DEAR
ECO THINK
Issue No. 90/ March 2025

ECONOMY

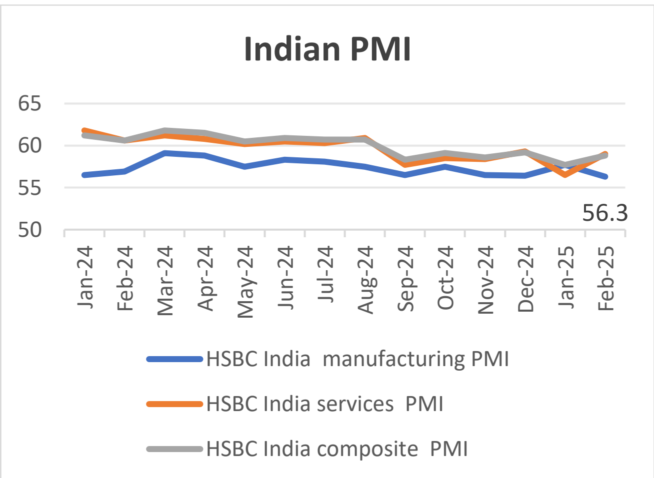
State of the Indian Economy

India's GDP expands to 6.2% YoY: NSO

According to the data released by National Statistics Office (NSO), India's Gross Domestic Product (GDP) growth rate for the third quarter of current fiscal year stood at 6.2% YoY. As per the First Revised Estimates, Real GDP has grown by 9.2% in the financial year 2023-24, which is highest in the previous 12 years except for the financial year 2021-22. According to NSO, real gross value added or GVA in Q3 of FY 2024-25 is estimated at ₹43.13 lakh crore, against ₹40.60 lakh crore in Q3 of FY 2023-24, showing a growth rate of 6.2%. Nominal GVA in Q3 of FY 2024-25 is estimated at ₹77.06 lakh crore, against ₹69.90 lakh crore in Q3 of FY 2023-24, showing a growth rate of 10.2%. Meanwhile, government spending rose 8.3% in the last three months of 2024 from a modest 3.8% increase in the previous three months.

India's manufacturing PMI eases to 14-month low of 56.3 in February:

According to the data released by S&P Global, India's manufacturing activity eased to a 14-month low of 56.3 in February 2025 from 57.7 in the previous month, due to mild loss of momentum in new orders and production. On the employment front, manufacturing firms continued expanding their workforce in February with almost 10% of the firms reporting increased hiring against only 1% of companies cutting jobs.



Source: CMIE

Retail inflation eases slightly to 4.61% for farm workers and 4.73% for rural labourers:

Retail inflation for farm and rural workers eased slightly to 4.61% and 4.73%, respectively, in January from 5.01% and 5.05% in December 2024. The All-India Consumer Price Index for Agricultural Laborers (CPI-AL) and Rural Laborers (CPI-RL) decreased by 4 points and 3 points, respectively, for the month of January 2025, reaching 1,316 and 1,328 points. According to the statement, the CPI-AL and CPI-RL stood at 1,320 points and 1,331 points, respectively in December 2024. The year-on-year inflation rates based on CPI-AL and CPI-RL for the month of January, 2025 were recorded at 4.61% and 4.73%, respectively, compared to 7.52% and 7.37% in January, 2024. The food index for CPI-AL decreased from 1,262 points in December to 1,255 points in January this year. Similarly, food index for CPI-RL declined from 1,269 points in December to 1,261 points in January

Fiscal deficit touches 74.5% of full year target at end-Jan- CGA:

According to the data released by Controller General of Accounts (CGA), the centre's fiscal deficit touched 74.5% of the annual target at the end of January 2025. In actual terms, the fiscal deficit – the gap between expenditure and revenue- was ₹11,69,542 crore during the April – January 2024-25 period. The CGA data showed that the central government's tax revenue (net) was ₹19.03 lakh crore, or 74.4% of the Revised Estimates of 2024-25. It was at 80.9% during the corresponding year of the last financial year. In the Union Budget presented in parliament, the fiscal deficit for 2024-25 has been pegged at 4.8% of GDP (lower than earlier estimate of 4.9%) and at 4.4% for 2025-26. In absolute terms, the fiscal deficit for the financial year ending March 2025 is estimated at ₹15.69 lakh crore.

A fiscal deficit is the difference between the total expenditure and revenue of the government. It is an indication of the total borrowing needed by the government.

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Rural spending may soon align with urban markets- Deloitte study:

A recovery in rural markets is prompting retailers and FMCG companies to tailor strategies for smaller towns, offering premium items in smaller packs, using digital platforms for launches and marketing, and expanding store presence. The study noted that by 2030, food spending in rural households may drop from 51% to 49%, for urban, it is likely to see a decline from 42% to 40%. The shift away from food spending will mean more money for other interests such as eating out and travelling.

India ranks 3rd in global billionaire wealth- Knight Frank's 'The Wealth Report':

India's high-net-worth individual (HNWI) population, comprising those with assets exceeding $10 million, grew by six per cent in 2024, reaching 85,698. The steady rise in India's wealthy population reflects the country's strong economic growth, increasing investment opportunities, and a rapidly evolving luxury market. The report positions India as a significant player in global wealth creation, reinforcing its economic resilience. The billionaire population has also surged, with 191 billionaires in 2024, up from 165 the previous year.

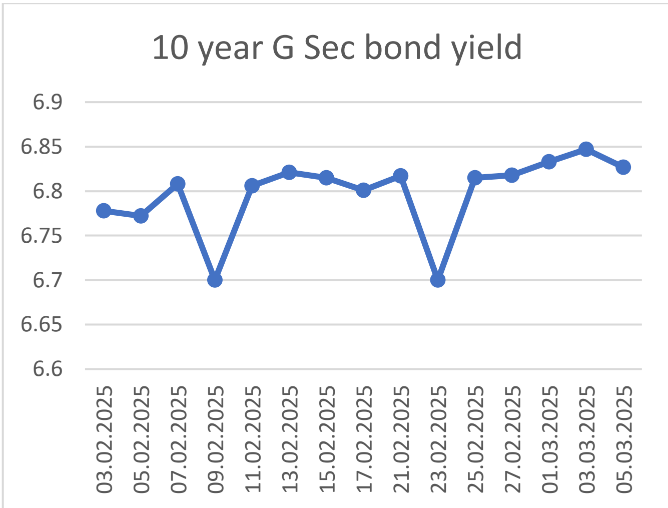
Interest Rate Outlook

RBI announced $10 billion swap to infuse rupee liquidity:

The Reserve Bank of India will conduct a massive $10 billion three-year dollar/rupee swap to infuse durable rupee liquidity into the banking system, which has been reeling under large cash deficits. The three-year maturity of the swap indicates that the RBI is looking at injecting more durable liquidity in the system possibly to ensure proper transmission of future rate cuts, the probability of which also has increased now. The RBI has infused more than ₹3.6 trillion of durable liquidity into the banking system in last five weeks through a combination of open market as well as secondary debt purchases, longer-duration repos, and an FX swap. India's banking system liquidity deficit was around ₹1.7 trillion as of February 20,2025 and is set to widen further moving into the last month of the financial year when liquidity stress is maximum.

Government bond yields remain unchanged:

Indian government bond yields started the last month of the financial year on a flattish note as bets of a rate cut in the next month were outweighed by overarching supply worries. The benchmark 10-year yield ended at 6.7383%, compared with its previous close of 6.7286%. India's economy expanded by 6.2% in the October-December period, picking up from a revised 5.6% growth in the previous quarter but marginally lower than the 6.3% estimated increase in a Reuters poll. In terms of monetary policy implications, the GDP data, along with other factors, continues to support the view of the Reserve Bank of India lowering rates from 6.25% in April, with another cut likely later



Source: Worldgovernmentbonds

Outlook

In February, the RBI Monetary Policy Committee reduced the policy repo rate by 25 bps to 6.25%, a first in almost five years in order to boost a slowing economy. While Q3 GDP of the current financial year shows that economic activity has inched up, it is still only a moderate increase and therefore RBI is expected to deliver another repo rate cut of 25 bps in April 2025 in order to support growth.

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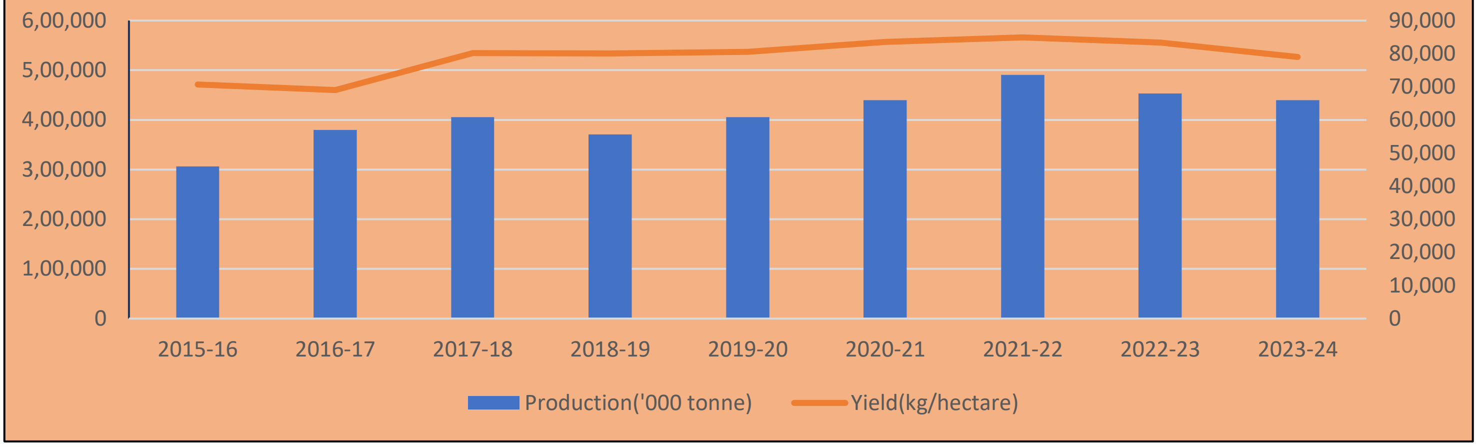
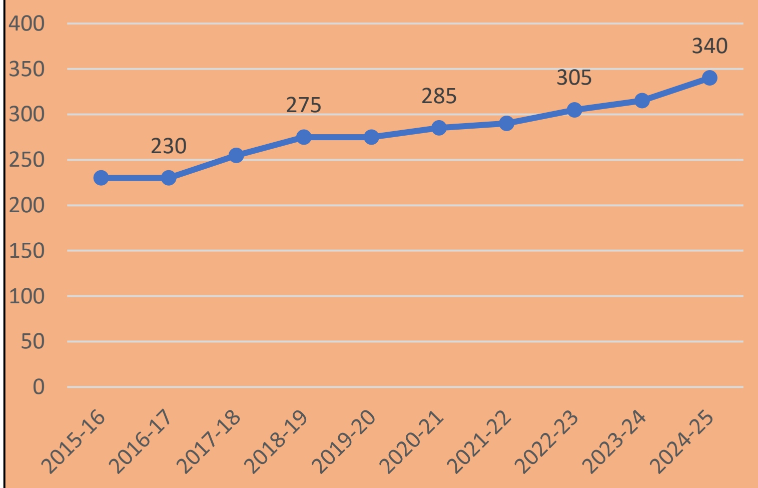
Dashboard on Agricultural Commodity: Sugarcane

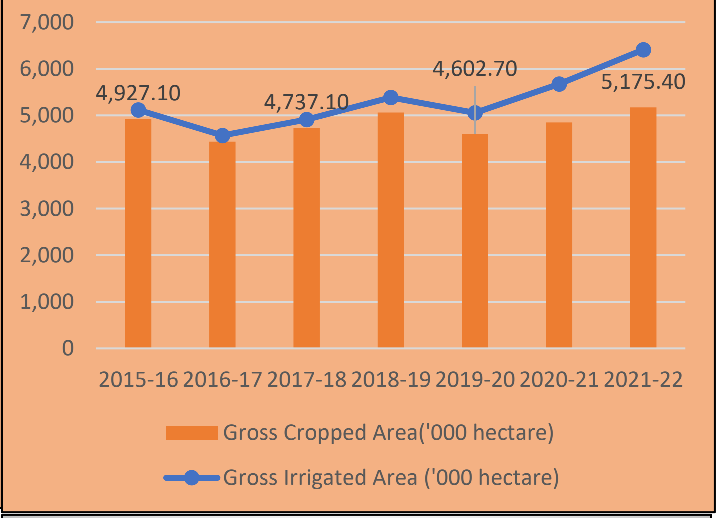
Production('000 tonne) & Yield (Kg/hectare) of Sugarcane



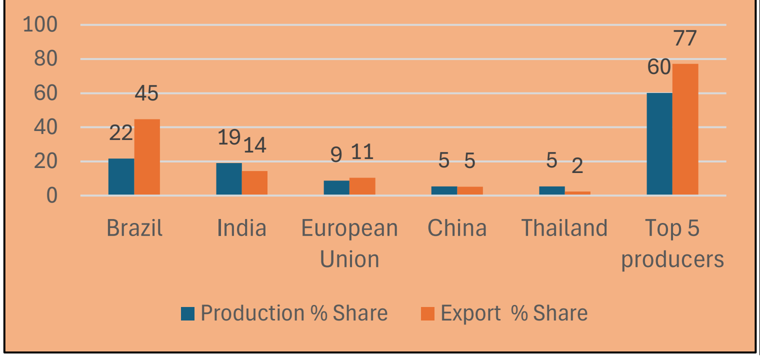
Fair and Remuenarative Price of (Rs/Qunital)



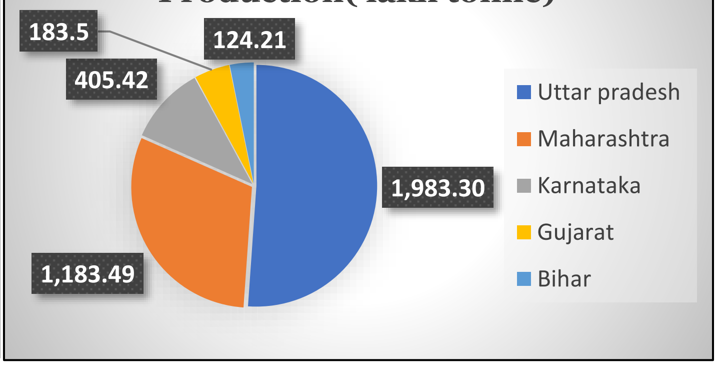
Gross Cropped Area and Gross Irrigated Area('000 hectare)



Top 5 Exporters and Producers (% Share)



Top 5 State: Sugarcane Production(lakh tonne)



Sources: CMIE, Unified Portal for Agricultural Statistics, Ministry of Agriculture & Farmers Welfare

Report THINK

India Country Economic Memorandum: Becoming a High-Income Economy in a Generation:

The World Bank's report titled "India Country Economic Memorandum: Becoming a High-Income Economy in a Generation," released in February 2025, outlines a comprehensive roadmap for India to achieve high-income status by 2047. The report underscores the need for India to grow at an average rate of 7.8% annually to meet this goal.

The key takeaways from the report are:

Enhancing total investment from 33.5% to 40% of GDP by 2035: India is among the top-10 global FDI destinations, but the share of net FDI in GDP has remained subdued despite substantial liberalization. FDI to GDP averaged 1.7% during 2011-20, up only marginally from 1.5% during 2000-10. RBI (2019) finds that the current expenditure multipliers are less than unity while the capital expenditure multiplier is 3.25 for the central government and 2.0 for the state governments. The public investment multiplier in India is much larger than for current expenditures. The contribution of ICT capital in investment is rising, with positive impacts on growth. The share of ICT investment in total investment averaged 14.5% over the past decade. Software investment was the main driver of the increase, accounting for approximately 70% of total ICT investment. Country diversification, the local regulatory environment (entry barriers), and nearshoring are key determinants of investments by multinational enterprises (MNEs) in India. At the firm-level, a higher probability of investment is associated with trade and the adoption of innovation, digitalization, and green practices.

Increasing labour force participation from 56.4% to over 65%: As of now, India's labour force participation rate is 56.4%, which means that just over half of the working-age population is engaged in economic activities. Female labour force participation in India stands at 35.6%. This is relatively low compared to other countries and indicates that a significant portion of the female population is not engaged in paid work. The goal is to increase this rate to over 65% by 2047 by creating more job opportunities, improving working conditions, and encouraging more people to enter the workforce. The rate of female labour force participation also needs to be raised to 50% by 2047. Achieving this target would involve addressing various socio-economic barriers that prevent women from entering and staying in the workforce.

Accelerating Productivity Growth and Boosting Trade: Labor productivity nearly tripled from 2000 to 2019 in India, growing more rapidly than in peer countries, except China. This overall improvement has been driven primarily by productivity growth in the services sector. At the firm level, productivity increases have been driven by the large firms in manufacturing and services. In comparison, labour productivity growth has been more broad-based in peer countries, with greater contributions from the manufacturing sector, and intersectoral reallocations of labour. Firms have relatively limited access to Industry 4.0 technologies. Limited technology adoption is primarily attributable to high uncertainty, lack of capabilities, and limited access to finance. In agriculture, labour productivity has improved, but investment productivity growth has stagnated. There is significant potential to boost within-firm productivity across firm sizes through addressing market failures that constraint adoption of technologies, innovation, and participation in international markets.

Better Jobs to Reap the Demographic Dividend: The working-age population has expanded at 2% over the past two decades, and more than three in four Indians are now of working-age. However, the labour force has grown slower than the working-age population (even when accounting for recent improvements in the labour force participation rate (LFPR), based on the official PLFS, 2023-24). Employment generation was not commensurate with GDP growth. The slow transition away from agriculture jobs reflects relatively slow employment growth in non-farm sectors over 2000-23. The employment elasticity of growth declined in more than half of the non-farm sectors post-2010, particularly in labour-intensive manufacturing sectors such as food processing and textiles. The high share of informality can be attributed to efforts to avoid complex regulatory compliance and the low optimum size of firms. Facilitating the reallocation of labour from relatively less to relatively more productive sectors will require addressing skills gaps and mismatches.

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