DEAR
ECO THINK
Issue No. 89/ February 2025

ECONOMY

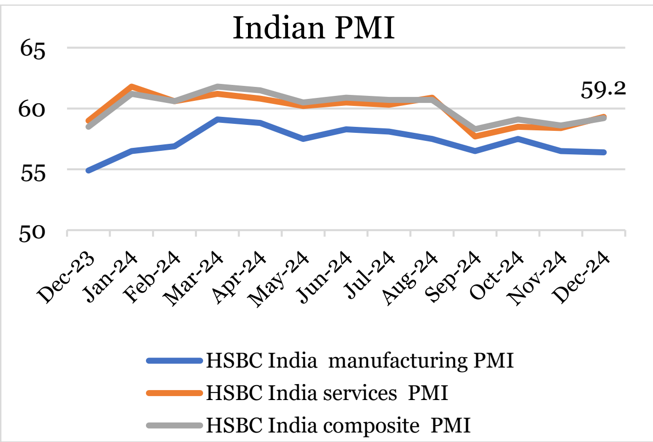
State of the Indian Economy

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.

Manufacturing sector growth moderates but shows positive expectations

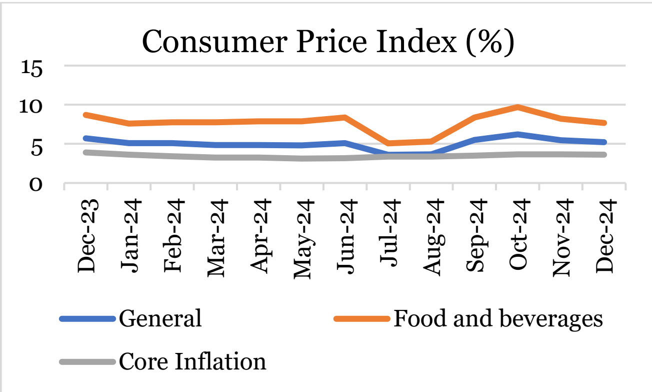
Despite various challenges, India continues to register the fastest growth in manufacturing PMI. The Manufacturing PMI for December 2024 remained well within the expansionary zone. The expansion rate for December 2024 exceeded its long-term average, driven by new business gains, robust demand, and advertising efforts. Meanwhile, international orders grew to a four-month high midway through the third fiscal quarter, signalling recovering external demand, as reported by companies.



Source: CMIE

Inflation – a combination of low and stable core inflation with volatile food prices

Retail headline inflation, as measured by the change in the Consumer Price Index (CPI), has softened from 5.4 per cent in FY24 to 4.9 per cent in April – December 2024. The decline is attributed to a 0.9 percentage point reduction in core (non-food, nonfuel) inflation between FY24 and April – December 2024. While the average inflation in FY25 has trended downward, monthly volatility in food prices and a select few commodities have been responsible for CPI inflation printing towards the upper side of the tolerance band of 4 (+/-) 2 per cent.



Source: CMIE

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.

The fall in the LPR implies that nearly a million people left the labour market in January. The labour force

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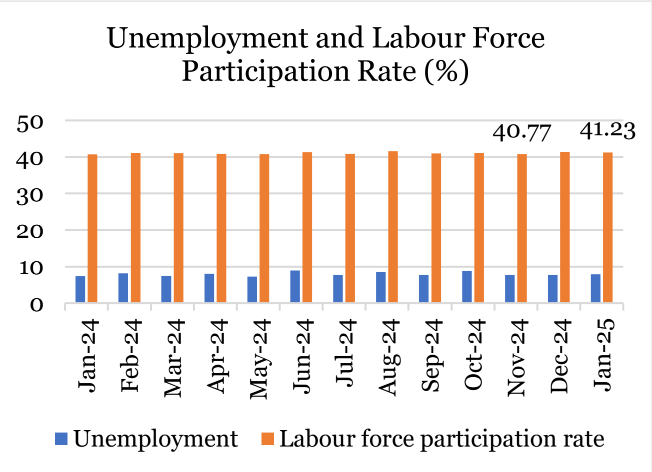
declined by a million from 457.6 million to 456.6 million.



Source: CMIE

Budget 2025: Govt on course for lower fiscal deficit in FY25 and FY26

The government's proposal to achieve a fiscal deficit target of 4.4% of India's gross domestic product for 2025-26 and the marginally lower net borrowing than the previous fiscal should keep the bond markets at ease.

The government pegged the net borrowing for 2025-26 at ₹11.5 trillion, lower than ₹11.6 trillion in FY25. Meanwhile, the gross borrowing was higher at ₹14.8 trillion in FY26, as per data presented in the Union Budget.

Table 1: Deficit as % of GDP

	FY 23	FY 24	FY 25 (Revised Estimates)	FY 26 (Budget Estimates)
Fiscal Deficit	6.4	5.6	**4.8**	**4.4**
Revenue Deficit	4	2.6	1.9	1.5
Primary Deficit	3	2	1.3	0.8
Effective Revenue Deficit	2.8	1.6	1	0.3

Interest Rate Outlook

Consistent outflow in FPI

Liquidity in the banking system has remained tight since December 2024 and is expected to remain tight till the end of the March quarter. Relentless FPI outflows from Indian capital markets since mid-December 2024 have strained liquidity conditions. Total FPI outflows from the Indian capital market amounted to USD 1.8 billion in the week ended January 24.

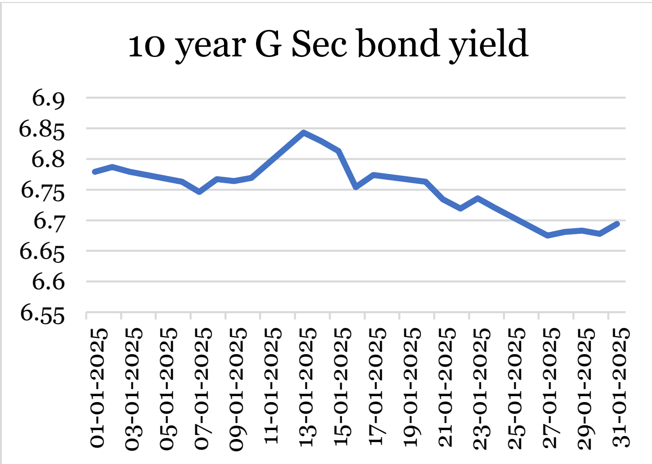
The total FPI outflows from the Indian capital market were of the order of USD 9 billion from mid-December 2024 till the week ended January 24. Consistent FPI outflows can be attributed to rising US yields and strengthening US Dollar.

India 10-year bond yield nosedives to 3-year low on central bank's buying

Indian government bond yields plunged at a start of post Republic Day week, with the 10-year plummeting to a three-year low, as surprise bond purchases by the central bank boosted investor sentiment.

The RBI bought bonds worth ₹101.75 billion ($1.18 billion) in the secondary market in the week ending Jan. 17, its first such operation in over three years, signalling its intent to keep liquidity conditions easy. This coincided with daily fund infusion using overnight repos.

These operations have raised bets the central bank may opt for an interest rate cut in February.



Source: Worldgovernmentbonds

Outlook

The Indian bond market is anticipating a rate cut from RBI, impacting both short and long-term yields.

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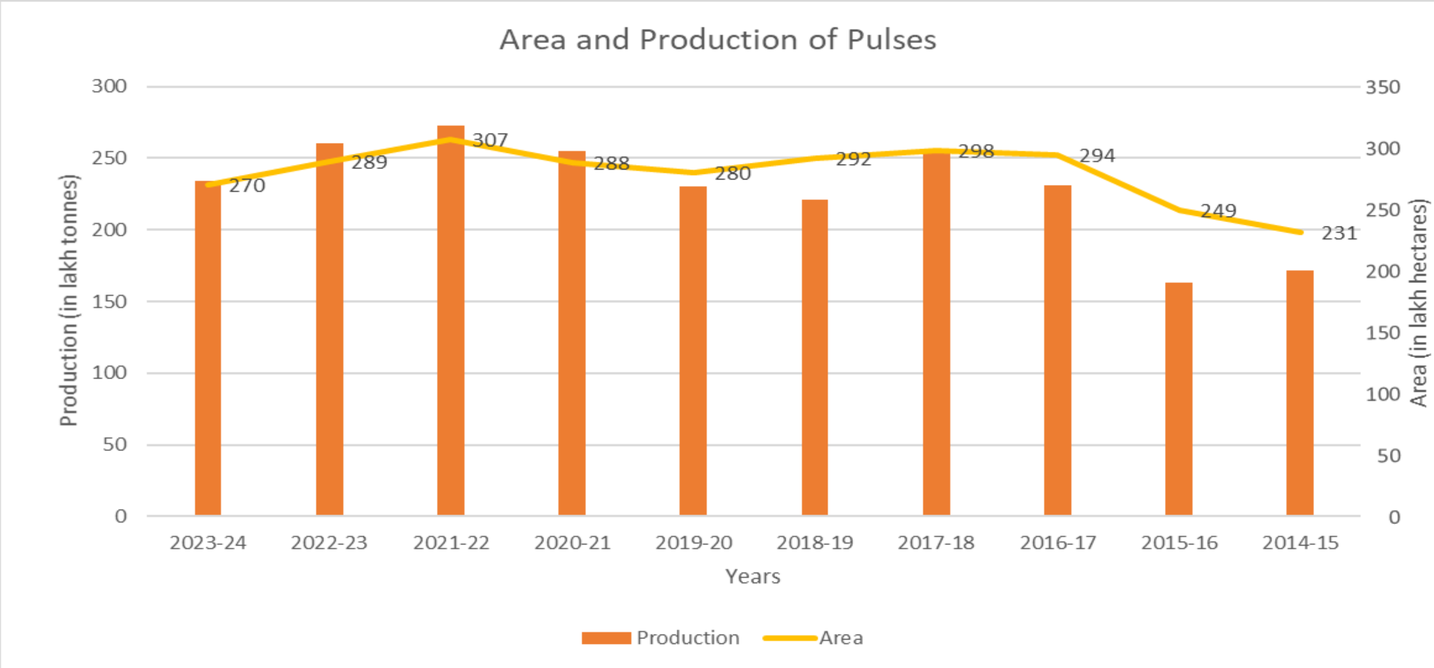
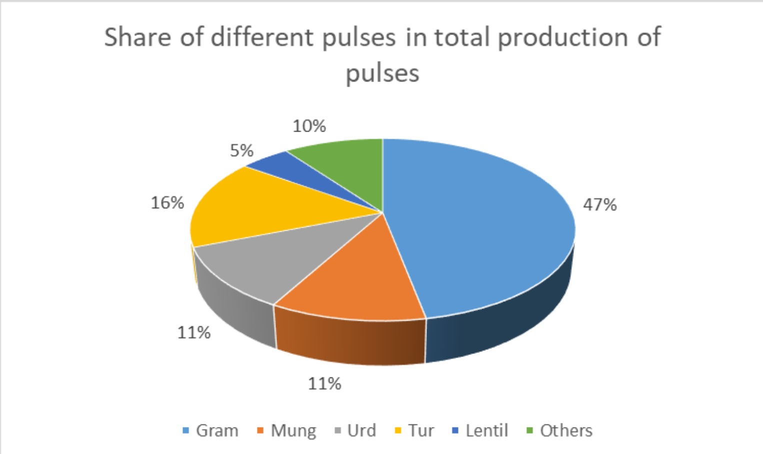
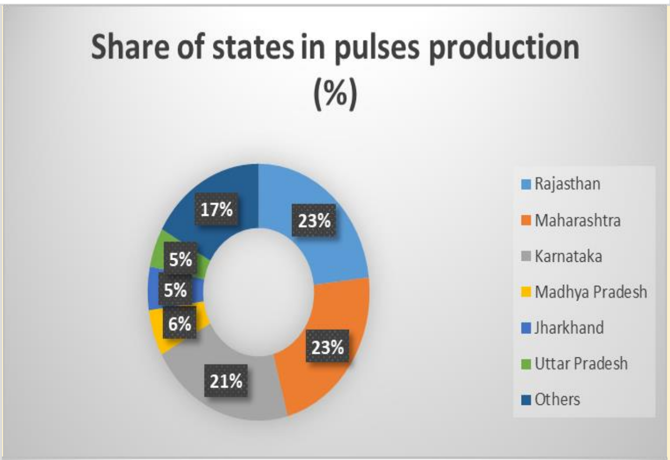
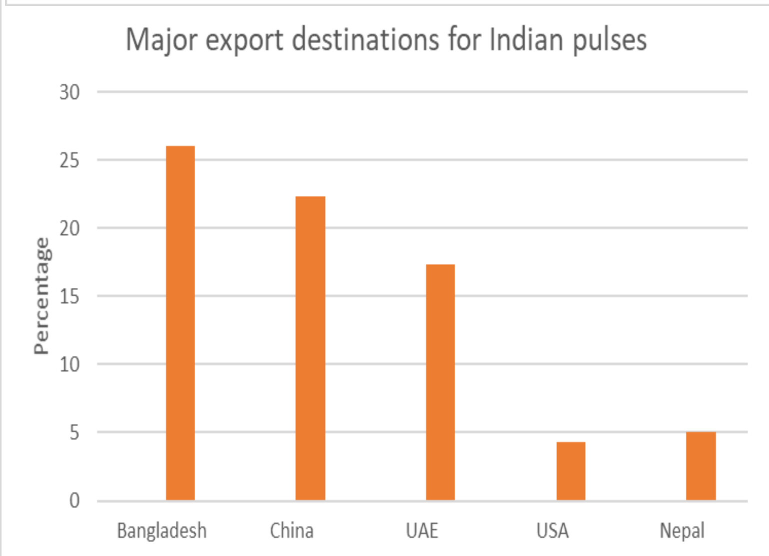
Dashboard on Agricultural Commodity: Pulses









UNION BUDGET 2025-26: Government has announced the launch of a 6-year "Mission for Aatmanirbharta in Pulses" with focus on Tur, Urad and Masoor. Union Budget 2025-26 has allocated ₹1,000 crore towards this scheme.

Source: 2nd AE of food grains 2023-24 (MoA&FW), PIB, RBI Handbook of Statistics 2023-24

Report THINK

Annual Status of Education Report (ASER) is a nationwide household survey that captures the status of children's enrolment and learning outcomes in rural India. It is a comprehensive assessment of reading and arithmetic skills among students aged 3 to 16 years in rural schools. It utilizes data from the 2011 Census, selecting 30 villages per district and 20 households per village for evaluation. ASER 2024 is the 14th nationwide field-based ASER survey. The report focuses on Foundational Literacy and Numeracy (FLN) and tracks learning outcomes in both government and private schools. It categorizes assessments into three groups: pre-primary (3-5 years), elementary (6-14 years), and older children (15-16 years). Additionally, for the first time, it includes a digital literacy evaluation, assessing smartphone access, usage, and safety awareness among 14-16-year-olds.

Key Findings

Pre-school coverage increasing over time: For the period of 2018 to 2024, the all-India rural figures show that overall pre-school exposure is increasing over time for children who are aged 3, 4, and 5. Being enrolled in some kind of early childhood institution from as early as age 3 is important because that is where the "foundational stage" journey for education begins. Having approximately 80% of all rural 3-year-olds and close to 85% of all 4-year-olds enrolled in early childhood programs is a truly a major achievement for a country as diverse as India.

Anganwadi centres continue to be the biggest provider of services in pre-primary age group in India. Since 2018, more than half of all children aged 3 and 4 are enrolled in Anganwadi centres. In Odisha, West Bengal, Gujarat, and Karnataka, more than 75% children are enrolled in Anganwadi centres in both these age groups.

Enrolment

Children (age 6-14 years) currently enrolled in school: Overall school enrolment rates among the 6-14 age group have exceeded 95% for close to 20 years. This proportion has stayed almost the same, from 98.4% in 2022 to **98.1% in 2024**.

The proportion of 15-16-year-old children who are not enrolled in school dropped sharply from 13.1% in 2018 to 7.5% in 2022 but stayed about the same at **7.9% in 2024** at the all-India level.

The proportion of girls not enrolled has increased slightly from 7.9% in 2022 to **8.1% in 2024**. While several states have seen a decline in the proportion of girls who are not enrolled, this proportion remains higher than 10% in a few states. These include Madhya Pradesh (16.1%), Uttar Pradesh (15%), Rajasthan (12.7%), Mizoram (12.3%), Gujarat (10.5%), and Chhattisgarh (10%).

Reading

The ASER reading task assesses whether a child can read letters, words, a simple paragraph at Std I level of difficulty, or a "story" at Std II level of difficulty**.** All-India figures indicate that reading levels have improved for children in government schools in all elementary grades (Std I-VIII) since 2022. Nationally, in 2024, basic reading levels for Std III children enrolled in government schools are the highest that they have been since the inception of the ASER survey.

Arithmetic

The ASER arithmetic tasks assess whether a child can recognise numbers from 1 to 9, recognise numbers from 11 to 99, do a 2-digit numerical subtraction problem with borrowing, or correctly solve a numerical division problem (3-digit by 1-digit). Nationally, children's basic arithmetic levels also show substantial improvement in both government and private schools, reaching the highest level in over a decade. The All-India figure for children in Std III who are able to at least do a numerical subtraction problem was 28.2% in 2018 and 25.9% in 2022. This figure has increased to 33.7% in 2024.

Digital literacy

For the first time in the nationwide household survey, ASER included a section on digital literacy which was administered to older children in the 14-16 age group. It included self-reported questions on access, ownership, and use of smartphones, as well as a one-on-one assessment of some basic digital skills.

Access: Access to smartphones is close to universal among the 14-16 age group. Almost 90% of both girls and boys report having a smartphone at home.

Large gender gap in smartphone ownership: 36.2% of boys as compared to 26.9% of girls reported owning their own smartphone. This gender gap is seen across all states.

Digital safety: Among children who used social media, knowledge of basic ways to protect themselves online was relatively high. 62% knew how to block or report a profile, 55.2% knew how to make a profile private, and 57.7% knew how to change a password.

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