NABARD

DEAR ECO WATCH

Issue No. 144/ 05 February-18 February 2025

Global Economic Outlook

US Economy: According to US Bureau of Labour Statistics that releases the Consumer Price Index for All Urban Consumers (CPI-U), US inflation increased by more than expected last month, as higher egg and energy prices pushed up the cost of living for Americans. Inflation rose to 3% in January that is highest rate for six months, and above the 2.9% mark as expected by economists. The rise comes weeks after the US Federal Reserve kept the Fed funds rate steady at the 4.25%-4.5% range in its meeting held on 29 January 2025. The uptick in prices in January 2025 was wide-ranging, affecting car insurance, airfare, medicine and other basics. Grocery prices climbed 0.5% over the month, compared with 0.3% in December 2024, as egg prices surged more than 15% amid shortages caused by outbreak of avian flu.

UK Economy: Bank of England (BoE) cut the Bank Rate by 25 basis points (bps) to 4.50% in its meeting held on 6 February 2025. The BoE Governor Andrew Bailey signalled a gradual and careful approach to easing policy. The central bank also released updated quarterly projections revealing an upward revision to inflation and weaker GDP as it forecasted that the Bank Rate would remain higher for longer. Inflation in UK was likely to hit 3.7% later in 2025, almost double the BoE's 2% target. Part of the forecast increase in inflation was due to regulated price increases for items such as domestic energy and water while the sluggish state of the economy was also likely to act against inflation. In January 2025, the BoE delayed implementing the rules in Britain by a year to January 2027 to get clarity on what the United States will do under Donald Trump as president.

Chinese Economy: According to data released by National Bureau of Statistics (NBS) of China, Consumer Price Index (CPI) in China increased to 103.60 points in January 2025 from 102.90 points in December 2024. Consumer CPI in China averaged 102.58 points from 2021 until 2025, reaching an all-time high of 104.20 points in February 2024. The latest result also reflected the impact of recent government stimulus measures and the central bank's accommodative monetary policy to support the economy. Food prices rebounded (0.4% vs -0.5% in December), and non-food prices notably increased (0.5% vs 0.2%), reflecting further rises in housing, healthcare and education, along with a slower decrease in transport cost.

Domestic Economic Outlook

India's forex reserves rose to $630.6 billion: India's foreign exchange reserves rose for a second straight week and stood at $630.6 billion as of 31 January 2025. The reserves increased by $1.1 billion in the reported week, after rising by $5.58 billion in the prior week. The rupee had fallen 0.9% against the U.S. dollar in the week to 31 January 2025 and hit its then record low of 86.6525 per dollar, hurt by portfolio outflows and uncertainty around U.S. trade tariffs. The rupee and other emerging market currencies have been under pressure amid concerns that U.S. President Donald Trump's tariff plans and sanctions on countries could disrupt global trade and stoke inflation.

Projects worth ₹58,000 crore get support of agri-infra fund: To boost post-harvest facilities, the government has approved proposals worth ₹58,000 crore under Agri Infrastructure Fund (AIF) for more than 92,000 projects since its launch four years back. The AIF which was launched in May, 2020 aims at disbursing ₹ 1 lakh crore through banks and financial institutions by the end of FY26. The scheme is operational from 2020-21 to 2032-33. So far, these sanctioned projects by the agriculture ministry have mobilised an investment of ₹ 91,856 crore in the agriculture sector, out of which a large chunk has been mobilised from private entities.

₹1000 crore credit guarantee scheme for farmers to be rolled out: The government will roll out ₹1000 crores credit guarantee scheme for pledge financing to be availed of by small and marginal farmers against electronic negotiable warehouse receipts (e-NWRs) after depositing commodities in accredited warehouses. Facilitating loans against stored commodities provides liquidity in the hands of farmers at the time of harvest. By increasing post-harvest lending against e-NWRs, the scheme aims to improve farmers' income and enhance their access to institutional credit.

GoI to meet target of 10,000 FPOs soon: Over 9,912 FPOs have been registered as cooperatives and producers' companies under the central sector scheme 'Formation and Promotion of 10,000 FPOs' -

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Published by Department of Economic Analysis and Research (DEAR), NABARD Head Office, Mumbai

launched in 2020 with a budgetary provision of ₹6,865 crore. Over 33 lakh farmers have taken equity in these farmers collectives across states. These FPOs have a combined turnover of over ₹1,300 crore and the government has infused ₹450 crore as matching equity in these collectives so far.

India's January merchandise trade deficit at $22.99 billion: Based on export and import data released by the government on 17 February 2025, merchandise exports in January 2025 stood at $36.43 billion compared with $38.01 billion in December 2024, while imports for the month were $59.42 billion. In December 2024, imports were at $59.95 billion. Services exports in January 2025 were estimated at $38.55 billion and imports at $18.22 billion against $32.66 billion and $17.50 billion, respectively, in December 2024.

Industrial output growth slows to 3.2% in December 2024: India's industrial production growth slowed to a three-month low of 3.2% in December 2024, mainly due to poor performance of mining and manufacturing sectors, according to latest Index of Industrial Production (IIP) data released by the National Statistical Office (NSO). Mining production growth declined to 2.6% from 5.2% year-on-year while power output increased to 6.2% in December 2024 from 1.2 % a year ago.

Interest Rate Outlook

RBI MPC meeting cut repo rate to 6.25% for the first time in two years: The RBI Monetary Policy Committee held on 7 February 2025 revised the repo rate for the first time in two years, voting unanimously to cut it by 25 basis points from 6.50% to 6.25%. The decision was taken by MPC in view of easing retail inflation and slowing growth. The MPC also decided unanimously to continue with the 'neutral' stance and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. MPC retained India's Consumer Price Inflation (CPI) forecast for the financial year 2025 at 4.8%. For the next financial year, FY26, the inflation is projected at 4.2%. With India's retail inflation for January 2025 easing to 4.31%, dropping significantly from 5.22% in December 2024, Barclays said that the Q4 CPI inflation may average at 3.8%, materially lower than RBI MPC's 4.4% YoY estimate. This, reinforces the projection of another rate cut by 25 bps in the April policy meeting. The MPC projected the real GDP growth for FY26 at 6.7%, slightly higher than the revised estimate of 6.6% for FY25 as economic activity is expected to improve in the coming year. Agricultural activity remains upbeat on the back of healthy reservoir levels and bright rabi prospects. Manufacturing activity is also expected to recover gradually in the second half of this year and beyond.

Foreign Portfolio Investors (FPIs) are net sellers of Indian equities: Foreign Portfolio Investors (FPIs) have sold shares worth ₹21,272 crore in February 2025. So far in 2025, they have offloaded shares worth ₹99,299 crore. On 14 February 2025, the FIIs off-loaded domestic stocks worth ₹4,294.69 crore triggering a fall in the markets. The frontline index Nifty ended with a decline of 0.44% while the S&P BSE Sensex closed with cuts of 0.26%.

The yield on the 10-year Indian G-Sec at 6.69%: Government securities (G-secs) yields remained steady across all maturities between 7 February 2025 and 17 February 2025. The yield on the 10-year Indian G-Sec was at 6.69% after liquidity rules that forced the purchase of government bonds were delayed, together with the RBI's expected rate cut. The India 10-Year Government Bond Yield is expected to trade at 6.72% by the end of this quarter. The yield on the 10-year US Treasury note climbed above 4.50% on 18 February 2025 as the Fed decided that the central bank should not rush cutting interest rate further as the focus remains on curbing inflation. The US 10 Year Treasury Bond Note Yield is expected to trade at 4.49 % by the end of this quarter.

Government Security Yield (%)

Date	07 Feb	10 Feb	12 Feb	14 Feb	17 Feb
USA 10 yr	4.48	4.50	4.63	4.48	4.50
Ind 10 yr	6.69	6.72	6.70	6.70	6.69
Ind 5 yr	6.67	6.64	6.63	6.63	6.64
Ind 3 M	6.25	6.26	6.31	6.28	6.27

Sources: CMIE, worldgovernmentbonds.com