

*State of the Economy**

Global uncertainty remained elevated in the wake of imposition of US trade tariffs on major trading partners and renewed concerns over fiscal health of advanced economies. The Indian economy exhibited marked resilience as evident from the five-quarter high growth during Q1:2025-26, propelled by domestic drivers. The landmark GST reforms should progressively result in a sustained positive impact through significant gains in ease of doing business, lower retail prices and strengthening of consumption growth drivers. CPI headline inflation edged up but remained well below the target rate for the seventh consecutive month. System liquidity remained in surplus facilitating the pass through of policy rate cuts. Indian equity markets witnessed bidirectional movements during August-September. India's current account deficit moderated in Q1 over last year, supported by robust services exports and strong remittances receipts.

Introduction

Global uncertainty remained elevated in the wake of lingering US trade policy uncertainties with key trading partners, renewed concerns on fiscal health of advanced economies (AEs) and geopolitical risks. Despite uncertainties clouding the economic outlook, the global purchasing manager's index (PMI) rose to a 14-month high in August with manufacturing PMI moving into the expansion zone accompanied by a robust expansion in services sector activity. Global

commodity prices largely eased in August though a sharp pick-up in select commodities, particularly gold and coffee, were witnessed since the second half of August.

Bond yields across AEs continued to harden in August as debt sustainability concerns assumed centre-stage. Demand for alternative safe-haven assets, on the other hand, propelled gold prices to a record high. US bond yields declined since end-August on rising expectations of Fed easing. Thereafter in September, yields declined further and stabilised following the rate cut by Fed. Reflecting these factors, the US dollar also fell for most of August and September. Equity markets in key economies remained buoyant in August largely driven by strong Q2:2025 earnings, expectations of Fed easing and optimism over BigTech stocks. Fed's rate cut in September further strengthened the rally, especially in the US. Equity flows to emerging markets remained thin in August on risk-off investor sentiments.

Inflation trends remained divergent across AEs and emerging markets and developing economies (EMDEs). While AEs grappled with sticky inflation, the EMDEs experienced disinflation. In August-September, major central banks reduced their benchmark interest rates, prioritising concerns on domestic growth and unemployment over inflation.

The Indian economy exhibited marked resilience, as evident from the five-quarter high growth during Q1:2025-26, propelled by domestic drivers. Consumption expenditure and fixed investment activity remained strong, negating the decline in net exports. The high-frequency indicators for economic activity showed steady growth in August with rural demand remaining robust, though urban demand continued to show some weakness.

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An import tariff of 50 per cent is applicable on India's exports to the US from August 27, 2025.¹ Its immediate impact may be sector-specific, given that around 45 per cent of India's merchandise exports to the US are exempted from the tariffs, including sectors constituting major export products, particularly smartphones and pharmaceuticals. Despite the elevated trade policy uncertainties, merchandise exports have shown resilience during April-August 2025-26.

The decisions of the GST Council in its 3rd September meeting set in motion major structural reforms in the GST regime, simplifying rates and processes. Beyond rate simplification, the reforms have also addressed challenges relating to inverted duty structure², and made processes business-friendly, particularly benefiting micro, small and medium enterprises, and startups. Overall, these reforms are expected to boost tax buoyancy, improve compliance, and contribute to greater ease of living as well as ease of doing business.

CPI headline inflation edged up but remained well below the target rate for the seventh consecutive month. Food group largely contributed to the pick-up in overall inflation. Core inflation (CPI excluding food and fuel inflation) also increased at the margin, driven primarily by the uptick in gold prices.

Overall financial conditions turned accommodative since the beginning of September. System liquidity remained in surplus during August and September (up to September 19). The weighted average call rate – the operating target of monetary policy – broadly hovered in the lower half of the corridor.

¹ On August 6, 2025, the US imposed an additional tariff of 25 per cent on India's imports over and above the 25 per cent imposed on July 31, 2025.

² Inverted duty structure has been corrected for manmade textile and fertilizer sector.

In the fixed income segment, government bond yields softened in September, with the government reiterating its commitment to fiscal consolidation. The pass-through of the cumulative reduction in the repo rate by 100 bps during February to August 2025 to bank lending and deposit rates has been robust. Credit growth by banks picked up slightly to double-digits in August, with deposit growth remaining steady. During 2025-26 so far, the flow of non-food bank credit to the commercial sector moderated; however, it was more than offset by the flow from non-bank sources.

Indian equity markets witnessed bidirectional movements during August-September, shaped by policy announcements and key macro-data releases. After recording a sharp rebound in mid-August following the S&P sovereign rating upgrade and announcement of GST reforms, equity markets fell by end-August as additional US tariffs on Indian exports took effect. Thereafter, equity markets rebounded in early September on strong Q1 GDP growth numbers and the decision of the GST council to rationalise rates. Although foreign portfolio investors continued to sell, robust domestic institutional buying more than offset these outflows.

Despite elevated global trade uncertainties, India's external sector exhibited resilience. The current account deficit moderated in Q1:2025-26 as compared with the previous year, supported by strong services exports and robust remittance inflows. These trends are expected to keep the deficit low and rangebound throughout the year. Net foreign direct investment (FDI) inflows reached a 38-month high in July, aided by higher gross FDI and slower repatriation and outward FDI. Foreign exchange reserves remained adequate, underscoring external sector stability.

Set against this backdrop, the remainder of the article is structured into four sections. Section II

covers the rapidly evolving developments in the global economy. Section III provides an assessment of domestic macroeconomic conditions. Section IV encapsulates financial conditions in India, while Section V presents the concluding observations.

II. Global Setting

Global developments remained clouded by elevated uncertainty on lingering US trade policy uncertainties with key trading partners and geopolitical risks. Concerns over fiscal sustainability in AEs gained prominence in August, significantly impacting financial markets. In the US, rising equity markets co-existed with weakening consumer sentiment amidst softening labour market conditions and rising inflation concerns.

Global economic uncertainty remained elevated in August on account of trade policy uncertainties and renewed concerns on debt sustainability across AEs. The economic and trade policy uncertainty indices in the US eased, *albeit* moderately, following tariff deals between US and several trade partners. Mounting

fiscal sustainability concerns triggered increased financial market volatility in August, especially in Europe (Chart II.1a and II.1b).

Global purchasing manager’s index (PMI) rose to a 14-month high in August reflecting continued expansion in output and new business. Global manufacturing PMI moved into the expansion zone in August after contracting in July on higher production — partly reflecting a front-loading of production ahead of potential tariff hikes. PMI services continued to rise at a strong pace (Table II.1).

Business activity, as per PMI indices, expanded in major AEs, including the US, the UK, Japan, and the Eurozone in August. Among major EMDEs, business activity in China and India expanded, with India recording its highest rate in a decade, whereas Brazil and Russia continued to contract (Chart II.2a). Major economies saw a contraction in new export orders, whereas India continued to experience expansion (Chart II.2b). The global supply chain pressure index slipped below its historical average (Annex chart A1).

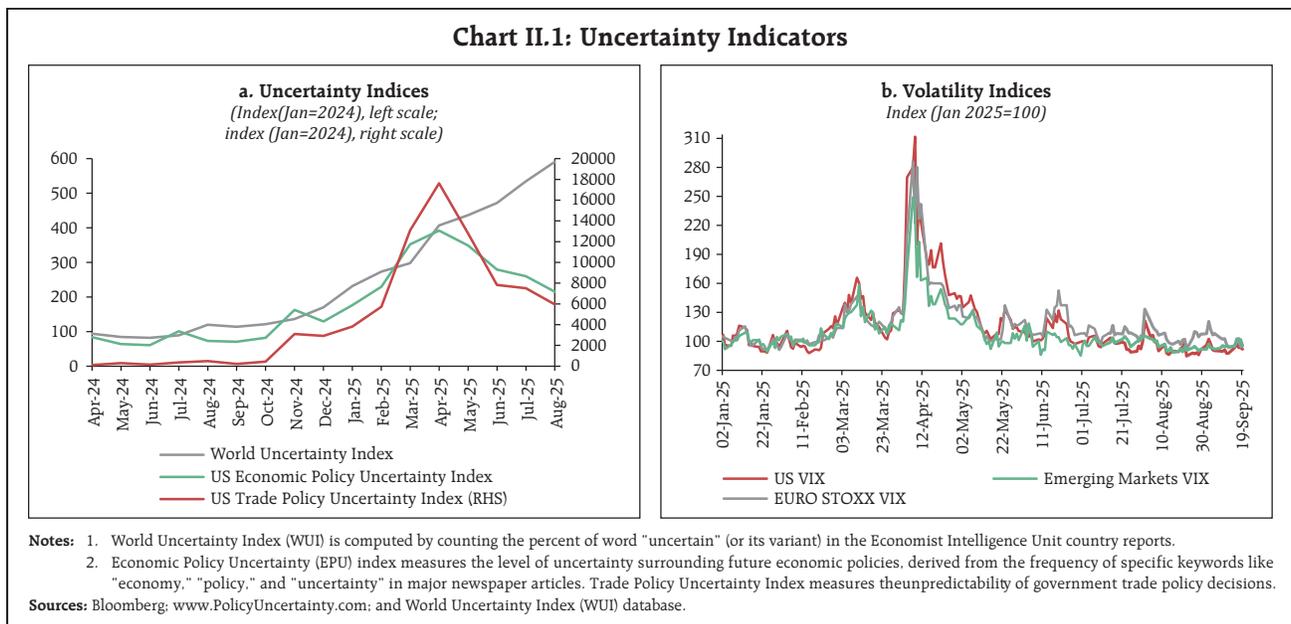
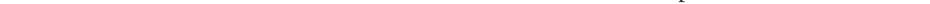


Table II.1: Global Purchasing Managers' Index

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
PMI composite	52.9	51.9	52.3	52.4	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.4	52.9
PMI manufacturing	49.6	48.7	49.4	50.1	49.6	50.1	50.6	50.3	49.8	49.5	50.4	49.7	50.9
PMI services	53.9	52.9	53.1	53.1	53.8	52.2	51.5	52.7	50.8	52.0	51.8	53.4	53.4
PMI export orders	49.0	48.5	48.9	49.3	48.7	49.6	49.7	50.1	47.5	48.0	49.1	48.5	48.9
PMI export orders: manufacturing	48.4	47.5	48.3	48.6	48.2	49.4	49.6	50.1	47.3	48.0	49.2	48.2	48.7
PMI export orders: services	50.8	51.6	50.7	51.3	50.3	50.2	50.2	50.1	48.2	47.9	48.7	49.4	49.3



<<<<<<Contraction-----50-----Expansion>>>>>>>

Notes: 1. The Purchasing Managers' Index (PMI), a diffusion index, captures the change in each variable compared to the prior month, noting whether each has risen/improved, fallen/deteriorated or remained unchanged. A PMI value >50 denote expansion; <50 denote contraction; and =50 denote 'no change'.

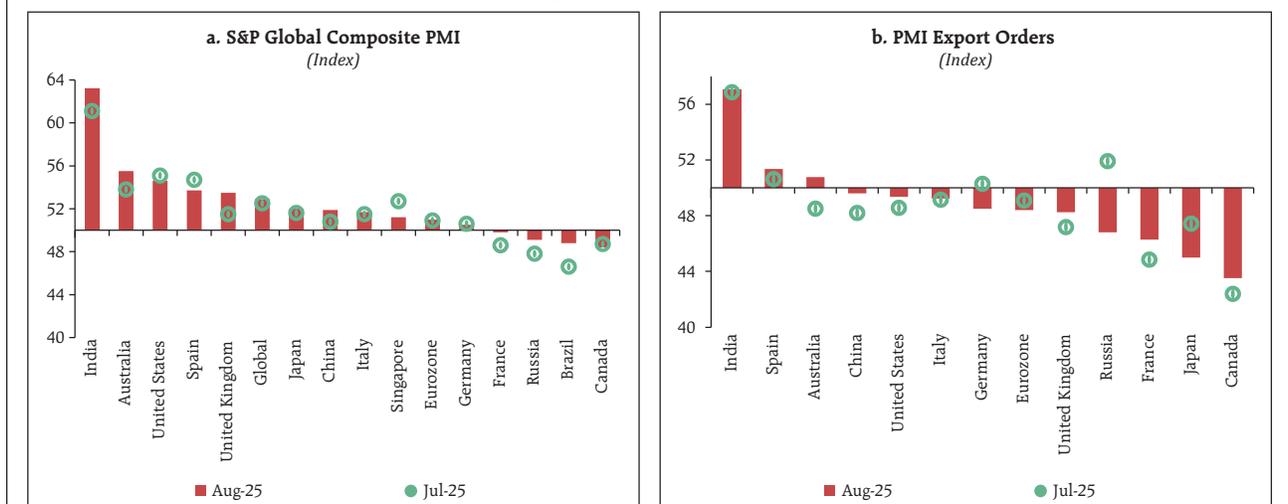
2. Heat map is applied on data from April 2023 till August 2025. The map is colour coded—red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

Source: S&P Global.

Commodity prices eased in August *vis-à-vis* July. Global food prices remained largely unchanged from the previous month as an increase in prices of meat and sugar was offset by a decline in cereal and dairy prices.³ Crude oil prices weakened in August due to supply glut in global markets and expectations of easing sanctions on Russian crude following US

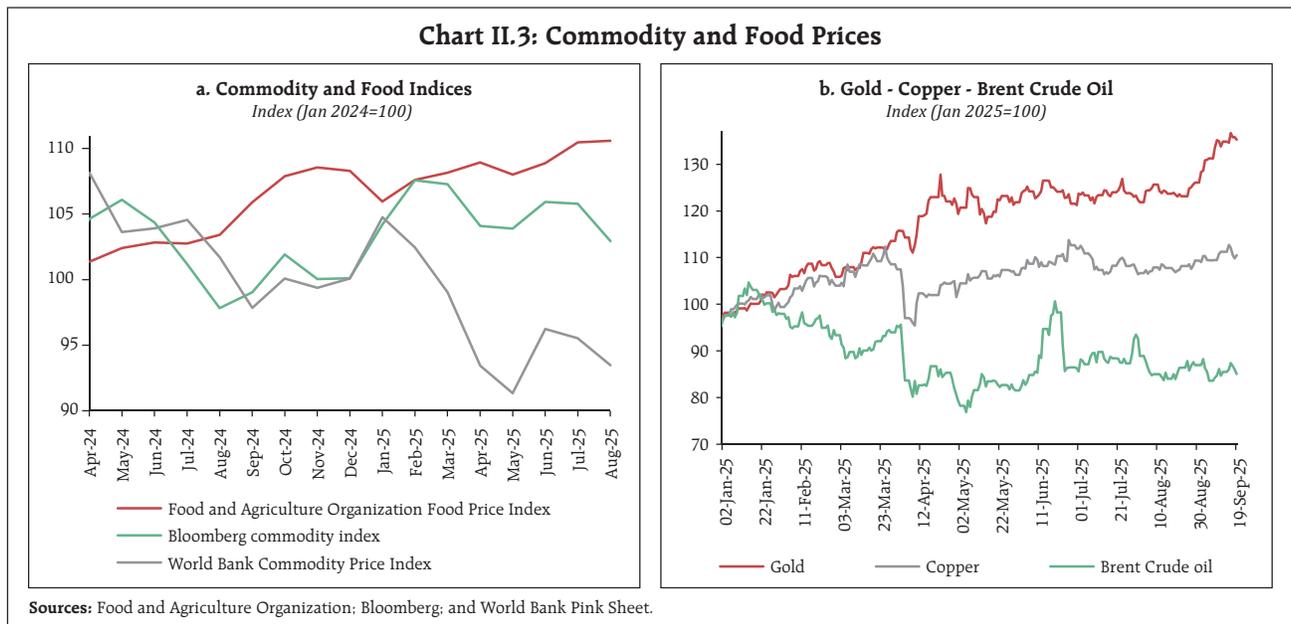
intermediation. Crude oil prices registered a further dip in September on announcement of increased production by OPEC *plus*. Nevertheless, high frequency commodity price indicators showed a sharp pick-up in select commodity prices since the second half of August. Coffee prices recorded a sharp pick-up on supply shortages in Brazil. After remaining

Chart II.2: Purchasing Managers' Index: Comparison across Jurisdictions



Note: A level of 50 indicates no change in activity, while a reading above 50 signals expansion and below 50 suggests contraction.
Source: S&P Global.

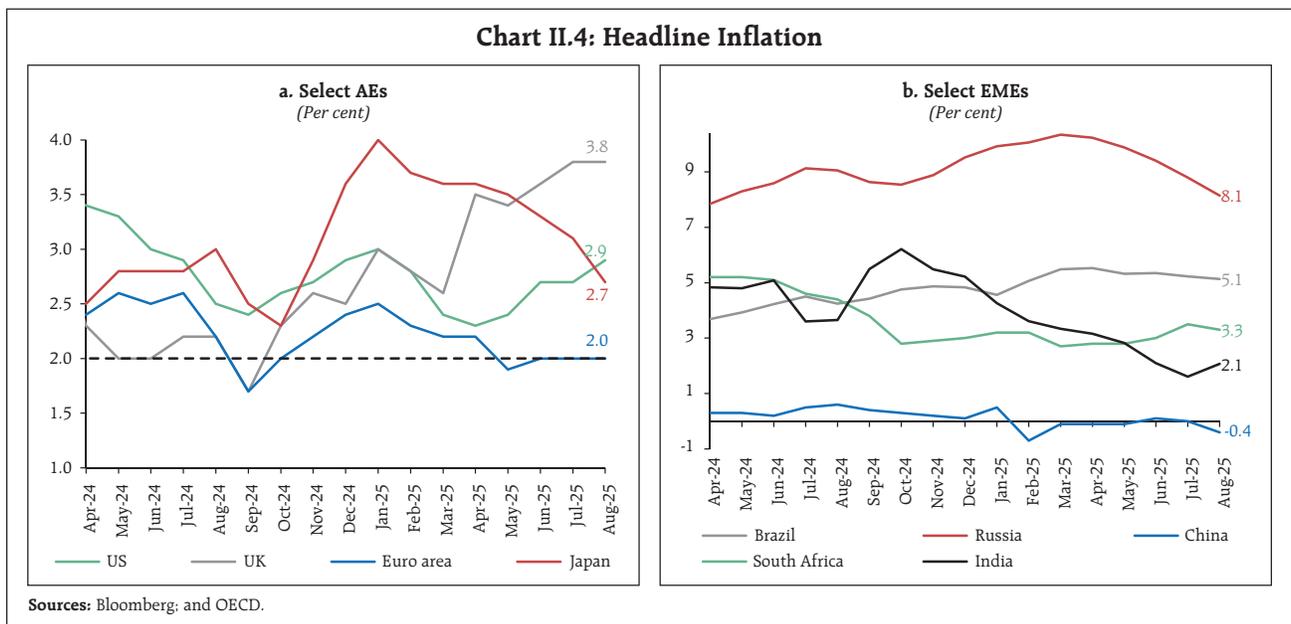
³ As per the Food and Agriculture Organization's Food Price Index for the month of August 2025.



rangebound, gold prices surged since end-August to all-time highs, buoyed by safe-haven demand (Chart II.3a and 3b).

Inflation trends remained divergent across AEs and EMDEs. While the former grappled with sticky inflation, the latter experienced disinflation. CPI inflation in the US edged up to 2.9 per cent in August, the highest since January, though core inflation

remained steady at 3.1 per cent. In the Euro area, headline inflation remained steady at 2 per cent in August, with services inflation exhibiting a slight moderation alongside soft energy prices. Inflation in the UK was also steady at 3.8 per cent. Headline inflation in Japan eased to 2.7 per cent, marking the lowest reading since October 2024 (Chart II.4a). Among major EMDEs, inflation in Brazil continued to



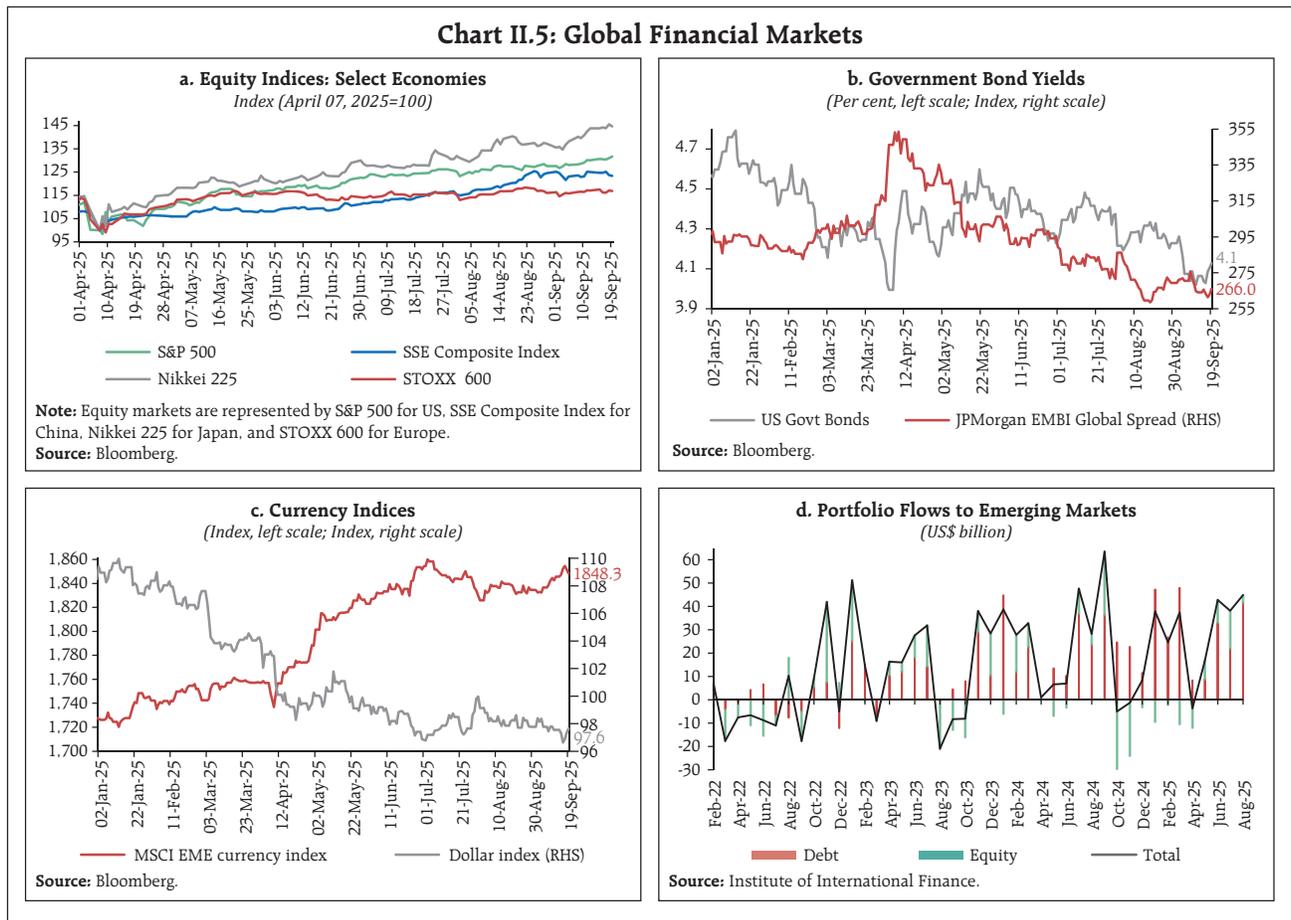
soften, but remained above the target level (Annex chart A2). Persistent price declines have pushed China into the deflationary zone again after a hiatus of 2 months. In Russia, though on a moderating path, inflation continued to remain well above the target. South Africa's annual inflation eased in August (Chart II.4b).

Equity markets in key economies remained buoyant in August largely driven by strong Q2:2025 earnings, expectations of Fed easing and optimism over BigTech stocks. Fed's rate cut in September further strengthened the rally, especially in the US. Europe STOXX 600 slipped marginally in the end of August on muted earnings. In September, stocks were subdued as the sovereign rating downgrade of France weighed on sentiment. Equity markets in Japan registered strong performance in August,

supported by the US-Japan trade deal. Indices gained further in September, on the back of improved business confidence and better-than-expected Q2:2025 GDP data. Chinese equities surged in August supported by the 90-day extension of the US-China trade truce, which were further bolstered by the stimulus measures in the housing sector towards the end of the month. The indices, however, witnessed a modest pullback in September amidst fears of regulatory tightening, weak consumer spending and factory output numbers (Chart II.5a).

Bond markets in AEs grappled with a substantial increase in long-dated borrowing costs in most of August, which touched multi-year highs amidst renewed concerns about the fiscal health of major economies. Towards the end of August, yields softened in the US following rising expectations of Fed easing

Chart II.5: Global Financial Markets



in September meeting due to subdued July inflation data combined with the Fed’s communication on shifting balance of economic risks.⁴ Thereafter in September, yields declined further and stabilised following the rate cut by Fed (Chart II.5b). EME bond spreads over AEs narrowed until mid-August, before edging up later in the month. In September, spreads held broadly steady on account of strong appetite for emerging market assets.

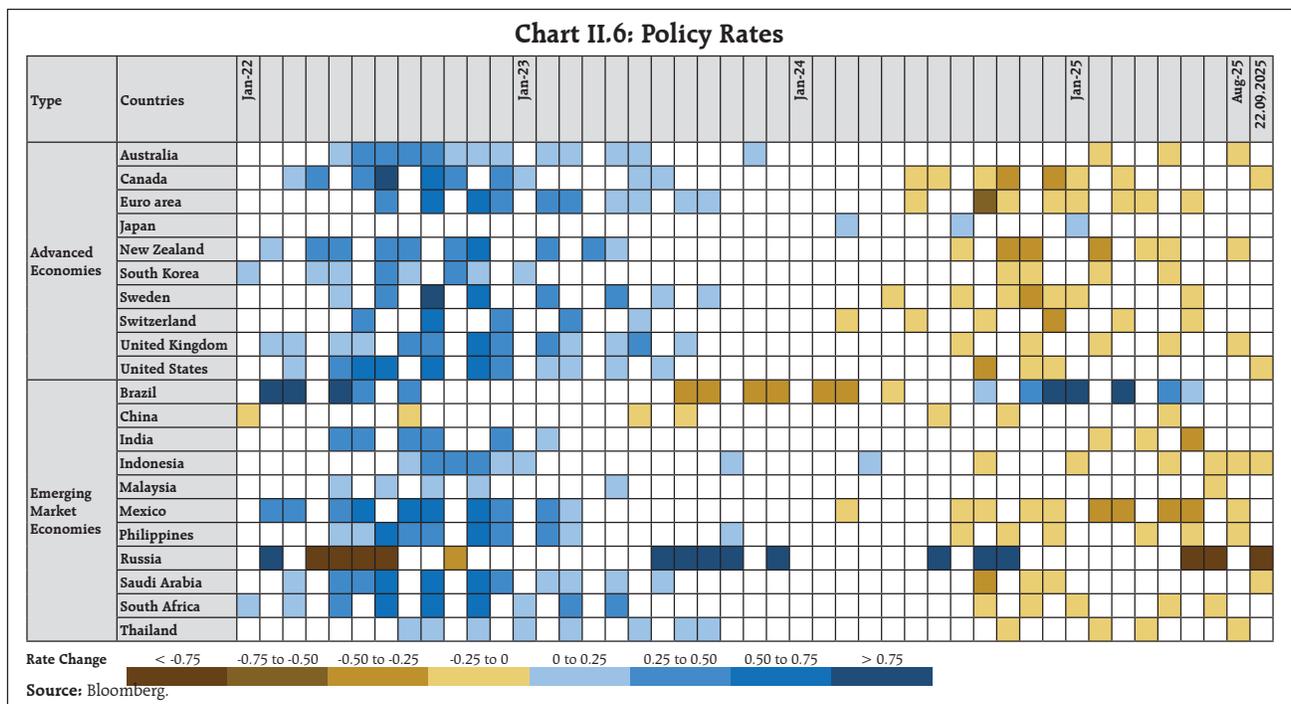
The US dollar retreated in August and September so far on Fed’s pivot to easing (Chart II.5c). Equity flows to emerging markets remained thin in August on risk-off investor sentiments. Debt flows, on the other hand, picked up sharply (Chart II.5d).

In August-September, major central banks opted to reduce their benchmark interest rates, weighing concerns of domestic growth and unemployment over inflation. In August, New Zealand, Australia and England reduced the benchmark interest rate by 25

basis points. In September, the US Federal Reserve reduced its policy rate by 25 bps. ECB kept its policy rate unchanged for the second consecutive time. Bank of England also kept their interest rates steady in September. Amongst the EMDEs, Indonesia, Mexico and Thailand cut their policy rates by 25 basis points each. China held its benchmark lending rate steady for the third consecutive month in August. In September, Malaysia’s central bank held its overnight policy rate steady while Russia reduced it citing easing inflationary pressures (Chart II.6).

III. Domestic Developments

The Indian economy exhibited marked resilience as evident from the better-than-expected growth in Q1:2025-26. The dual engines of growth – consumption and investment – remained strong. Aggregate demand conditions remain robust characterised by strong rural remand in a low inflation environment.



⁴ Monetary Policy and the Fed’s Framework Review- Speech by Chair Jerome H. Powell at “Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy,” an economic symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming.

Aggregate Demand

Real GDP growth picked up pace reaching a five-quarter high in Q1:2025-26, rising to 7.8 per cent (year-on-year) from 7.4 per cent (year-on-year) in the preceding quarter. Consumption and fixed investment remained the key drivers contributing 4.7 percentage points and 2.7 percentage points, respectively. The growth in private final consumption expenditure was sustained by strong rural demand and easing inflation. The government final consumption expenditure saw an accelerated growth due to higher revenue expenditure (excluding interest payments and subsidies) of both union and state governments. Net exports turned into a drag on growth reversing their positive contribution in the previous quarter as import expansion outpaced export growth. (Chart III.1 and Annex table A1). In nominal terms, the GDP growth registered a three-quarter low of 8.8 per cent. The narrowing of the gap between nominal and real GDP growth resulted from a sharp moderation in GDP deflator to an all-time low of 0.9 per cent (Annex chart A6).

The high-frequency indicators for overall economic activity remained robust in August. GST e-way bills

grew at a robust pace and posted their second-highest tally, reflecting inventory stocking for the festive season and a surge in orders ahead of additional US tariffs on Indian exports. While electricity demand, and petroleum consumption picked-up pace, growth in GST revenue and toll collection remained broadly steady. Digital payments recorded robust double-digit growth in volume, while growth in value terms exhibited moderation (Table III.I).

During August, rural demand stood strong with robust retail tractor sales and recovery in two-wheeler sales aided by a favourable monsoon and easing inflation. Household demand for employment under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) declined in August, reflecting the availability of alternative avenues of employment due to higher *kharif* sowing. Urban demand continued to show some weakness as indicated by a modest uptick in automobile sales and subdued domestic air passenger traffic (Table III.2).

Various indicators of employment conditions depicted a mixed picture in August. The all-India unemployment rate declined to 5.1 per cent, led by a sharp decline in urban unemployment. Labour

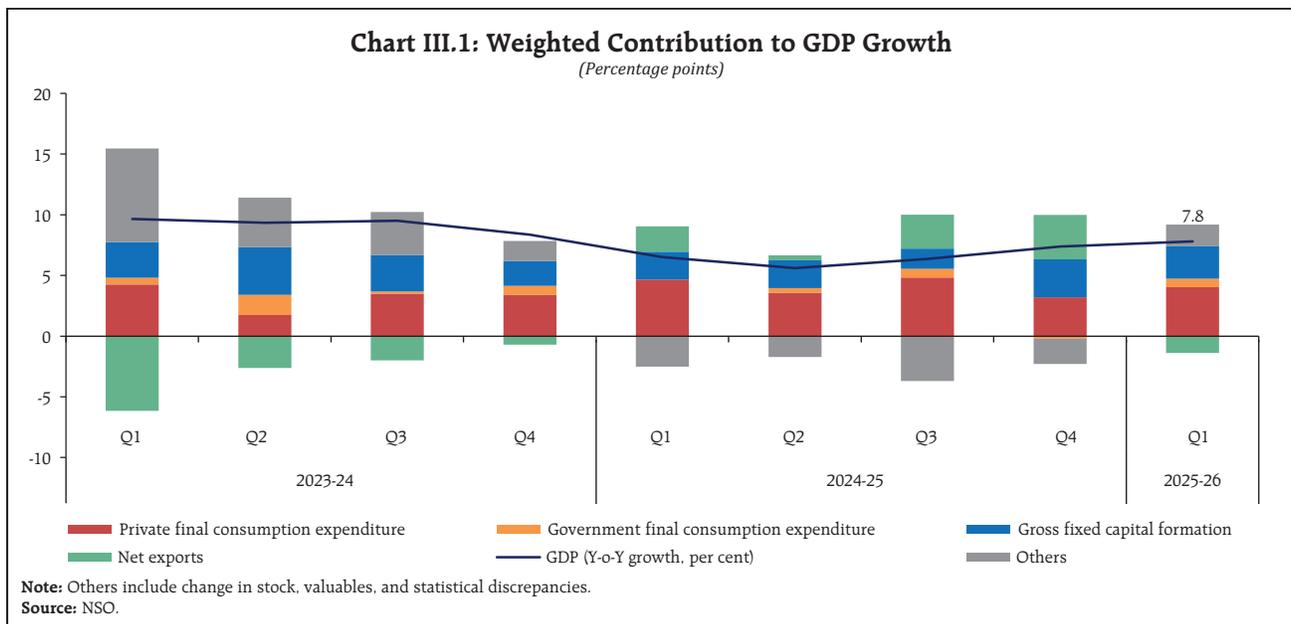


Table III.1: High Frequency Indicators: Economic Activity

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
GST E-way bills	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4
GST revenue	10.0	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5
Toll collection	6.8	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	12.7
Electricity demand	-5.0	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.9
Petroleum consumption	-3.1	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	0.5	-3.9	2.6
Of which Petrol	8.6	3.0	8.7	9.6	11.1	6.7	5.0	5.7	5.0	9.2	6.8	5.9	5.5
Diesel	-2.5	-1.9	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2
Aviation turbine fuel	8.1	10.4	9.4	8.5	8.7	9.4	4.2	5.7	3.9	4.3	3.3	-2.3	-2.9
Digital Payments - volume	34.9	36.3	40.3	30.1	33.1	33.0	26.7	30.8	30.0	29.2	28.3	30.9	28.8
Digital Payments - value	16.7	21.5	27.5	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.6	5.6

<<Contraction ----- Expansion>>

- Notes:** 1. The y-o-y growth (in per cent) has been calculated for all indicators.
2. The heatmap is applied on data from April 2023 till August 2025. Digital Payments data for August 2025 is provisional.
3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.

Sources: Goods and Services Tax Network (GSTN); RBI; Central Electricity Authority (CEA); and Ministry of Petroleum and Natural Gas, GoI.

force participation rate and worker population ratio increased in August, driven by gains in both rural and urban areas.⁵ As per the Naukri JobSpeak index, the growth in white-collar job listings was modest, led by hiring in AI/ML and non-IT sectors like insurance, travel/hospitality, BPO/ITES and real estate. PMI employment indices for both manufacturing and services remained in expansion (Table III.3).

During FY 2025-26 (April-July), the key deficit indicators of the union government stood higher, as compared to the corresponding period of the previous year.⁶ This was primarily due to higher revenue and capital expenditure alongside a slowdown in revenue receipts (Chart III.2a). The moderation in revenue receipts can be mainly attributed to lower direct tax collections, especially

Table III.2: High Frequency Indicators: Rural and Urban Demand

		Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Urban demand	Domestic air passenger traffic	6.7	7.4	9.6	13.8	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.5	-1.1
	Retail passenger vehicle sales	-4.5	-18.8	32.4	-13.7	-2.0	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8	0.9
Rural demand	Retail automobile sales	2.9	-9.3	32.1	11.2	-12.5	6.6	-7.2	-0.7	2.9	5.4	4.8	-4.3	2.8
	Retail tractor sales	-11.4	14.7	3.1	29.9	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0	30.1
	Retail Two-wheeler sales	6.3	-8.5	36.3	15.8	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5	2.2
	MGNREGA: work demand	-16.0	-13.4	-7.6	3.9	8.2	14.4	2.8	2.2	-6.5	4.4	4.4	-12.3	-26.1

<<Contraction ----- Expansion>>

- Notes:** 1. The y-o-y growth (in per cent) has been calculated for all indicators.
2. The heatmap is applied on data from April 2023 till August 2025.
3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.
4. The data on domestic air passenger traffic for August 2025 growth rate is calculated by aggregating daily data.

Sources: Airports Authority of India; Federation of Automobile Dealers Associations (FADA); and Ministry of Rural Development, GoI.

⁵ PLFS August 2025 Monthly Bulletin released on September 15, 2025

⁶ As per the latest data released by the Controller General of Accounts.

Table III.3: High Frequency Indicators: Employment

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Unemployment rate (PLFS: All-India)									5.1	5.6	5.6	5.2	5.1
Unemployment rate (PLFS: Rural)									4.5	5.1	4.9	4.4	4.3
Unemployment rate (PLFS: Urban)									6.5	6.9	7.1	7.2	6.7
Naukri JobSpeak Index	-3.4	6.0	10.0	2.0	8.7	3.9	4.0	-1.5	8.9	0.3	10.5	6.8	3.4
PMI employment: Manufacturing	53.5	52.1	53.3	52.9	53.4	54.8	54.5	53.4	54.2	54.9	55.1	53.3	53.1
PMI employment: Services	53.1	53.4	54.3	56.6	55.5	56.3	56.2	52.5	53.9	57.1	55.1	51.4	52.2

<<Contraction ----- Expansion>>

- Notes:**
1. All PLFS indicators are in the current weekly status and for people aged 15 years and above.
 2. The y-o-y growth (in per cent) has been calculated for Naukri index.
 3. The heatmap is applied on data from April 2023 till August 2025.
 4. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.
 5. All PMI values are reported in index form. A PMI value >50 denotes expansion, <50 denotes contraction and =50 denotes 'no change'. In the PMI heatmaps, red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

Sources: Ministry of Statistics and Program Implementation (MoSPI), GoI; Info Edge; Employees' Provident Fund Organisation; and S&P Global.

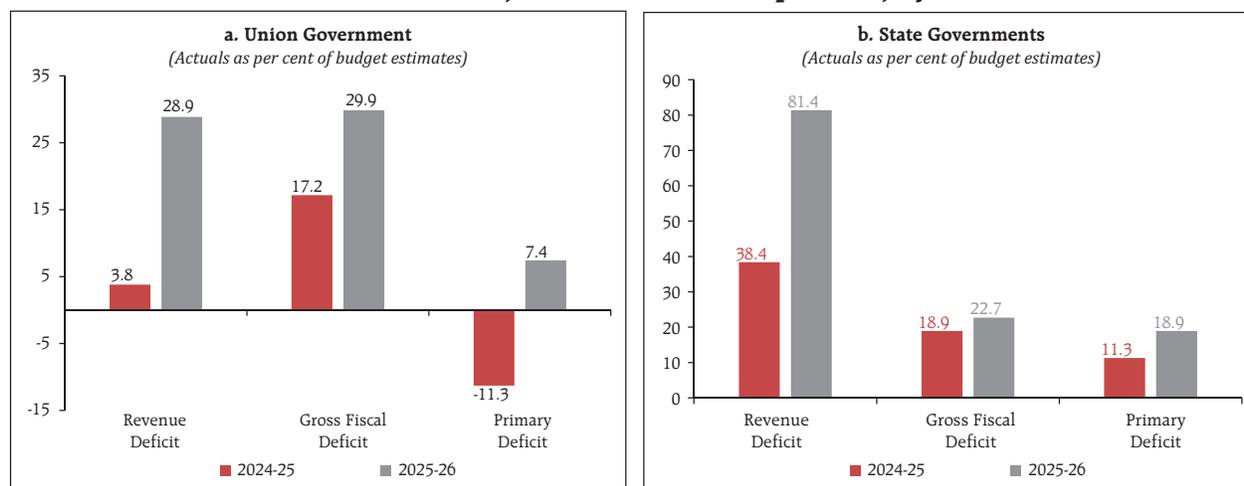
income tax.⁷ Growth in the indirect tax collections, however, was broadly in line with last year.

Gross fiscal deficit of states during April-July 2025, as a proportion of budget estimates for the financial year, was higher than the same period last year (Chart III.2b). This was largely due to moderation in the growth of state's goods and services tax

collections and slackening of growth in sales tax/VAT. Revenue expenditure remained robust while capital expenditure slowed in July.

The decisions of the GST Council in its 3rd September meeting set in motion major structural reforms in the GST regime, simplifying rates and processes. The four existing slabs (5, 12, 18 and 28

Chart III.2: Major Fiscal Indicators (Up to end-July)



- Notes:**
1. Negative primary deficit numbers, as per cent of budget estimates indicates primary surplus.
 2. In Chart b, data pertains to 24 States/UTs.

Sources: Controller General of Accounts; and Comptroller and Auditor General of India.

⁷ Within the direct taxes, income tax revenues contracted though corporation tax registered an expansion in comparison to the same period of last year. Income tax contracted by 9.9 per cent up to end-July 2025-26 in comparison to growth of 53.4 per cent in the corresponding period of the previous year.

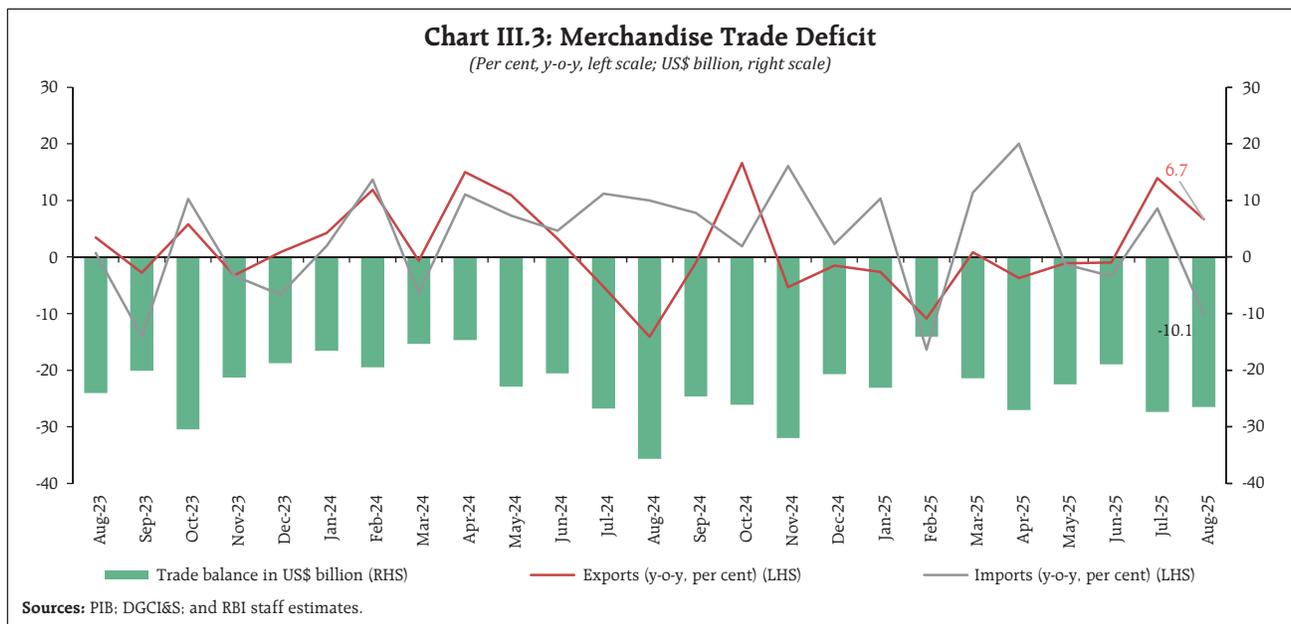
per cent) have been streamlined mainly into two (5 and 18 per cent), with rationalisation cutting across sectors. The new framework is designed to balance the needs of the common man with ease of administration. Most of the essential items now attract either 'nil' or 5 per cent GST. A majority of the electronic items and motor vehicles would be taxed at 18 per cent (Annex table A2). A new category has also been created for luxury and sin goods, taxable at 40 per cent. Beyond rate simplification, the reforms also tackle challenges relating to inverted duty structure. Processes have also been made business-friendly: simpler registration and return filing, faster refunds, and lower compliance costs – particularly benefiting micro, small and medium enterprises and startups. Overall, these reforms are expected to boost tax buoyancy, improve compliance, and contribute to greater ease of living as well as ease of doing business.

Trade

Merchandise trade deficit narrowed to US\$ 26.5 billion in August 2025 from a record high deficit of US\$ 35.6 billion in August 2024 on account of a narrowing of non-oil deficit (Chart III.3).⁸

Merchandise exports expanded for the second consecutive month (Annex chart A3).⁹ Electronic goods, engineering goods, gems and jewellery, petroleum products; and drugs and pharmaceuticals performed well, while tobacco, ready-made garments of all textiles, and iron ore contributed negatively to exports.

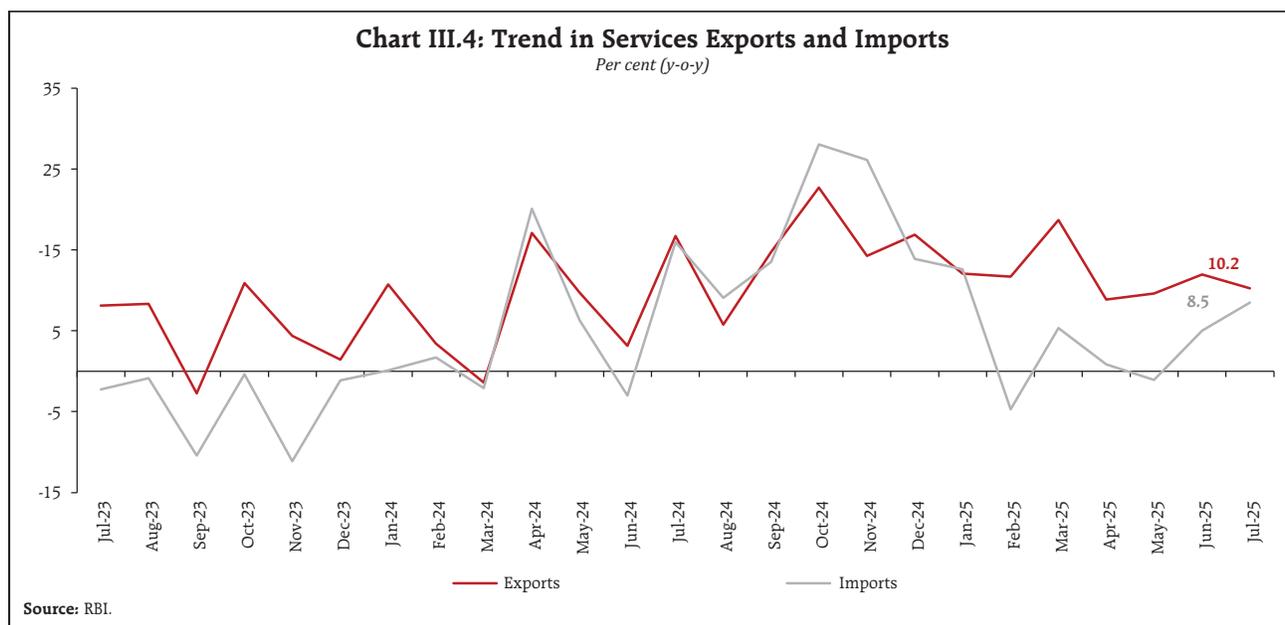
Merchandise imports contracted in August 2025 (Annex chart A4).¹⁰ Petroleum crude and products, fertilisers, electronic goods, vegetable oil and machinery contributed positively to import growth during the month. Gold, transport equipment, coal, coke and briquettes, silver, and iron and steel dragged imports down.



⁸ Oil trade deficit increased to US\$ 8.8 billion in August from US\$ 7.9 billion a year ago. Its share in total trade deficit increased to 33.2 per cent in August from 22.2 per cent a year ago. Non-oil deficit narrowed to US\$ 17.7 billion in August as compared to US\$ 27.7 billion a year ago.

⁹ US\$ 35.1 billion in August [growth of 6.7 per cent (y-o-y)]

¹⁰ US\$ 61.6 billion in August [contracted by 10.1 per cent (y-o-y)]



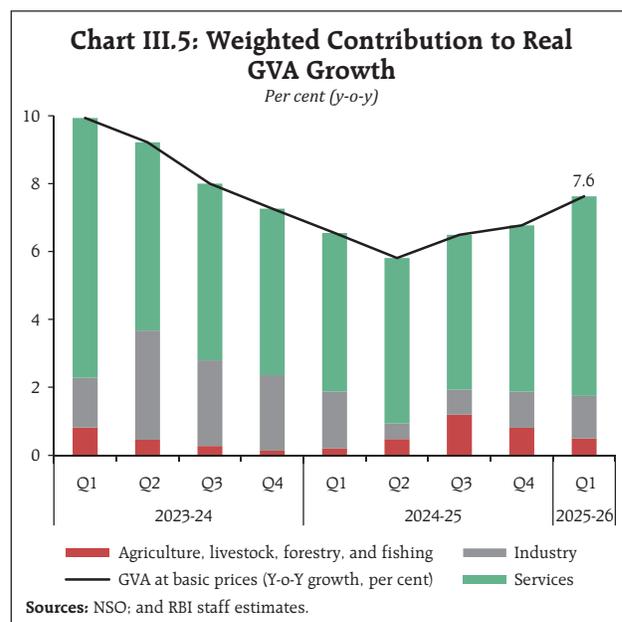
Services trade remained robust in July 2025. The net services export earnings expanded by 12.2 per cent (y-o-y) to US\$ 16.4 billion (Chart III.4). Services exports grew on the back of software and business services. At the same time, imports also rose rapidly, reflecting a rise in imports of software, business and travel services.

Aggregate Supply

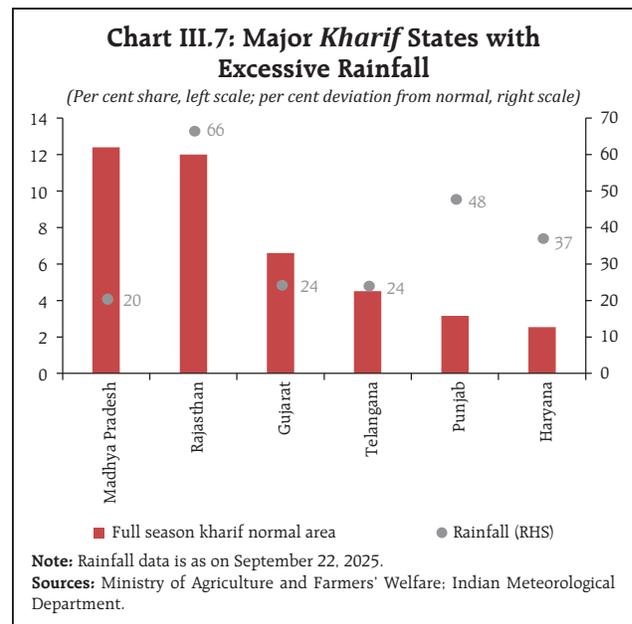
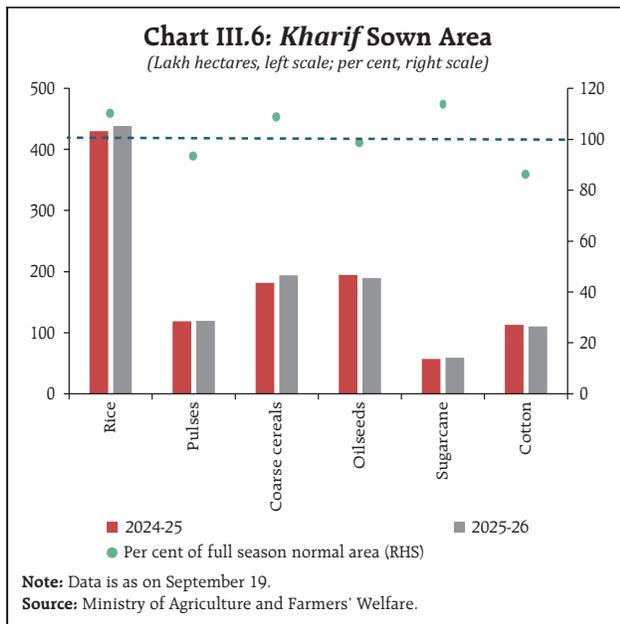
On the supply side, real gross value added (GVA) at basic prices registered a growth of 7.6 per cent in Q1:2025-26 over a growth of 6.8 per cent in the preceding quarter. The quarterly momentum in real GVA growth was driven by a strong services sector and a pickup in industrial sector. Agriculture and allied sectors moderated sequentially from the previous quarter, yet their performance remained robust on a year-on-year basis, reflecting resilience (Chart III.5 and Annex Table A3). Industry and services remained the key drivers contributing 1.3 and 5.9 percentage points, respectively. Manufacturing and construction saw robust expansion supported by higher demand and infrastructure push.

Agriculture

Kharif sowing crossed normal acreage for the full season supported by above normal monsoon rainfall (Chart III.6).¹¹ The increase in sown area was mainly in rice, maize, *urad* and sugarcane while the area under oilseeds and cotton declined. The tur



¹¹ *Kharif* sowing, as on September 19, 2025, was at 1115.9 lakh hectares, which is around 101.8 per cent of the normal area.



acreage has been shifting to maize due to decline in tur prices and the rising demand for maize in ethanol production¹².

The cumulative rainfall during June 1 – September 22, 2025 at the all-India level stood 7 per cent above the normal level with some of the major *kharif* producing states receiving excessive rainfall (Chart III.7). Reservoir levels have reached 90 per cent of the capacity which augurs well for upcoming *rabi* season (Chart III.8).

The combined stock of rice and wheat with the government continued to remain comfortable supported by adequate procurement in *kharif* and *rabi* marketing seasons.¹³

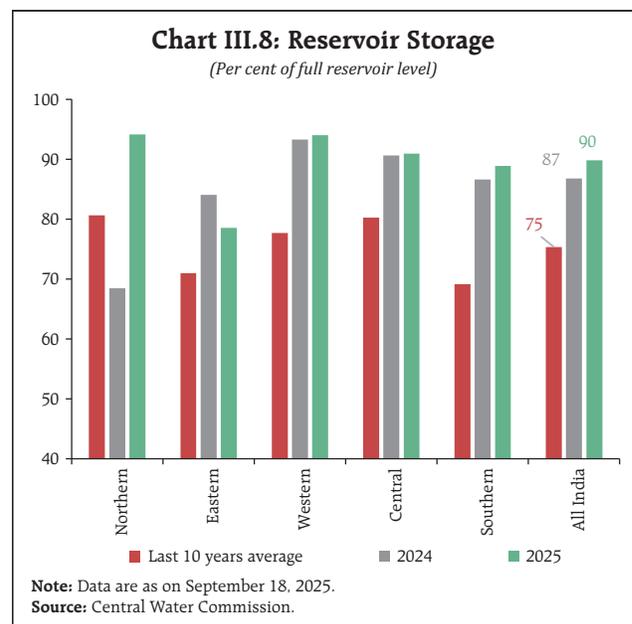
Industry and Services

Monthly Indicators of Industrial Activity

Growth in industrial activity, as measured by the year-on-year change in Index of Industrial Production (IIP), improved to a four-month high in July 2025.

At the sectoral level, manufacturing sector recorded robust growth reaching the highest in last six months. Index of eight core industries witnessed a sharp jump in August led by double-digit expansion in steel and coal.

Available high-frequency indicators for August point to expansion in manufacturing activity, with its PMI surging to a near 18-year high, with



¹² Tur acreage declined by 0.5 per cent, while that of maize rose by 12.6 per cent as compared to the previous year.

¹³ As on September 1, 2025, public stock was 2 times the buffer norm.

ongoing improvements in demand conditions leading to increase in factory orders. Automobile production remained robust, led by strong output of three-wheelers and two-wheelers. Production of passenger vehicles declined due to recalibration of dispatches ahead of GST reforms. Production and sales of passenger vehicles are likely to pick up in the upcoming festive season supported by the GST rate cut. Conventional electricity generation recovered as thermal coal production improved. Renewable energy generation sustained its pace (Table III.4). Supply chain pressures inched up in August 2025 but

stayed below their historical average levels (Annex chart A5).

Monthly Indicators of Services Activity

India's services sector sustained its growth momentum in August, with services PMI recording the highest expansion since June 2010. International air passenger traffic remained high and retail commercial vehicles segment recorded a strong growth. Port traffic expanded *albeit* at a slower pace than in July. Growth in steel consumption picked up while cement production decelerated (Table III.5).

Table III.4: High Frequency Indicators- Industry

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
IIP-Headline	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	3.5	
IIP Manufacturing	1.2	4.0	4.4	5.5	3.7	5.8	2.8	4.0	3.1	3.2	3.7	5.4	
IIP capital goods	0.0	3.5	2.9	8.9	10.5	10.2	8.2	3.6	14.0	13.3	3.0	5.0	
PMI Manufacturing	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3
PMI Export Order	54.4	52.9	53.6	54.6	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3	56.1
PMI Manufacturing: Future Output	62.1	61.6	62.1	65.5	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6	60.5
Eight Core Index	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.3
Electricity generation: Conventional	-3.8	-1.3	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0
Electricity generation: Renewable	-3.7	12.5	14.9	19.0	17.9	31.9	12.2	25.2	28.0	18.2	28.7	26.4	
Automobile Production	4.4	10.1	10.0	8.0	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7	8.1
Passenger vehicle production	0.7	-3.4	-4.0	6.5	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1	-4.1
Tractor production	-1.0	2.7	0.4	24.7	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5	9.4
Two-wheelers production	4.9	12.9	13.3	8.8	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3	10.0
Three-wheelers production	9.0	3.9	-6.7	-5.5	7.6	16.2	6.5	6.0	4.1	16.9	8.6	24.0	15.8
Crude steel production	3.9	0.3	4.2	4.5	8.3	7.4	6.0	8.5	9.3	11.0	12.6	14.0	11.1
Finished steel production	3.0	0.7	4.0	2.8	5.3	6.7	6.7	10.0	6.6	7.0	10.9	13.8	13.0
Import of capital goods	12.3	10.9	7.0	4.7	6.1	15.5	-0.5	8.6	21.5	14.3	2.6	12.2	

<<Contraction ----- Expansion>>

- Notes:**
1. The y-o-y growth (in per cent) has been calculated for all indicators (except for PMI).
 2. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.
 3. The heatmap is applied on data from April 2023 till August 2025, other than for electricity generation: renewable, where the data are till June 2025.
 4. All PMI values are reported in index form. A PMI value >50 denotes expansion, <50 denotes contraction and =50 denotes 'no change'. In the PMI heatmaps, red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

Sources: Ministry of Statistics and Programme Implementation (MoSPI); S&P Global; Central Electricity Authority (CEA); Ministry of Power; Society of Indian Automobile Manufacturers (SIAM); Office of Economic Adviser, GoI; Joint Plant Committee; Directorate General of Commercial Intelligence & Statistics; and Tractor and Mechanisation Association.

Table III.5: High Frequency Indicators-Services

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
PMI services	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9
International air passenger traffic	11.1	11.2	10.3	10.7	9.0	11.1	7.7	6.8	13.0	5.0	3.4	5.5	7.4
Domestic air cargo	0.6	14.0	8.9	0.3	4.3	6.9	-2.5	4.9	16.6	2.3	2.6	4.8	
International air cargo	20.7	20.5	18.4	16.1	10.5	7.1	-6.3	3.3	8.6	6.8	-1.2	4.2	
Port cargo traffic	6.7	5.8	-3.4	-5.0	3.4	7.6	3.6	13.3	7.0	4.3	5.6	4.0	2.5
Retail commercial vehicle sales	-6.0	-10.4	6.4	-6.1	-5.2	8.2	-8.6	2.7	-1.0	-3.7	6.6	0.2	8.6
Hotel occupancy	0.7	2.1	-5.3	11.1	-0.2	1.2	0.6	1.9	7.2	-2.8	-0.3	-2.4	
Tourist arrivals	-4.2	0.4	-1.4	-0.1	-6.6	-0.2	-8.6	-13.7	-3.8				
Steel consumption	14.1	13.5	12.7	12.3	11.4	11.4	11.3	11.5	6.0	7.1	7.9	7.7	8.2
Cement production	-2.5	7.6	3.1	13.1	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	6.1

<<Contraction Expansion>>

- Notes:** 1. The y-o-y growth (in per cent) has been calculated for all indicators (except for PMI).
 2. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.
 3. The heatmap is applied on data from April 2023 till August 2025, other than for domestic and international air cargo, and hotel occupancy, where the data are till July 2025. The latest data for tourist arrivals is till April 2025.
 4. The data on international air passenger traffic for August 2025 growth rate is calculated by aggregating daily data.
 5. All PMI values are reported in index form. A PMI value >50 denotes expansion, <50 denotes contraction and =50 denotes 'no change'. In the PMI heatmaps, red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

Sources: Federation of Automobile Dealers Associations (FADA); Indian Ports Association; Airports Authority of India; HVS Anarock; Ministry of Tourism, GoI; Joint Plant Committee; Office of Economic Adviser; and S&P Global.

Inflation

Headline CPI inflation¹⁴ inched up in August after falling for nine consecutive months, with the pickup coming largely from the food group (Chart III.9). CPI inflation stood at 2.1 per cent in August as against 1.6 per cent in July.

Food group recorded zero inflation in August after being in deflation during June- July. Inflation in sub-groups such as oils and fats, eggs, meat and fish and sugar inched up. Cereals, fruits, milk, prepared meals and non-alcoholic beverages saw a moderation in inflation. Deflation continued in vegetables, pulses, and spices (Chart III.10).

Fuel and light inflation moderated in August with inflation remaining elevated for LPG, while

moderating for electricity.¹⁵ Kerosene prices continued to remain in deflation.

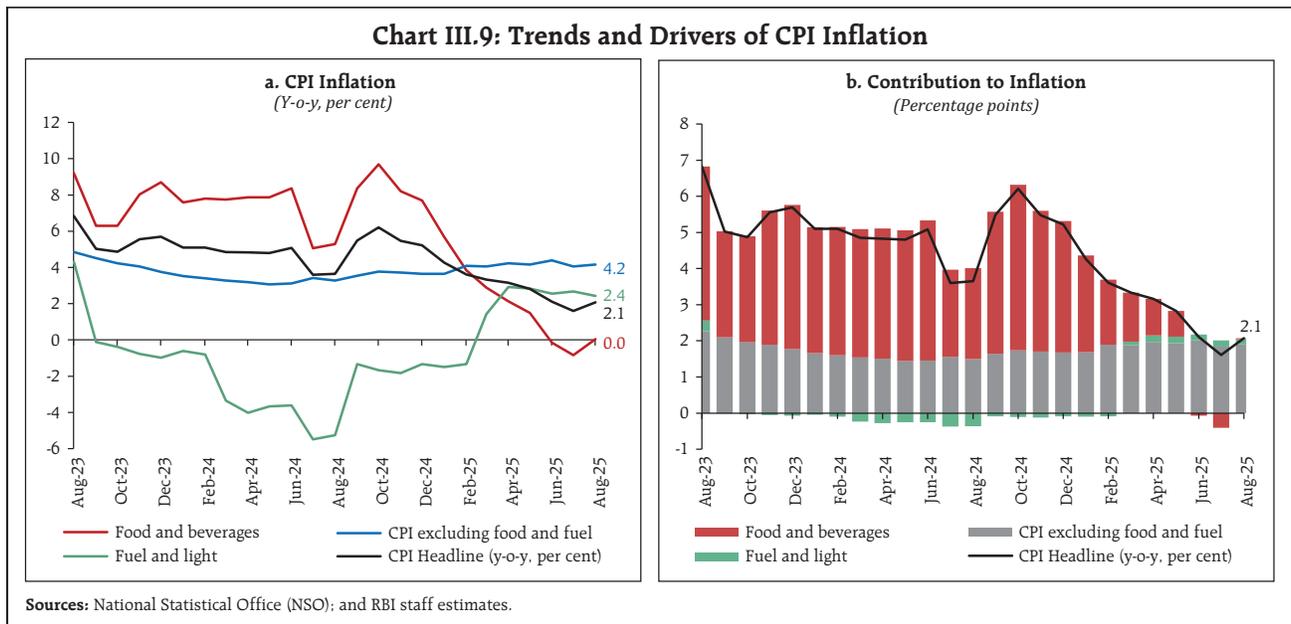
Core inflation edged up to 4.2 per cent in August from 4.1 per cent in July. The uptick in inflation was mostly driven by the 'personal care and effects'¹⁶ sub-group, on account of rising gold prices. Gold contributed around 28 per cent to core inflation in August. Inflation, however, moderated in other subgroups such as clothing and footwear, housing, health, education, and transport and communication.

Both rural and urban inflation edged up to 1.7 per cent and 2.5 per cent, respectively, in August. While the state-level inflation rates varied between (-) 1.40 per cent and 9.04 per cent, inflation was

¹⁵ Inflation in fuel and light subgroup was 2.4 per cent in August.

¹⁶ The 'personal care and effects' sub-group in the CPI basket contains precious metal items like gold and silver apart from items such as soap, hair oil, and other cosmetics.

¹⁴ As per the provisional data released by the National Statistical Office (NSO) on September 12, 2025.



contained below 4 per cent in majority of the states, with only two states recording a higher inflation (Chart III.11).

High-frequency food price data for September so far (up to 19th) point towards a pick-up in cereal prices. Pulses recorded a mixed trend, with a decline

in prices of *tur/arhar* dal and moong dal and an increase in gram dal price. Among edible oils, prices firmed up for mustard, sunflower and palm oils while groundnut oil prices eased. Prices of key vegetables (potato, onion, and tomato) softened with a notable decline in tomato prices (Chart III.12).

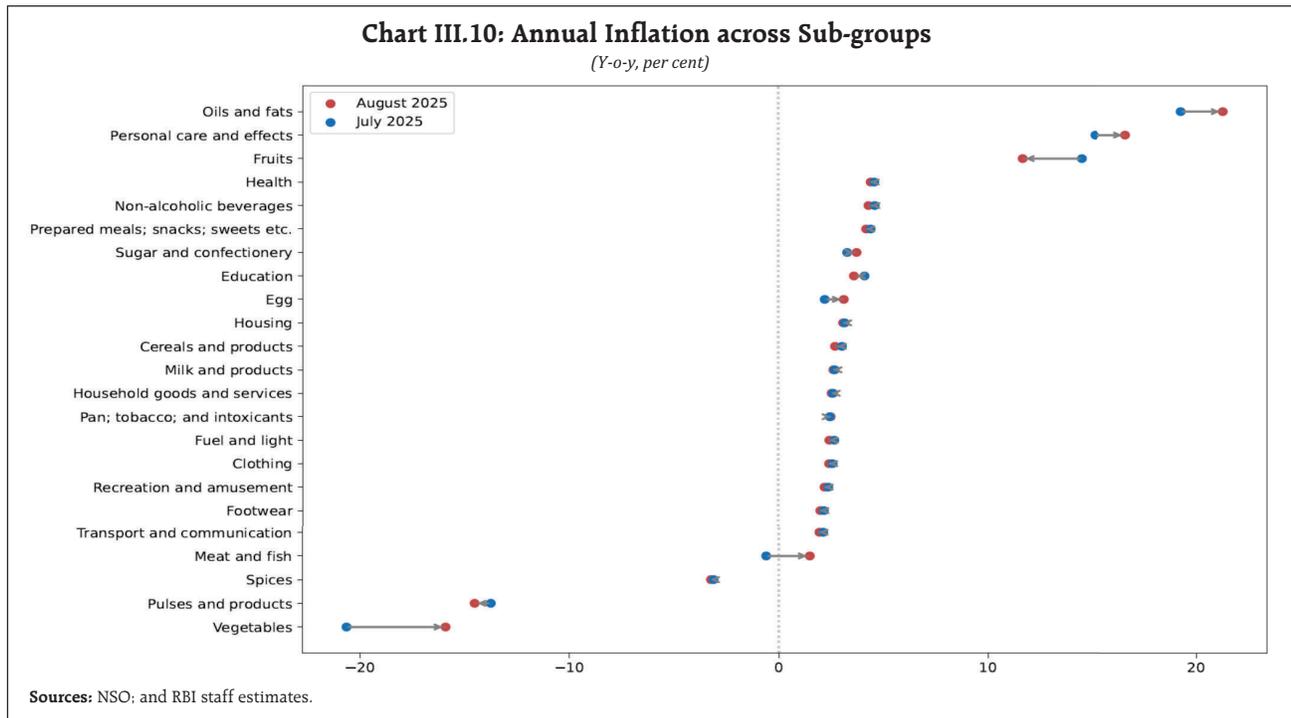


Chart III.11: Spatial Distribution of Inflation: August 2025 (CPI-Combined)
(Y-o-y, per cent)

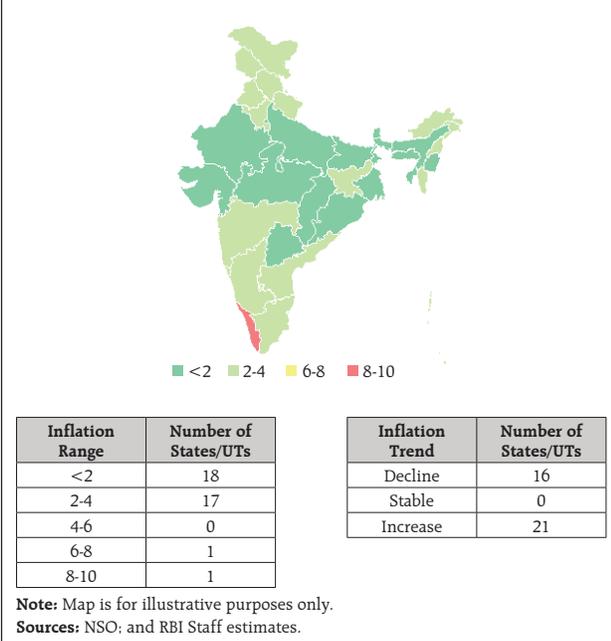


Table III.6: Petroleum Products Prices

Item	Unit	Domestic Prices			Month-over-month (per cent)	
		Sep-24	Aug-25	Sep-25 ^	Aug-25	Sep-25 ^
Petrol	₹/litre	100.97	101.12	101.12	0.0	0.0
Diesel	₹/litre	90.42	90.53	90.53	0.0	0.0
Kerosene (subsidised)	₹/litre	45.78	44.47	44.25	3.4	-0.5
LPG (non-subsidised)	₹/cylinder	813.25	863.25	863.25	0.0	0.0

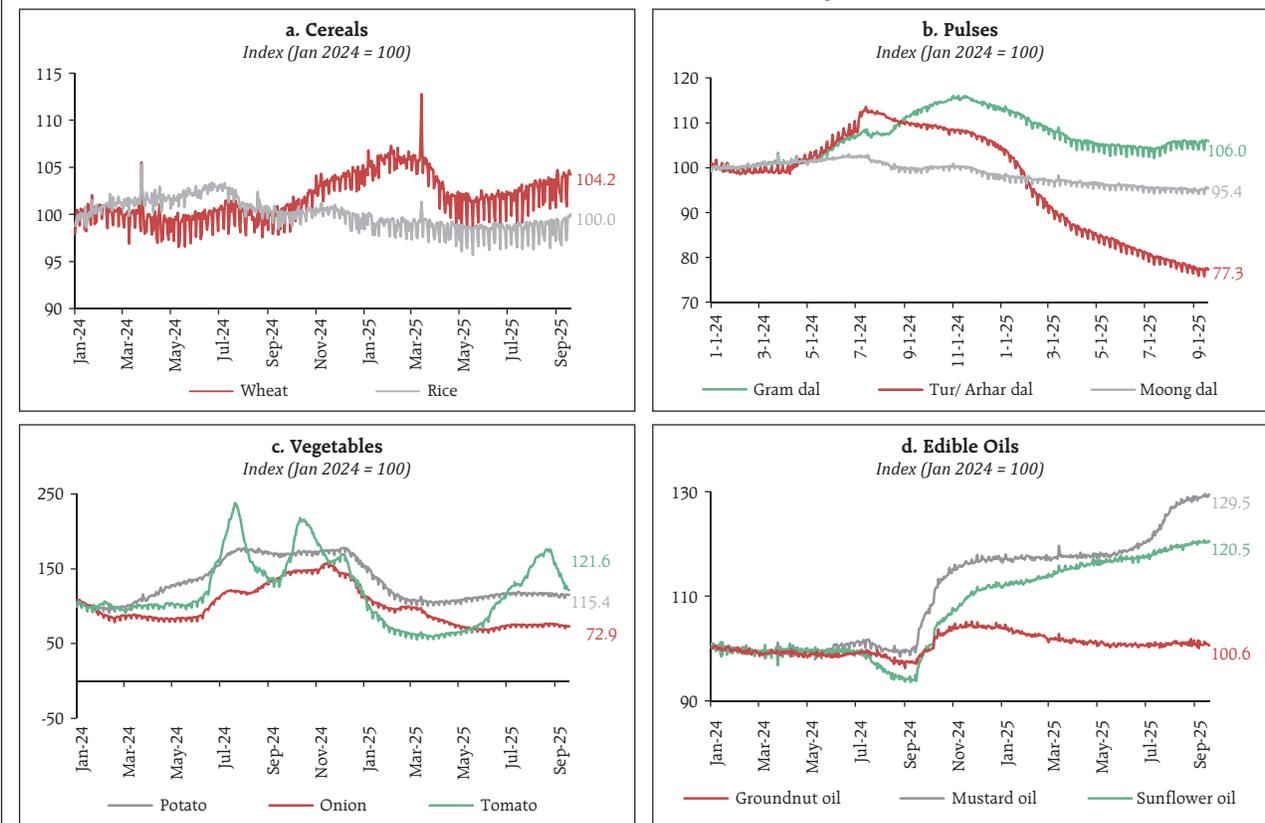
^ : For the period September 1-19, 2025.

Note: Other than kerosene, prices represent the average Indian Oil Corporation Limited (IOCL) prices in four major metros (Delhi, Kolkata, Mumbai and Chennai). For kerosene, prices denote the average of the subsidised prices in Kolkata, Mumbai and Chennai.

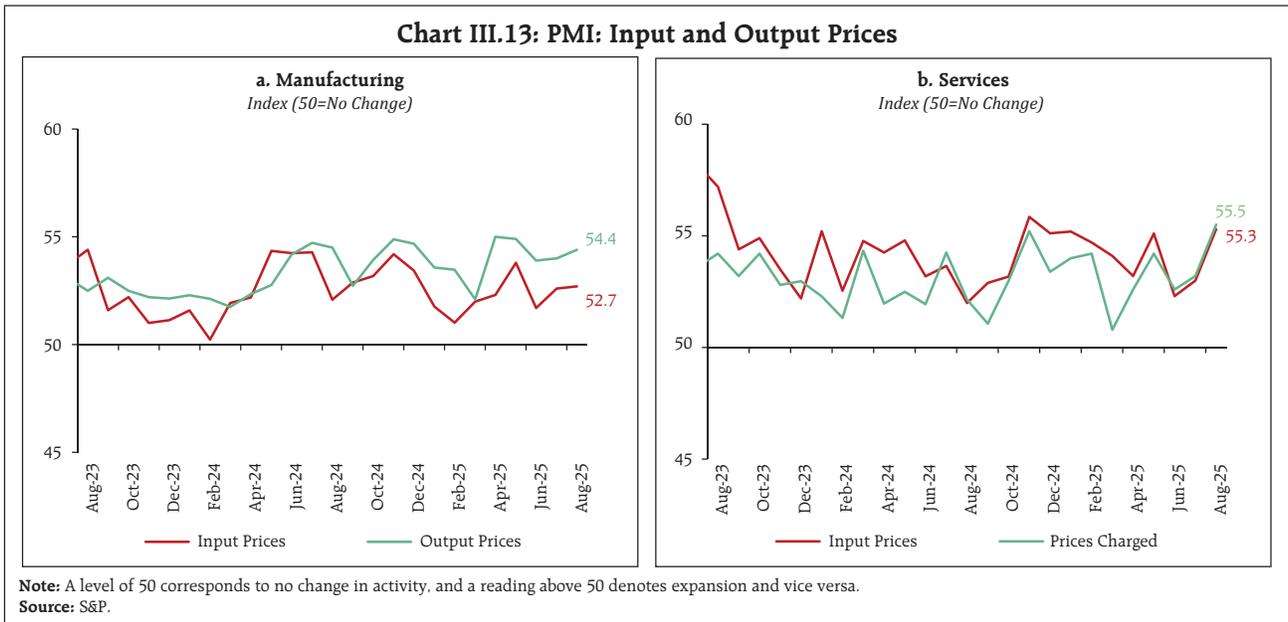
Sources: IOCL; Petroleum Planning and Analysis Cell (PPAC); and RBI staff estimates.

Retail selling prices of petrol and diesel remained unchanged in September (up to 19th). Kerosene prices moderated slightly while LPG prices remained unchanged (Table III.6).

Chart III.12: DCA Essential Commodity Prices



Sources: Department of Consumer Affairs, GoI; and RBI staff estimates.

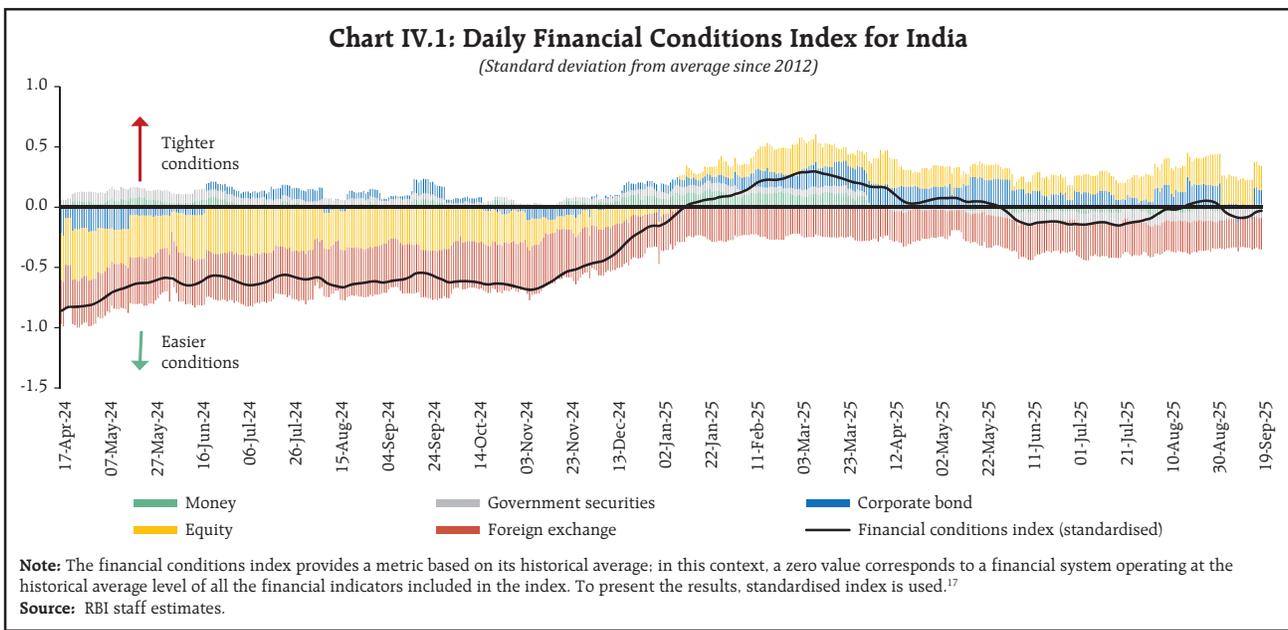


The PMIs for August 2025 recorded a pick-up in the rate of expansion of input prices for manufacturing which rose due to higher prices for metals, leather, and electronic parts. In services, too, input costs expansion picked up due to higher salaries. Selling prices also accelerated for both services and manufacturing firms reportedly due to strengthening of demand conditions (Chart III.13).

IV. Financial Conditions

Overall financial conditions turned accommodative since the beginning of September primarily on account of easing corporate bond market (Chart IV.1).

System liquidity remained in surplus during August and September (up to September 19). The

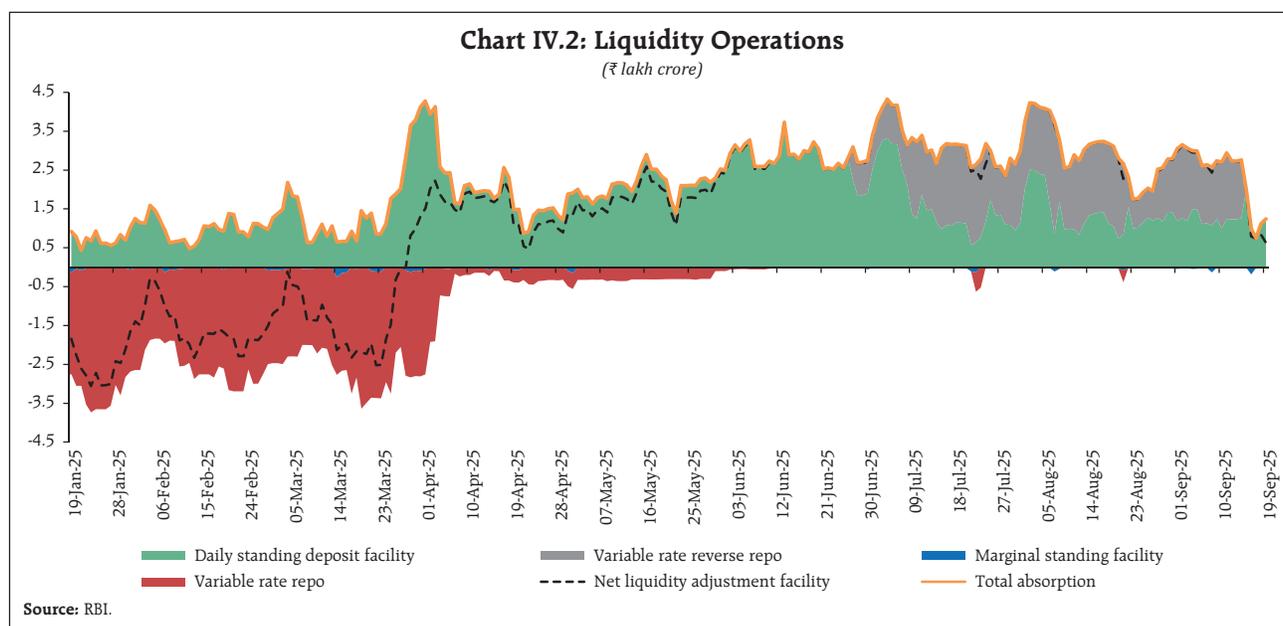


¹⁷ For detailed methodology see https://rbi.org.in/Scripts/BS_ViewBulletin.aspx?id=23451

cash reserve ratio reduction of 25 bps effective September 6 aided banking system liquidity. The average daily net absorption under the liquidity adjustment facility stood at ₹2.4 lakh crore during August 16 to September 19, 2025, compared to ₹3.09 lakh crore in the preceding one-month period (Chart IV.2). During this period, the Reserve Bank conducted 5 variable rate reverse repo auctions (overnight to 8-day maturity) to absorb excess liquidity and align overnight money market rates with the policy repo rate. Amidst surplus liquidity conditions, the average balances under the standing deposit facility continued to remain elevated and banks' recourse to the marginal standing facility remained low.¹⁸ The Reserve Bank also conducted variable rate repo auction on August 21 and September 16 to address frictional liquidity strains on account of tax outflows.

Money Market

Amidst surplus liquidity, the weighted average call rate – the operating target of monetary policy – generally hovered in the lower half of the corridor in August and the first half of September. However, it hardened during September 15-19 as system liquidity moderated on account of tax outflows (Chart IV.3a).¹⁹ Overnight rates in the collateralised segments – the triparty and market repo – and the benchmark secured overnight rupee rate largely moved in tandem with the uncollateralised rate. Yields on three-month treasury bills, certificates of deposit, and commercial papers issued by non-banking financial companies hardened during this period (Chart IV.3b).²⁰ The average risk premium in the money market (the spread between the yields on 3-month commercial paper and 91-day treasury bill) increased marginally.²¹

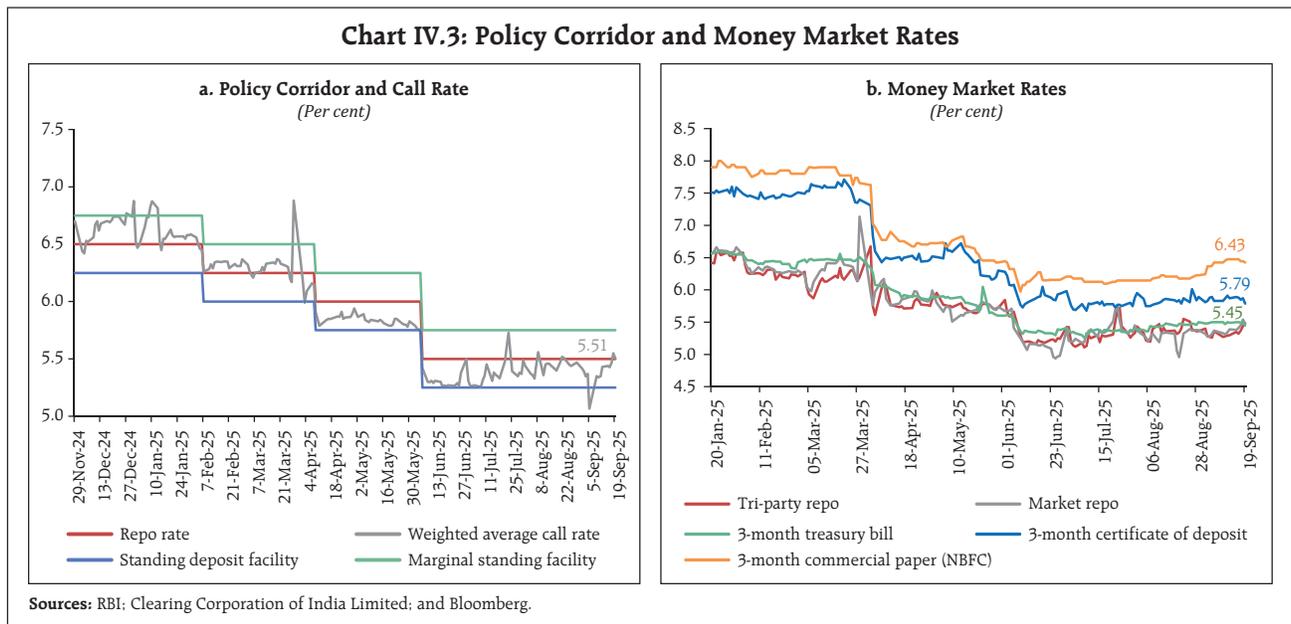


¹⁸ Balances under the standing deposit facility were ₹1.21 lakh crore during August 16 to September 19, 2025 as compared to ₹1.32 lakh crore in the preceding one-month period. MSF stood at an average of ₹0.03 lakh crore during this period.

¹⁹ The spread averaged (-) 8 bps during the period August 16 to September 19, 2025, as against (-) 6 bps during the period July 16 to August 15, 2025.

²⁰ The average yields on 3-month treasury bills, 3-month commercial papers issued by NBFCs, and 3-month certificate of deposit hardened by 9 bps, 18 bps and 5 bps, respectively, during the period August 16 to September 19, 2025, as compared to the period July 16 to August 15, 2025.

²¹ Increased to 86 bps during the period August 16 to September 19, 2025, as compared to 76 bps in the preceding one-month period.



Government Securities (G-sec) Market

In the fixed income segment, yields hardened in August before softening in September, as markets reacted positively to the reiteration of the government towards the path of fiscal consolidation. The average term premium (the difference between the yields of 10-year G-sec and 91-day treasury bill) increased

by 7 bps during August 16 to September 19, 2025 as compared to the preceding one-month period (Charts IV.4a and IV.4b).

Corporate Bond Market

Corporate bond yields exhibited mixed movements across tenors and rating spectrum, while their spreads over the corresponding risk-free rates

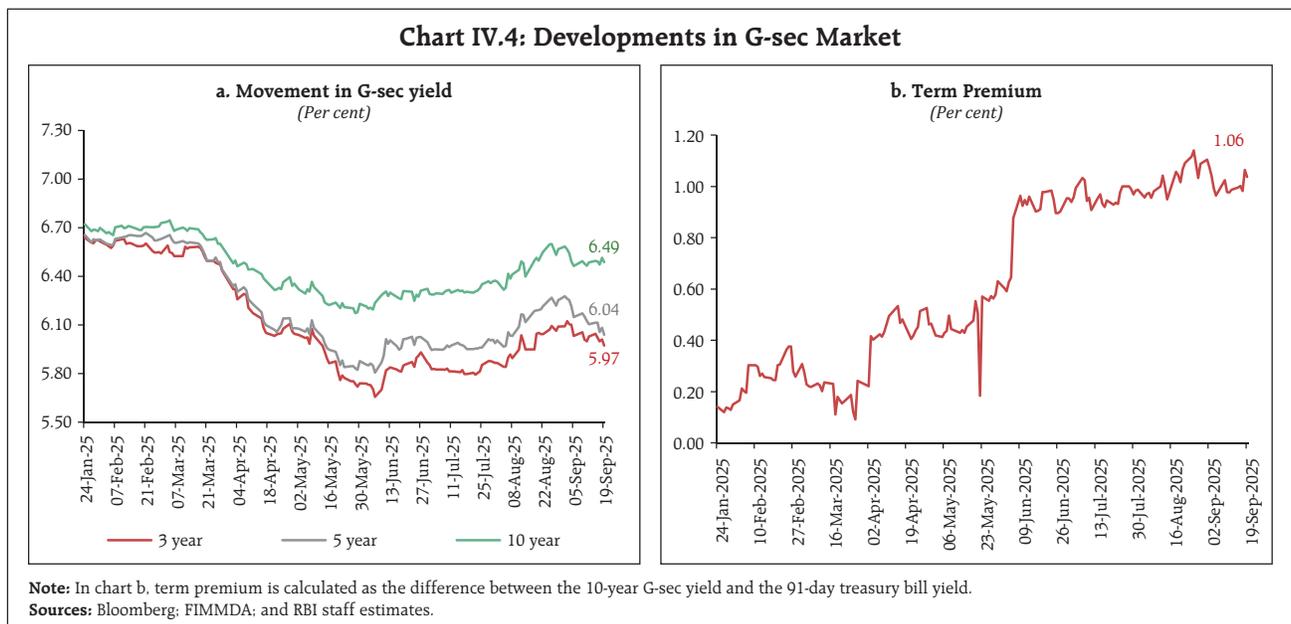


Table IV.1: Corporate Bonds - Rates and Spread

Instrument	Interest Rates (Per cent)			Spread (bps)		
				(Over Corresponding Risk-free Rate)		
	July 16, 2025 – August 15, 2025	August 16, 2025 – September 18, 2025	Variation	July 16, 2025 – August 15, 2025	August 16, 2025 – September 18, 2025	Variation
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
(i) AAA (1-year)	6.56	6.58	2	93	91	-2
(ii) AAA (3-year)	6.95	7.01	6	97	94	-3
(iii) AAA (5-year)	7.13	7.10	-3	95	81	-14
(iv) AA (3-year)	8.02	7.94	-8	204	199	-5
(v) BBB- (3-year)	11.64	11.38	-26	567	567	0

Note: Yields and spreads are computed as averages for the respective periods.

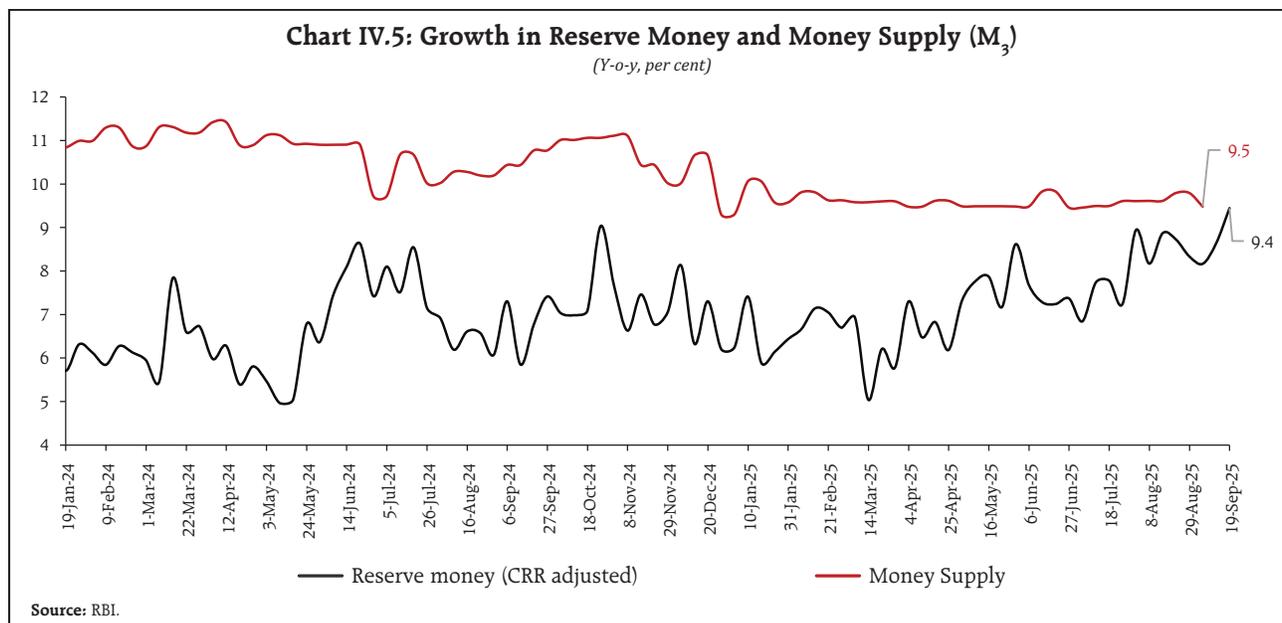
Source: FIMMDA.

declined (Table IV.1). Corporate bond issuances remained higher than last year on a cumulative basis though there was some decline in July.²²

Money and Credit

Reserve money growth, adjusted for the first-round impact of changes in the cash reserve ratio,

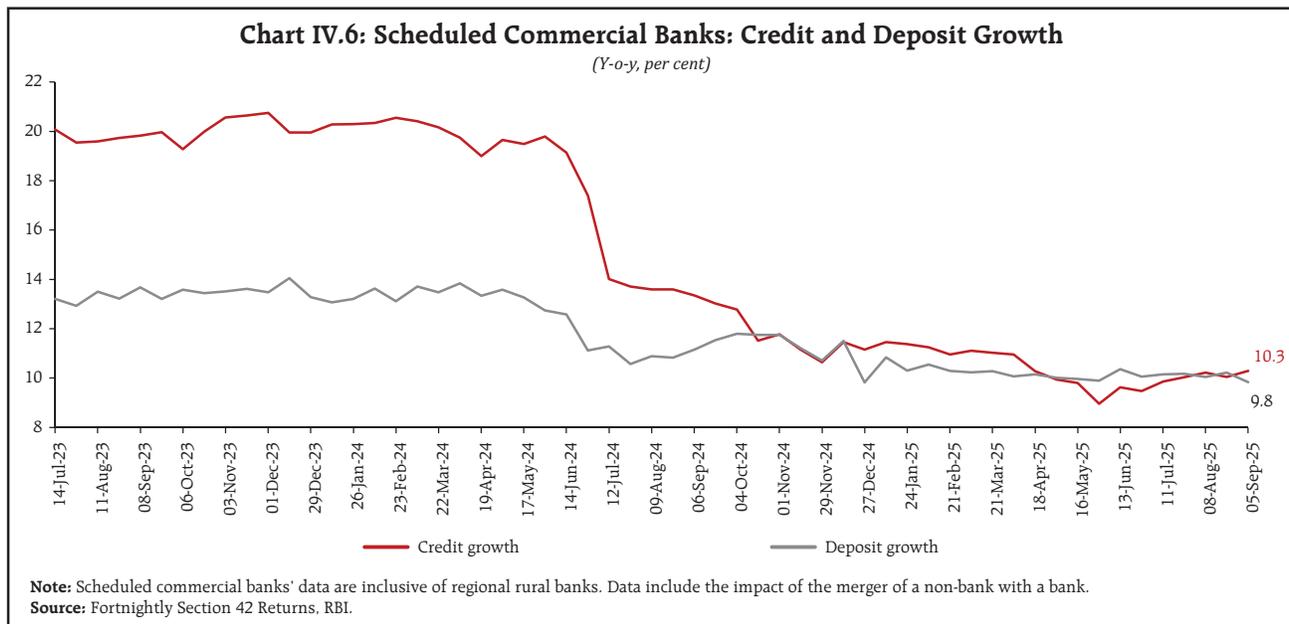
increased in September, tracking growth in currency in circulation. Currency in circulation grew reflecting increased demand for currency ahead of the festival season and *kharif* harvest activities. The growth in money supply (M_3) remained broadly stable during August (Chart IV.5).^{23,24}



²² Declined to ₹0.58 lakh crore in July 2025, compared to ₹1.08 lakh crore in June 2025. On a cumulative basis (April to July), it was at ₹3.5 lakh crore in 2025-26 as compared to ₹2.5 lakh crore in corresponding period of the previous year.

²³ Reserve money (adjusted for CRR) grew by 9.4 per cent (y-o-y) as on September 19, 2025 [8.7 per cent (y-o-y) as on August 22, 2025]. Currency in circulation grew by 8.9 per cent (y-o-y) as on September 19, 2025 [8.5 per cent (y-o-y) as on August 22, 2025].

²⁴ Money supply grew by 9.5 per cent (y-o-y) as on September 5, 2025 [9.6 per cent (y-o-y) as on August 8, 2025]. It includes the impact of the merger of a nonbank with a bank (with effect from July 1, 2023).



Scheduled commercial banks' credit growth picked up slightly to double-digits in August, with deposit growth remaining steady (Chart IV.6 and Annex Chart A7).²⁵ During 2025-26 so far, the flow of non-food bank credit to the commercial sector moderated; however, it was more than offset by the flow from non-bank sources. Consequently, total flow of financial resources to the commercial sector was higher than in the corresponding period a year ago.

Across key sectors, bank credit growth recorded a modest improvement in July (Annex Chart A8).^{26,27} Within the services sector, credit growth sustained its upward trajectory, mainly driven by trade and commercial real estate. Growth in personal loans was largely supported by housing loans and buoyancy in gold and other personal loan segments. Credit

to industry recorded a slight uptick on the back of robust credit growth to MSMEs.

Deposit and Lending Rates

The pass-through of the cumulative 100 bps reduction in the repo rate during February to August 2025 to lending and deposit rates has been robust. The weighted average lending rate on fresh and outstanding rupee loans of scheduled commercial banks declined by 53 bps and 49 bps, respectively, in the current easing phase. On the deposit side, the weighted average domestic term deposit rates on fresh and outstanding deposits also moderated (Table IV.2).

The decline in the weighted average lending rate on fresh and outstanding rupee loans was higher in the case of private banks relative to public sector

²⁵ Credit growth of scheduled commercial banks was 10.3 per cent (y-o-y) as on September 5, 2025 [10.2 per cent (y-o-y) a month ago]. Deposit growth was 9.8 per cent (y-o-y) as on September 5, 2025 [10.0 per cent (y-o-y) a month ago].

²⁶ As at end-July, growth in non-food bank credit stood at 9.9 per cent (y-o-y), up from 9.3 per cent (y-o-y) recorded in June 2025. Non-food credit data are based on fortnightly Section-42 return for the last reporting Friday of the month, which covers all scheduled commercial banks (SCBs).

²⁷ Sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 95 per cent of total non-food credit extended by all scheduled commercial banks, pertaining to the last reporting Friday of the month. Data include the impact of the merger of a non-bank with a bank.

Table IV.2: Transmission to Banks' Deposit and Lending Rates

(Variation in basis points)

Period	Repo Rate	Term Deposit Rates		Lending Rates				
		WADTDR-Fresh Deposits	WADTDR-Outstanding Deposits	EBLR	1-Year MCLR (Median)	WALR - Fresh Rupee Loans		WALR-Outstanding Rupee Loans
						Overall	Interest Rate Effect #	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Tightening Period May 2022 to Jan 2025	+250	259	206	250	175	181	193	115
Easing Phase Feb 2025 to Aug* 2025	-100	-101	-17	-100	-40	-53	-60	-49

Notes: Data on EBLR pertain to 32 domestic banks.

*: Data on WADTDR and WALR pertain to July 2025. #: At constant share.

WALR: Weighted Average Lending Rate; **WADTDR:** Weighted Average Domestic Term Deposit Rate;

MCLR: Marginal Cost of Funds-based Lending Rate; **EBLR:** External Benchmark-based Lending Rate.

Source: RBI.

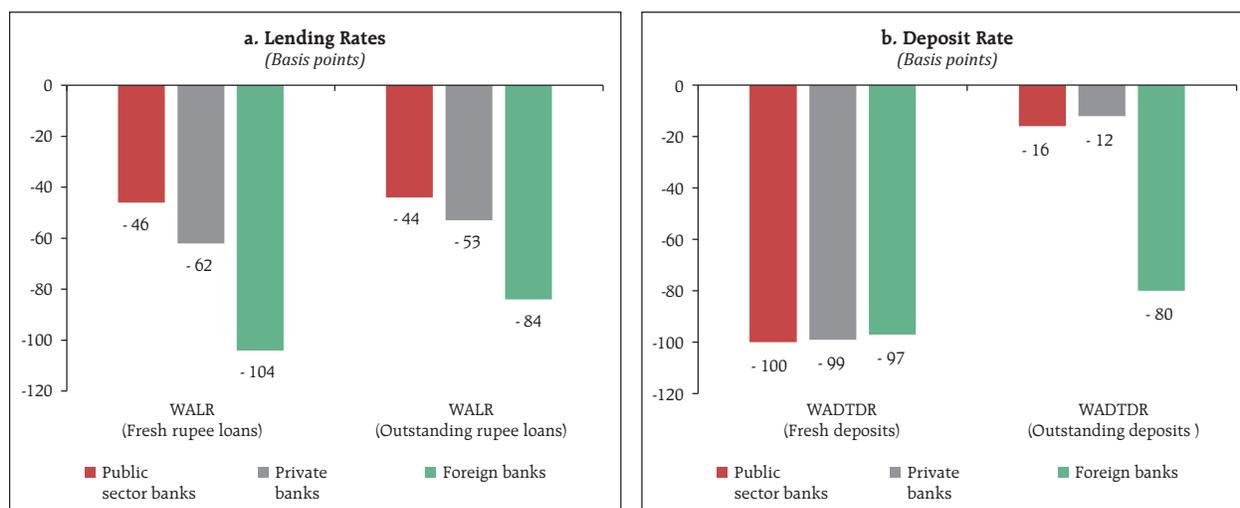
banks (Chart IV.7). On the deposit side, transmission was higher for public sector banks compared to private banks.

Equity Markets

Indian equity markets gained during mid-August following the S&P sovereign rating upgrade and the announcement of GST reforms. Thereafter, equity markets declined towards the end of the month as the additional US import tariff levied on Indian products

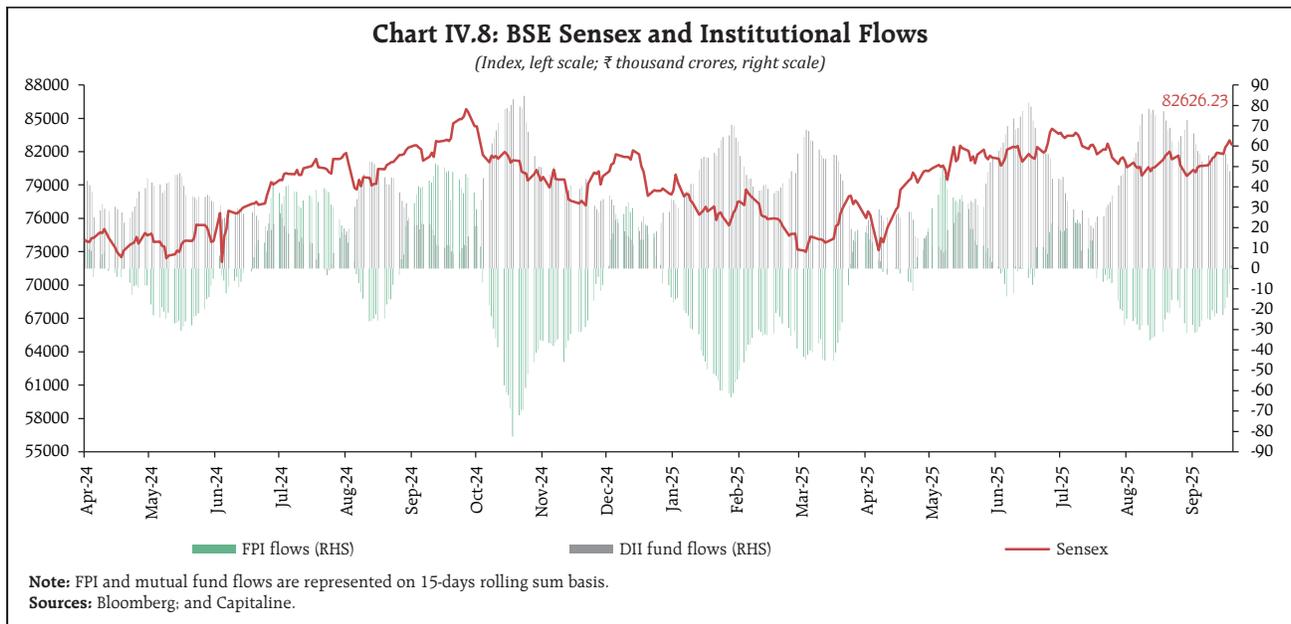
came into effect. Markets began on a positive note in early September on a revival of investor sentiment, buoyed by the release of higher-than-expected GDP growth data for Q1:2025-26 and the strong PMI data releases. Selling activity by foreign investors was more than offset by the sustained buying interest from domestic investors (Chart IV.8). A consistent buying trend by domestic institutional investors has resulted in their equity market holdings surpassing those of FPIs (Annex Chart A9).

Chart IV.7: Transmission across Bank Groups (February 2025 – July 2025)



Note: Transmission during February to July 2025 is calculated by subtracting the weighted average lending and deposit rates of January 2025 from those of July 2025.

Source: RBI.



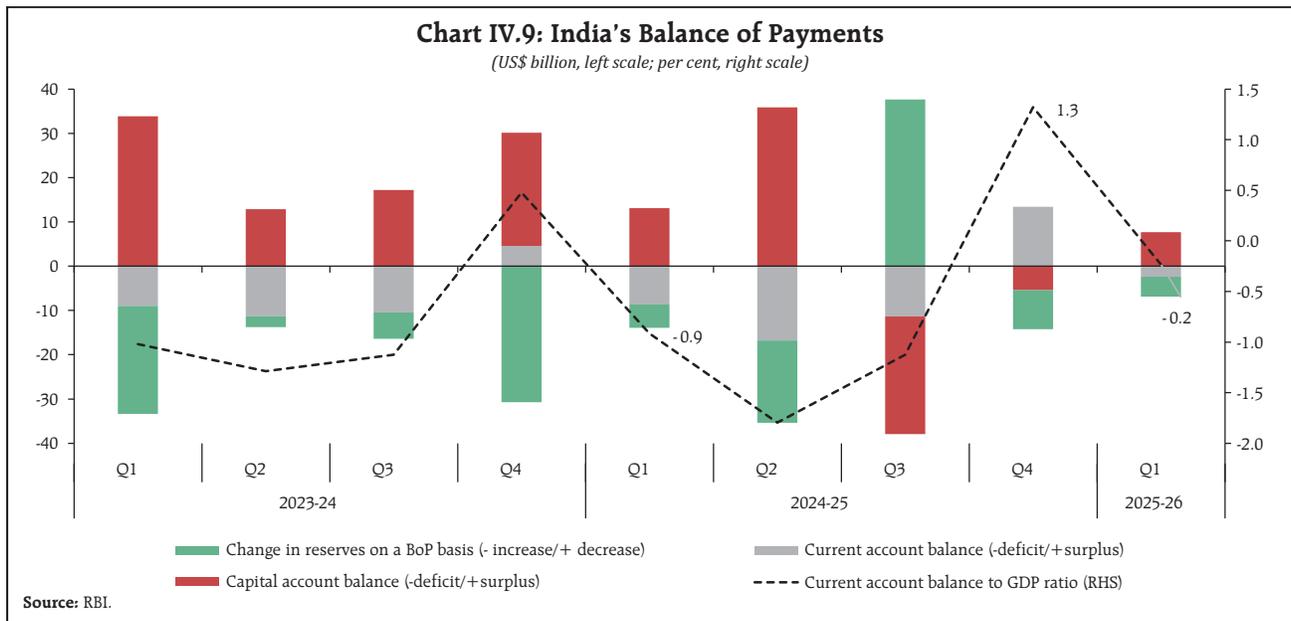
Balance of Payments

India's current account balance improved in Q1:2025-26 over the same period last year, supported by robust services exports and strong remittances receipts (Chart IV.9).²⁸ There was an accretion to the foreign exchange reserves (on a balance of payment

basis) in Q1:2025-26 as net capital inflows were higher than the current account deficit.

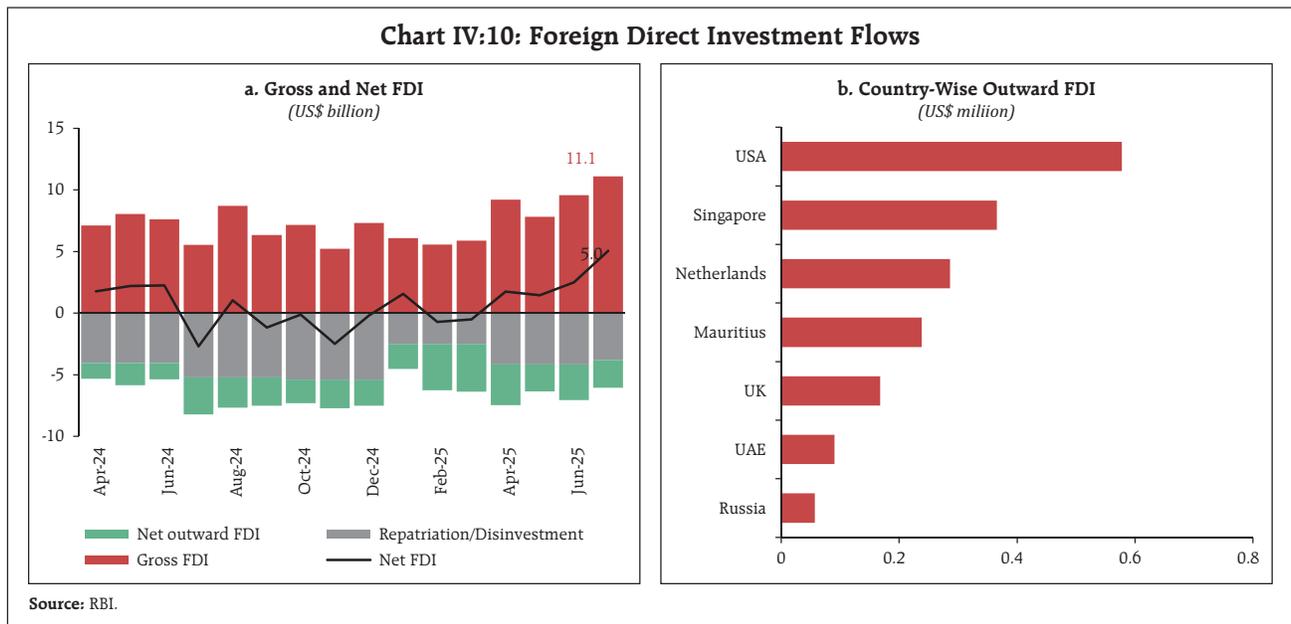
External Sources of Finance

Net FDI reached a 38-month high in July, driven by strong gross FDI and reduced repatriation and outward FDI investment.²⁹ Gross inward FDI doubled



²⁸ Current account balance as per cent of GDP in Q1:2025-26 was (-) 0.2 per cent as compared to (-) 0.9 per cent in Q1:2024-25.

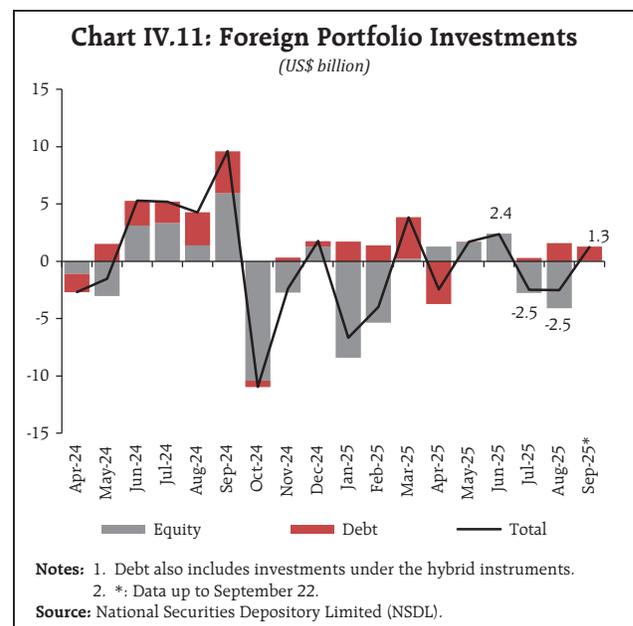
²⁹ Net FDI was at US\$5 billion in July 2025.

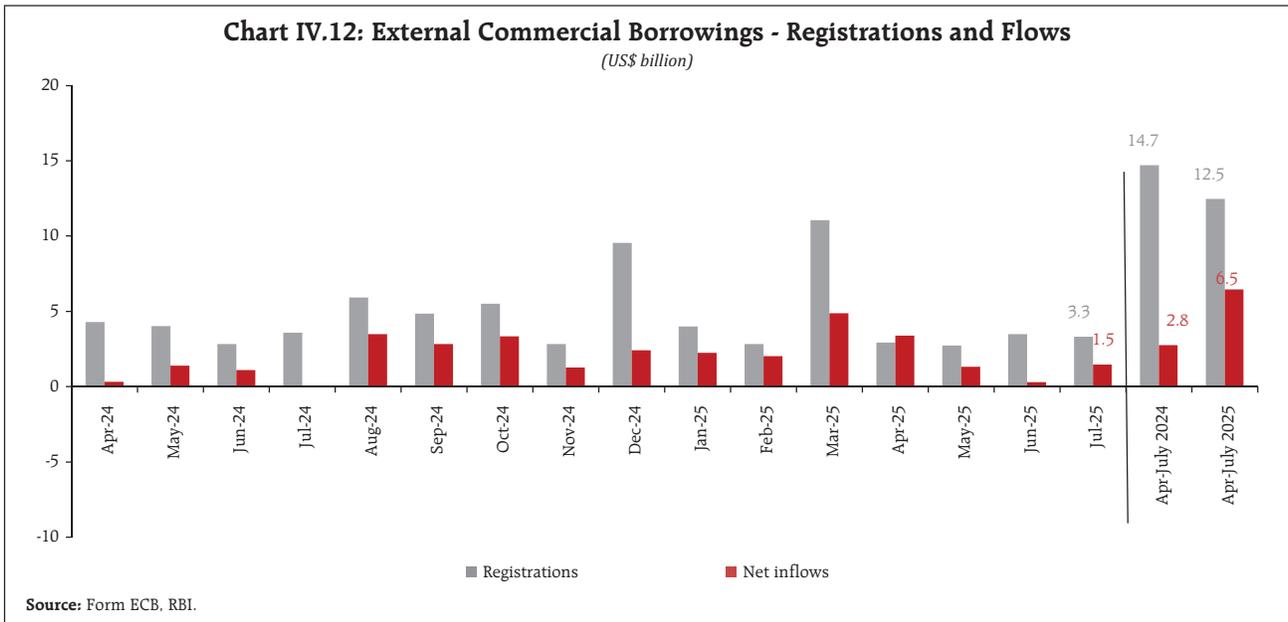


from a year ago (Chart IV.10a). Singapore, followed by the Netherlands, Mauritius, the US and the UAE, together accounted for more than three-fourth of total inflows. Manufacturing and services including communication, computer and business services were the top recipient sectors. Both repatriation of FDI and outward FDI moderated. Outward FDI was mainly directed towards financial, insurance and business services, as well as manufacturing, with the US, Singapore, the Netherlands, Mauritius, and the UK being the major destinations (Chart IV.10b). These movements together led to an increase in net FDI.

Foreign portfolio investment recorded net outflows in August, mainly due to equity outflows amidst heightened risk-off sentiment on US announcement of additional tariffs on Indian products (Chart IV.11). In contrast, the debt segment saw net inflows owing to India's sovereign credit rating upgrade by S&P Global. During September so far (up to September 18) overall net foreign portfolio investment turned positive primarily driven by sustained debt inflows on the US Fed rate cut.

The registrations of external commercial borrowings moderated during April-July 2025. Despite the slowdown, inflows continued to outpace outflows, resulting in positive net inflows (Chart IV.12). Notably, 40 per cent of the total external commercial borrowings registered during this period were intended for capital expenditure.

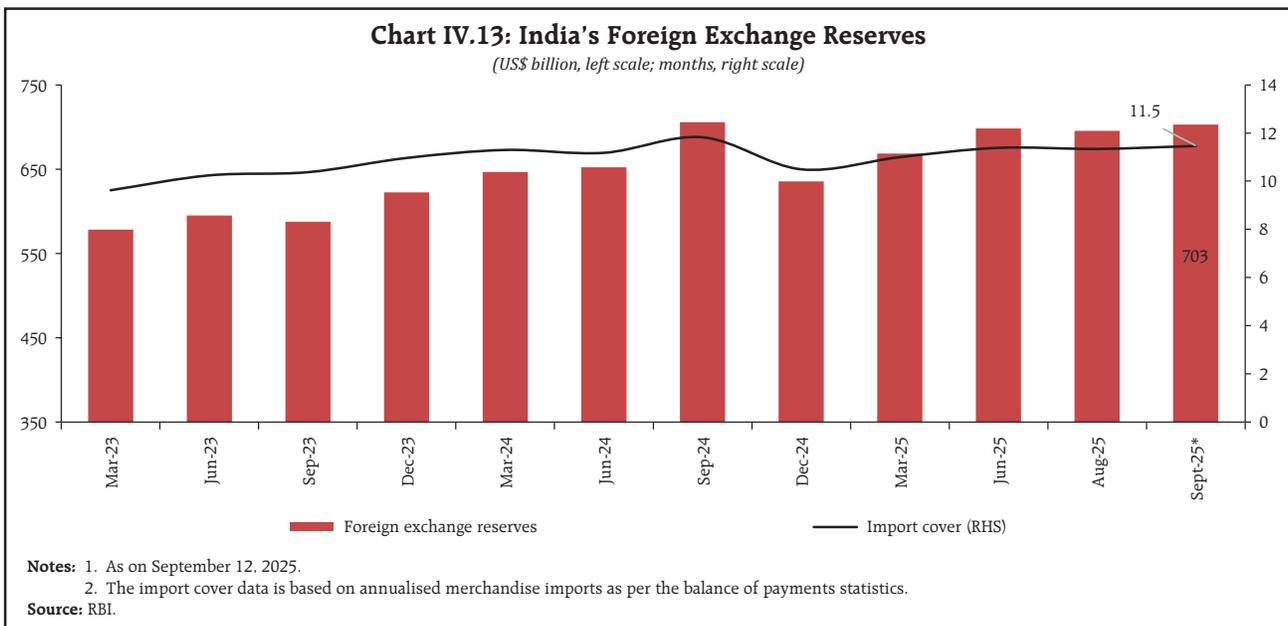




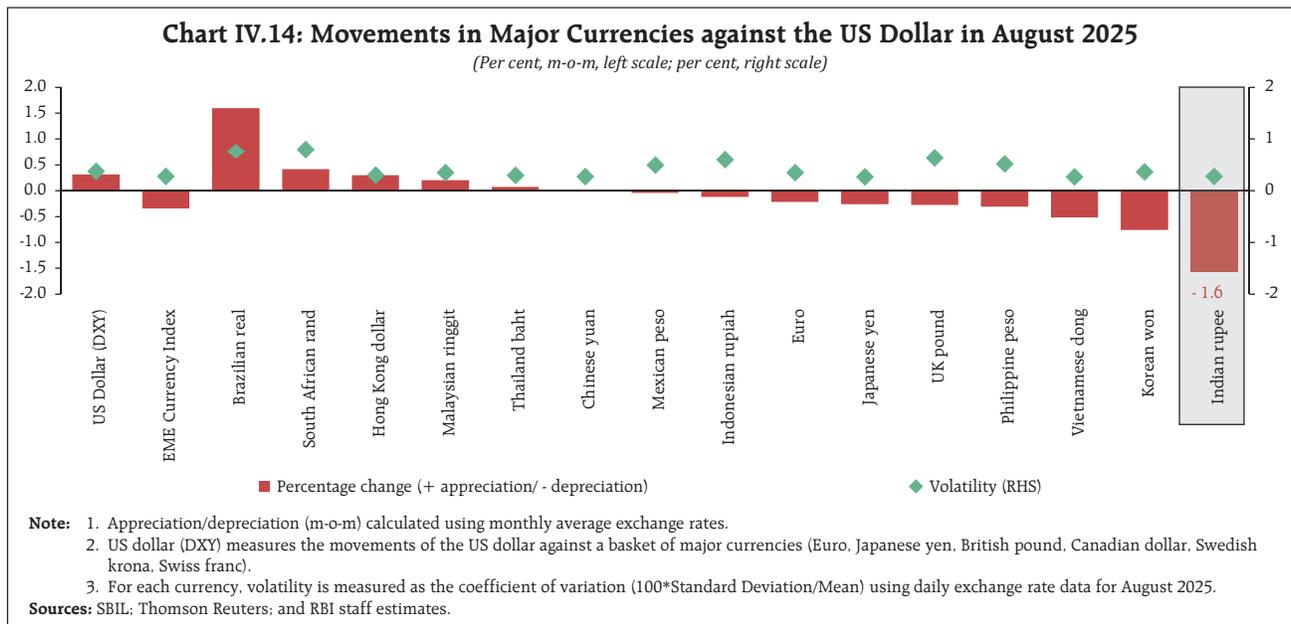
India's foreign exchange reserves remained adequate, providing a cover for more than 11 months of goods imports and for more than 95 per cent of the external debt outstanding at end-March 2025 (Chart IV.13).³⁰

Foreign Exchange Market

The Indian rupee depreciated against the US dollar in August amidst mixed performance of major currencies. This reflected escalating India-US tariff tensions, FPI outflows and a strengthening US dollar (Chart IV.14).



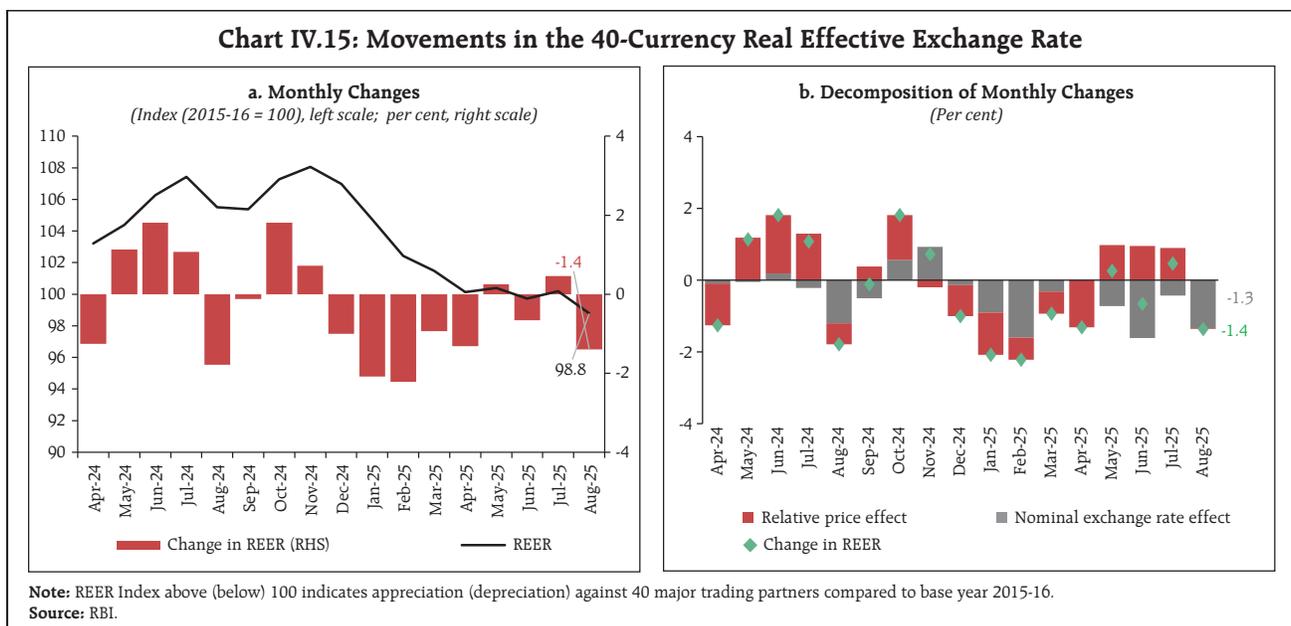
³⁰ The import cover for goods and services was around nine months.



In real effective terms, the Indian rupee depreciated in August (Chart IV.15a). The depreciation in real effective exchange rate was mainly driven by depreciation in nominal effective exchange rate with a marginal relative price effect (Chart IV.15b).

V. Conclusion

While the imposition of high US import tariff brought in some headwinds to the domestic macro-outlook, the developments since then have underscored the resilience of the economy. The S&P sovereign rating upgrade was an acknowledgement



of its strong macro-fundamentals. The Q1:2025-26 GDP estimates reinforced the resilience of domestic growth drivers. High frequency indicators for August show manufacturing and services activity at a decadal high.

In this scenario, the growth outlook for H2 is one of optimism. Healthy corporate balance sheets and the focus on structural reforms by the government are the bright spots of the economy. The landmark GST reforms should progressively result in a sustained positive impact through significant gains in ease of

doing business, lower retail prices and strengthening of consumption growth drivers. A higher *kharif* sowing is expected to translate to a sustained growth momentum in the agriculture sector, while also keeping food prices under check. The transmission of the front-loaded monetary policy easing measures have been robust. Coupled with income tax relief for households and employment augmenting measures³¹, the stage is set for a sustained pick-up in consumption demand in H2 and potentially for a virtuous cycle of higher investments and stronger growth impulses, overcoming persistent global uncertainties.

³¹ Under the government's Employment Linked Incentive Scheme. For details, please refer to <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2141129>

Annex

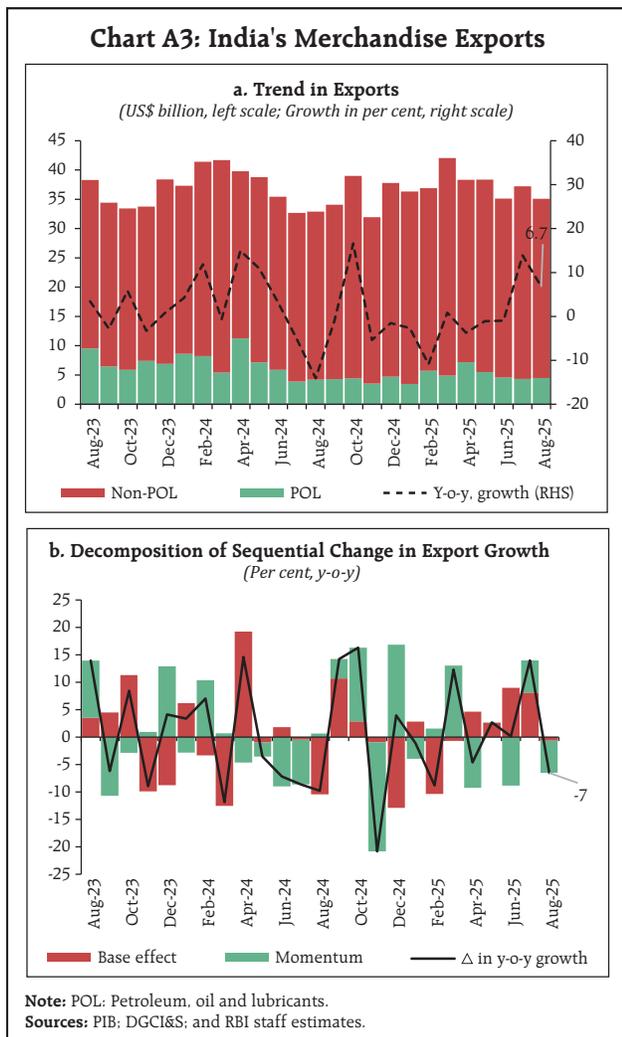
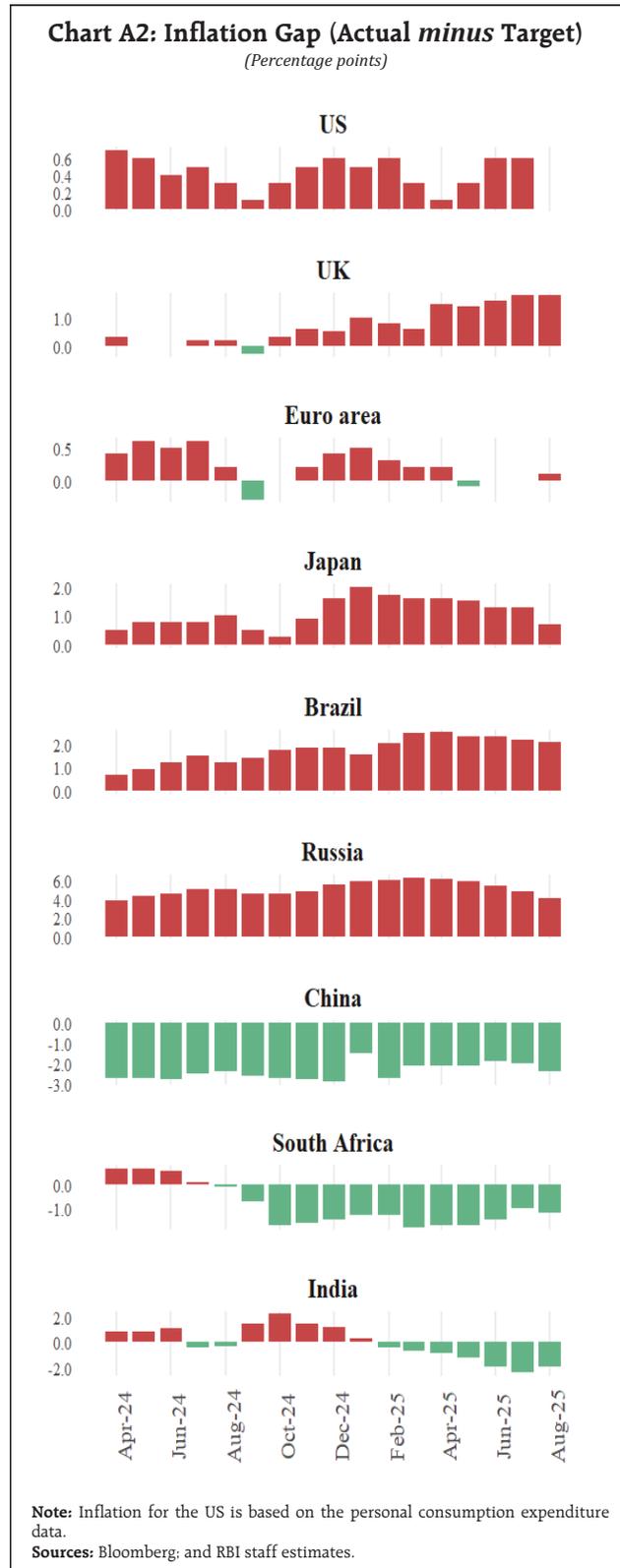
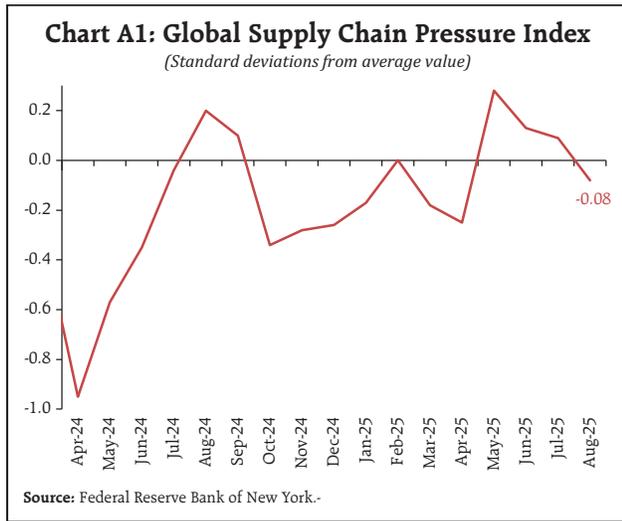


Chart A4: India's Merchandise Imports

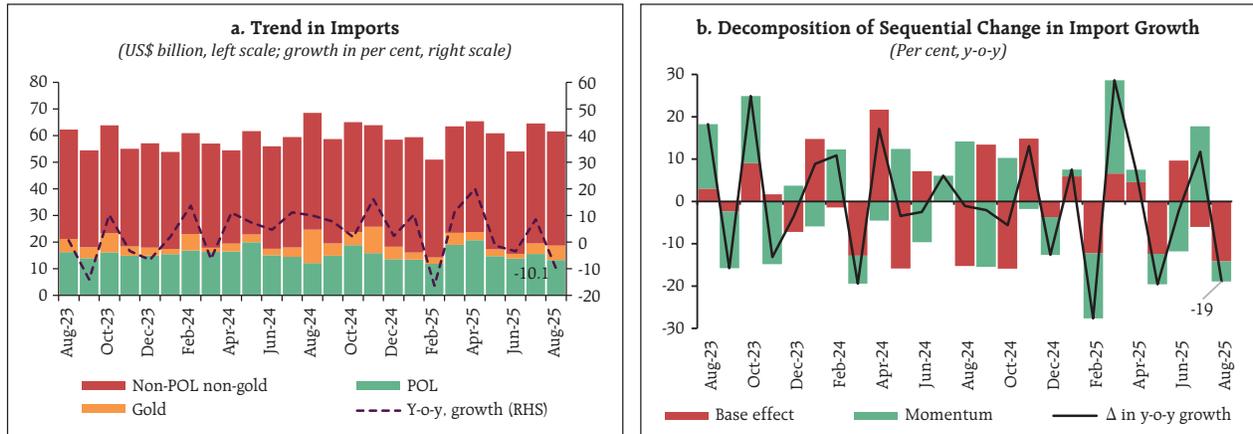
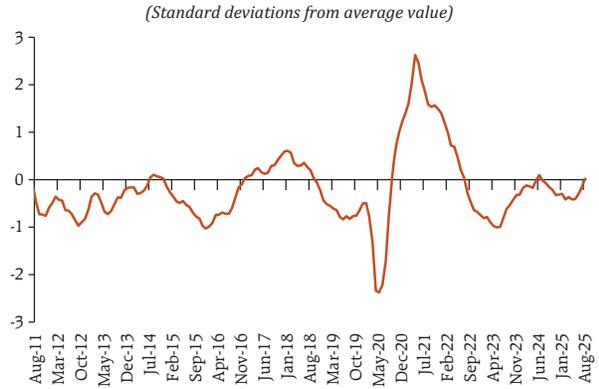
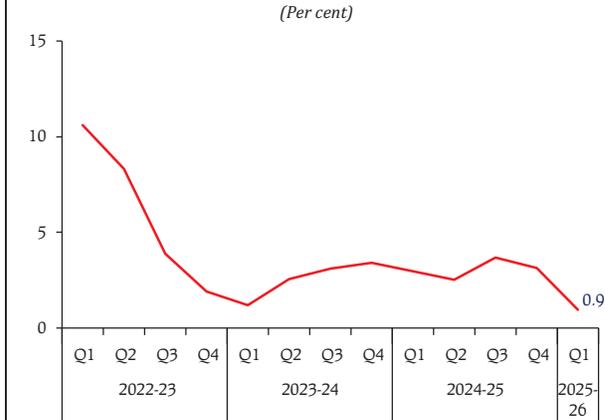


Chart A5: Index of Supply Chain Pressures for India



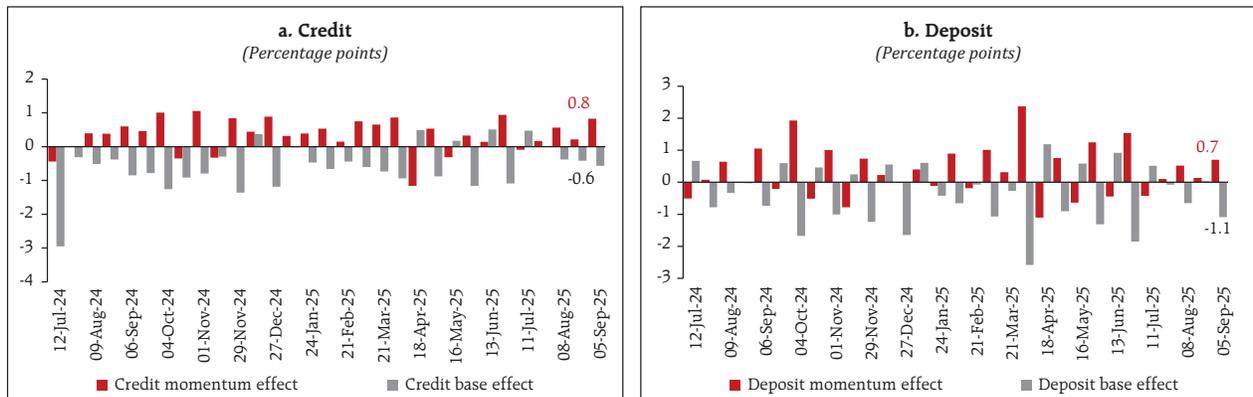
Note: ISPI depicts the deviation of supply chain situation in each month from long period average (time series starting from March 2005).
Source: RBI staff estimates.

Chart A6: GDP Deflator



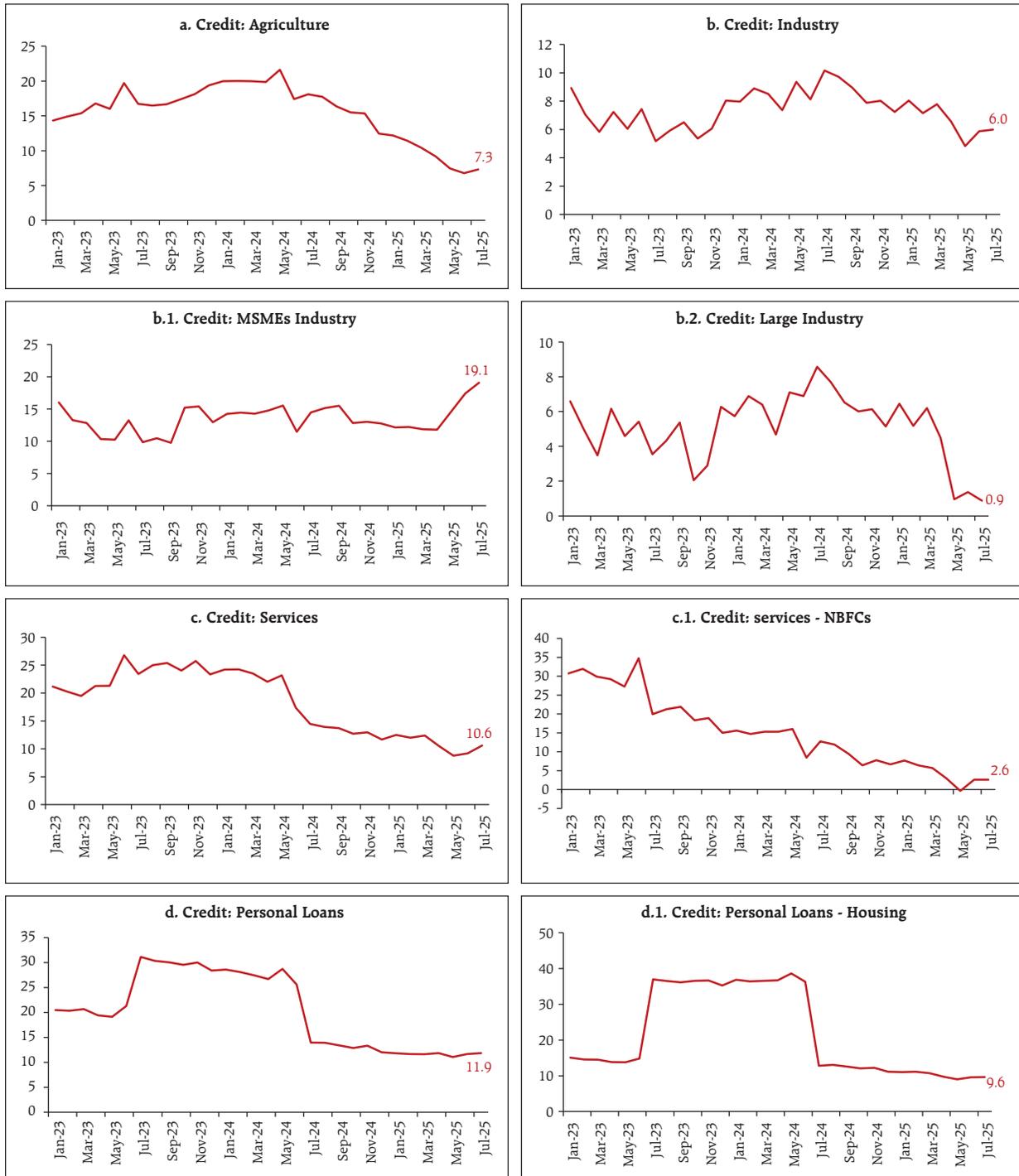
Sources: NSO; and RBI staff estimates.

Chart A7: Scheduled Commercial Banks: Credit and Deposit Growth



Note: Scheduled commercial banks' data are inclusive of regional rural banks. Data include the impact of the merger of a non-bank with a bank.
Source: Fortnightly Section 42 Return, RBI.

Chart A8: Sectoral Deployment of Bank Credit
(Y-o-y, per cent)



Notes: 1. Sectoral non-food credit data is based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 95 per cent of total non-food credit extended by all SCBs, pertaining to the last reporting Friday of the month. Data are provisional. The bank groups covered under the SIBC return are - Public Sector Banks, Private Sector Banks, Foreign Banks, and Small Finance Banks.
2. Data include the impact of the merger of a non-bank with a bank.

Source: RBI.

Table A2: Key Recommendations of the 56th GST Council					
	From (Per cent, GST rate)	To (Per cent, GST Rate)		From (Per cent, GST rate)	To (Per cent, GST Rate)
Daily Essentials			Farmers and Agriculture		
Hair Oil, Shampoo, Toothpaste, Toilet soap bar, toothbrushes, shaving cream	18	5	Tractors tyres and parts	18	5
Butter, Ghee, Cheese, Dairy spreads	12	5	Specified bio-pesticides, micro-nutrients	12	5
Pre-packaged namkeens, Bhujia, mixtures	12	5	Drip irrigation system and sprinklers	12	5
Utensils	12	5	Agriculture, horticulture or forestry machines for soil penetration, cultivation, harvesting and threshing	12	5
Feeding bottles, clinical diapers, etc	12	5			
Sewing machines and parts	12	5			
Healthcare Sector			Automobiles		
Individual health and life insurance	18	'nil'	Petrol and petrol hybrid, LPG, CNG cars (certain types)	28	18
Thermometer	18	5	Diesel and diesel hybrid cars (certain type)	28	18
Medical grade oxygen	12	5	3 wheeled vehicles	28	18
All diagnostic kits and reagents	12	5	Motor cycles (certain types)	28	18
Glucometer and test strips	12	5	Motor vehicles for transport of goods	28	18
Corrective spectacles	12	5			
Education			Electronic Appliances		
Maps, charts, and globes	12	'nil'	Air conditioners	28	18
Pencils, sharpeners, crayons, pastels	12	'nil'	Television (certain types)	28	18
Exercise books and notebooks	12	'nil'	Monitors and projectors	28	18
Eraser	5	'nil'	Dish washing machines	28	18

Source: Press Information Bureau.

Table A3: Real Gross Value Added (GVA) Growth												
<i>(Y-o-Y Growth, per cent)</i>												
Sectors	Share in 2024-25 (Per cent)	Weighted Contribution (percentage points)		2023-24				2024-25				2025-26
		2023-24	2024-25	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
I. Agriculture, Livestock, Forestry & Fishing	14.4	0.4	0.7	5.7	3.7	1.5	0.9	1.5	4.1	6.6	5.4	3.7
II. Industry	21.5	2.4	1.0	6.6	15.3	12.6	9.9	7.8	2.1	3.5	4.7	5.8
Mining and Quarrying	2.0	0.1	0.1	4.1	4.1	4.7	0.8	6.6	-0.4	1.3	2.5	-3.1
Manufacturing	17.2	2.1	0.8	7.3	17.0	14.0	11.3	7.6	2.2	3.6	4.8	7.7
Electricity, gas, water supply and other utility services	2.4	0.2	0.1	4.1	11.7	10.1	8.8	10.2	3.0	5.1	5.4	0.5
III. Services	64.1	5.8	4.8	12.1	8.3	8.5	8.0	7.2	7.4	7.5	7.9	9.0
Construction	9.1	0.9	0.8	9.2	14.6	10.0	8.7	10.1	8.4	7.9	10.8	7.6
Trade, hotels, transport, communication, and services related to broadcasting	18.5	1.4	1.1	11.0	5.4	8.0	6.2	5.4	6.1	6.7	6.0	8.6
Financial, real estate and professional services	23.8	2.4	1.7	15.0	8.3	8.4	9.0	6.6	7.2	7.1	7.8	9.5
Public administration, defense and other services	12.7	1.1	1.1	9.3	8.9	8.4	8.7	9.0	8.9	8.9	8.7	9.8
IV. GVA at basic prices	100.0	8.6	6.4	9.9	9.2	8.0	7.3	6.5	5.8	6.5	6.8	7.6

Sources: NSO; and RBI staff estimates.