Internal

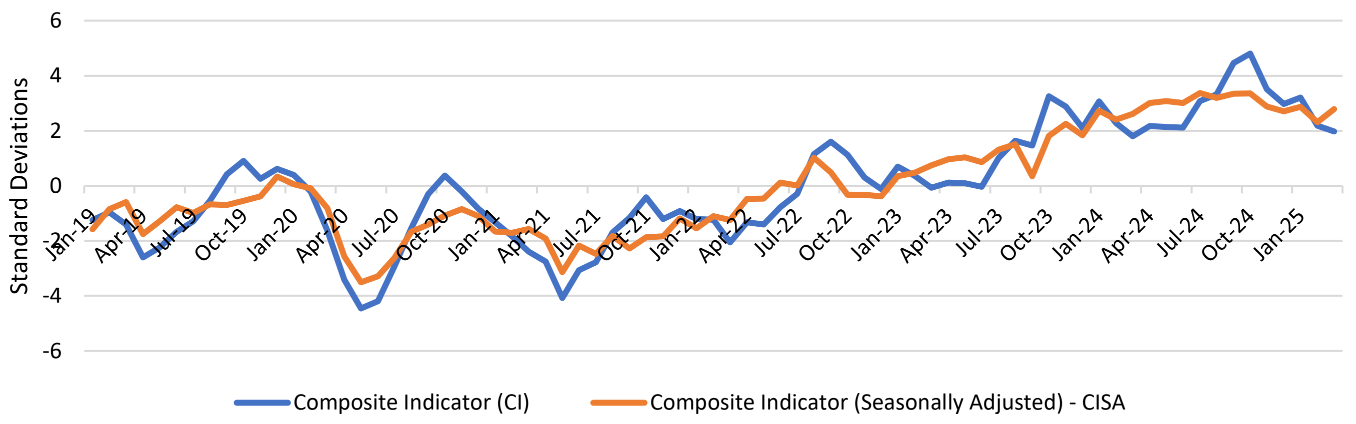
DEAR
ECO THINK
Issue No.93/ June 2025

1. State of the Indian Economy

According to the International Monetary Fund's latest projections, India is expected to retain its position as the fastest-growing major economy in 2025. It is also anticipated to surpass Japan by the end of the 2025–26 fiscal year, thereby emerging as the fourth-largest global economy. Concurrently, high-frequency indicators across agricultural, industrial and services sectors continued to exhibit robust momentum (Chart 1). In the agricultural domain, a bumper rabi harvest and expanded acreage for summer crops, along with favourable forecasts for the 2025 southwest monsoon, collectively signal strong sectoral performance going forward.

Food inflation (y-o-y) decelerated sharply to 2.1per cent in April from 2.9 per cent in March. In terms of regional distribution, inflation eased in both rural and urban areas in April, with rural inflation at 2.9 per cent and urban inflation of 3.4 per cent. The India Meteorology Department (IMD) has forecasted above normal temperatures to persist in most parts of the country. While this raises concerns about potential stress on summer crops, the favourable root zone soil moisture and prevailing comfortable reservoir levels could minimise the adverse impact. For the month of June, IMD has also projected above normal rains (108% of the long period average).

Chart 1: Composite Indicator of Rural Economic Activity



Private Consumption: In the aftermath of a bumper harvest of key kharif and rabi crops, coupled with the implementation of a series of policy interventions aimed at curbing food inflation, the average mandi prices of major food grains (excluding wheat) have moderated and are currently prevailing below their respective Minimum Support Prices (MSPs). This has provided a boost to consumption demand.

Inflation: Headline inflation moderated to 3.2 % in April 2025 (the lowest since July 2019) from 3.3% in March.

Investment: Net foreign direct investment (FDI) moderated to US$ 0.4 billion during 2024-25 from US$ 10.1 billion a year ago, reflecting the rise in net outward FDI and repatriation FDI. This is a sign of a mature market where foreign investors can enter and exit smoothly, which reflects positively on the Indian economy. Foreign portfolio investment (FPI) registered net outflows of US$ 2.4 billion in April 2025. While equity FPI turned positive in the latter half of the month – supported by the 90-day pause in the US tariff implementation and growing optimism around a potential US-India trade agreement – overall FPI flows remained negative

Prepared by Ajitesh Kumar, Manager, Vinay Jadhav, AM & Suryanshi Nigam, AM
Editorial Team: Shri Kuldeep Singh, CGM, Smt. Balwinder Kaur, GM, Dr. Sohan Premi, DGM, Dr Rajiv Nandan, AGM
Published by Department of Economic Analysis and Research (DEAR), NABARD Head Office, Mumbai

during April 2025. External commercial borrowing (ECB) registrations by Indian companies reached a record high of US$ 61.2 billion during 2024-25, a 24.3per cent increase over the previous year.

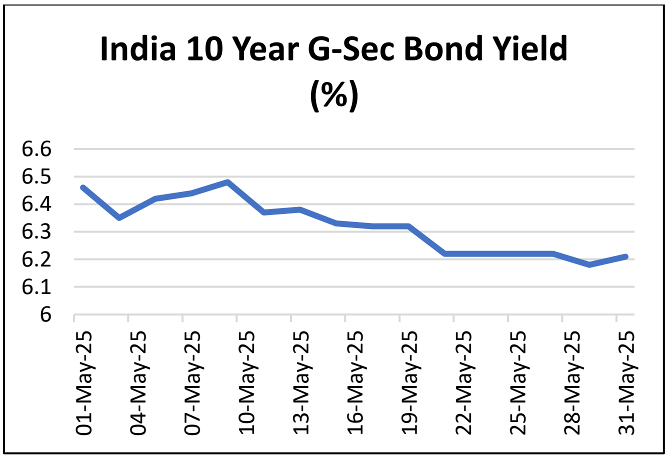
Rising merchandise trade deficit: India's merchandise exports grew by 9.0per cent (y-o-y) to US$ 38.5 billion in April 2025, as favorable base effect more than offset the negative momentum. Merchandise imports at US$ 64.9 billion expanded by 19.1per cent (y-o-y) in April 2025, on positive momentum as well as from favorable 'base effect'. Merchandise trade deficit widened to US$ 26.4 billion in April 2025 from US$ 19.2 billion in April 2024. Oil deficit increased to US$ 13.3 billion in April from US$ 9.4 billion a year ago. Similarly, the non-oil deficit widened to US$ 13.1 billion in April from US$ 9.7 billion a year ago.

2. Interest Rate Outlook

In the current financial year (up to May 19, 2025), the RBI has infused liquidity to the tune of ₹2.65 lakh crore through purchases under open market operation (OMO) and a 43-day term VRR auction. The weighted average call rate (WACR) – the operating target of monetary policy – moderated further following the repo rate cuts in February and April but remained within the policy corridor. The spread of the WACR over the policy repo rate averaged (-) 15 bps during April 16 to May 19, 2025, as against no deviation during March 16 to April 15, 2025. Overnight rates in the collateralised segments, the triparty repo and market repo, moved in tandem with the WACR.

Further, interest rates declined in the term money market, with yields on 3-month Treasury Bills (T-bills), Certificates of Deposit (CDs), and 3-month Commercial Papers (CPs) issued by non-banking financial companies (NBFCs) moderating during mid-April up to May 2025, compared to the previous period. The average risk premium in the money market – measured as the spread between 3-month CP and 91-day T-bill yields – narrowed significantly to 85 bps during this period from 106 bps in the preceding period, indicating improved funding conditions and lower credit risk in the short-term money market.

India-US Bond Yield Spread: The spread of 10-year Indian G-sec yield over 10-year US bond narrowed to 176 bps as on May 29, 2025, from 314 bps in mid-September and 267 bps a year ago. The spread which fell sharply during April 4 –11, 2025, due to heightened market volatility from uncertainty over the US tariff policy, subsequently stabilised, though it exhibited a gradual declining trend. Volatility of yields in India remained low relative to the US treasuries.

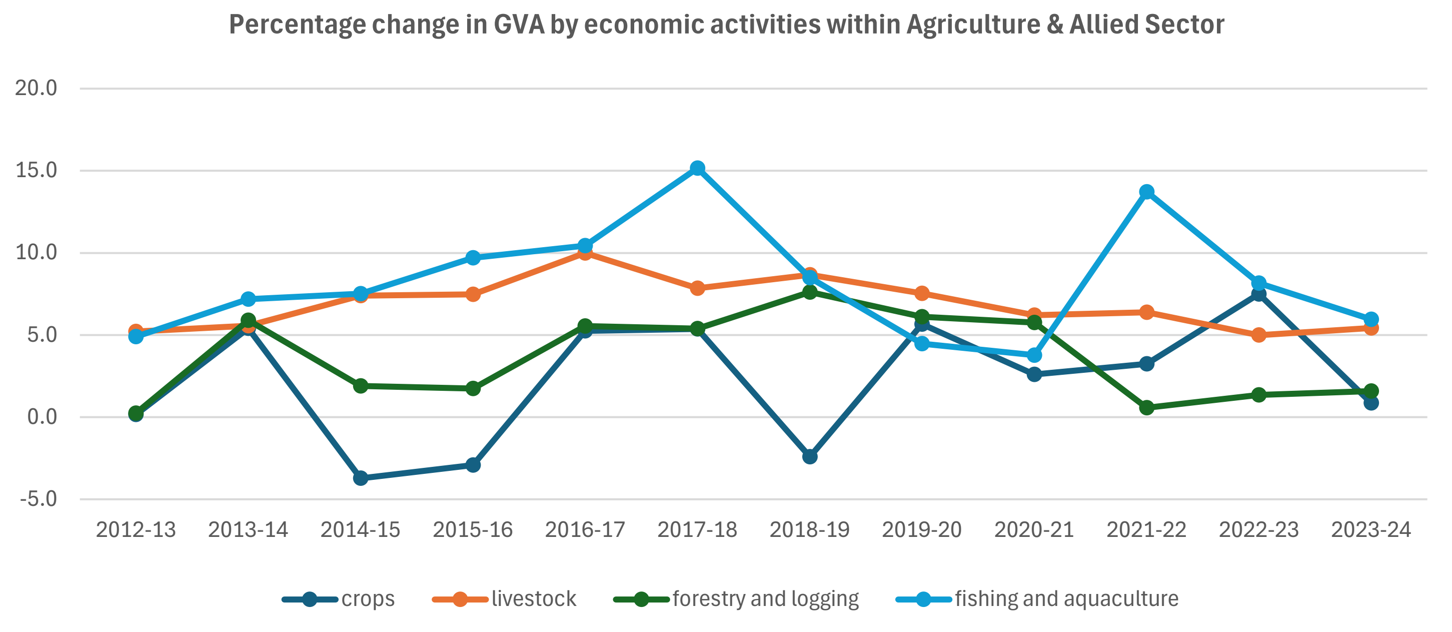


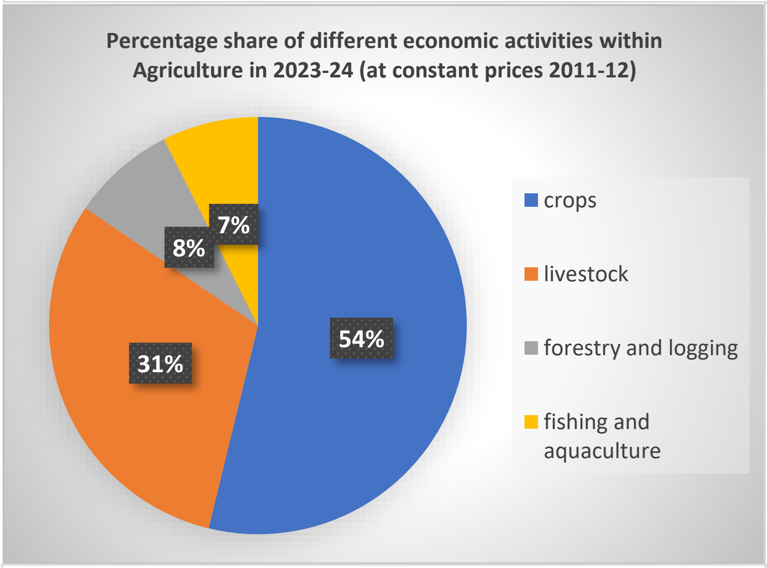
Source: worldgovernmentbonds.com

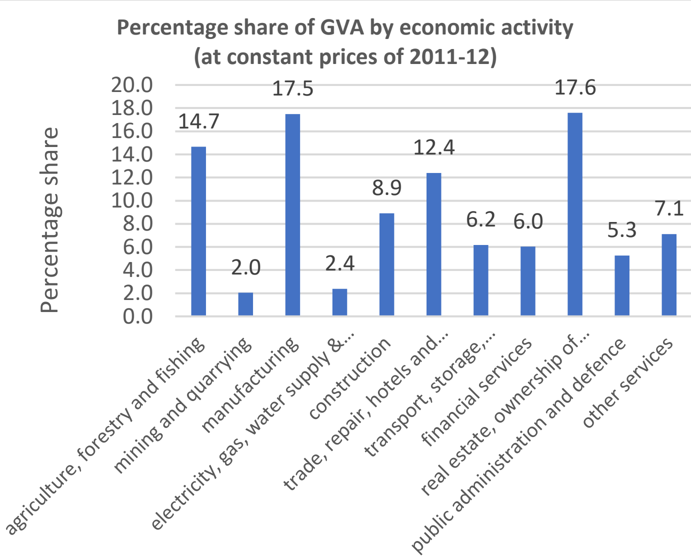
Outlook: Given the current economic indicators—moderating inflation, stable growth projections, and supportive liquidity conditions—the RBI is likely to continue its accommodative monetary policy stance in the upcoming quarter. Building on the successive 25 basis point reductions in the policy repo rate implemented in February and April 2025, the RBI is expected to pursue a third consecutive rate cut of similar magnitude. This anticipated monetary easing is underpinned by the sustained moderation of inflation below the RBI's medium-term target of 4 per cent and is aimed at bolstering domestic economic growth amidst persistent global uncertainty, exacerbated by recent protectionist trade measures introduced by the United States.

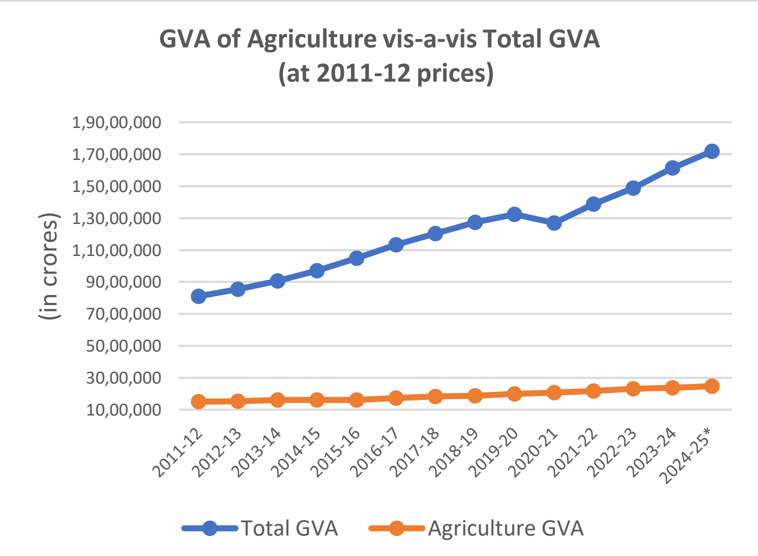
DEAR
ECO THINK
Issue No.93/ June 2025

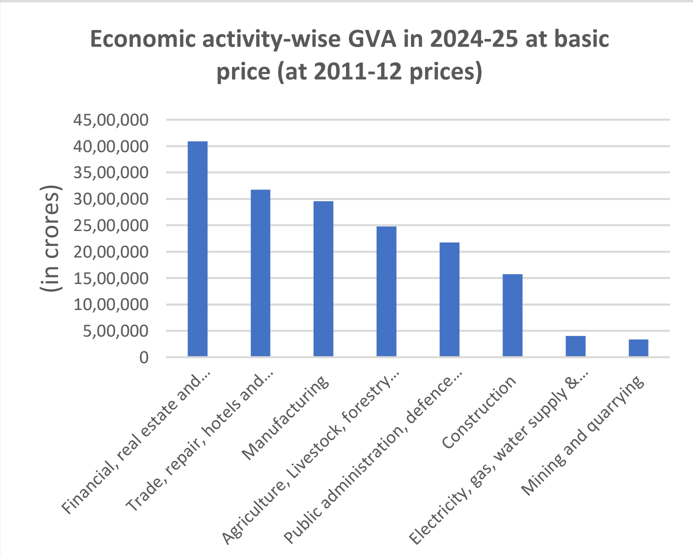
Dashboard on Agricultural Statistics











Source: National Account Statistics 2025, MoSPI, GoI

DEAR
ECO📖THINK
Issue No.93/ June 2025

Report📖THINK

Global Report on Food Crises 2025

Global Network Against Food Crises (GNAFC) in collaboration with the Food Security Information Network (FSIN) has released the Global Report on Food Crises (GRFC) 2025 on May 16, 2025. This report provides consensus-based analysis on acute food insecurity, acute malnutrition and population displacement in countries/territories identified as having food crises in 2024. The report highlights a deepening global food insecurity crisis fuelled by ongoing conflicts, severe climate events, economic disruptions, and forced displacement.

Key Findings from the Report:

Acute Food Insecurity: In 2024, 295.3 million people i.e. 22.6% of the analysed population faced high levels of acute food insecurity in 53 of the 65 countries/territories selected for the report. This figure saw an increase of 13.7 million compared to 2023. The report indicates a sixth consecutive annual rise in acute food insecurity.

Nutrition Crisis: The GRFC 2025 identifies, for the first time, countries/territories with nutrition crises. In the 26 countries/territories with nutrition crises, an estimated 37.7 million children aged 6-59 months suffered from acute malnutrition. The Sudan, Yemen, Mali and the Gaza Strip had the most severe nutrition crises.

Regional and Global Implications: Gaza faces a “critical risk of famine” due to an Israeli aid blockade lasting over two months. Countries like Sudan, Yemen, and Mali are experiencing catastrophic levels of hunger driven by ongoing conflict.

Key Drivers of Food Insecurity:

Conflict/Insecurity: Conflict remained the primary driver in 20 countries/territories, with 139.8 million people facing high levels of acute food insecurity. It was the primary driver for the significant deteriorations in Nigeria, the Sudan and Myanmar, and for most populations in facing catastrophe.

Weather extremes: Rising temperatures, floods, and El Nino caused crop failures, damaging food supply and increasing malnutrition risks. It has fuelled food insecurity in 18 countries, affecting 96.1 million people, while in 2024, 95.8 million displaced individuals i.e. 75% were internally displaced which resided in the 53 food-crises countries.

Economic shocks: Economic shocks were the primary driver in 15 countries, with over 59.4 million people facing high levels of acute food insecurity. These economic shocks disrupt incomes, jobs, and food supply chains, leading to higher food prices, lower purchasing power, and reduced access to nutritious food.

Funding Cuts: The abrupt end of United States Agency for International Development (USAID) funding in 2025 has hit humanitarian efforts risking severe malnutrition and death for 14 million children in Afghanistan, DRC, Ethiopia, Haiti, etc.

Major Policy Recommendations:

Resilient Trade systems: Protectionist trade policies lead to declines in exports of agricultural commodities and increases in international commodity prices, renewing domestic inflationary pressures and the erosion of household purchasing power. Trade must become a driver of food security- not a barrier to it. We need fair, transparent and resilient trade systems that ensure that food can move efficiently, especially during crises.

Strengthening Agricultural Livelihoods: Despite agriculture being the primary livelihood for households in many countries with protracted food crises, emergency agriculture receives only 3% of humanitarian food sector funding. The report calls for a synergistic financing approach that integrates emergency agriculture with mainstream assistance to address both immediate hunger and long-term food insecurity.

Enhance Climate Adaptation: Countries should implement climate-resilient agricultural practices and infrastructure to withstand weather extremes like droughts and floods, which are increasingly frequent due to climate change. This includes investing in drought-resistant crops, sustainable land management practices, early warning systems, etc.

Improve Access to Finance and Credit: Access to credit and financial services is critical for smallholder farmers, processors, and pastoralists. This will enable them to invest in productivity-enhancing technologies and recover from shocks more effectively.
[Click here for full report.]