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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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1. EDITORIAL

Fiscal & Monetary Impetus for the Economy

The fiscal year 2025-26 will start with reduced policy rates by the RBI which will have a positive impact on economic activity and credit offtake. This will provide support to economic growth along with the Union Budget 2025-26 with a focus on capex, private consumption, skilling, and employment generation. Following were the three main focus areas of the Union Budget:

a) Fiscal prudence on the part of the Government to limit external borrowings and keep inflation in check,

b) A targeted approach towards agriculture, MSMEs, investment, and exports focused on investing in people and innovation for a more inclusive growth path, and

c) Tax exemption for small taxpayers to bolster consumption and investment spending.

The Government is also resolute in its commitment to fiscal consolidation, aiming to reduce fiscal deficit further to 4.4 per cent of GDP by FY26. It has also revised the fiscal deficit target for FY25 to 4.8 per cent from 4.9 per cent budgeted earlier. The subsidy bill of the central government is also budgeted to remain almost at the same level as FY25 (RE) at Rs.3.83 lakh crore.

Alongside fiscal prudence, the government has maintained its thrust on infrastructure creation with capital expenditure budgeted to grow 10 per cent year-on-year in FY26 to Rs. 11.2 trillion (from the revised estimates of s. 10.2 trillion in FY25). Further, the Asset Monetization Plan for 2025-2030 wherein public assets worth Rs.10 lakh will be monetized for infrastructure growth, setting up of an Urban Challenge Fund of Rs. 10,000 crore to redevelop cities, and capital expenditure with a focus on specific sectors including roads, railways, defence, and telecommunications will spur economic development.

Additionally, the ‘Partial Credit Enhancement Facility’ for corporate infrastructure bonds to be offered by NaBFID is likely to help infrastructure companies improve their bond ratings and enhance their access to capital markets.

Agriculture sector has been accorded due importance by positioning it as catalyst for the rural economic growth. Measures such as PM Dhan-Dhaanya Krishi Yojana, increase in KCC loan limit, National Mission on HYV seeds, Atmanirbharta in Pulses, Mission for Cotton Productivity, etc., will provide the required fillip to agricultural productivity and enhance rural incomes, thereby enhancing rural consumption demand further.

MSME has been projected as one of the key pillars of economic growth and the Budget has provided adequate focus on providing good growth opportunities to them by enhancing the turnover & investment limits and credit guarantee cover. Additionally, announcement pertaining to revamping of PM SVANidhi, credit cards for micro enterprises, support to labour intensive sectors, and skill development for youth will improve credit flow and generate employment opportunities hence accelerating the mission of Make in India.

The measures taken towards Income tax by providing tax exemption upto Rs.12 lakh per annum (Rs.12.75 lakh with standard deduction) under the New Tax Regime will bring uptrend in disposable incomes and strengthening of consumption demand. With consumer spending weak owing to persistent high inflation, such a measure is expected to provide respite to the middle class.

Opportunities for the Banking Sector

As per the Ministry of Finance, the tax measures announced in the Budget are expected to enhance bank deposits by Rs. 42,000-45,000 crore. A rise in deposits is expected on the back of higher savings among senior citizens (due to senior citizens' interest tax deduction limit being increased to Rs.1 Lakh and rent limit increased to Rs.6 Lakh) and non-senior citizens, as well as taxpayers benefiting from the enhanced tax exemption limit of Rs.12 Lakh. The increase in deposits will help enhance liquidity in the banking system, allowing banks to extend loans to keep the momentum continued.

Further, lending opportunities will get boost from the various announcements made in Union Budget. For instance, enhanced credit through KCC will provide relief to farmers during distress and price fluctuations and PM Matsya Kisan Samridhi Sah-Yojana will formalize the fisheries sector to boost credit flow. The Government's thrust on clean technology will drive domestic manufacturing in emerging sectors of renewable energy, EVs & battery tech, critical minerals, etc., and generate credit demand in these sectors. Substantial increase in allocation to PLI schemes will boost capex in the PLI sectors; thereby enhancing credit offtake.

With Public Sector Banks developing a Grameen Credit Score Framework, it will allow for a better assessment of the creditworthiness of borrowers in rural areas, potentially increasing lending opportunities and financial inclusion, especially for rural women and Self-help Groups. It is also expected to lower NPAs in microcredit due to data-driven lending models. Banks can capitalize on it to reach untapped borrowers and contribute to inclusive growth.

The revamped Central KYC registry to be rolled out in 2025, will streamline the process for speedier e-KYCs. It will reduce compliance costs for periodic KYC updates, and lead to faster customer on-boarding and increase in account opening rates. This may also lead to better operational efficiency on the part of the banks.

Overall, the Union Budget FY26 has been a balanced budget which has introduced commendable measures towards goal of *Viksit Bharat*. The approach adopted in the Budget is forward-looking and has taken into consideration various critical factors such as employment, MSMEs, Infrastructure, Manufacturing & Innovation, and Rural prosperity.

The Union Budget has laid the foundation for industrial resurgence to consolidate India's position as a leader in manufacturing, technology, and exports. It has also laid adequate emphasis on welfare schemes in order to drive sustainable growth for the future of the country.

V P Bansal
Deputy General Manager

2. KEY HIGHLIGHTS: ECONOMIC SURVEY 2024-25

The Economic Survey 2024-25 provides a comprehensive analysis of India's economic performance. It also highlights the key developments across various sectors during Financial Year 2024-25.

Economic Survey 2024-25 highlights India's robust economic performance amidst global uncertainties, driven by steady growth in agriculture, industry, and services. The focus on deregulation, infrastructure development, and green energy investments positions India for sustained growth, though challenges such as geopolitical tensions and inflationary pressures remain.

Strategic reforms, especially in enhancing global competitiveness and fostering a business-friendly environment, are crucial for achieving long-term economic goals.

Below is a concise summary of each chapter, emphasizing pertinent facts and figures:

1. State of the Economy: Getting Back into the Fast Lane

- **Growth Projection**: As per the first advance estimates of national accounts, India's real GDP is estimated to grow by 6.4 per cent in FY25.
    - **FY26 Growth Projections**: Real GDP growth is expected to be between 6.3% and 6.8% due to fundamentals of the domestic economy being robust, with a strong external account, calibrated fiscal consolidation and stable private consumption.
    - **Private Consumption**: Private final consumption expenditure (at constant prices) is estimated to **grow by 7.3%,** with **rural demand playing a significant role** in the rebound.
- **Key Growth Drivers**: The Survey emphasizes the importance of strengthening domestic growth levers, focusing on deregulation to foster economic freedom for businesses and individuals.
- **Post-Pandemic Recovery**: Strong recovery observed, with GDP growth aligning with global agency estimates.
- **Policy Stability**: Effective policymaking has ensured economic and financial stability.

2. Monetary and Financial Sector Developments: The Cart and the Horse

- **Inflation Trends**: Retail headline inflation, as measured by the change in the Consumer Price Index (CPI), has softened from 5.4 per cent in FY'24 to 4.9 per cent in April– December 2024.
- **Monetary Policy**: Focus on balancing growth and controlling inflation through strategic interest rate adjustments.
- **Financial Inclusion**: Initiatives to enhance access to financial services, promoting inclusive growth.

3. External Sector: Getting FDI Right

- **FDI Inflows**: Within capital flows, gross foreign direct investment (FDI) inflows increased 17.9 per cent YoY in April–November 2024. Gross FDI inflows during April – November in FY25 are higher than the levels witnessed in the corresponding period of any previous years except FY21
- **Trade Balance**: Efforts to reduce the trade deficit through diversification of export markets and products.
- **Global Integration**: Policies aimed at integrating India more deeply into global value chains.

4. Prices and Inflation: Understanding the Dynamics

- **Core Inflation**: Remains sticky due to services inflation and a strong labor market, especially in Asia.
- **Food Prices**: Volatility in food prices necessitates a reevaluation of inflation targeting frameworks.
- **Policy Measures**: Administrative and monetary policies have been effective in managing inflationary pressures.

5. Medium Term Outlook: Deregulation Drives Growth

- **Structural Reforms**: Emphasis on deregulation to stimulate private investment and economic efficiency.
- **Investment Climate**: Improving ease of doing business to attract both domestic and foreign investors.
- **Sustainable Growth**: Focus on policies that ensure long-term economic sustainability.

6. Investment and Infrastructure: Keeping It Going

- **Capital Expenditure:** Government's emphasis on capital expenditure and strong private investment has boosted capital formation.
- **Infrastructure Development:** Significant investments in transportation, energy, and digital infrastructure.
- **Public-Private Partnerships**: Encouraging collaboration to leverage resources and expertise.

7. Industry: All About Business Reforms

- **Regulatory Simplification**: Streamlining processes to reduce the compliance burden on businesses.
- **Manufacturing Growth**: Initiatives to boost manufacturing, including the 'Make in India' program.
- **Innovation Support**: Policies to foster research and development across industries.

8. Services: New Challenges for the Old War Horse

- **Sectoral Growth**: The average services growth in the post-pandemic year i.e. FY23 to FY25 has risen to 8.3 per cent.
- **Digital Services**: Expansion of IT and digital services contributing significantly to exports.
- **Skill Development**: Addressing skill gaps to meet evolving industry demands.

9. Agriculture and Food Management: The Sector of the Future

- **Agricultural Growth**: In recent years, the agriculture sector in India has shown robust growth, averaging 5 per cent annually from FY17 to FY23, demonstrating resilience despite challenges. In the second quarter of the FY25, the agriculture sector recorded a growth rate of 3.5 per cent
- **Sustainable Practices**: Promotion of sustainable farming techniques to enhance productivity.
- **Market Access**: Improving supply chain infrastructure to connect farmers with markets.

10. Climate and Environment: Adaptation Matters

- Against the updated **National Development Council (NDC)** target of 50 per cent by 2030, installed electricity generation capacity from non-fossil fuel sources has reached 46.8 per cent as on 30th November 2024.
- High economic growth to achieve the status of a developed country by 2047 and also become net zero by 2070.
- **Climate Initiatives**: India's achievements on its climate commitments is attributed to a wide variety of schemes, policies, financial incentives and regulatory measures to boost renewable energy and green investments.
- **Renewable Energy**: Investments in solar, wind, and other renewable energy sources.
- **Environmental Regulations**: Strengthening policies to protect natural resources.

11. Social Sector: Extending Reach and Driving Empowerment

- **Social sector** initiatives reduced inequality and increased consumption spending, as reflected in the survey.
- The **Gini coefficient** improved for rural areas (declined to 0.237 in 2023-24 from 0.266 in 2022-23) and urban areas (declined to 0.284 in 2023-24 from 0.314 in 2022-23).
- Fiscal policies of the government are playing a key role in reshaping income distribution, inter-alia, through the provision of subsidies, pensions, and other direct transfers, as well as public spending on social services such as education and health.
- **Healthcare Access**: Initiatives to expand healthcare services, especially in rural areas.
- **Education Reforms**: Policies aimed at improving educational outcomes and infrastructure.
- **Social Welfare**: Programs to support vulnerable populations and reduce inequality.

12. Employment and Skill Development: Existential Priorities

- **Job Creation**: India needs to generate approximately 7.85 million jobs annually in the non-farm sector until 2030
- **Skill Enhancement**: Focus on vocational training and upskilling to meet market needs.
- **Labor Market Reforms**: Implementing changes to make the labor market more flexible and inclusive.

13. Labour in the AI Era: Crisis or Catalyst

- **Technological Impact**: Assessing the effects of AI and automation on employment.
- **Reskilling Programs**: Initiatives to prepare the workforce for technology-driven changes.
- **Policy Frameworks**: Developing regulations to manage the transition to an AI-integrated economy.

Conclusion

The Economic Survey 2024-25 underscores India's robust economic resilience and outlines a strategic roadmap for sustained growth. By focusing on structural reforms, infrastructure development, and social sector enhancements, the survey emphasizes the importance of inclusive and sustainable development to navigate future challenges.

3. KEY HIGHLIGHTS: RBI MONETARY POLICY

A. Policy Rate	Existing	Now	Change
Policy Repo Rate	6.50%	6.25%↓	**0.25%**
Standing Deposit Facility (SDF)	6.25%	6.00%↓	**0.25%**
MSF Rate	6.75%	6.50%↓	**0.25%**
Bank Rate	6.75%	6.50%↓	**0.25%**
B. Reserve Ratios			
Cash Reserve Ratio (CRR)	4.00%	4.00%	**No Change**
Statutory Liquidity Ratio (SLR)	18.0%	18.0%	**No Change**

a. **Policy Rates:** Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) reduced repo rate by 25 bps to 6.25% in its Sixth Bi-monthly monetary policy for the financial year 2024-25 unanimously.

b. **Stance: RBI** kept its stance unchanged to ***‘neutral’***.

c. **Rationale:** The rationale behind the same was that all macroeconomic parameters of growth and inflation are well balanced. MPC will remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

d. These decisions are in consonance with the objective of achieving the medium term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

e. On the regulatory front, especially in the context of the proposed changes pertaining to Liquidity Coverage Ratio (LCR), Expected Credit Loss (ECL) the norms governing projects under implementation, RBI will continue to strengthen, rationalize the prudential and conduct-related regulatory framework in the overall interest of the economy.

i. Economy and Inflation Outlook

Economy Outlook

- **Global economy*:*** The global economy is growing below the historical average even though high frequency indicators suggest resilience amidst continued expansion in world trade.
  - ✓ The world economic landscape remains challenging with slower pace of disinflation, lingering geopolitical tensions and policy uncertainties.
  - ✓ Strong dollar, inter alia, continues to strain emerging market currencies
- **Domestic Economy:** On the domestic front, as per the First Advance Estimates (FAE), real gross domestic product (GDP) is estimated to grow at 6.4 per cent (y-o-y) in 2024-25 supported by a recovery in private consumption.

- On the supply side, growth is supported by the services sector and a recovery in agriculture sector, while tepid industrial growth is a drag.
- Healthy Rabi prospects and an expected recovery in industrial activity should support economic growth in 2025-26. Household consumption is expected to remain robust aided by the tax relief in the Union Budget 2025-26.
- Fixed investment is expected to recover, supported by higher capacity utilization levels, healthy balance sheets of financial institutions and corporates, and Government's continued emphasis on capital expenditure.
- Resilient services exports will continue to support growth.
- However, headwinds from geo-political tensions, protectionist trade policies, volatility in international commodity prices and financial market uncertainties, may continue.
- Taking all these factors into consideration, GDP projections are as under with risks evenly balanced:

RBI's GDP Projections	Q4 FY'25	FY'25	Q1 FY'26	Q2 FY'26	Q3 FY'26	Q4 FY'26	FY'26
06.12.2024	7.2%	6.6%	6.9%	7.3%	-	-	-
07.02.2025	-	6.4%↓	6.7%↓	7.0%↓	6.5%	6.5%	6.7%

Inflation Outlook

- Headline inflation, after moving above the upper tolerance band in October, has since registered a sequential moderation in November and December.
- Going ahead, food inflation pressures may see a significant softening due to good Kharif production, winter-easing in vegetable prices and favorable Rabi crop prospects provided there is no any supply side shocks,
- Taking into account these factors, the projections for CPI Inflation are as under:

RBI Inflation Projections	Q4 FY'25	FY'25	Q1 FY'26	Q2 FY'26	Q3 FY'26	Q4 FY'26	FY'26
06.12.2024	4.5%	4.8%	4.6%	4.0%	-	-	-
07.02.2025	4.4%↓	4.8%↔	4.5%↓	4.0%↔	3.8%	4.2%	4.2%

Liquidity and Financial Market Conditions

- After remaining in surplus from July to November 2024, system liquidity – as measured by the average net position under the Liquidity Adjustment Facility (LAF) – turned into deficit during December 2024 and January 2025.
- The drainage of liquidity is mainly attributed to advance tax payments in December 2024, capital outflows, forex operations and a significant pickup in currency in circulation in January this year.
- *Going forward, the Reserve Bank urge the banks to actively trade among themselves in the uncollateralized call money market to make it deeper and vibrant for better signal extraction from the Weighted Average Call Money Rate (WACR).*

Financial Stability

- *The system-level financial parameters for Scheduled Commercial Banks (SCBs) continue to be healthy. The Credit Deposit Ratio (CD ratio) for the banking system at the end of January 2025 was at 80.8 per cent, broadly similar to that on 30th September, 2024.*
- *Though the Net Interest Margin (NIM) moderated, Return On Assets (RoA) and Return On Equity (RoE) are robust. The system-level parameters for NBFCs too are healthy.*

External Sector

- India’s Current Account Deficit (CAD) moderated from 1.3% in Q2FY’24 to 1.2% of GDP in Q2 FY’25. CAD is expected to remain within the sustainable level.
- Overall, India’s external sector remains resilient as key indicators stay robust.

Additional Measures

I. Introduction of forward contracts in Government Securities

- Facilitate long-term investors such as insurance funds to manage their interest rate risk across interest rate cycles.
- Enable efficient pricing of derivatives that use Government securities as underlying instruments.

II. Access of SEBI-registered non-bank brokers to NDS-OM

- RBI has allowed the access of NDS-OM, its electronic trading platform for secondary market transactions in government securities, to non-bank brokers registered with SEBI. It is likely to increase participation in secondary market and add depth to the market.

III. Review of trading and settlement timings across various market segments

- RBI will set up a working group from various stakeholders to undertake a comprehensive review of trading and settlement timing.

IV. Enhancing Trust in the Financial Sector through 'bank.in' and ‘fin.in’ domains

- Due to rapid digitalization of financial services besides, bringing convenience has also increased exposure to cyber threats and digital risks, which are getting sophisticated day by day.

V. Enabling Additional Factor of Authentication (AFA) in cross-border Card Not Present transactions

- To provide a similar level of safety for online international transactions using cards issued in India, it is proposed to enable AFA for international card not present (online) transactions as well. Draft circular will be issued shortly for feedback from stakeholders.

Our View:

A welcome step by the RBI considering the slowing GDP and cooling inflation. The rate cut may provide support to credit demand and economic growth. In view of current economic growth projection, it is expected that credit growth may remain in the range of 12-14% in the upcoming quarters.

4. UNION BUDGET FY26: KEY HIGHLIGHTS & FISCAL MATH

Budget Theme – Sabka Vikas "Stimulating Balanced Growth of All Regions"

Engines of Development – Agri, MSME, Investment & Exports

Hon'ble Finance Minister Ms. Nirmala Sitharaman presented the full budget for the financial year 2025-26 in the Parliament Session on 1st February 2025.

Key Numbers

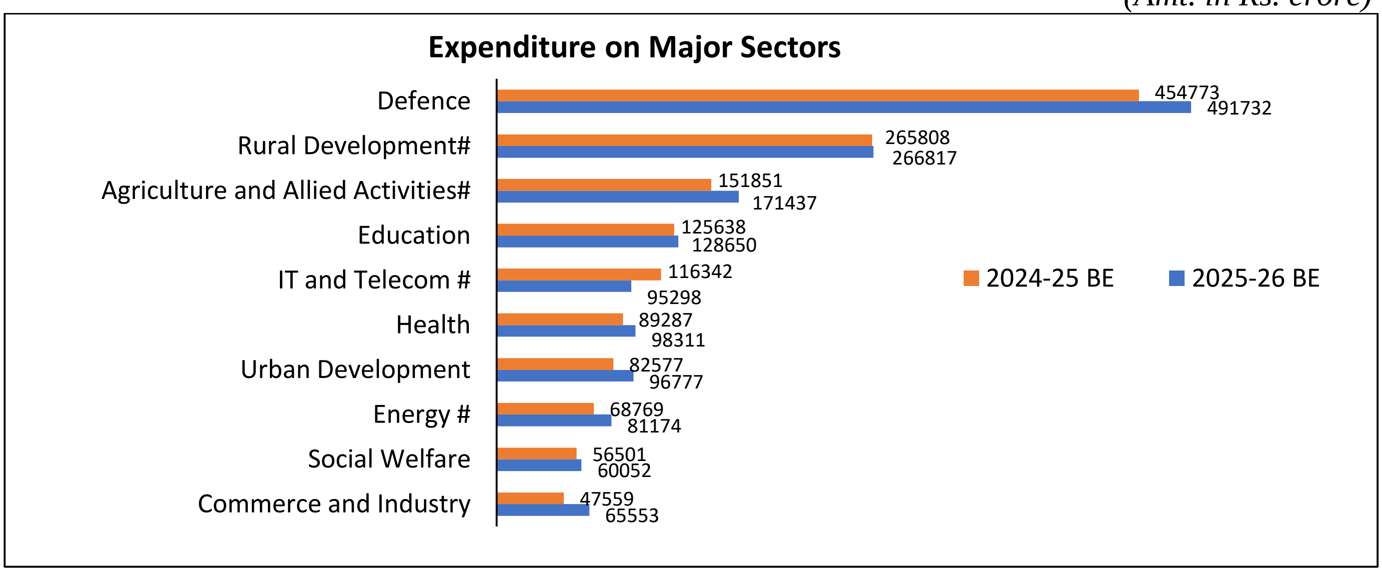
Parameters	Revised Estimates for 2024-25	Budget Estimates for 2025-26
Fiscal Deficit	4.8% of GDP *(Revised from earlier 4.9%)*	4.4% of GDP
Capital Expenditure	10.18 Lakh Crore *(Revised from earlier 11.11 lakh crore)*	11.21 Lakh Crore
Total Receipts *(other than borrowings)*	₹31.47 Lakh Crore	₹34.96 Lakh Crore
Total expenditure	₹47.16 Lakh Crore *(Revised from BE 48.21 lakh crore)*	₹50.65 Lakh Crore
Net Market Borrowings	₹11.63 Lakh Crore *(In line with BE)*	₹11.54 Lakh Crore

BE- Budget Estimates

Budget 2025-26 aims to initiate transformative reforms across six domains viz ***taxation, power sector, urban development, mining, financial sector, and regulatory reforms*** during the next five years

Expenditure on Major Sectors

(Amt. in Rs. crore)



 # Programme outlays excluding transfer to / including met from dedicated reserve funds
Source: Budget Documents; BE – Budget Estimates

Budget Priorities

Priority 1: Spurring Agricultural Growth and Productivity

- **Enhanced Credit through KCCs** – It will continue to provide **short-term loans to 7.7 crore farmers**, fishermen, & dairy farmers with **enhanced loan of ₹5 lakh (earlier ₹3 lakh)**. The loan limit under the modified interest subvention scheme is increased from ₹3,000 to ₹5,000.
- A 6-year "**Mission for Aatmanirbharta in Pulses**" with a special focus on Tur, Urad and Masoor will be launched in congruence with the National Mission for Edible Oilseed.
- A **new agricultural district program-PM Dhan-Dhaanya Krishi Yojana** will be launched. It will **target 100 districts** with low productivity, moderate crop intensity, and below-average credit parameters. It **aims** to boost agricultural productivity through various measures, benefiting an estimated **1.7 crore farmers**.
- National Mission on High Yielding Seeds with a targeted development and propagation of seeds with high yield, pest resistance and climate resilience.
- A '**Mission for Cotton Productivity**' will be launched to facilitate significant improvements in productivity and sustainability of cotton farming, and promote extra-long staple cotton varieties.

Priority 2: Building Rural Prosperity and Resilience

- A comprehensive multi-sectoral '**Rural Prosperity and Resilience**' programme will be launched in partnership with states to address under-employment in agriculture through skilling, investment, technology, and invigorating the rural economy.
- **India Post** with 1.5 lakh rural post offices, complemented by the India Post Payment Bank and a vast network of 2.4 lakh Dak Sevaks, will be repositioned to act as a catalyst for the rural economy.
- Government will provide **support to National Cooperative Development Corporation** for its lending operations for the cooperative sector.

Priority 3: Taking Everyone Together on an Inclusive Growth path

- **Special Window for Affordable & Mid-Income Housing** (SWAMIH) **Fund-2** – A ₹15,000 crore for expeditious completion of one lakh dwelling units through blended finance.
- **ID cards and health cover** will be provided to **1 crore gig workers** registered on the E-shram portal.

Priority 4: Boosting Manufacturing and Furthering Make in India

- **Empowering First-Time Entrepreneurs** - A new scheme will offer term loans up to ₹2 crore for 5 lakh entrepreneurs (including women, SCs, and STs) over the next 5 years.
- A new scheme will establish **India as a global toy hub**, focusing on clusters, skills, and a manufacturing ecosystem for high-quality, sustainable "Made in India" toys.
- **FDI limit** in the **insurance sector** will be enhanced **from 74% to 100%**, for companies that invest their entire premium in India.

Priority 5: Supporting MSMEs

- Focus will be on the **5.7 crore MSMEs**, **Investment and turnover limits** for MSMEs **will be increased** by 2.5 times and 2 times respectively, empowering them to scale up, innovate, and generate more employment.
- **Customised Credit Cards** with a ₹5 lakh limit are coming for those registered on the Udyam portal. 10 lakh cards will be issued in the first year.
- A **National Institute** of Food Technology, Entrepreneurship, & Management **will be established** in **Bihar**. This aims to boost food processing in the eastern region, enhancing farmers' incomes by adding value to their produce.

- ❖ Significant enhancement of **credit availability with guarantee cover** from 5 Crore to 10 Crore for MSEs, For Start-ups, it has been revised from Rs. 10 lakh to Rs. 20 lakh. For Exporter MSMEs, it will be Term Loans upto Rs. 20 Crore.
- ❖ Revision in classification criteria for MSMEs
    - *In Investment terms, Micro criteria has been revised from Rs. 1 Crore to Rs. 2.5 crore. for Small enterprises, it has been revised from Rs. 10 Crore to Rs. 25 Crore and for Medium enterprises, it has been revised from Rs. 20 Crore to Rs. 125 Crore.*
    - *In Turnover terms, Micro criteria has been revised from Rs. 5 Crore to Rs. 10 Crore. For small enterprises, it has been revised from Rs. 50 Crore to Rs. 100 Crore and for Medium enterprises, it has been revised from Rs. 250 Crore to Rs. 500 Crore.*

Priority 6: Enabling Employment-led Development

- ❖ **PM SVANidhi** will be revamped with enhanced loans, UPI-linked credit cards, and capacity building.
- ❖ **Intensive skill-development** programs for youth along with **MUDRA loans** for homestays, improve ease of travel and connectivity to tourist destinations.

Priority 7: Investing in people, economy and innovation

- ❖ As part of investing in people, the government is focusing on the **Sashakt Anganwadi and Poshan 2.0 programs**, for nutritional support to over 8 crore children, pregnant women, lactating mothers, and around 20 lakh adolescent girls in aspirational districts and the Northeast region.
- ❖ A **₹1 lakh crore Urban Challenge Fund** to transform cities into growth hubs. The fund will support creative re-development and enhance water and sanitation infrastructure. ₹10,000 crore is proposed for the fiscal year 2025-26 to start the initiative.
- ❖ An outlay of **₹1.5 lakh crore is proposed for States' infrastructure** spending through 50-year interest free loans.
- ❖ Second **Asset Monetization plan for 2025 -2030** to plough back capital of ₹10 lakh crore in new projects.
- ❖ A new & modified UDAAN Scheme to be launched, including 120 new destinations, 4 crore additional passengers.

Priority 8: Securing Energy Supplies

- ❖ **Power sector reforms** will strengthen electricity distribution and transmission. A 0.5% of GSDP additional borrowing allowance will be granted based on progress.
- ❖ A Nuclear Energy Mission aims to develop at least 100 GW of nuclear power by 2047. **₹20,000 crore** will be invested in Small modular reactors (SMR) R&D, with at least five indigenous SMRs operational by 2033.

Priority 9: Promoting Exports

- ❖ A **new mission** will set sectoral and ministerial targets to ease access to export credit, offer cross-border factoring support, and **help MSMEs navigate non-tariff barriers in foreign markets**.
- ❖ **BharatTradeNet (BTN):** A new digital public infrastructure will streamline international trade with a unified platform for documentation, financing, and global supply chain integration.
- ❖ **GCC National Framework**: A new framework will guide states in attracting Global Capability Centers to emerging Tier-2 cities.
- ❖ **To boost Air Cargo** with upgraded infrastructure and warehousing facilities will be developed for air cargo, including high-value perishable horticultural produce.

Priority 10: Nurturing Innovation

- ❖ 50,000 government schools will get Atal Tinkering Labs over the next five years aiming to encourage curiosity, innovation, and a scientific temper among students.
- ❖ A DeepTech Fund of Funds to catalyze the next generation startups. The **10,000 fellowships** to be provided for technological research **in IITs and IISC** with enhanced financial support.
- ❖ **Gyan Bharatam Mission** to develop foundational geo-spatial infrastructure and data. Using PM Gati Shakti, facilitation of modernization of land records, urban planning, and design of infrastructure projects.

Financial Sector Reforms & Developments

- ❖ NaBFID to set up a '**Partial Credit Enhancement Facility**' for corporate bonds for infrastructure.
- ❖ Revamped **Central KYC registry** to be rolled out **in 2025**, and we will also streamline the process for speedier re-KYCs.
- ❖ **Public sector banks will develop a Grameen credit score framework**. A forum for regulatory coordination and development of pension products will be set up.

Tax Reform

- ❖ A **new income tax bill** to be introduced in 1st week of Feb'25.

Regulatory Reform – To Promote Competitive Cooperative Federalism

- ❖ An Investment Friendliness Index for states will be launched in 2025.
- ❖ The Jan Vishwas Act 2023 decriminalized over 180 legal provisions, and Jan Vishwas 2.0 will decriminalize another 100.

Indirect Tax Proposals

1. **Tariff Rate Adjustments**
   - ❖ Seven tariff rates will be removed leaving only eight remaining tariff rates, including a zero rate.
2. **Cess & Surcharge Modifications**
   - ❖ To levy no more than one cess or surcharge. A social welfare surcharge will be exempted on 82 tariff lines.

Direct Tax Proposals

1. **Personal Income Tax**
   - ❖ No Income Tax payable up to Rs 12 Lakh under new tax regime from FY26.
   - ❖ New Income Tax Slabs have been announced in which Income upto Rs. 4 lakh will attract Nil tax. (earlier it was upto Rs. 3 lakh)
   - ❖ Income above Rs.24 lakh per annum will attract 30% rate. (earlier above 15 lakh).
2. **TDS announcements**
   - ❖ Doubling the limit for tax deduction on interest for senior citizens from Rs 50,000 to Rs 1,00,000.
   - ❖ Raising the annual limit for TDS on rent from Rs 2.40 lakh to Rs 6 lakh.
   - ❖ Increasing the threshold to collect Tax Collected at Source (TCS) on remittances under the RBI's Liberalised Remittance Scheme (LRS) from Rs 7 lakh to Rs 10 lakh.
3. **Proposal on removing TCS**
   - ❖ Remove TCS on remittances for education purposes if the remittance is funded through a loan taken from a specified financial institution.
   - ❖ Omitting TCS on transactions related to the sale of goods to reduce compliance difficulties.
   - ❖ Similar to the decriminalization of TDS payment delays, the same relaxation will apply to TCS provisions.

Fiscal Math

(Amt in crores)

Item	FY24	FY 25		FY26	% Change		
	Actuals	BE	RE	BE	26BE v 25RE	25RE v 25BE	25RE V 24A
Gross tax revenues	**3465519**	**3840170**	**3853455**	**4270233**	**11%**	**0%**	**11%**
Of which:							
Direct Tax	1956539	2207000	2237000	2520000	13%	1%	14%
Corporation tax	911055	1020000	980000	1082000	10%	-4%	8%
Income tax	1044757	1187000	1257000	1438000	14%	6%	20%
Indirect Tax	1505356	1628170	1611455	1745233	8%	-1%	7%
Goods and service tax	957208	1061899	1061899	1178000	11%	0%	11%
Custom Duties	233119	237745	235000	240000	2%	-1%	1%
Excise Duties	305362	319000	305000	317000	4%	-4%	0%
Service Tax	425	100	100	100	0%	0%	-76%
Taxes of UTs	9242	9426	9456	10133			
Transferred to NCCD	8774	9460	9610	10380	8%	2%	10%
States Share	1129494	1247211	1286885	1422444	11%	3%	14%
Net Tax Revenues	**2327251**	**2583499**	**2556960**	**2837409**	**11%**	**-1%**	**10%**
Non-Tax Revenue	401785	545701	531000	583000	10%	-3%	32%
Dividends and profits	170877	289134	289285	325000	12%	0%	69%
Central govt. revenue receipts	2729036	3129200	3087960	3420409	11%	-1%	13%
Non-Debt Capital Receipts	59768	78000	59000	76000	29%	-24%	-1%
Debt Receipts	1653849	1472915	1517576	1566452	3%	3%	-8%
Total Capital Receipts	1713617	1550915	1576576	1642452	4%	2%	-8%
Draw-down of Cash Balance	794	140397	51951	2484			
Total Receipts	**4443447**	**4820512**	**4716487**	**5065345**	**7%**	**-2%**	**6%**
Revenue Expenditure	3494252	3709401	3698058	3944255	7%	0%	6%
Interest Payments	1063872	1162940	1137940	1276338	12%	-2%	7%
Major subsidies	412346	381175	383419	383407	0%	1%	-7%
Pensions	238328	243296	275103	276618	1%	13%	15%
Capital Expenditure	949195	1111111	1018429	1121090	10%	-8%	7%
Grants for creation of Capital Assets	303916	390778	299891	427192	42%	-23%	-1%
Effective Capital Expenditure	1253111	1501889	1318320	1548282	17%	-12%	5%
Total Expenditure	**4443447**	**4820512**	**4716487**	**5065345**	**7%**	**-2%**	**6%**
Revenue Deficit	765216	580201	610098	523846	-14%	5%	-20%
Revenue Deficit/GDP	2.6	1.8	1.9	1.5			
Fiscal Deficit	**1654643**	**1613312**	**1569527**	**1568936**	**0%**	**-3%**	**-5%**
Fiscal Deficit/GDP (%)	5.6	4.9	4.8	4.4			
Primary Deficit	**590771**	**450372**	**431587**	**292598**	**-32%**	**-4%**	**-27%**
Primary Deficit/ GDP (%)	2.0	1.4	1.3	0.8			

Source: Budget Documents; BE – Budget Estimates, PA – Provisional Actuals, A – Actual

5. CLASSROOM: TARIFF AND ITS IMPACT ON INTERNATIONAL TRADE

Tariffs are taxes imposed on imported goods, making them more expensive for consumers. Also, Tariffs are used to raise revenue for the government and to protect domestic industries. Reciprocal Tariff, the term in vogue, where policies ensuring that countries impose similar levies on each other's goods, aiming for fairness in trade relations.

There are different types of tariffs, including specific, ad valorem, and compound tariffs.

Types of Tariffs

- **Specific tariff**: A specific tariff is a tax levied on a specific quantity of a product, rather than on its value.
- **Ad valorem tariff**: An ad valorem tariff is a tax on imported goods that is calculated as a percentage of the value of the goods. It is the most common type of import tariff.
- **Compound tariff**: A compound tariff is a tax on imported goods that combines a fixed amount with a percentage of the product's value. It is a combination of a specific duty and an ad valorem duty.

Impact of Tariff:

The Tariffs have various positive and negative impact on the International Trade:

Positive Impacts:

- **Protection of domestic industries:** Tariffs can make imported goods less competitive, encouraging consumers to buy domestically produced goods. This can protect local jobs and industries.
- **Increased government revenue**: Tariffs can generate revenue for the government.
- **Bargaining tool:** Tariffs can be used as a tool in trade negotiations to encourage other countries to reduce their own trade barriers.

Negative Impacts:

- **Higher prices for consumers:** Tariffs increase the cost of imported goods, which can lead to higher prices for consumers.
- **Reduced competition:** Tariffs can reduce competition, which can lead to less innovation and higher prices for consumers.
- **Trade wars:** Tariffs can lead to retaliatory tariffs from other countries, resulting in trade wars that harm all the concerned involved.
- **Reduced overall trade:** Tariffs can reduce the overall volume of international trade, which can have negative impacts on economic growth.

India and Its stand on Tariff: India follows a mix of protectionist and liberal tariff policies. Key aspects include:

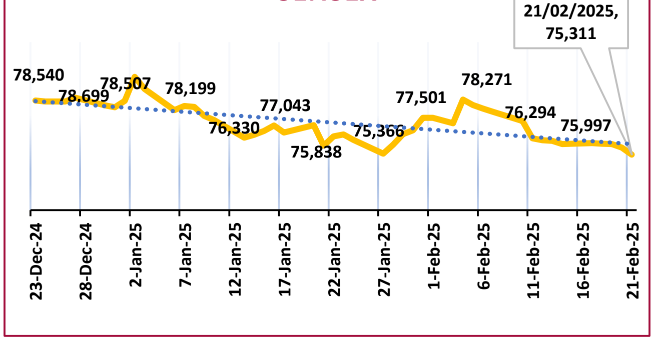
- High tariffs on certain goods to protect domestic industries (e.g., electronics, textiles, agriculture).
- Lower tariffs on raw materials and essential goods to support manufacturing and reduce costs.
- Special agreements like free trade agreements (FTAs) that allow reduced tariffs with partner countries (ASEAN, Japan, UAE).

Retaliatory tariffs in response to global trade disputes

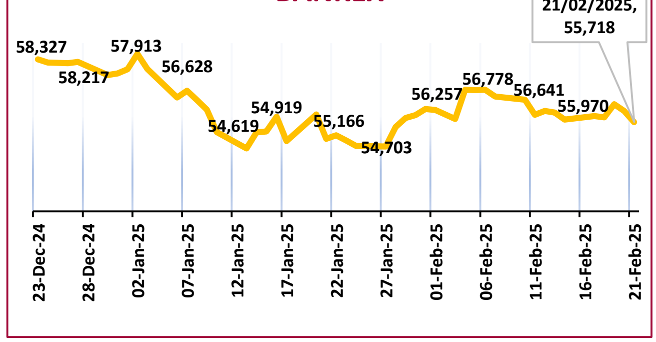
According to recent data from UNCTAD, the world average tariff rate for developed countries is around 1.3% on all products, with variations depending on the product category, with agricultural goods generally having higher tariffs than industrial goods.

6. DAILY ECONOMIC INDICATORS

SENSEX

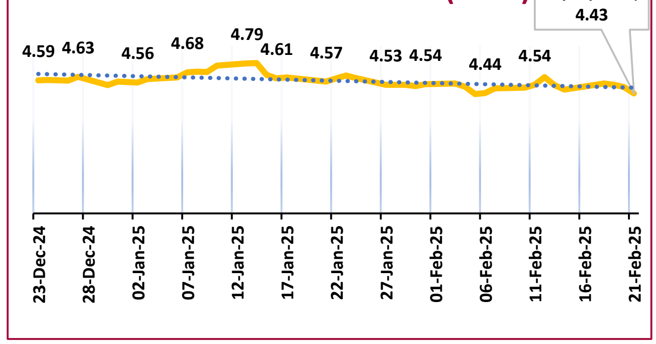


BANKEX

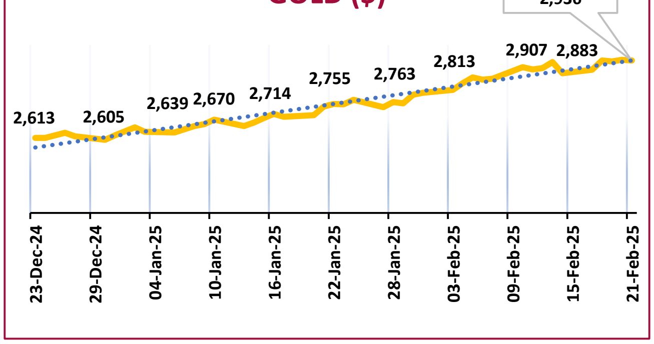


G SEC YIELD (10 Yr)

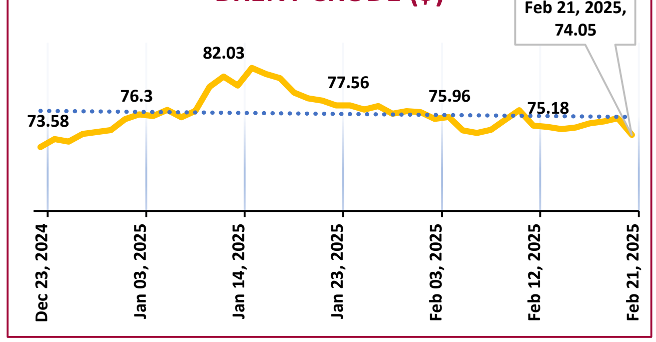
US TREASURY YIELD (10 Yr)



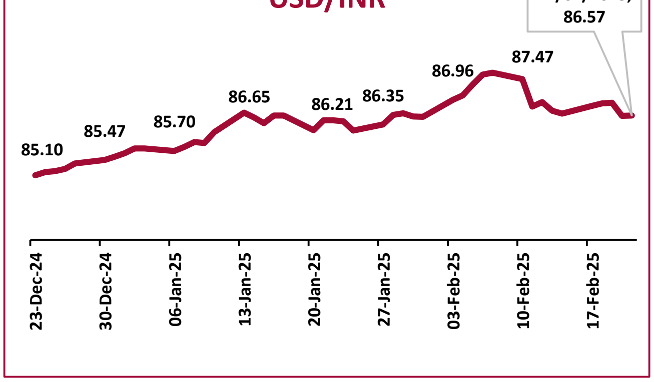
GOLD ($)



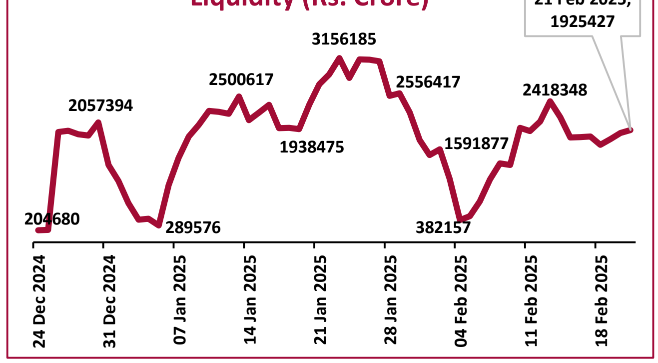
BRENT CRUDE ($)



USD/INR



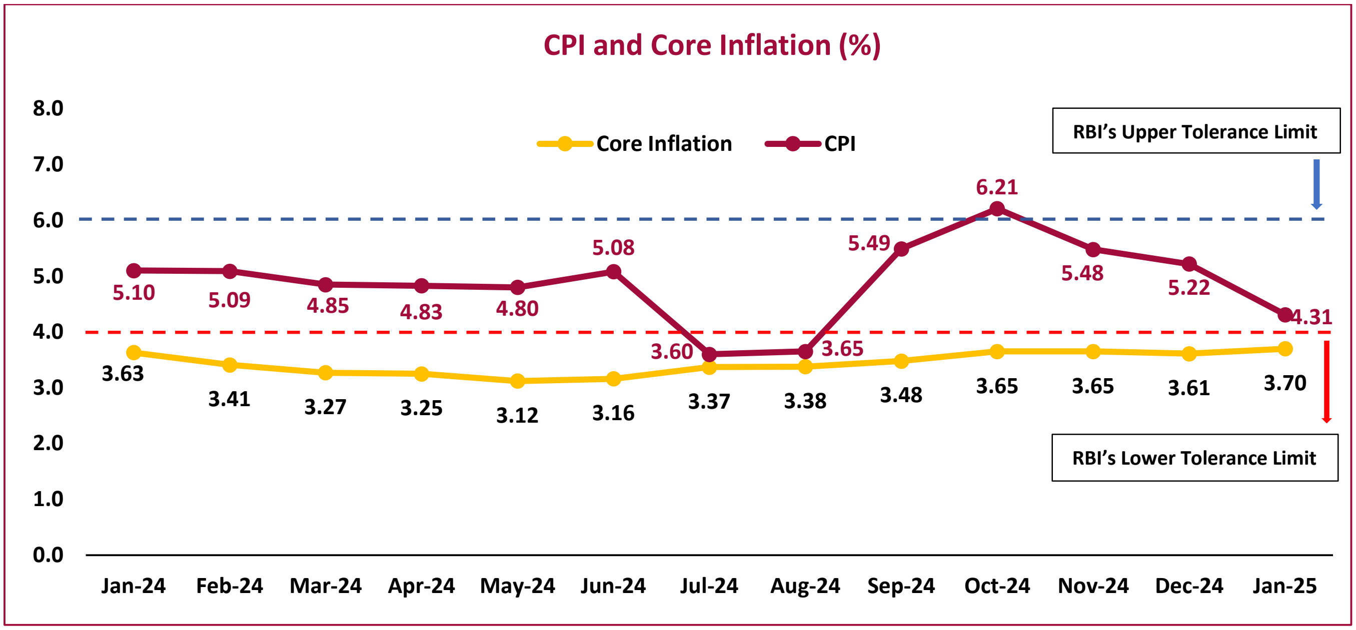
Systemic Liquidity under LAF - Net Liquidity (Rs. Crore)

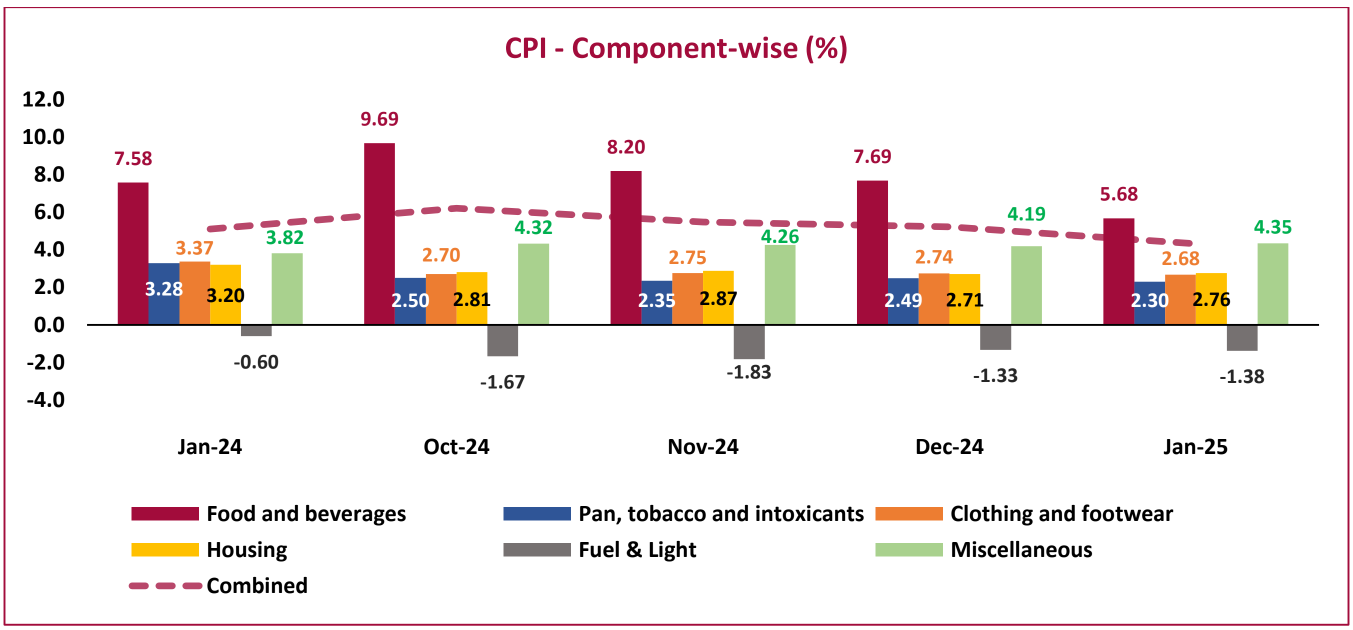


7. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation cooled down to 4.31% in January 2025, lowest since September 2024

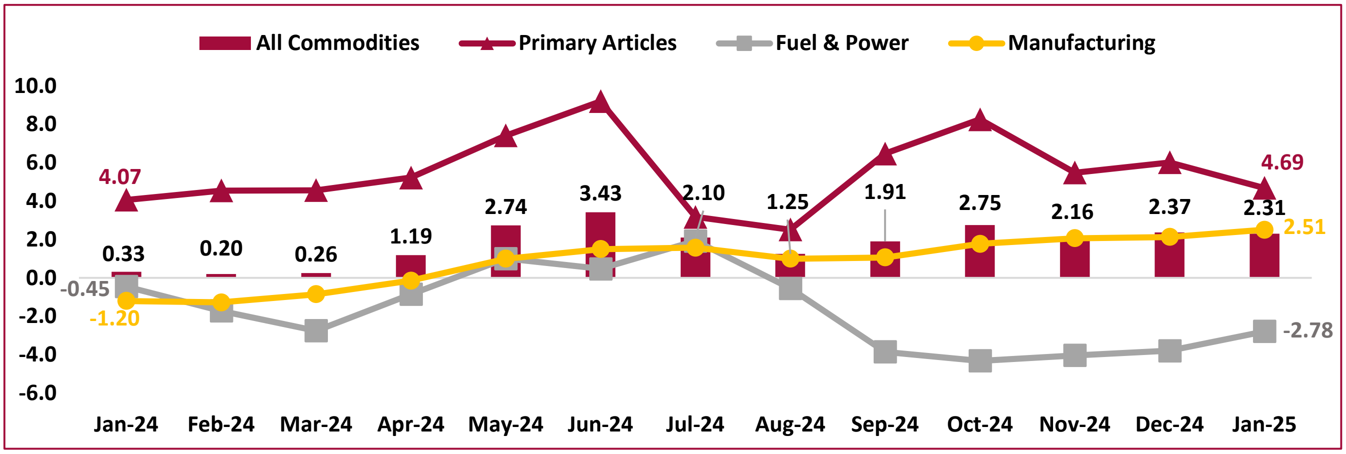




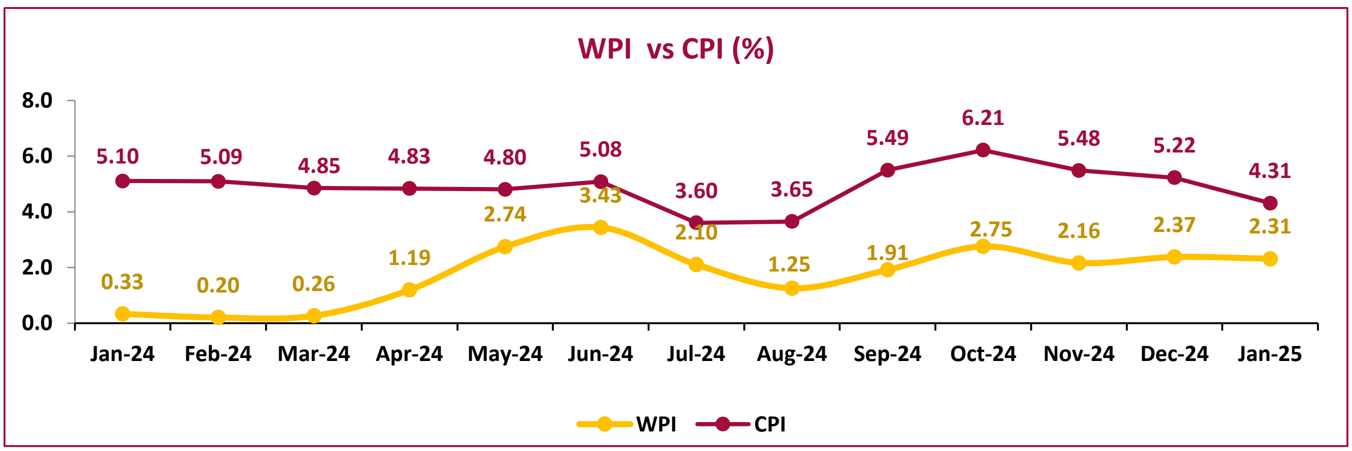
Retail inflation measured by CPI dropped to its lowest level since September 2024- coming in at 4.31 per cent (provisional) for the month of January 2025, falling continuously from 6.21 per cent in October 2024. It was 5.22 per cent in December 2024 and 5.10 per cent in January 2024. There was a substantial drop in food inflation which fell from 8.39 per cent in December 2024 to 6.02 per cent in January 2025. Urban inflation fell from 4.58 per cent in December 2024 to 3.87 per cent in January 2025, while rural inflation fell from 5.76 per cent in December 2024 to 4.64 per cent in January 2025.

WHOLESALE PRICE INDEX (WPI)

WPI inflation eases to 2.31% in January 2025



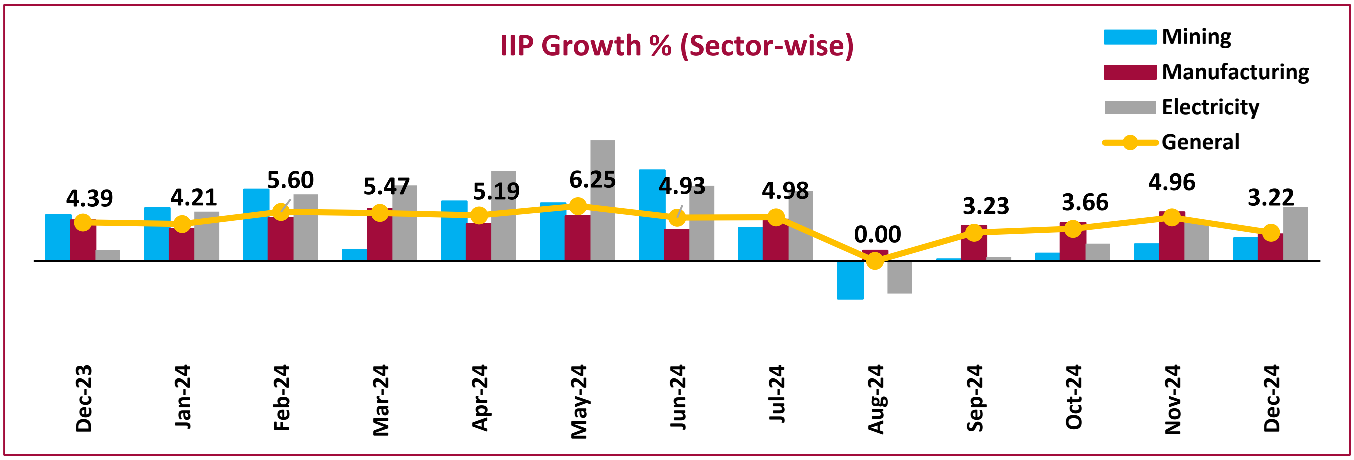
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	**22.62%**		**13.15%**		**64.23%**		**15.26%**		**100%**	
	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**
November	5.16	**5.49**	-4.05	**-4.03**	-0.78	**2.07**	8.84	**8.48**	0.39	**2.16**
December	5.73	**6.02**	-1.39	**-3.79**	-0.78	**2.14**	9.32	**8.47**	0.86	**2.37**
	2024	**2025**	2024	**2025**	2024	**2025**	2024	**2025**	2024	**2025**
January	4.07	**4.69**	-0.45	**-2.78**	-1.20	**2.51**	6.91	**5.88**	0.33	**2.31**



In January 2025, the wholesale inflation rate measured by WPI slightly decreased to 2.31% from 2.37% in December 2024. This rate is still higher than the January 2024 figure of 0.33%. Inflation for Primary Articles dropped from 6.02% in December 2024 to 4.69% in January 2025, yet it was higher than January 2024's 4.07%. Food article inflation, part of Primary Articles, significantly fell from 8.47% in December 2024 to 5.88% in January 2025, compared to 6.91% in January 2024. The only increase was observed in Manufactured Products, rising from 2.14% in December 2024 to 2.51% in January 2025, while it was in the deflationary zone at -1.20% in January 2024.

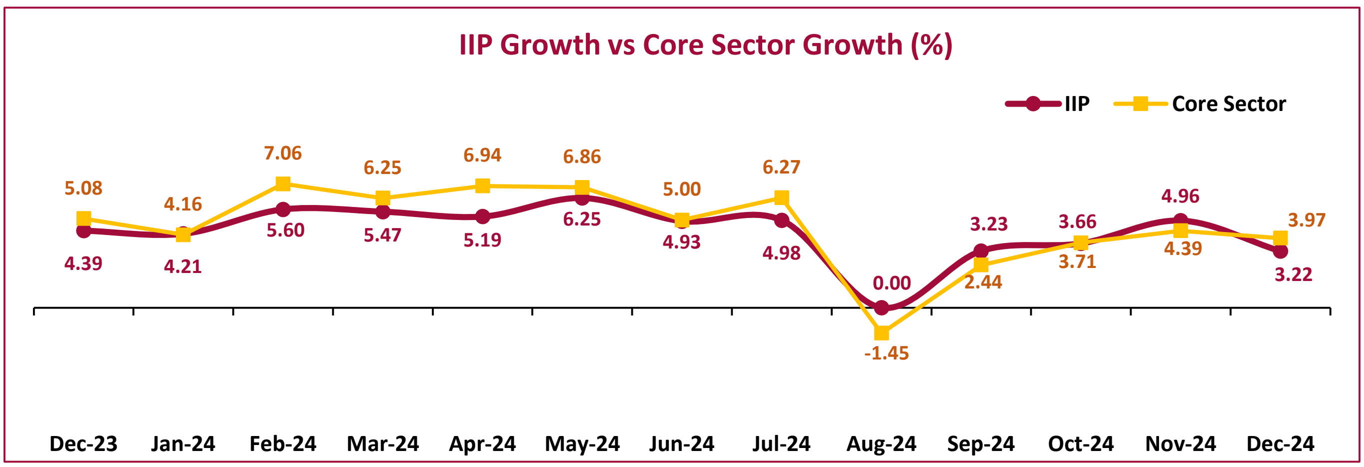
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth slows down to 3.22% in December 2024



IIP Growth % (Usage-wise)

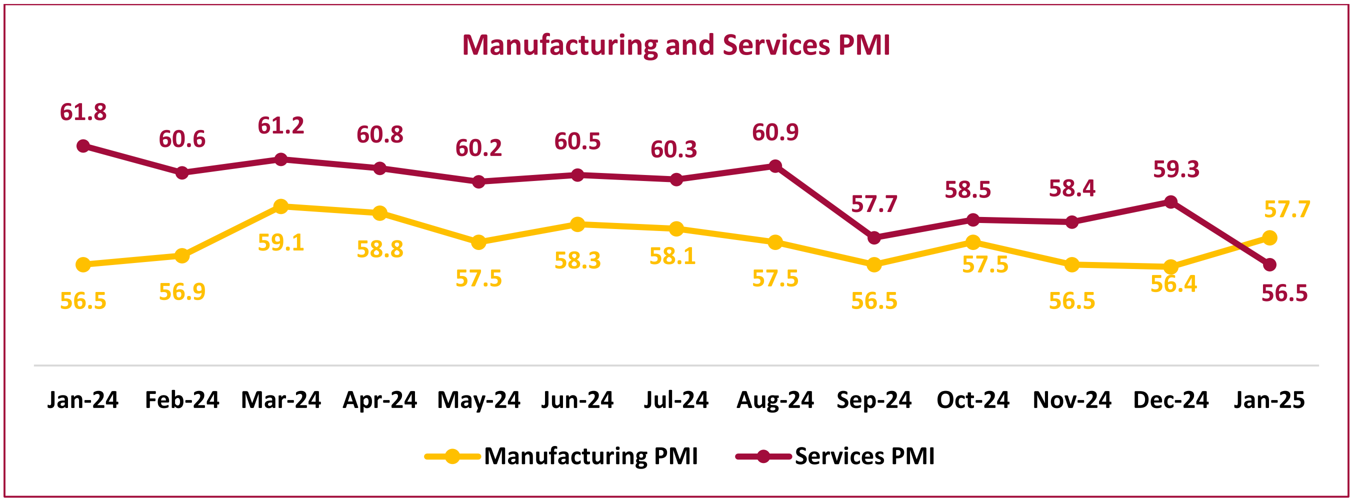
Component	Weight	Dec'23	Nov'24	Dec'24	Apr-Dec'23	Apr-Dec'24
Primary Goods	34.05%	4.76	2.71	**3.82**	6.93	**3.88**
Capital Goods	8.22%	3.70	8.78	**10.31**	7.15	**5.11**
Intermediate Goods	17.22%	3.70	4.82	**5.94**	4.82	**4.48**
Infra/Construction Goods	12.34%	5.50	8.10	**6.32**	10.73	**6.10**
Consumer Durables	12.84%	5.24	14.08	**8.30**	1.12	**8.75**
Consumer Non- Durables	15.33%	3.04	0.45	**-7.62**	5.34	**-1.47**



IIP grew by 3.22% in December 2024 which is lower than the growth seen in December 2023 of 4.39%. In Sector wise performance, electricity sector recorded the highest expansion, by 6.17%, followed by manufacturing sector by 3.03%. Mining sector expanded by a mere 2.58%. Amongst Use Based, all the sectors showed growth except consumer non-durables, with highest growth being observed in Capital Goods (10.31%) and Consumer Durables (8.30%), while growth in Primary Goods (3.82%) was the least in December 2024. Consumer Non-Durables showed de-growth of -7.62%.

PURCHASING MANAGERS' INDEX (PMI)

Manufacturing PMI at a six-month high in January 2025

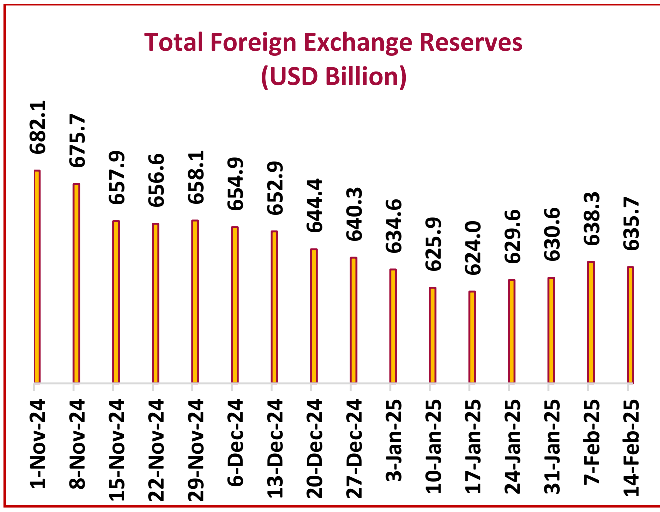


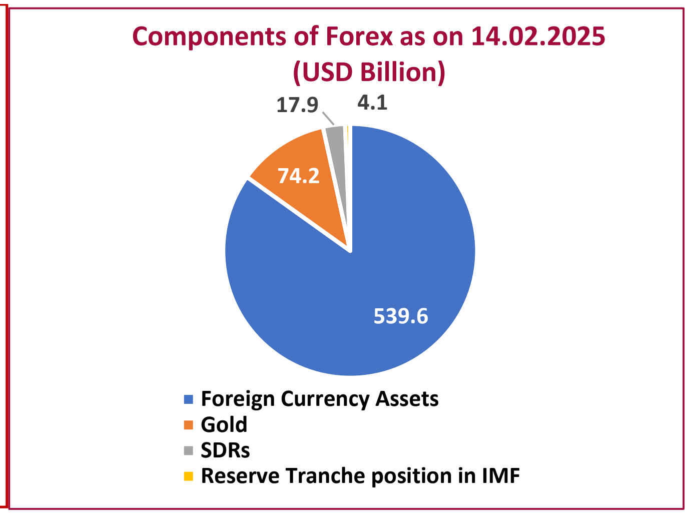
The HSBC Manufacturing Purchasing Managers' Index (PMI) jumped from 56.4 in December 2024, to 57.7 in January 2025 driven by strong domestic and export demand. The growth caused the highest increase in new orders since July 2024 and the fastest increase in export orders in almost 14 years. Meanwhile, the Services PMI fell to its lowest level in 26 months, at a reading of 56.5 in January 2025 compared to a reading of 59.3 in December 2024. This fall was primarily because of weakening domestic demand. India's Composite PMI decreased to 57.7 in January 2025 from 59.2 in December 2024, indicating a slowdown in private sector growth due to weaker services demand.

PERFORMANCE OF OTHER LEADING INDICATORS

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Coal production (YoY%)	10.7	11.9	8.2	7.5	10.2	14.6	6.4	-7.6	2.5	7.7	7.4	5.3	4.4
Electricity generation (YoY%)	7.9	6.4	8.0	10.0	14.6	9.7	6.8	-3.8	-1.3	0.5	2.7	4.5	-1.7
Consumption of petroleum products (YoY%)	7.3	8.2	1.7	7.8	1.9	2.3	10.7	-3.1	-4.4	4.1	10.6	2.4	3.2
Cargo handled at major ports (YoY%)	3.2	2.1	2.7	1.3	3.8	6.8	5.9	6.7	5.8	-3.4	-5.0	3.4	-
Cement production (million tonnes)	35.9	36.4	41.2	36.0	35.7	37.2	31.3	32.1	32.4	34.0	32.1	36.6	-
Steel consumption (million tonnes)	12.6	11.7	12.4	11.3	12.0	12.2	12.2	12.6	12.3	13.0	12.3	13.4	13.3
Fertiliser sales (YoY%)	-9.1	-13.5	0.6	-3.7	10.5	7.3	-1.4	-9.4	-7.7	-7.8	4.6	12.1	-
Two-wheelers sales (Nos. in Lakhs)	17.6	18.5	18.1	20.7	19.3	19.0	17.7	20.5	24.0	25.3	19.7	14.8	19.1
Tractors sales (Nos. in Thousand)	62.8	51.8	74.5	84.4	91.8	110.3	68.0	58.7	108.0	151.8	78.3	59.1	69.8

FOREIGN EXCHANGE RESERVES



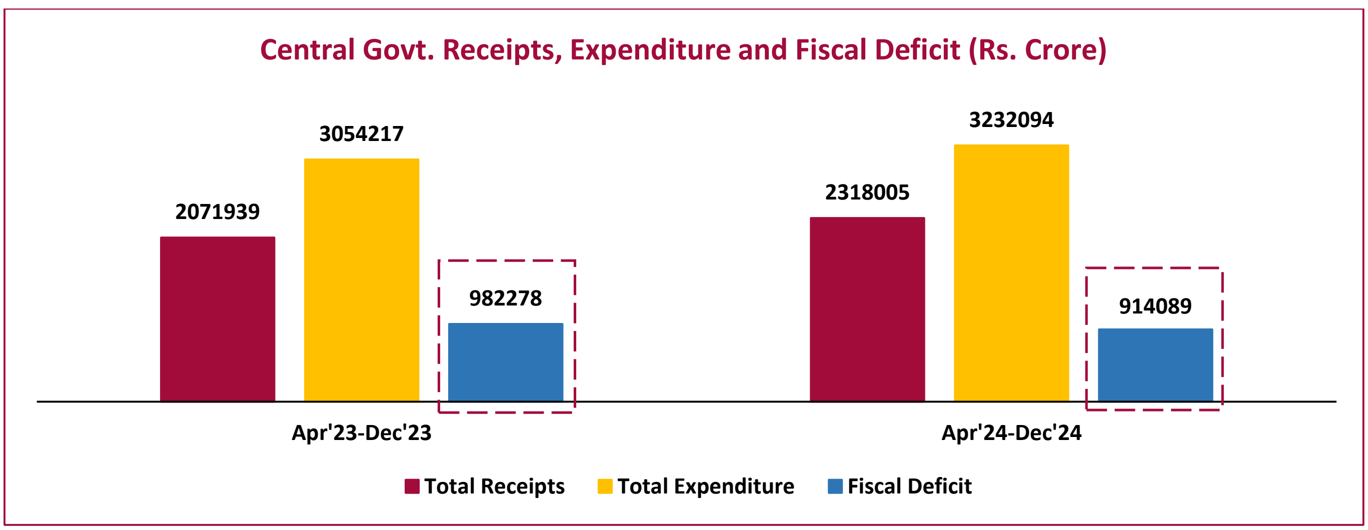


India's foreign exchange reserves decreased by USD 2.5 billion in the week ended 14th February 2025 to settle at USD 635.7 billion from the week ended 7th February 2025.

E-WAY BILL GENERATION (No. in cr.)

	Jan -24	Feb-24	Mar -24	Apr-24	May -24	Jun -24	Jul-24	Aug -24	Sep-24	Oct-24	Nov-24	Dec-24	Jan -25
E-way bill Generation	9.6	9.7	10.4	9.7	10.3	10.0	10.5	10.5	10.9	11.7	10.2	11.2	11.8

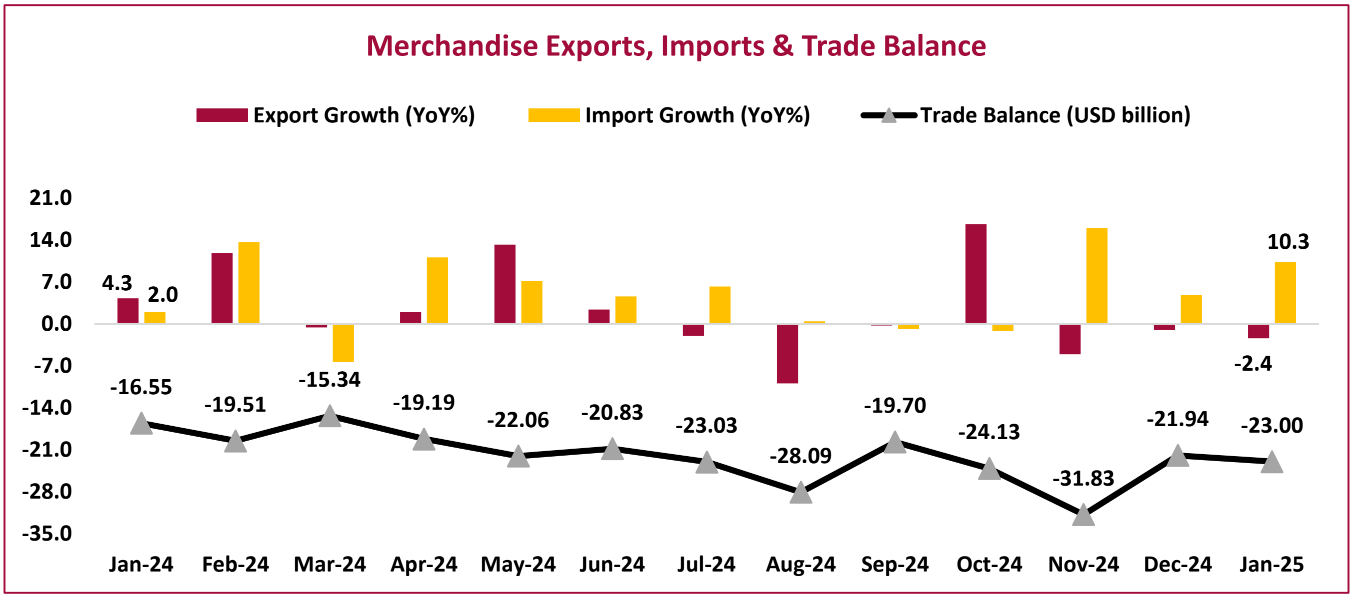
FISCAL DEFICIT

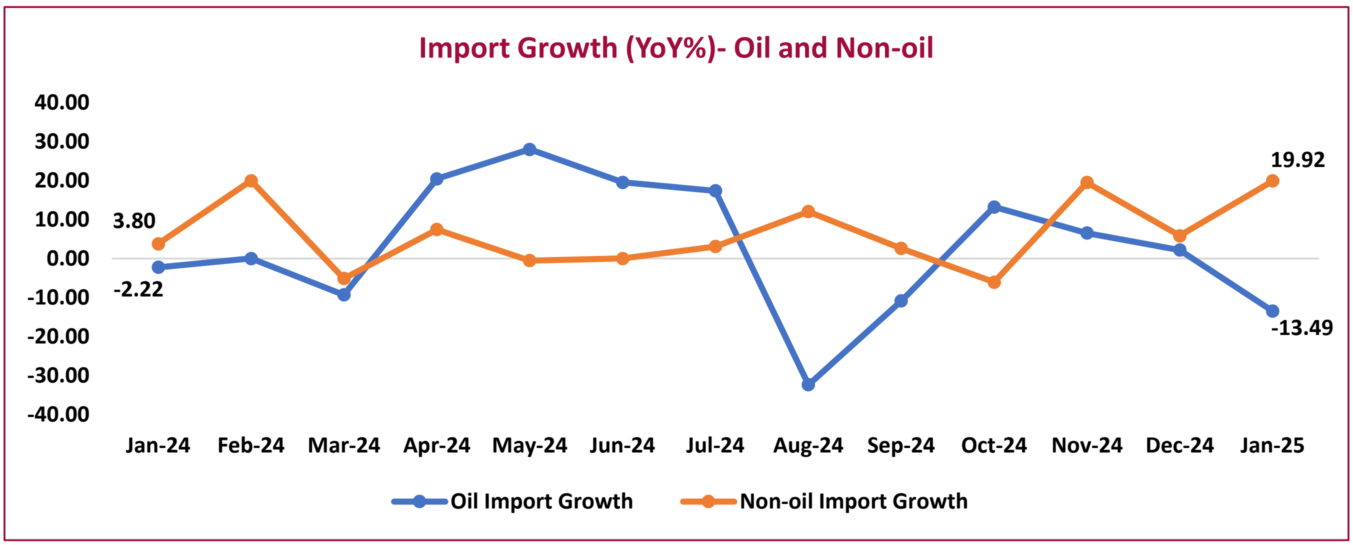


The central government's fiscal deficit in Apr-Dec'24 period came in at Rs.9.14 lakh crore amounting to 56.7% of the budget estimates vis-à-vis 55.0% of BE reached during the same period last year. However, in absolute terms, fiscal deficit was lower this year. Capital expenditure was higher than last fiscal at Rs. 6.85 lakh crore in the Apr-Dec'24 period Rs. 6.74 lakh crore during Apr-Dec'23.

FOREIGN TRADE

Merchandise Trade Deficit widens to USD 23.00 billion in January 2025

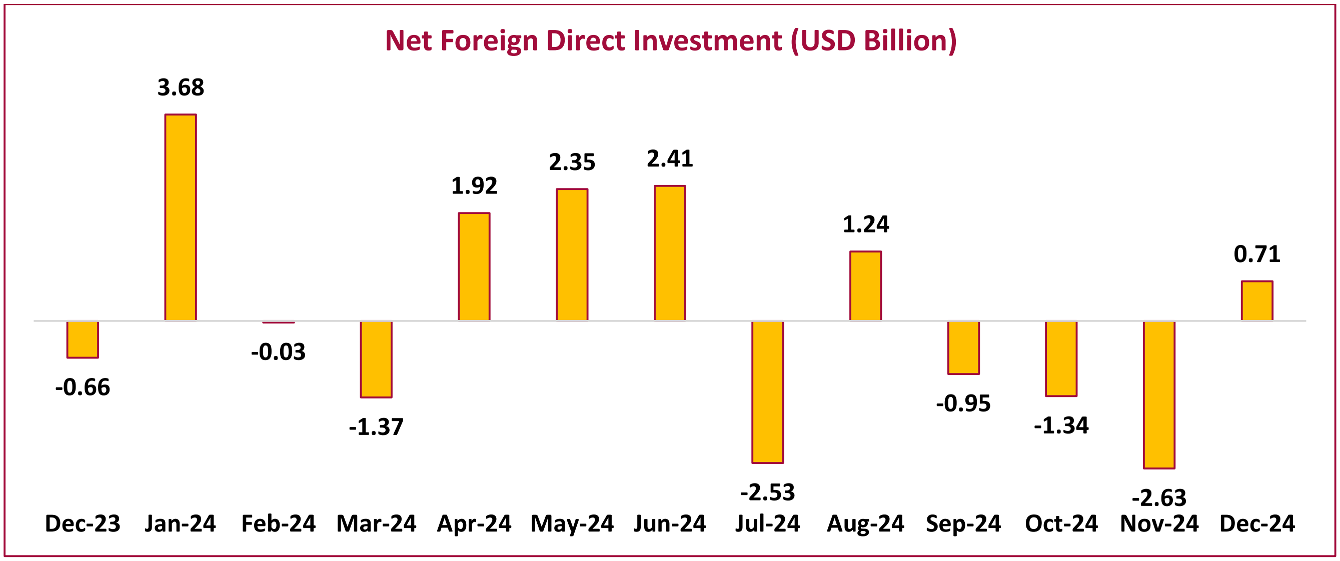




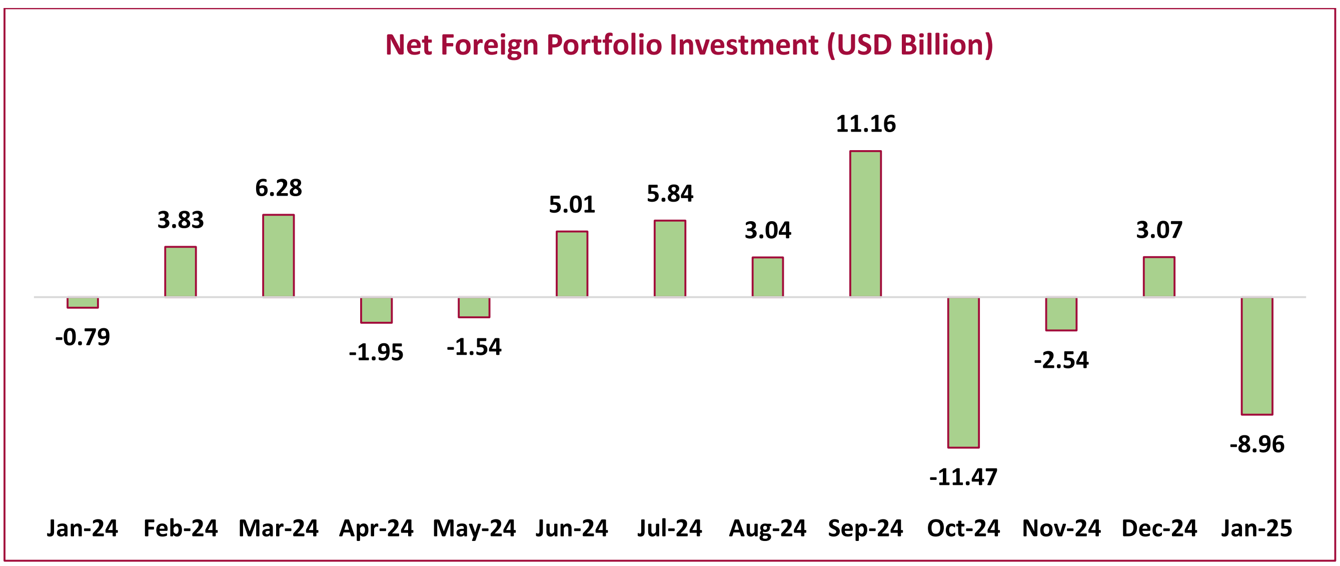
India’s merchandise trade deficit widened to USD 23.00 billion in January 2025- up from USD 21.94 billion in the previous month and USD 16.55 billion in the same month previous year. Merchandise exports in January 2025 were at USD 36.43 billion while imports were at USD 59.42 billion. Export growth has remained in the negative territory since November 2024.

In January 2025, the country's gold imports rose to USD 2.68 billion from USD 1.91 billion in the same month last year. It was USD 4.70 billion in December 2024. Crude oil imports fell to USD 13.43 billion in January 2025 from USD 15.53 billion in January 2024. It was USD 15.27 billion in December 2024. Cumulatively, merchandise trade deficit during April-January 2024-25 was USD 242.99 billion compared to USD 206.29 billion during April-January2023-24.

FOREIGN INVESTMENTS



Net foreign direct investment (FDI) inflows in India emerged from the negative territory in December 2024. December 2024 recorded a net FDI inflow of USD 0.71 billion, while in November 2024 and December 2023, there was a net outflow of FDI worth USD 2.63 billion and USD 0.66 billion, respectively. Gross inflows in equity increased substantially in December 2024.



Foreign portfolio investors (FPIs) have sold around USD 10.93 billion worth of Indian equities (from Jan 2025 to 20^{th} Feb 2025) — the highest outflow ever recorded during this period. The massive selling has been driven by slowing corporate earnings and shifts in US policy, which have made US debt securities more attractive and strengthened the US Dollar. Also, India has recorded the highest FPI equity sales among emerging markets. FPI investments have largely been flowing out of the country since October 2024 and the trend continues (with the exception of December 2024).

BANK DEPOSIT AND CREDIT OF SCBs

Parameter (Rs. Lakh Crore)	09.02.2024	22.03.2024	24.01.2025	07.02.2025	YoY (%)	YTD (%)	Fortnightly (%)
Business	363.43	369.10	399.95	403.00	**10.89%**	**9.18%**	**0.76%**
Deposits	201.95	204.75	221.27	223.35	**10.59%**	**9.08%**	**0.94%**
Advances	161.47	164.35	178.68	179.65	**11.26%**	**9.31%**	**0.54%**

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

Parameter* (Rs. Lakh Crore)	Dec-23	Oct-24	Nov-24	Dec-24
Total Non-food	**159.2**	**172.2**	**174.6**	**176.9**
Agriculture and allied activities	**19.9**	**22.1**	**22.2**	**22.4**
Industry	**35.9**	**37.7**	**38.1**	**38.5**
Of which				
Micro & small	7.0	7.5	7.6	7.7
Medium	2.9	3.4	3.4	3.5
Large	26.0	26.9	27.2	27.4
Personal loans	**51.7**	**56.5**	**57.3**	**57.9**
Of which				
Housing (Including priority sector housing)	26.4	28.7	29.1	29.3
Credit card outstanding	2.5	2.8	2.9	2.9
Education	1.1	1.3	1.3	1.3
Vehicle loans	5.6	6.2	6.1	6.1
Services	**44.4**	**47.8**	**48.5**	**49.6**
Of which				
Computer software	0.3	0.3	0.3	0.3
Tourism, hotels & restaurants	0.8	0.8	0.8	0.8
Shipping	0.1	0.1	0.1	0.1
Aviation	0.4	0.5	0.5	0.5
Retail trade	4.7	5.1	5.1	5.3
Commercial real estate	4.6	5.1	5.1	5.2

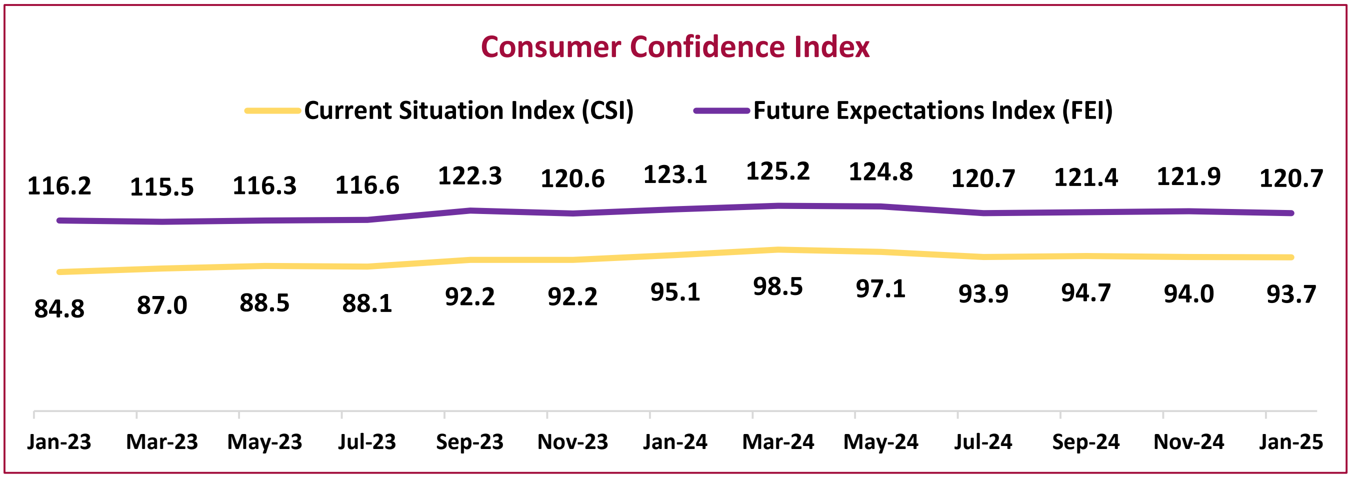
**Figures include the impact of HDFC merger; based on LRF data*

On a year-on-year (YoY) basis, non-food bank credit in December 2024 grew at 11.1%, lower than the growth witnessed in the year ago period at 20.1%. Credit growth to agriculture and allied activities was also lower at 12.5% (YoY) in December 2024, compared with 19.4% during December last year. Credit growth to industry slowed to 7.2% (YoY) in December 2024 compared with 8.0% growth in December 2023. Credit growth to services and personal loans also moderated in December 2024 compared to the year-ago period.

8. BI-MONTHLY ECONOMIC INDICATORS

RBI CONSUMER CONFIDENCE INDEX

Consumer Confidence somewhat moderates

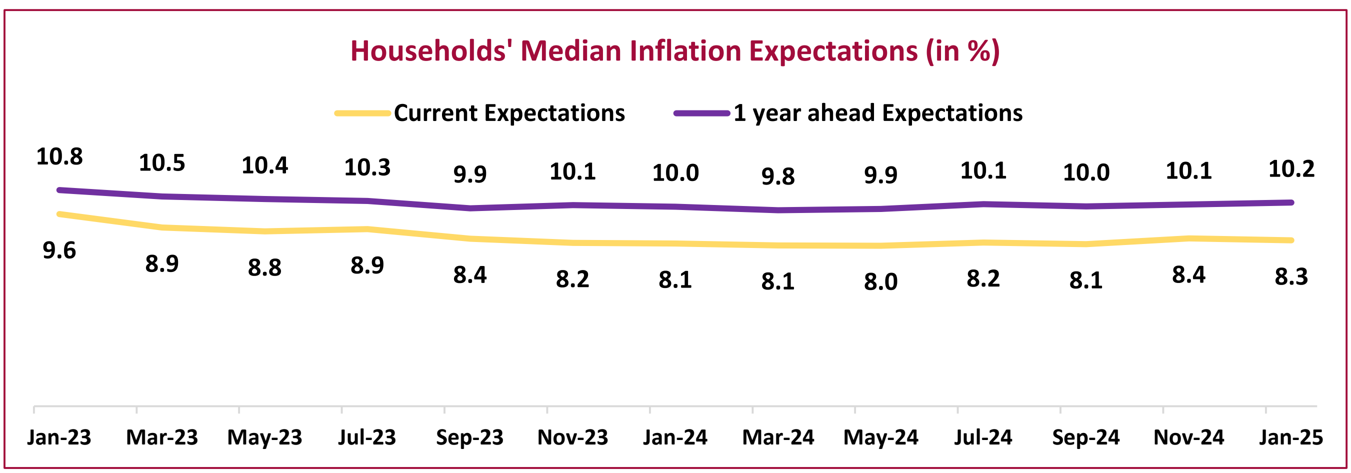


Note: CSI and FEI are compiled on the basis of net responses on the economic situation, income, spending, employment and the price level for the current period (as compared with one year ago) and a year ahead, respectively. CSI and FEI = 100 + Average of Net Responses of the above parameters.

As per the latest Consumer Confidence Survey, respondents indicated lower pessimism regarding prevailing price levels and inflation when compared to the previous survey round. However, for the next year, households expect both prices and inflation to increase. Overall, Consumer confidence for the current period marginally declined owing to sentiments moderating across the survey parameters except on price level.

RBI INFLATION EXPECTATIONS SURVEY

Household Inflation expectations remain in line with recent trends

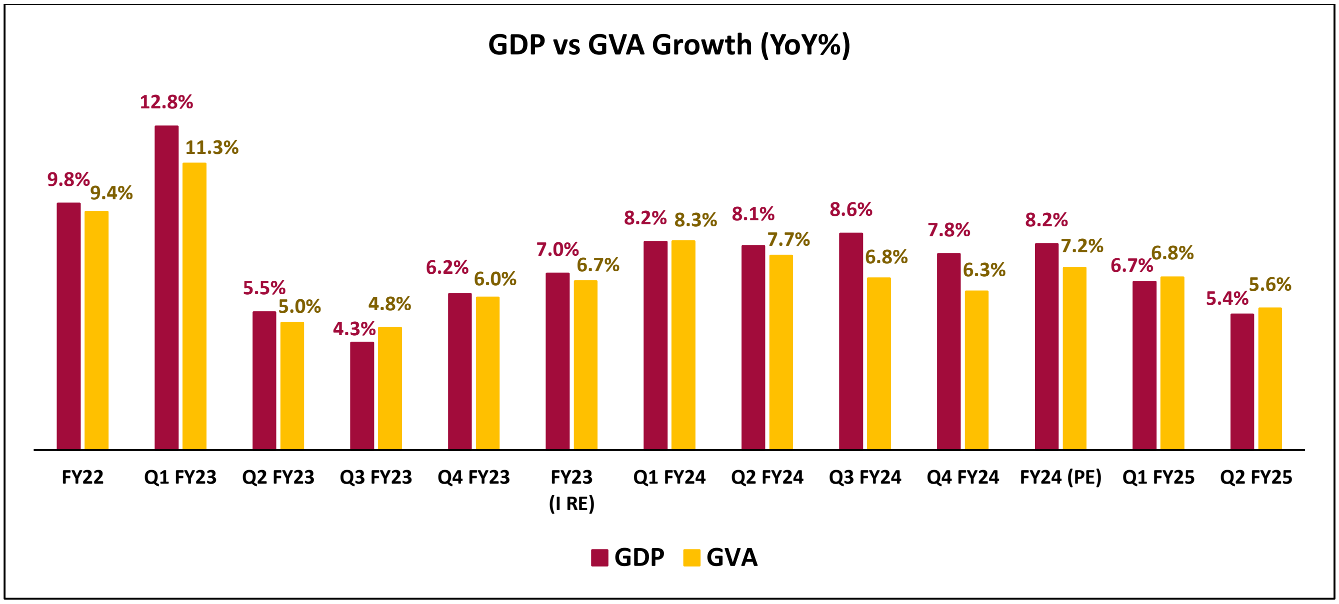


Households' inflation expectations for one year ahead period increased by 10 bps from previous survey round; however, their perception on current inflation, moderated by 10 bps from previous survey round and stood at 8.3 per cent in the latest survey round. The share of households anticipating rise in general prices and inflation for both near term as well as the coming year has increased.

9. QUARTERLY ECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT (GDP) & GROSS VALUE ADDED (GVA)

India's GDP growth fell short of expectations in Q2 FY25

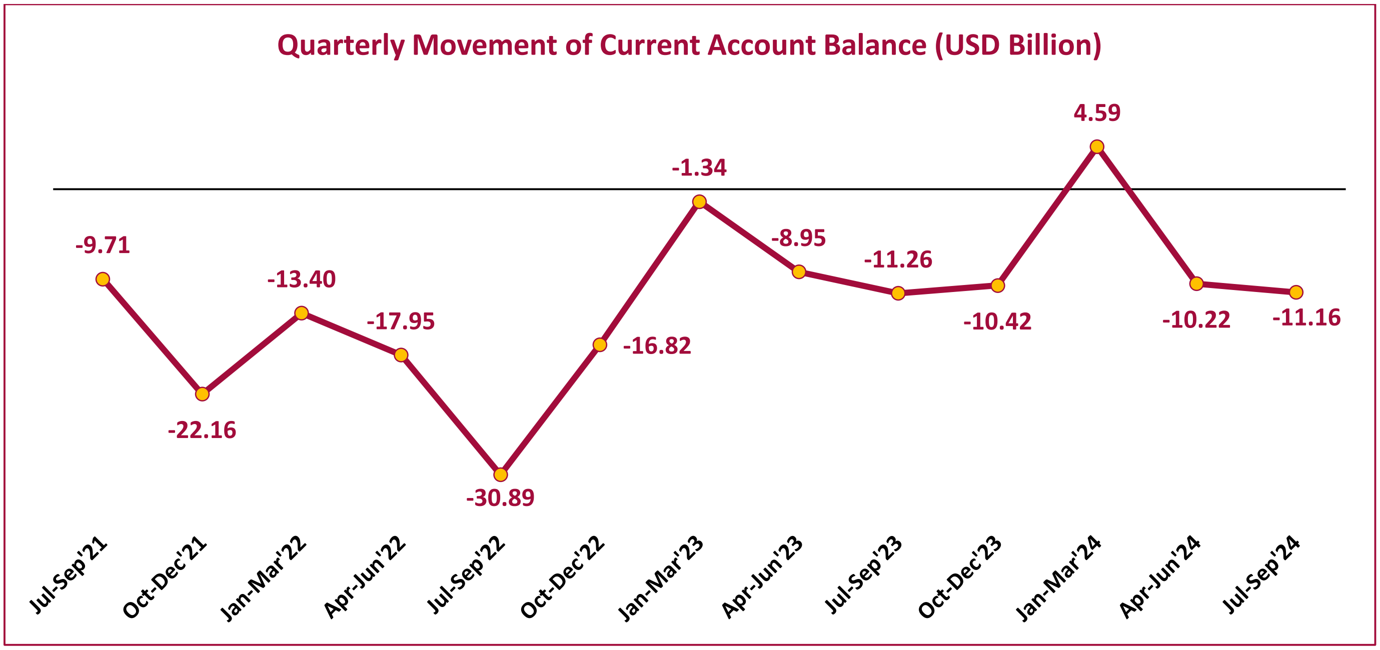


India's gross domestic product (GDP) growth for Q2 FY25 slowed to 5.4 per cent as compared to a growth of 6.7 per cent in the previous quarter (Q1 FY25) and a growth of 8.1 per cent in Q2 FY24. Also, GVA in Q2 FY25 grew by 5.6 per cent as compared to a growth of 6.8 per cent in the previous quarter (Q1 FY25) and a growth of 7.7 per cent in Q2 FY24. The slower growth during Q2FY25 may be attributed to weak urban consumption and sluggish growth in manufacturing and mining sectors. While government spending recovered, it remained below last year's pace. Investment growth also declined, and exports slowed significantly. Agriculture sector growth improved owing to good monsoon and rising rural demand.

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY25
RBI	6.4%
World Bank	6.7%
IMF	6.5%
ADB	6.5%

CURRENT ACCOUNT BALANCE



India's current account deficit (CAD) decreased from 1.3 per cent of GDP in Q2FY24 to 1.2 per cent of GDP in Q2FY25. In absolute terms, the deficit marginally decreased to USD 11.16 billion in Q2FY25, from USD 11.26 billion during the same period a year ago. The impact of a growing merchandise trade deficit on CAD during Q2FY25 was mitigated by strong increase in services exports and remittance receipts. A net accretion of foreign exchange reserves (excluding valuation effects) of US$ 18.6 billion occurred in Q2FY25 as a result of net capital inflows exceeding CAD, with significant flows under FPIs, ECBs, and non-resident deposits.

10. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Federal Reserve	U.S.A	4.50%	Dec 18, 2024 (-25bp)	Mar 19, 2025
Bank of England	U.K	4.50%	Feb 06, 2025 (-25bp)	Mar 20, 2025
Reserve Bank of India	India	6.25%	Feb 07, 2025 (-25bp)	Mar 10, 2025
Bank of Japan	Japan	0.50%	Jan 24, 2025 (25bp)	Mar 19, 2025
European Central Bank	Europe	2.90%	Jan 30, 2025 (-25bp)	Mar 06, 2025
Peoples Bank of China	China	3.10%	Oct 21, 2024 (-25bp)	-

11. INDUSTRY OUTLOOK

TOY SECTOR

The Indian toy industry is experiencing a remarkable transformation, positioning itself as a significant player in the global toy manufacturing landscape. The domestic toy market, valued at approximately $1.5 billion in 2023, to reach US$ 3 billion by 2028, rising at a CAGR of 12.2% between 2023 and 2028. This growth is driven by several key factors, including rising disposable incomes, increasing urbanization, and a growing young population, with nearly 30% of Indians under the age of 15.

The government announced National Action Plan for Toys in Union Budget 2025-26 re-iterating the importance of this sector. The scheme will focus on development of clusters, skills, and a manufacturing ecosystem that will create high-quality, unique, innovative, and sustainable toys that will represent the 'Made in India' brand.

The implementation of the Quality Control Order (QCO) in 2020 and increased import duties from 20% to 60% in February 2020 and subsequently to 70% in March 2023 on toys have significantly benefited domestic manufacturers. The impact of government policies is evident in the trade statistics. Toy imports plummeted from $304 million in FY2018-19 to $65 million in FY2023-24, marking a 79% reduction. Simultaneously, exports surged from $109 million in FY2018-19 to $152 million in FY2023-24, demonstrating a robust 40% growth making India a net exporter of toys (source: PIB).

Traditional Indian toys, incorporating elements of cultural heritage and sustainable materials, are gaining traction both domestically and internationally. The focus on indigenous toy-making clusters in regions like Channapatna (Karnataka), Kondapalli (Andhra Pradesh), and Varanasi (Uttar Pradesh) has helped preserve traditional craftsmanship while creating employment opportunities for the rural population

With digital transformation and evolving technology, the Indian toy industry has moved towards interactive and connected toys by integrating pioneering technologies such as sensors, AI and app connectivity. This, in turn, creates a holistic learning environment for children that aligns with contemporary times.

However, challenges persist. Small and medium-sized manufacturers face issues related to access to modern technology, design capabilities, and working capital. The sector also faces competition from Vietnam and Indonesia in export markets, necessitating focus on cost competitiveness and quality standards.

Going forward, the government's target to increase the toy manufacturing sector's share in the global market presents significant opportunities. With continued focus on skill development, technology adoption, and quality improvements, India's toy industry is well-positioned to capture a larger share of the global toy market, estimated to reach $179.4 billion by 2032. The sector's growth trajectory not only promises economic benefits but also supports the broader vision of making India a self-reliant manufacturing hub.

Shubham Kumar Singh
Officer (Economics)
SMEAD, HO

12. DATA SOURCES

- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department of Commerce, DGFT*
- *S&P Global*
- *Press Information Bureau*
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QUOTE OF THE MONTH

"A writer only begins a book. A reader finishes it."

- Samuel Johnson

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