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RESERVE BANK OF INDIA

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RBI Bulletin – February 2025

Today, the Reserve Bank released the February 2025 issue of its monthly Bulletin. The Bulletin includes bi-monthly monetary policy statement (February 07, 2025), one speech, four articles and current statistics.

The four articles are: I. State of the Economy; II. Union Budget 2025-26: An Assessment; III. Quality of Public Expenditure and its Socio-economic Impact in India; and IV. Dynamics of Agriculture Supply Chain: Insights from Pan India Survey during *Rabi* Marketing Season.

I. State of the Economy

The global economy continues to grow at a steady but moderate pace, with divergent outlook across countries amid rapidly evolving political and technological landscapes. Financial markets remain on edge on the slowing pace of disinflation and the potential impact of tariffs. Emerging market economies (EMEs) are witnessing selling pressures from foreign portfolio investors (FPIs) and currency depreciation engendered by a strong US dollar. In India, high frequency indicators point towards a sequential pick-up in momentum of economic activity during H2:2024-25, which is likely to sustain moving forward. The Union Budget 2025-26 prudently balances fiscal consolidation and growth objectives by continued focus on capex alongside measures to boost household incomes and consumption. Retail inflation moderated to a five-month low in January, mainly due to a sharp decline in vegetable prices.

II. Union Budget 2025-26: An Assessment

By Akash Raj, Harshita Yadav, Kovuri Akash Yadav, Aayushi Khandelwal, Anoop K Suresh, and Samir Ranjan Behera

This article presents an assessment of the Union Budget 2025-26. The Budget reaffirms the Government's commitment to fiscal discipline while fostering inclusive, long-term economic growth in line with the vision of '*Viksit Bharat*'. With a strategic focus on four key growth engines – agriculture, MSMEs, investment, and exports – the budget strikes a balance between immediate consumption support and long-term structural reforms.

Highlights:

- In 2025-26, the gross fiscal deficit is budgeted to fall to 4.4 per cent of GDP from 4.8 per cent of GDP in 2024-25 (Revised Estimates, RE).
- Revenue expenditure is budgeted to grow by 6.7 per cent in 2025-26 over 2024-25 (RE). The Budget 2025-26 earmarks ₹11.2 lakh crore (3.1 per cent of GDP) for capital expenditure continuing the impetus observed in the previous fiscal years. The effective capital expenditure is budgeted to increase to 4.3 per cent of GDP in 2025-26 from 4.1 per cent of GDP in 2024-25 (RE).
- Gross tax revenue is budgeted to increase by 10.8 per cent, with a buoyancy of 1.07, which is broadly in line with its average during 2010-11 to 2018-19.
- For medium term fiscal sustainability, the Union Government has committed to maintain the fiscal deficit at a level that will reduce Union Government's debt-to-GDP ratio to 50 ±1 per cent by 2030-31.

III. Quality of Public Expenditure and its Socio-economic Impact in India

By Rachit Solanki, Kovuri Akash Yadav, Aayushi Khandelwal, Samir Ranjan Behera, and Atri Mukherjee

Against the backdrop of emphasis on capital expenditure by both the Centre and States, this article examines the evolution of India's public expenditure trends since liberalisation. It underscores the role of structural reforms, macroeconomic shifts, and policy initiatives in shaping the quality and composition of government expenditure. A quality of public expenditure (QPE) index – encompassing capital outlay, developmental spending, and interest burden indicators – has been constructed to extract the common underlying factor driving these variables by employing a dynamic factor model[1] (DFM). The resulting index has been used to empirically examine the association between quality of public spending and socio-economic outcomes.

Highlights:

- India's public expenditure trajectory since 1991 can be categorised into six distinct phases, shaped by key fiscal policy reforms and macroeconomic shocks.
- The QPE index reveals that higher expenditure quality aligns with stronger economic performance and improved social outcomes.

[1] Dynamic factor model (DFM) is a statistical technique that is used to extract common underlying factors that drive co-movement of multiple time series variables.

- While Centre's expenditure quality is more strongly associated with GDP growth, States' expenditure quality has greater impact on the human development index (HDI).
- State-level data demonstrates a positive correlation between higher QPE scores and improvements in health and education components of the HDI, substantiating that increased developmental and capital spending at the subnational level boosts human development across major States.

IV. Dynamics of Agriculture Supply Chain: Insights from Pan India Survey during *Rabi* Marketing Season

By Rajib Das, Rishabh Kumar, Monika Sethi, Love Kumar Shandilya, and Alice Sebastian

This article examines the dynamics of agriculture supply chain through a pan-India survey of farmers, traders and retailers. The survey, covering 12 *rabi* crops such as wheat, rice and maize under cereals, gram and lentil under pulses, rapeseed and mustard under oilseeds; and major fruits and vegetables, was undertaken in select production (the primary producing centres of the chosen commodities) and consumption centres (the major cities) during May-July 2024. Similar surveys, covering major *kharif* crops, were conducted in 2018 and 2022.

Highlights:

- The survey finds that the average share of farmers in consumer prices ranges from 40 to 67 per cent across various crops, with the wheat producers realising the highest share. On an average, the farmers' share is found to be lower in the case of perishables (fruits and vegetables) than the non-perishables.
- For the crops which are common across the previous survey rounds, the mark-ups (difference between revenue and total cost as per cent to total cost) of traders and retailers appear to have generally moderated, although it may be noted that the margins could also depend upon the sample coverage and the timing of the surveys. The mark-ups observed at the retail level were generally greater than those of the traders, particularly with regard to perishables. The combined share of traders and retailers in consumer prices is estimated to be more than half for all surveyed fruits and vegetables except tomatoes.
- Use of electronic payments was the highest among traders, followed by retailers and it has increased for all supply chain participants in comparison to the 2018 and 2022 surveys. Cash, however, remained the dominant mode of payment for transactions at *mandis*.
- The weather forecast and irrigation availability appear to be the most critical factors in the farmers' decision function regarding *rabi* sowing. Additionally, majority of the farmers perceived unseasonal rainfall as the primary reason for crop damages, followed by pest attacks and heatwaves.

- Empirical analysis indicates that higher transaction costs (transportation, labour, rent) reduce the retailers’ markups, while higher post-harvest losses in perishables seems to permit the retailers to pass losses onto the consumers.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.

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