NABARD

DEAR
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Global Economic Outlook

US Rates likely to fall over medium term

The Federal reserve at its policy meeting in January end held its benchmark interest rate steady in the 4.25% to 4.5% range. Inflation remains more than half a percentage point above the Fed's 2% target and has shown little improvement over the last half year. Federal reserve expects gradual reduction in level of monetary policy restraint placed on the economy as it moves toward a more neutral stance as the most likely outcome over the medium term.

Japan's service activity grows due to Asian demand, PMI shows

The US ISM Services PMI rose to 54.1 in December 2024 from 52.1 in November 2024, above market expectations of 53.3. The reading marked the 10th time the composite index has been in expansion territory this year. The Services PMI in December was boosted primarily by strength in the Business Activity and Supplier Deliveries indexes. By end-of-year and seasonal factors were helping drive business activity or impact inventory management. Some of the increased business activity seems to have been driven by preparation for demand in the new year, or risk management for impacts from ports strikes and potential tariffs.

US consumer sentiment ebbs in January; 12-month inflation expectations rise

U.S. consumer sentiment weakened in January for the first time in six months amid worries about the labor market and potential higher prices for goods. About 47% of consumers expect unemployment to rise in the year ahead, the highest since the pandemic recession." Consumers' one-year inflation expectations in January 2025 were at 3.3%, unchanged from the preliminary estimate, but up from 2.8% in December. The 12-month inflation expectations are now above the 2.3%-3.0% range seen in the two years prior to the COVID-19 pandemic.

Domestic Economic Outlook

Indian growth rate remains robust

As per the first advance estimates of national accounts, India's real GDP is estimated to grow by 6.4 per cent in FY25. Growth in the first half of FY25 was supported by agriculture and services, with rural demand improving on the back of record Kharif production and favourable agricultural conditions. The manufacturing sector faced pressures due to weak global demand and domestic seasonal conditions. Private consumption remained stable, reflecting steady domestic demand. Fiscal discipline and strong external balance supported by a services trade surplus and healthy remittance growth contributed to macroeconomic stability. Together, these factors provided a solid foundation for sustained growth amid external uncertainties.

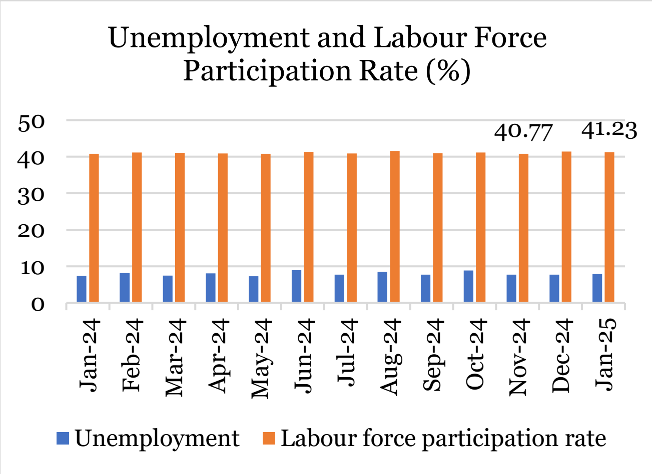
FDI continues to dip

In November 2024, India saw a considerable downturn in net foreign direct investment (FDI). Net FDI to India recorded outflows of USD 97 million in the month. Gross FDI inflows to India were outweighed by the funds repatriated or withdrawn by foreign investors. This decline follows a lacklustre net FDI inflow of USD 422 million in October.

This trend of low net FDI inflows to India has been prevalent since 2023-24. It has worsened in the recent months, signalling that foreign investments in India are going through a rough patch. Over the three-month period from September to November 2024, the average monthly net FDI dropped dramatically to USD 0.5 billion, from an average of USD 2.9 billion in the preceding five months of the current fiscal year.

Steady rise in unemployment rate

India's unemployment rate crawled up for the second consecutive month. It was 7.9 per cent in January 2025 compared to 7.8 per cent in December 2024 and 7.7 per cent in November. But, the rise in the unemployment rate (UER) in January was substantially different from the rise in the preceding month of December. In December, the unemployment rate rose as the labour participation rate (LPR) jumped up significantly. Much of this increase in the supply of labour in December was absorbed with employment but some were still left unemployed which caused the rise in the UER. In January, the UER rose although the LPR fell. Implicitly, unlike in December, the labour markets shed employment in January and the labour force shrunk.



Source: CMIE

Buoyant tax collections of Centre

The Union Budget of 2025-26 proposes to offer relief to the middle class in order to boost consumption demand. Tax rebates were announced and about Rs.1 trillion is expected to be foregone by the Centre in direct taxes. This loss did not leave much of a dent in Centre's non-debt receipts. These are all receipts of the government except borrowings.

Non-debt capital receipts are budgeted to rise by 11.1 per cent in 2025-26 compared to the revised estimate (RE) of 2024-25. This is a slight slowdown from the current fiscal's growth of 12.8 per cent.

Tax revenue, net of transfers to the states, is expected to grow by 11 per cent in 2025-26 compared to the RE of 2024-25. Gross tax collections are expected to grow by 10.8 per cent in 2025-26 compared to the RE of 2024-25. This growth is slower than the expected growth of 11.2 per cent in the current fiscal.

Core industries slowdown

Output of India's core industries, as measured by the index of eight core industries (ICI), grew by 4 per cent in the quarter ended December 2024 compared to the corresponding period last year. This was the second consecutive quarter when growth was less than 5 per cent, and only the second quarter in the last eight to do so. Thus, indicating a slowdown.
In the September 2024 quarter, year-on-year growth in the ICI had dipped to 2.4 per cent. It inched up in December but insufficiently. In these two quarters, growth has been significantly lower than the 6.3 per cent growth recorded in the June 2024 quarter.

Interest Rate Outlook

Liquidity measures by RBI to soften rates

On January 27, RBI announced several measures to infuse liquidity in the banking system. These measures include Open Market Operations (OMO) through purchase of government securities by RBI for a total amount of Rs.0.6 trillion. The OMO auctions would happen in three tranches, each of Rs.0.2 trillion, on January 30, February 13 and February 20. In another measure, RBI announced a 56-day Variable Rate Repo (VRR) auction for a notified amount of Rs.0.5 trillion to be conducted on February 7, 2025. In the third measure, RBI announced USD/INR buy/sell swap auction of USD 5 billion for a tenor of six months on January 31, 2025.
In the first of the three OMO auctions on January 30, RBI received bids worth Rs.1.2 trillion against the notified amount of Rs.0.2 trillion, almost six times the notified amount. This signals towards tight liquidity conditions in the system.
These additional measures undertaken by RBI to inject more liquidity has increased the expectation of a rate cut by the Monetary Policy Committee (MPC) of Reserve Bank of India (RBI) in its meeting between February 5 to February 7. This has led to softening of G-sec yields.

Date	29 Jan	30 Jan	31 Jan	3 Feb	4 Feb
USA 10 yr	4.53	4.52	4.53	4.53	4.51
Ind 10 yr	6.79	6.79	6.81	6.77	6.78
Ind 5 yr	6.74	6.73	6.73	6.71	6.70
Ind 1 yr	6.71	6.5	6.70	6.66	6.69

Source: worldgovermentbonds.com

Yield expectation

With the anticipation of rate cut by RBI in upcoming MPC, G sec yields have softened. They are expected to remain stable in coming week.