Sources: NPCI; and RBI staff estimates.

[26] Transaction decline due to technical reasons, such as unavailability of systems and network issues on bank or NPCI side.

[27] For public sector banks as remitter banks, TD rate marginally went up from 0.55 to 0.56. For Payment banks as beneficiary banks, TD rate went up from 0.12 to 0.81.

Card tokenisation and its use is on the rise, with 98 per cent of e-commerce transactions being processed without using actual card data.[28] In its Statement on Developmental and Regulatory Policies of February 7, 2025, the Reserve Bank proposed to enable Additional Factor of Authentication (AFA) for international card not present (online) transactions to provide an additional layer of security for online international transactions using cards issued in India.[29] The Reserve Bank is also introducing 'bank.in' – an exclusive internet domain for Indian banks to reduce cyber security threats and malicious activities like phishing, while streamlining secure financial services. To further prevent online and other frauds, the Reserve Bank has issued regulatory prescriptions and institutional safeguards for its Regulated Entities, including the use of a mobile number revocation list, development of standard operating procedures and dedicated numbering series for transactional and promotional calls.[30] The Reserve Bank has also decided to amend the instructions under the Framework for imposing monetary penalties and compounding offences under the Payment and Settlement Systems Act, 2007.[31] As of January 31, 2025, two entities have successfully completed the test phase under the 'On Tap' application facility for the theme 'Retail Payments' of the Regulatory Sandbox in January, 2025.[32]

V. Conclusion

The near-term outlook of the global economy is being shaped by trade-related policies of major economies amidst slowing pace of disinflation. There are concerns that these policies could stoke inflation, engender tighter financial conditions, and heighten market turbulence. A strong dollar, driven by U.S. economic resilience and trade policy pivots, could exacerbate capital outflows from emerging economies, push risk premiums higher, and intensify external vulnerabilities. The "last mile" of disinflation may become more challenging in such an environment, potentially requiring central banks to recalibrate policies.

In India, economic activity momentum is poised to be sustained, strong rural demand is expected to receive a further fillip from the robust performance of the agriculture sector. Urban demand is also poised for a recovery, tracking decline in inflation as well as a boost to disposable incomes from the sizeable income tax relief announced in the Union Budget 2025-26. The Budget measures to fuel four engines of growth – agriculture, MSMEs, investment and exports – are expected to boost medium-term growth prospects of the Indian economy. The Union Budget prudently balances fiscal consolidation and growth objectives by continued focus on capex alongside measures to support consumption while providing a clear roadmap for debt consolidation. Domestic demand is also expected to benefit from the repo rate cut by the MPC in its meeting on February 7, 2025.

Robust *kharif* production and better *rabi* sowing, coupled with higher reservoir levels and seasonal winter correction in vegetable prices, augur well for food inflation going forward. While core inflation remains muted, uncertainty in global financial markets, volatility in energy prices and adverse weather events present upside risks to the inflation trajectory.[33]

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28 RBI. 2025. *Payment System Report, December 2024.*

29 RBI Press Releases. February 07, 2025.

30 RBI Notifications. January 17, 2025. *Prevention of financial frauds perpetrated using voice calls and SMS – Regulatory Prescriptions and Institutional Safeguards.*

31 RBI Notifications. January 30, 2025. *Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007.*

32 RBI Press Release. January 29, 2025. *Regulatory Sandbox: On Tap application on theme 'Retail Payments' – Completion of Test Phase.*

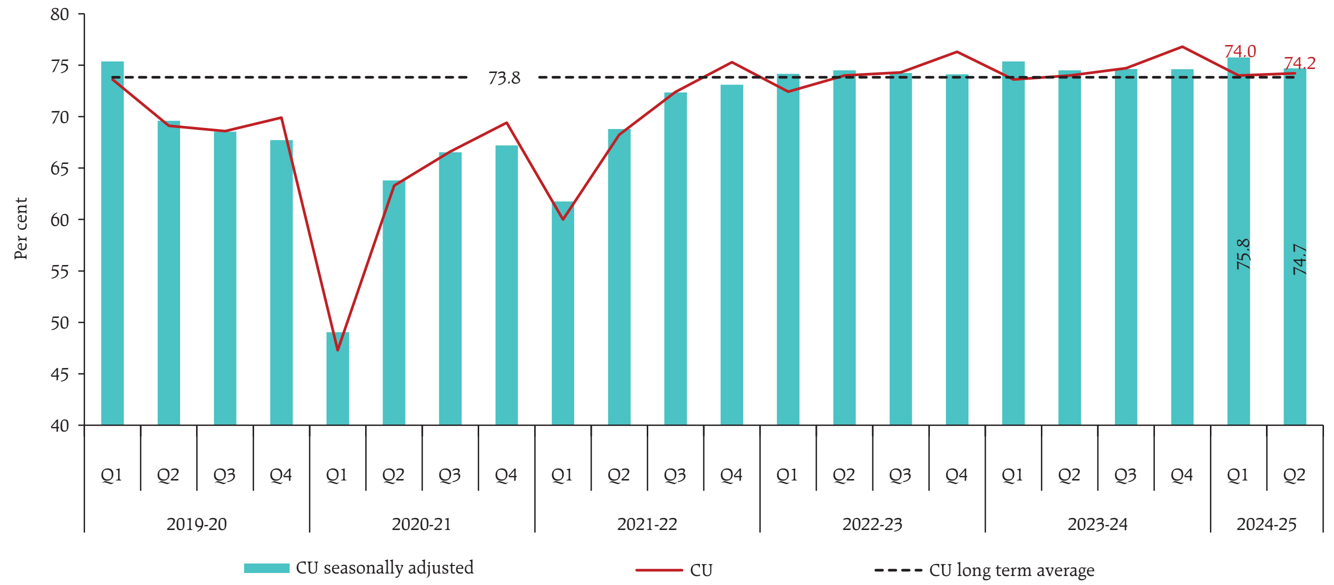
33 Monetary Policy Statement, 2024-25. Resolution of the Monetary Policy Committee, February 5-7, 2025.

Annex I

Major Takeaways from the RBI's Enterprise Surveys

Capacity utilisation (CU) in the manufacturing sector increased marginally to 74.2 per cent in Q2:2024-25 from 74.0 per cent in the previous quarter. The seasonally adjusted CU, however, declined by 110 basis points from the previous quarter to 74.7 per cent. Manufacturers maintained a positive outlook on CU in the ensuing quarters (Charts A1 and A2).

Chart A1: Capacity Utilisation in Manufacturing Sector



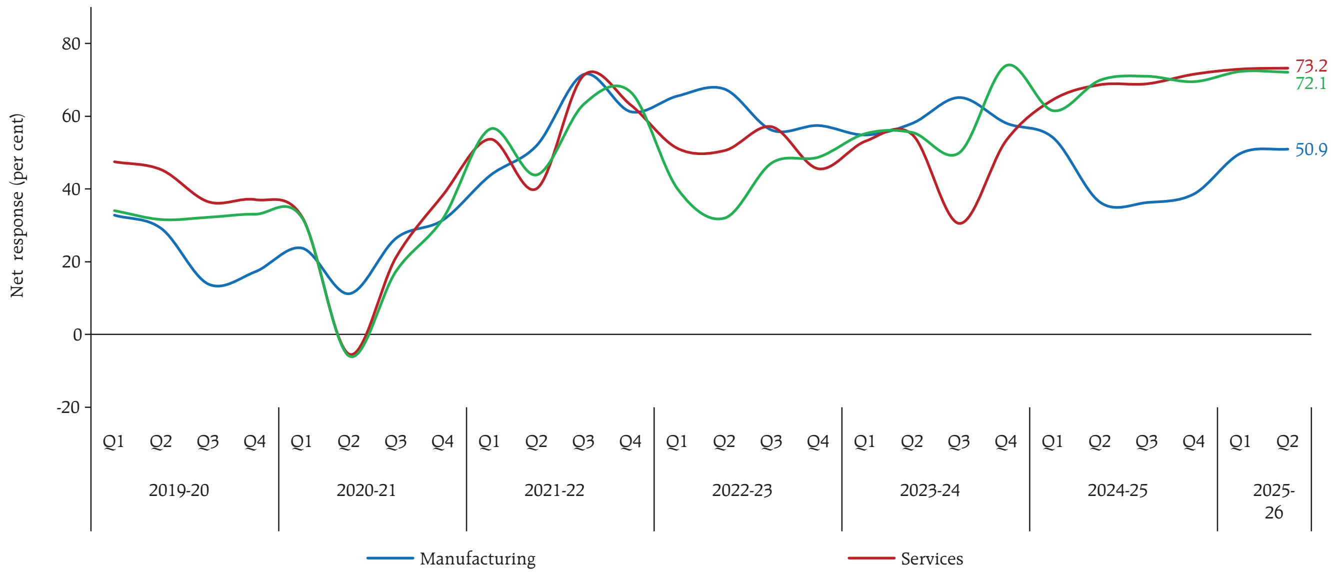
Source: Order Books, Inventories and Capacity Utilisation Survey, RBI.

Chart A2: Manufacturers' Assessment and Expectations on Capacity Utilisation

Source: Industrial Outlook Survey, RBI.

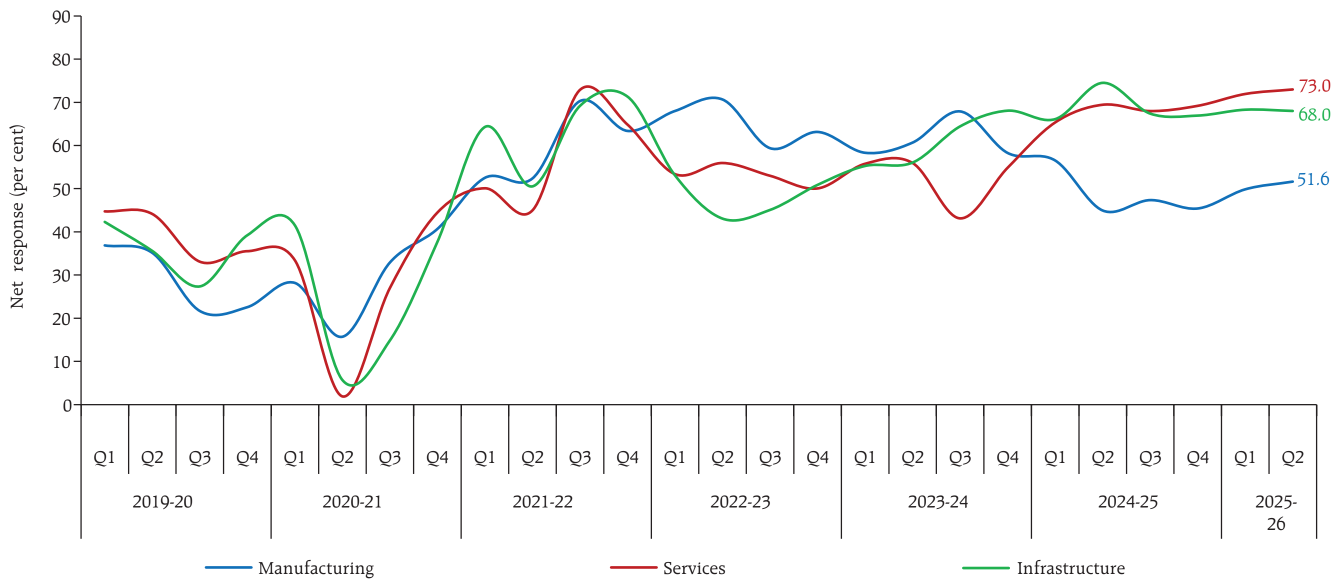
All major sectors remain optimistic on production/turnover and the overall business situation till Q2:2025-26 (Charts A3 and A4). Employment situation is in sync with demand conditions (Chart A5).

Chart A3: Expectations on Production/Turnover



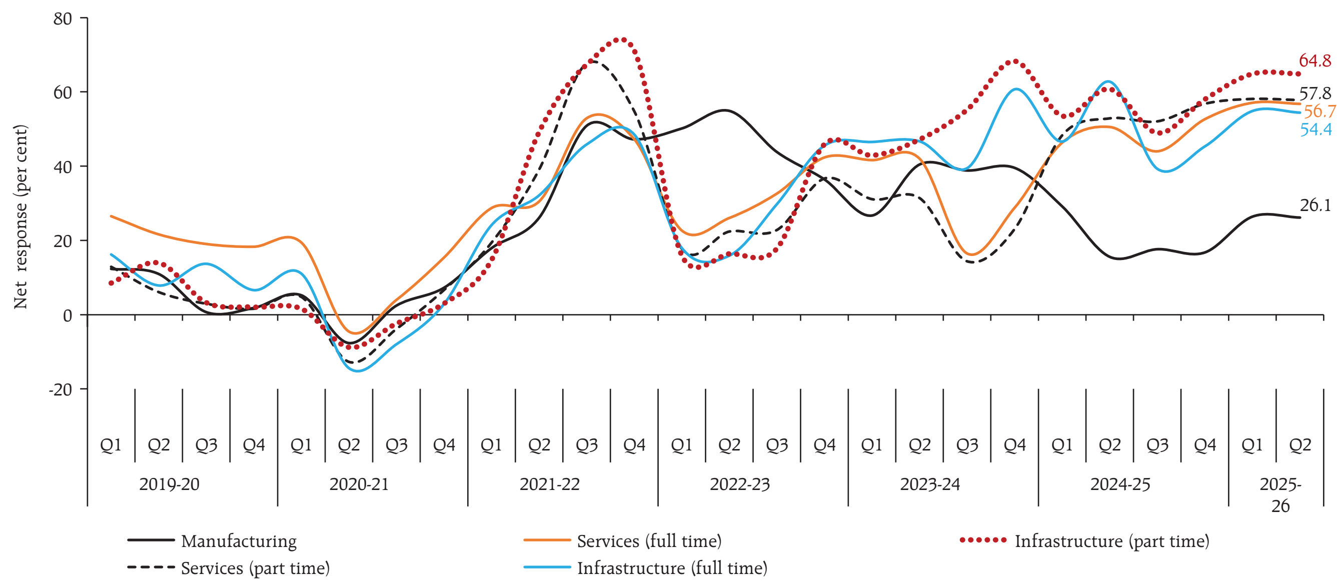
Sources: Industrial Outlook Survey; and Services and Infrastructure Outlook Survey, RBI.

Chart A4: Expectations on Overall Business Situation



Sources: Industrial Outlook Survey; and Services and Infrastructure Outlook Survey, RBI.

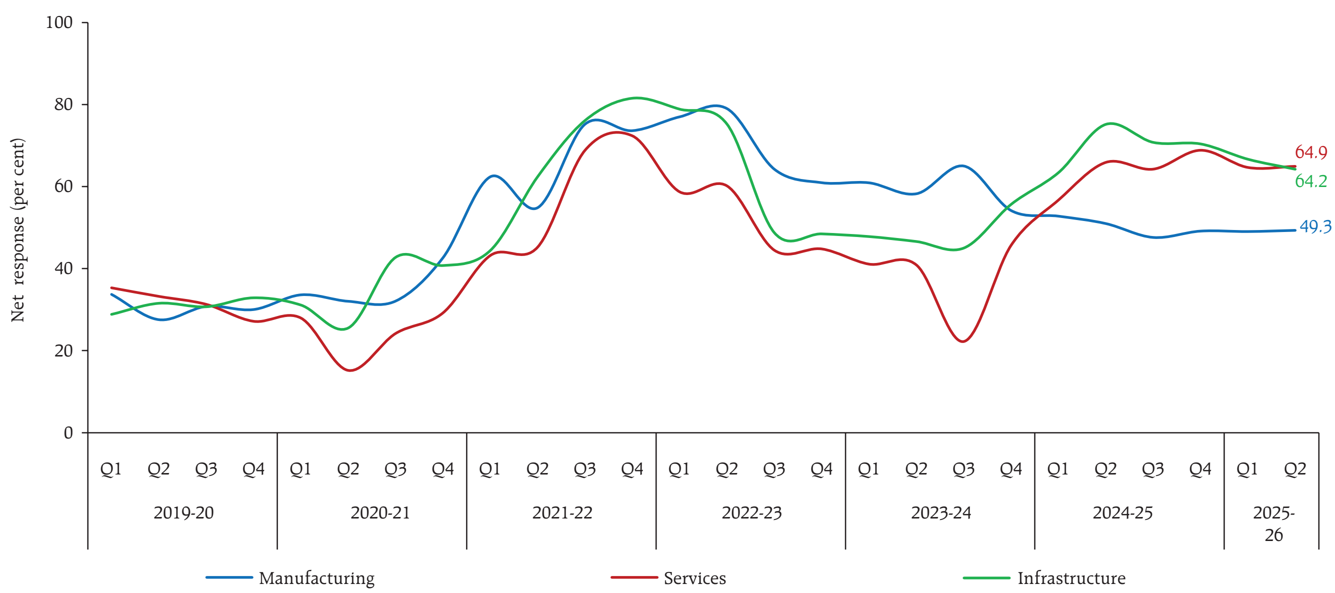
Chart A5: Expectations on Overall Employment Situation



Sources: Industrial Outlook Survey; and Services and Infrastructure Outlook Survey, RBI.

High input cost pressures are likely to persist across the major sectors (Chart A6).

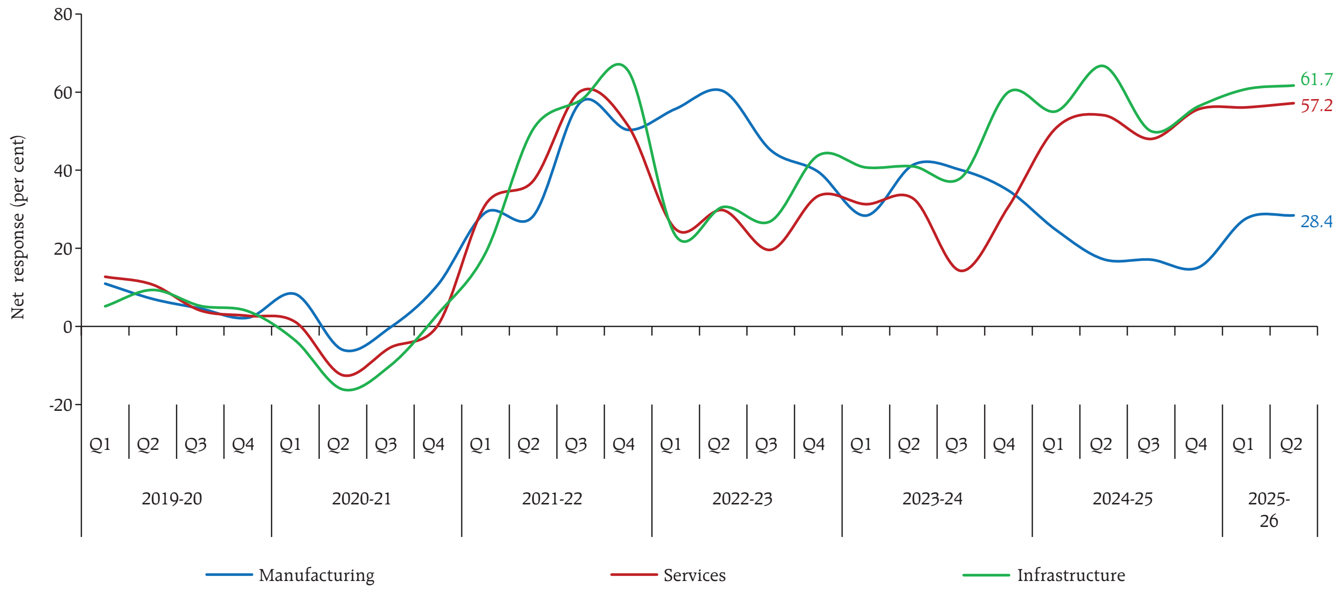
Chart A6: Expectations on Input Cost



Sources: Industrial Outlook Survey; and Services and Infrastructure Outlook Survey, RBI.

The pace of increase in selling prices and profit margins are expected to slow down for the manufacturing sector in Q4:2024-25. Higher growth in selling prices and profit margins is expected for the services and infrastructure sectors in Q4:2024-25 (Chart A7).

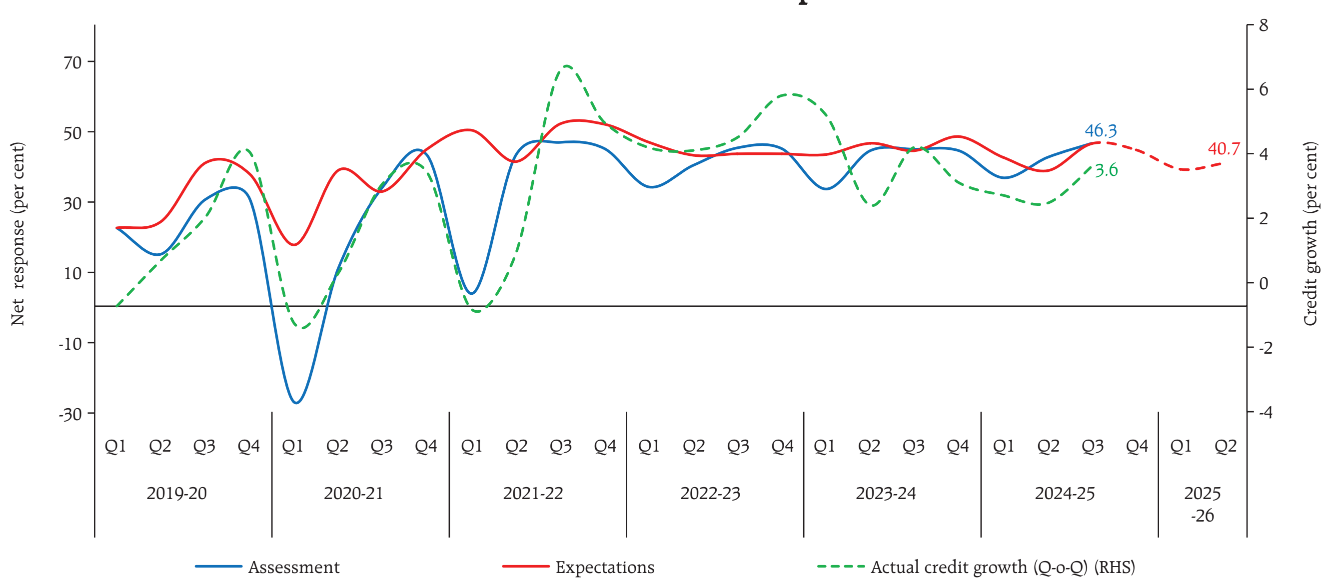
Chart A7: Expectations on Selling Price



Sources: Industrial Outlook Survey; and Services and Infrastructure Outlook Survey, RBI.

Bankers expect higher loan demand and easy terms and conditions for loans across major sectors (Chart A8).

Chart A8: Senior Loan Officers' Assessment and Expectations on Credit Demand



Source: Bank Lending Survey, RBI.

Note: The 'net response' is calculated as the difference between the percentage of respondents reporting optimism and that reporting pessimism. The increase option (I) is an optimistic response for all parameters, except the cost related parameters, such as cost of raw materials, etc., where the decrease option (D) signifies optimism from the viewpoint of a respondent company.