*State of the Economy**

Continuing uncertainty on US trade policies shaped the global macroeconomic environment during July and August. Domestic economic activity remained mixed across sectors in July. Timely progress of monsoon has boosted kharif sowing. While industrial activity remained subdued, manufacturing sector expanded, along with services sector sustaining the growth momentum. Headline inflation fell for the ninth consecutive month in July. Financial conditions remained congenial and supportive of domestic economic activity. India's sovereign rating upgrade by S&P bodes well for capital inflows and sovereign yields, going forward.

Introduction

Continuing uncertainty on US trade policies shaped the global macroeconomic environment during July and August. While the EU, South Korea and Japan have entered into trade deals with the US, steeper tariffs were levied on Brazil, Canada, India and Switzerland in August. In its July 2025 World Economic Outlook (WEO) update, the IMF highlighted that the risks to global growth outlook were tilted to the downside notwithstanding the upward revision in global growth projections.

High frequency indicators for global manufacturing activity returned to contractionary zone in July. As per the latest available information, the world trade volume also contracted. Nevertheless, global economic activity, aided by a strong expansion of the services sector, held up. Reflecting uncertain demand conditions, industrial metal prices remained subdued, with crude oil prices exhibiting volatility on geo-political developments and OPEC *plus* deciding to increase crude oil production. Inflation remained sticky across many advanced economies, leading many central banks to pause on policy rates in July. Subsequently in August, growth concerns led some central banks to reduce their policy rates.

Global equity markets showed divergent trends. The equity market rallies in the US and China continued into August. While the Japanese equity indices registered a significant jump following trade deals with the US, those for Europe moved rangebound. The US treasury yields edged up in July on fiscal debt concerns. In August so far, yields exhibited a two-way movement reacting to the weak employment numbers, lower than anticipated consumer price index (CPI) inflation, significant pick-up in wholesale inflation and release of minutes of the July meeting of the Federal Open Market Committee.

Various high frequency indicators of domestic economic activity showed a mixed trend in July, with goods and services tax (GST) e-way bills scaling a record high and GST collections registering a robust growth, but electricity demand remained subdued. Demand in rural areas continued to show resilience. Timely progress of southwest monsoon has helped boost *kharif* sowing. Industrial activity remained subdued in June, dragged down by mining and electricity. Lead indicators for manufacturing and services activity showed sustained expansion in July. Merchandise trade deficit widened in July 2025 due to higher oil deficit with non-oil deficit remaining steady. Uncertainty surrounding the India-US trade deal persists. While the current exemptions from

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tariff alleviate the immediate impact, exports in some sectors may get negatively impacted.

Headline inflation fell for the ninth consecutive month in July and to its lowest level after June 2017, as deflation in food accentuated and core inflation (CPI excluding food and fuel inflation) softened. Vegetable price deflation, in the wake of a muted seasonal uptick in prices and favourable base effects, drove food price dynamics. Other food subgroups such as meat and fish, pulses, and spices continued to record a deflation and cereals experienced a notable fall in inflation. The softening of core inflation was driven by a sharp moderation in the services component.

Overall financial conditions remained benign during July and August (till August 21). Amidst surplus liquidity, the weighted average call rate – the operating target of monetary policy – hovered in the lower half of the corridor. Overnight rates in the money market moved in tandem with the weighted average call rate. In the fixed income segment, 10-year G-sec yields hardened during mid-July to early August amidst uncertainties over India-US trade negotiations and subsequent tariff imposition by the US. The S&P's upgrade of India's sovereign rating on August 14, 2025 led to a brief easing.[1] Thereafter, yields hardened during the third week of August.

On the credit side, bank credit growth exhibited a modest improvement in June 2025, driven by an uptick in credit to micro, small and medium enterprises. The total flow of resources to the commercial sector registered an increase. Large corporates increasingly met their funding requirements through market-based instruments such as commercial paper and corporate bonds.

Domestic equity markets were negatively influenced by subdued corporate earnings and announcement of significantly higher US import tariffs on Indian exports during July and early August, but revived thereafter amidst optimism surrounding India's sovereign credit rating upgrade and the announcement of GST reforms. Steady inflows from domestic institutional investors, notably mutual funds, helped cushion the impact from net selling by foreign portfolio investors (FPIs).

Gross inward foreign direct investment (FDI) reached a four-year high in June. Even so, net FDI inflows remained muted due to an increase in both repatriation of FDI and outward FDI. India's external sector remained resilient with a modest current account deficit and forex reserves covering 11 months of imports. The S&P's sovereign rating upgrade for India – underpinned by buoyant economic growth, enhanced monetary policy credibility and government's commitment to fiscal consolidation – could potentially lead to a reduction in borrowing costs, greater investor confidence and higher foreign capital inflows, going forward.

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.

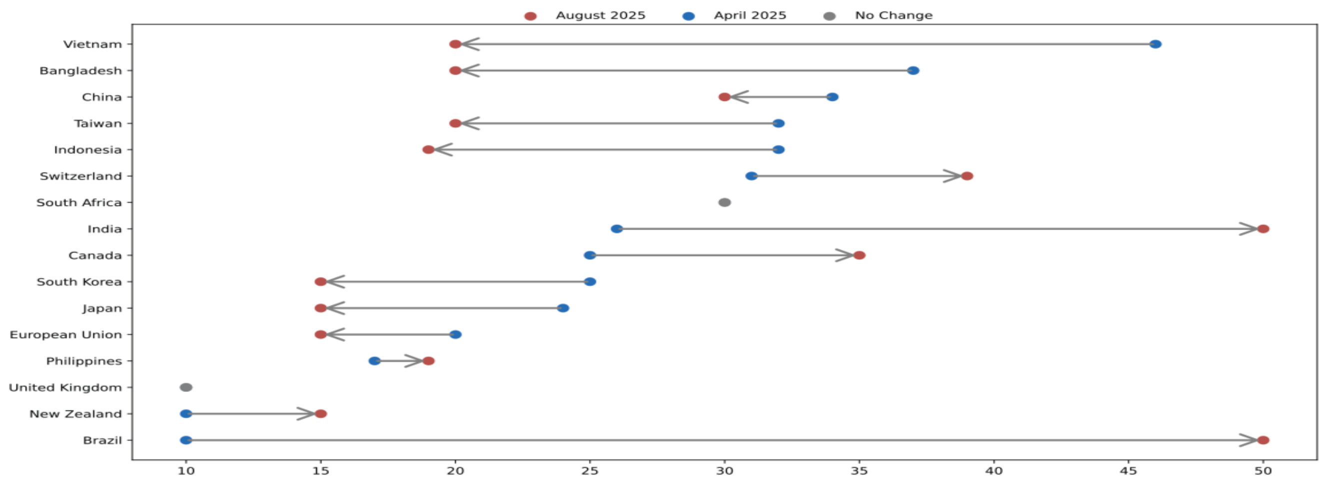
II. Global Setting

In July, the global macroeconomic environment was largely shaped by trade tariff announcements and the continuing uncertainties on US import tariffs rates relating to some major economies and sectors. While the EU, South Korea and Japan have entered into trade deals with the US, steeper tariffs were levied on Brazil, Canada, India and Switzerland in August (Chart II.1).

In its July 2025 update of the World Economic Outlook (WEO), the IMF revised its global GDP growth

[1] S&P Global Ratings has upgraded India's long-term unsolicited sovereign credit rating to 'BBB' from 'BBB-', while also raising the short-term rating to 'A-2' from 'A-3'.

Chart II.1: New Tariffs Announced by the US
(In per cent)



Notes: 1. Countries are ranked in the order of the tariff levied by the US on April 02, 2025.
2. August tariffs include import tariff announcements by US as well as the new tariffs post trade deals.
Sources: The White House, and Reuters.

forecasts for 2025 and 2026 upwards *vis-à-vis* its April projections. Growth forecasts were increased for advanced economies (AEs) by 0.1 percentage points led by the US, the UK, and the Euro area, while growth of emerging market and developing economies (EMDEs) was revised upwards by 0.4 percentage points, driven by stronger projections for China and India (Table II.1). Considering the lingering uncertainties on US trade policy stance, the balance of risks to global growth outlook was perceived to be tilted to the downside.

Global uncertainty remained elevated in July on account of US tariff related uncertainty and geo-political tensions. The economic and trade policy uncertainty indices in the US have retreated from their all-time high levels in April, but the pace of decline has moderated somewhat.[2] Despite some

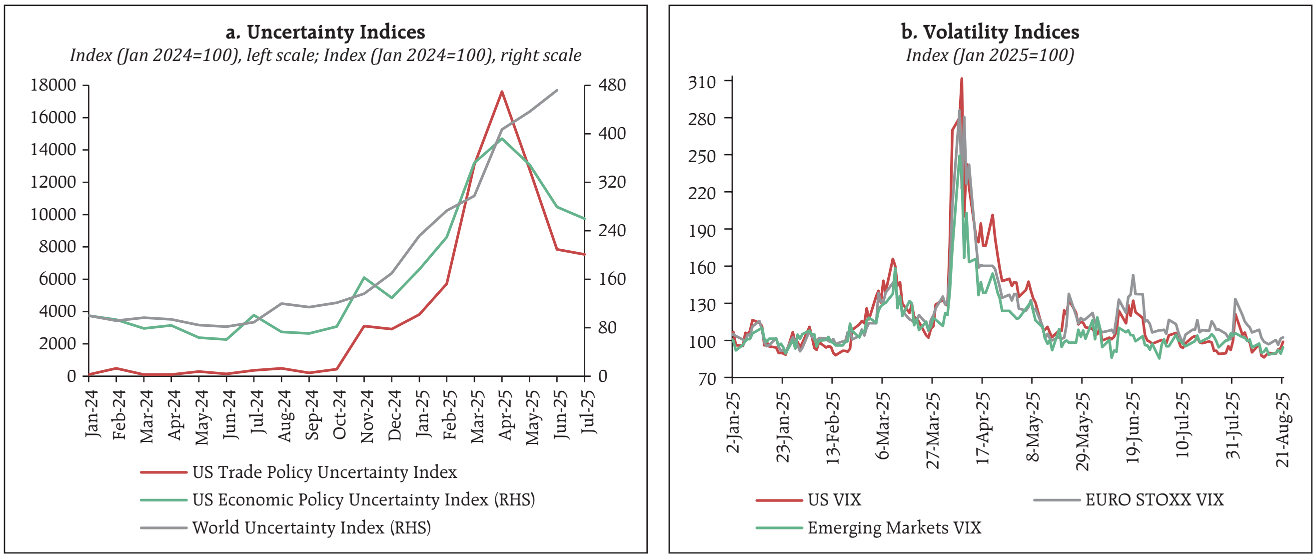
Table II.1: IMF's GDP Growth Projections – Select AEs and EMDEs

Projection for	2025		2026	
Month of Projection	**July 2025**	**April 2025**	**July 2025**	**April 2025**
World	**3.0**	**2.8**	**3.1**	**3.0**
Advanced Economies	**1.5**	**1.4**	**1.6**	**1.5**
US	1.9	1.8	2.0	1.7
UK	1.2	1.1	1.4	1.4
Euro area	1.0	0.8	1.2	1.2
Japan	0.7	0.6	0.5	0.6
Emerging Market and Developing Economies	**4.1**	**3.7**	**4.0**	**3.9**
Emerging and Developing Europe	*1.8*	*2.1*	*2.2*	*2.1*
Russia	0.9	1.5	1.0	0.9
Emerging and Developing Asia	*5.1*	*4.5*	*4.7*	*4.6*
India#	6.4	6.2	6.4	6.3
China	4.8	4.0	4.2	4.0
Latin America and the Caribbean	*2.2*	*2.0*	*2.4*	*2.4*
Mexico	0.2	–0.3	1.4	1.4
Brazil	2.3	2.0	2.1	2.0
Middle East and North Africa	*3.2*	*2.6*	*3.4*	*3.4*
Sub-Saharan Africa	4.0	3.8	4.3	4.2
South Africa	1.0	1.0	1.3	1.3

Note: #: India's data is on a fiscal year basis (April-March), while for all other countries it is for calendar years.
Source: IMF's World Economic Outlook update, July 2025.

[2] Economic Policy Uncertainty (EPU) index measures the level of uncertainty surrounding future economic policies, derived from the frequency of specific keywords like "economy," "policy," and "uncertainty" in major newspaper articles. Trade Policy Uncertainty Index measures the unpredictability of government trade policy decisions. World Uncertainty Index (WUI) is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports.

Chart II.2: Global Uncertainty Indicators



Sources: Bloomberg; www.PolicyUncertainty.com; and World Uncertainty Index database.

temporary pick-up in AEs in end July, financial market volatility eased in August reflecting improved market sentiment (Chart II.2a and II.2b).

The global composite purchasing managers' index (PMI) rose to a seven-month high in July, reflecting continued expansion in output and new business. This was primarily driven by expansion in services, with the sector's PMI rising to its highest level since December 2024. Global manufacturing PMI turned contractionary, indicating a deterioration in output as the impact of front-loading of production in anticipation of higher tariff receded and firms awaited clarity on trade policies (Table II.2).

PMI readings in July remained in expansionary zone for major AEs and EMDEs. Among major EMDEs, India continued to register strong expansion in business activity. In contrast, Brazil and Russia continued to contract (Chart II.3a). Major economies, including the

Table II.2: Global Purchasing Managers' Index

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
PMI composite	52.5	52.9	51.9	52.3	52.4	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.4
PMI manufacturing	49.7	49.6	48.7	49.4	50.1	49.6	50.1	50.6	50.3	49.8	49.5	50.4	49.7
PMI services	53.3	53.9	52.9	53.1	53.1	53.8	52.2	51.5	52.7	50.8	52.0	51.8	53.4
PMI export orders	49.7	49.0	48.5	48.9	49.3	48.7	49.6	49.7	50.1	47.5	48.0	49.1	48.5
PMI export orders: manufacturing	49.4	48.4	47.5	48.3	48.6	48.2	49.4	49.6	50.1	47.3	48.0	49.2	48.2
PMI export orders: services	50.6	50.8	51.6	50.7	51.3	50.3	50.2	50.2	50.1	48.2	47.9	48.7	49.3

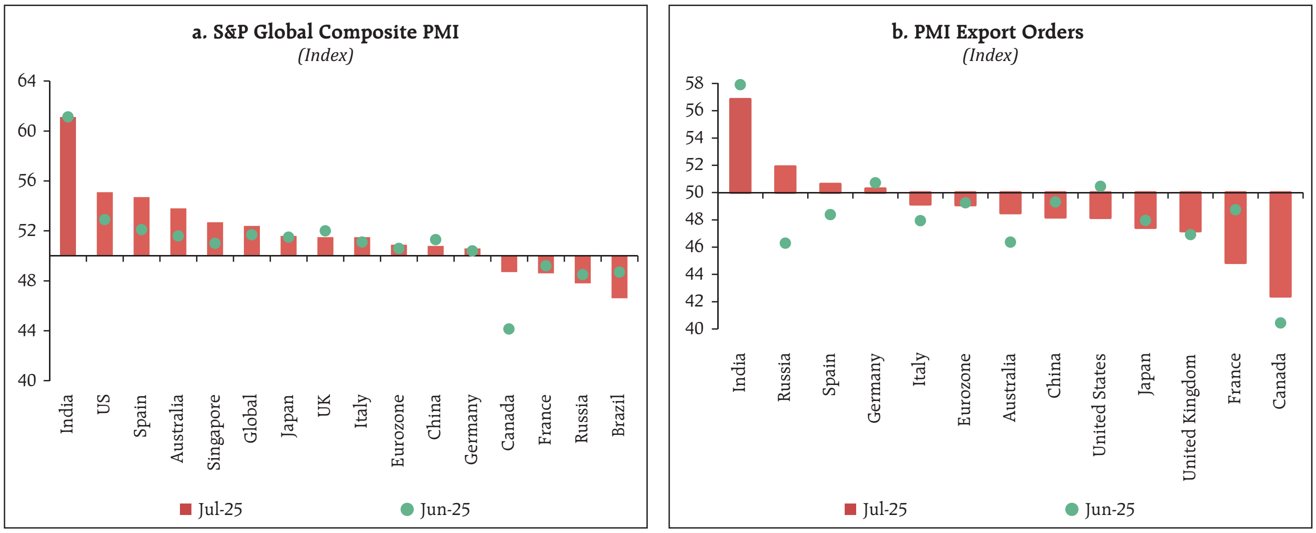
<<<<<<Contraction--Expansion>>>>>>

Notes: 1. The Purchasing Managers' Index, a diffusion index, captures the change in each variable compared to the previous 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. Heatmap is applied on data from April 2023 till July 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.

Chart II.3: Purchasing Managers' Index: Comparison across Jurisdictions

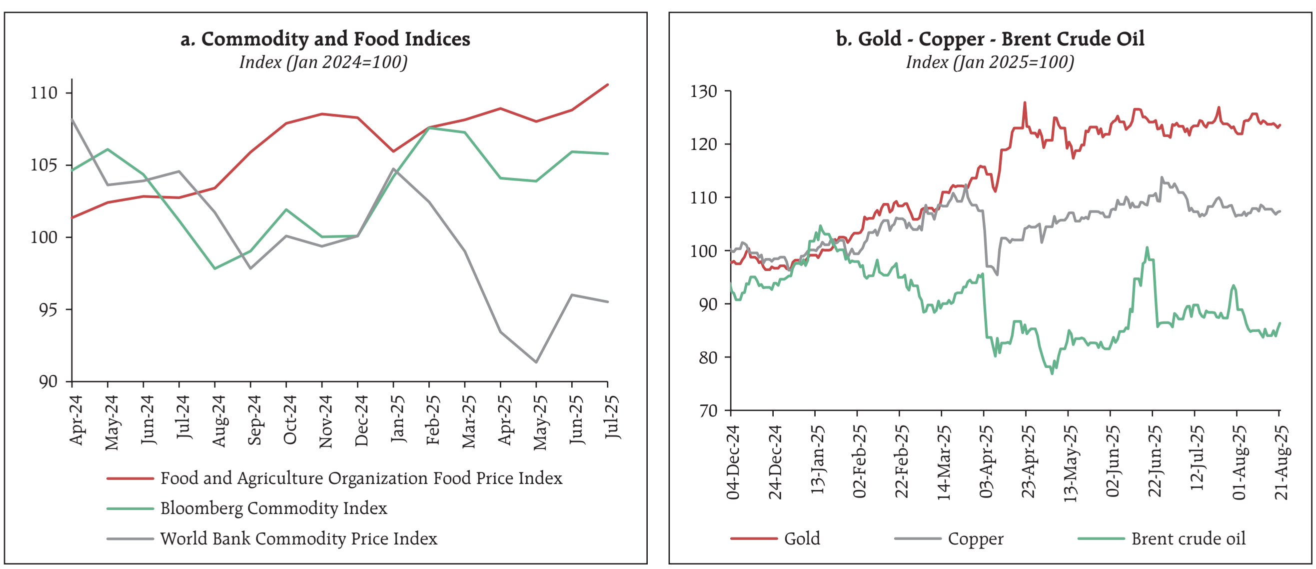


Note: A level of 50 indicates no change in activity, while a reading above 50 signals expansion and below 50 suggests contraction.
Source: S&P Global.

US, China, Japan and Eurozone witnessed, in general, a contraction in new export orders but India registered a strong expansion (Chart II.3b). The global supply chain pressure index moderated to a level close to its historical average (Annex chart A1).

Commodity prices remained broadly unchanged in July on the back of adequate supply of energy and weak macro sentiment. Global food prices rose above its two-year high, with an increase in the prices of meat and vegetable oil, partially offset by cereals, dairy and sugar (Chart II.4a).[3] Crude oil prices stabilised since July as fears of broader conflict eased and OPEC *plus* signalled potential supply increases in August. Crude prices also moderated on account of weak

Chart II.4: Commodity and Food Prices



Sources: Food and Agriculture Organization; Bloomberg; and World Bank Pink Sheet.

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

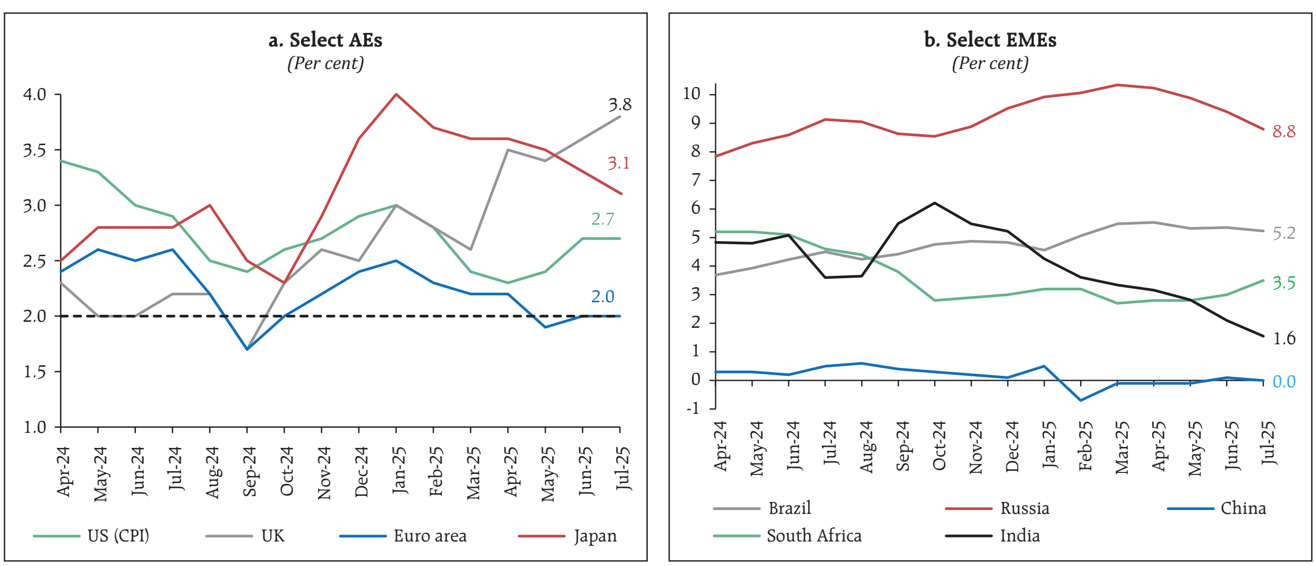
manufacturing activity in China and rising inventories in the US. Gold prices remained broadly stable in July but inched higher in early August in the wake of bullion tariff uncertainty and rising expectation of policy rate cut by the US Fed. It moderated thereafter, aided by clarity on exemption of gold bullion from import tariffs (Chart II.4a and 4b).

CPI inflation in the US and Euro area remained stable in July. CPI inflation in the US remained steady at 2.7 per cent in July, though core inflation reached a six-month high of 3.1 per cent. In the Euro area, headline inflation held steady at 2.0 per cent marking the second consecutive month that inflation has aligned with the European Central Bank's official target. Inflation in the UK rose to its highest level since January 2024, while Japan's inflation dropped to an eight-month low (Chart II.5a). Among major EMDEs, inflation softened in Brazil although remaining above target. Deflationary pressure persists in China while Russia continued to grapple with inflation well above the target. South Africa's annual inflation rate inched up in July, marking the second consecutive monthly increase (Chart II.5b).

Equity market movements in July-August tracked the corporate earnings results and progress in trade talks with the US, although uncertainty about the economic outlook imparted volatility. The US equity markets increased for most of July, supported by healthy corporate earnings in Q2:2025 and optimism about trade negotiations (Chart II.6a). Gains over the month were wiped out towards the end of July as weaker-than-expected US non-farm payroll data for July and substantial downward revision of the June data weighed on market sentiments. Stoxx Europe 600 lost momentum amidst muted corporate earnings in Europe. Though there was a pick-up following the European Union-US trade agreement, it was short-lived on account of lingering uncertainties on the real benefits of the deal for the European Union. In contrast, equity indices in Japan registered sharp gains following the trade deal with the US, and thereafter on robust GDP growth for Q2 and strong corporate results in August.

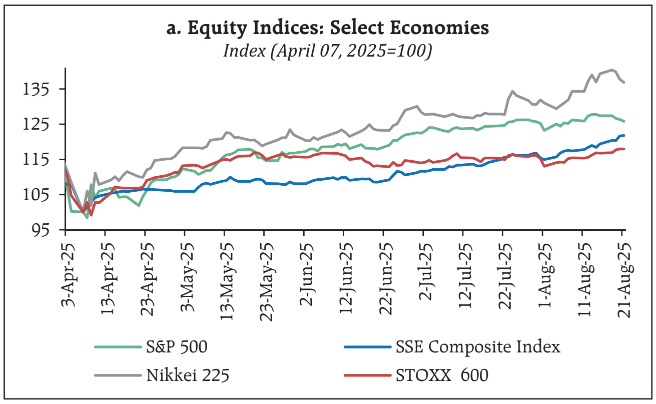
The US 10-year Treasury yields rose in July on account of stronger-than-anticipated June inflation print and growing uneasiness in markets with the

Chart II.5: Headline Inflation

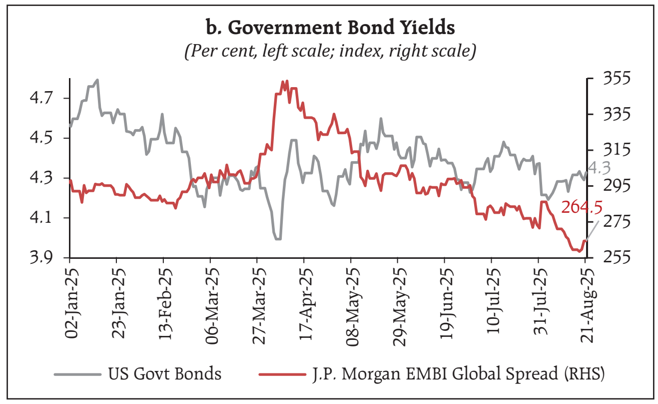


Sources: Bloomberg; and OECD.

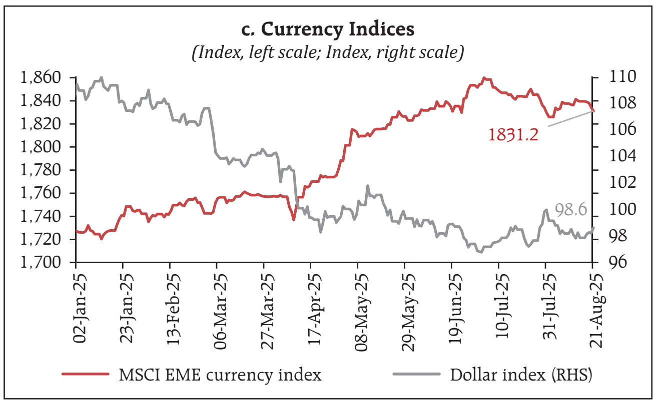
Chart II.6: Global Financial Markets



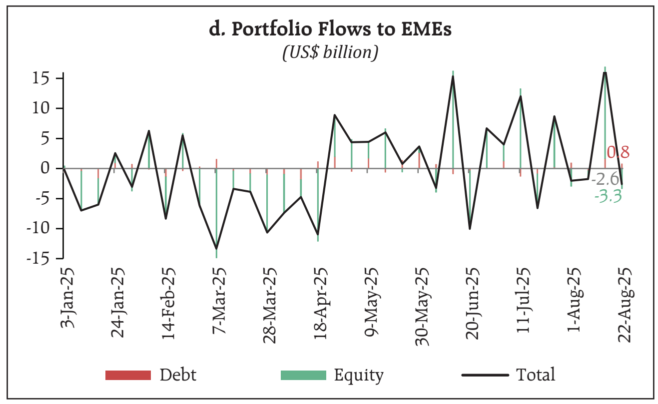
Note: Equity markets are represented by S&P 500 for US, SSE Composite Index for China, Nikkei 225 for Japan and STOXX 600 for Europe.
Source: Bloomberg.



Source: Bloomberg.



Source: Bloomberg.

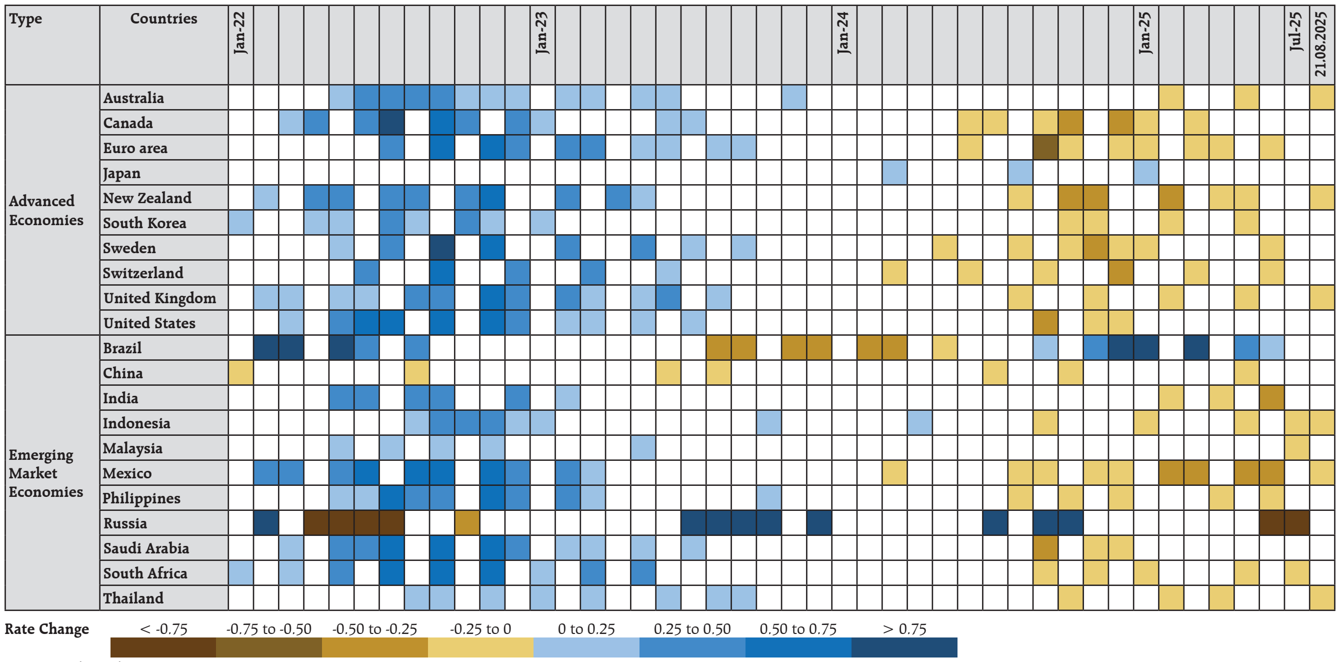


Source: Institute of International Finance.

fiscal situation which reduced hopes of imminent rate cuts. In August, yields experienced two-way movements. Though they fell initially owing to weaker than expected US jobs data and lower than anticipated CPI inflation, yields firmed up thereafter following a higher-than-expected increase in the producer price inflation. Yields eased following the release of the minutes of the July meeting of the Federal Open Market Committee (Chart II.6b). Risk premium on emerging market bonds declined in July and August on resilient macroeconomic fundamentals of several economies, with a soft US dollar contributing further to the spread compression. The US dollar remained intermittently volatile and subdued, reflecting shifting expectations around Fed policy, incoming macro data and changing global risk perceptions (Chart II.6c). Concerns over the US fiscal dynamics, tighter global financial conditions, and an uneven global recovery contributed to heightened volatility in capital flows to emerging markets (Chart II.6d).

Policy decisions by central banks' continued to be driven by the growth-inflation dynamics in respective jurisdictions amidst uncertainties surrounding global trade policies. Major advanced economies largely kept policy rates unchanged in July owing to sticky core and services inflation. In August, the UK, Australia and New Zealand reduced their policy rates by 25 bps each Sweden held its key policy rate steady amidst high trade uncertainty. Amongst the EMDEs, Indonesia, Mexico and Thailand also reduced key policy rates by 25 bps each in August. China held its benchmark lending rate steady for the third consecutive month (Chart II.7).

Chart II.7: Policy Rates



Source: Bloomberg.

III. Domestic Developments

The Indian economy remained resilient amidst global uncertainties. Timely progress of southwest monsoon has helped increase *kharif* sowing. Growth in industrial sector remained uneven across segments in June, pulled down by electricity and mining. Manufacturing and services continued to expand in July. Forward-looking surveys of consumer sentiments show improvement in consumer confidence for the current period and improved optimism about the future (Annex chart A3). Headline inflation, driven by benign food prices and favourable base effects, is likely to soften further and remain below the 4 per cent target in Q2. In this context, the monetary policy committee unanimously voted to keep the repo rate unchanged at 5.5 per cent in its resolution of August 6, 2025, considering the current macroeconomic conditions, outlook and uncertainties, as well as the ongoing transmission of the cumulative 100 bps rate cut undertaken since February 2025. The monetary policy committee, while remaining vigilant on the incoming data and the evolving domestic growth-inflation dynamics, also unanimously decided to continue with the neutral stance while determining the appropriate monetary policy path.

Aggregate Demand

The high-frequency indicators for overall economic activity showed a mixed picture in July. GST e-way bills touched a record high in July, led by pre-festive inventory build-up and higher compliance. GST revenue picked-up and toll collections remained steady, although electricity demand and petroleum consumption recorded weakness in July. Digital payments, a key indicator of overall economic activity, registered robust double-digit growth in both volume and value terms (Table III.1)

During July, urban demand moderated with domestic air passenger traffic weakening due to seasonal factors and runway maintenance. Retail sales of passenger vehicles also declined. Rural demand remained resilient supported by an uptick in real wages. Retail tractor sales posted robust growth, aided

Table III.1: High Frequency Indicators-Economic Activity

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
GST e-way bills	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8
GST revenue	10.3	10.0	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5
Toll collection	9.4	6.8	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8
Electricity demand	4.0	-5.0	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.0
Petroleum consumption	10.7	-3.1	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	1.4	-4.0
Of which Petrol	10.5	8.6	3.0	8.7	9.6	11.1	6.7	5.0	5.7	5.0	9.2	6.8	5.9
Diesel	4.5	-2.5	-1.9	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4
Aviation turbine fuel	9.6	8.1	10.4	9.4	8.5	8.7	9.4	4.2	5.7	3.9	4.3	3.3	-2.3
Digital payments- volume	36.7	34.9	36.3	40.3	30.1	33.1	33.0	26.7	30.8	30.0	29.2	28.3	29.0
Digital payments- value	22.1	16.7	21.5	27.5	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.9

<<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 July 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. For digital payments data, zero growth is taken as the lower bound.

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

by a favourable monsoon. Two-wheeler retail sales declined due to *kharif* sowing operations and heavy rains. Sales are expected to pick up in the upcoming festive season. Household demand for employment under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) declined in July as *kharif* sowing picked up (Table III.2).

Employment conditions remained resilient in July. The all-India unemployment rate declined to 5.2 per cent, led by decline in rural unemployment. The labour force participation rate and worker population ratio edged up in both rural and urban areas.[4] Job creation in organised sector remained strong as reflected in record net pay roll additions under Employees' Provident Fund Organization in June. Growth in white-collar job listings, as per the *Naukri* JobSpeak index, was led by travel/hospitality, insurance, and education in July. PMI employment indices for both manufacturing and services

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

		Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Urban demand	Domestic air passenger traffic	7.6	6.7	7.4	9.6	13.8	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.1
	Retail passenger vehicle sales	14.0	-4.5	-18.8	32.4	-13.7	-2.0	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8
Rural demand	Retail tractor sales	-12.0	-11.4	14.7	3.1	29.9	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0
	MGNREGA work demand	-19.5	-16.0	-13.4	-7.6	3.9	8.2	14.4	2.8	2.2	-6.5	4.4	4.4	-12.3
	Retail two-wheeler sales	17.7	6.3	-8.5	36.3	15.8	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5

<<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 July 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 July 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.

[4] PLFS July 2025 Monthly Bulletin released on August 18, 2025.

Table III.3: High Frequency Indicators- Employment

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Unemployment rate (PLFS: All-India)										5.1	5.6	5.6	5.2
Unemployment rate (PLFS: Rural)										4.5	5.1	4.9	4.4
Unemployment rate (PLFS:Urban)										6.5	6.9	7.1	7.2
Naukri JobSpeak Index	11.8	-3.4	6.0	10.0	2.0	8.7	3.9	4.0	-1.5	8.9	0.3	10.5	6.8
PMI Employment: Manufacturing	53.7	53.5	52.1	53.3	52.9	53.4	54.8	54.5	53.4	54.2	54.9	55.1	53.3
PMI Employment: Services	53.5	53.1	53.4	54.3	56.6	55.5	56.3	56.2	52.5	53.9	57.1	55.1	51.4

<<Contraction -- Expansion>>

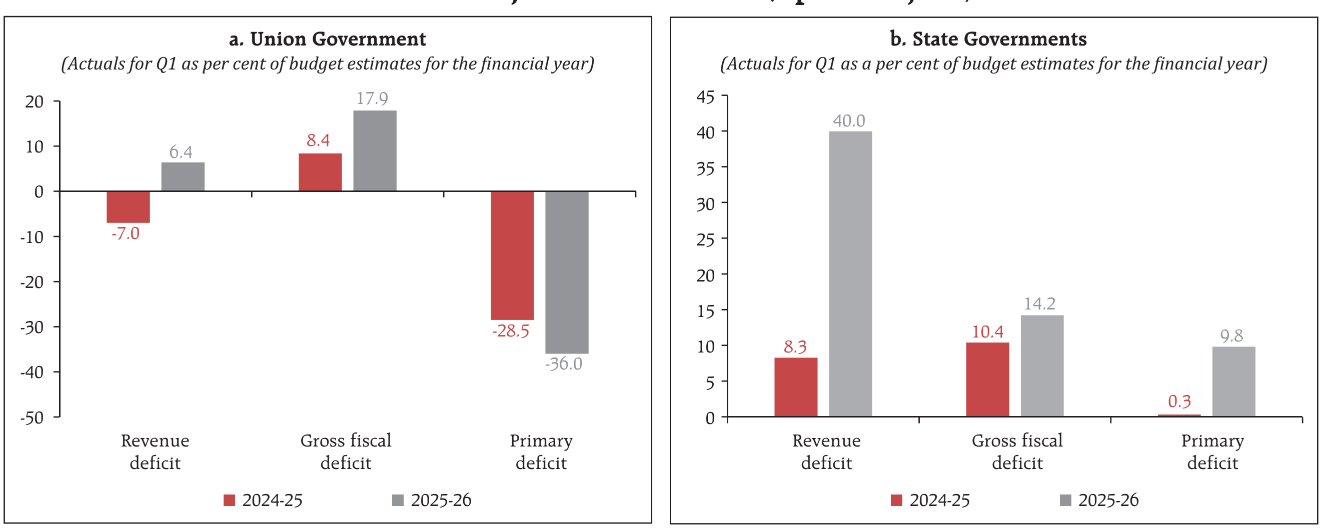
Notes: 1. All PLFS indicators are in the current weekly status and for people aged 15 years and above.
2. The y-o-y growth (in per cent) has been calculated for Naukri index.
3. The heatmap is applied on data from April 2023 till July 2025.
4. The heatmap translates the data range for each indicator 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; and S&P Global.

expanded in July, *albeit* at a slower pace than in June (Table III.3).

The gross fiscal deficit of the union government for Q1:2025-26, as proportion of budget estimates for the financial year, was higher as compared with Q1 of last year (Chart III.1a).[5] This was on account of larger capital and revenue expenditure, and lower net tax revenue.[6] On account of front-loading of capital expenditure, 24.5 per cent of the budgetary target was completed in Q1.[7]

Chart III.1: Major Fiscal Indicators (Up to end-June)



Notes: 1. Negative revenue deficit and primary deficit numbers, as per cent of budget estimates indicate revenue surplus and primary surplus, respectively.
2. In Chart III.1b, data pertains to 24 States/UTs.

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

5 As per the latest data released by the Controller General of Accounts.
6 Due to lower direct tax collections. Indirect taxes, however, grew by 11.3 per cent, primarily led by higher growth in GST collections.
7 16.3 per cent of the budgeted target for capital expenditure was attained in Q1:2024-25.

Gross fiscal deficit of states in Q1:2025-26, as proportion of budget estimates for the financial year, was also higher *vis-a-vis* Q1 of last year. This was on account of higher spending as well as lower revenue receipts (Chart III.1b). Lower revenue receipts resulted from slowdown in growth of states' goods and services tax collections. Non-GST revenue streams such as state excise duties, stamp duties, and registration fees remained robust. On the expenditure side, both revenue and capital expenditure were strong.

Trade

Merchandise trade deficit widened to US$ 27.3 billion in July 2025 from US$ 24.8 billion a year ago due to higher oil deficit (Chart III.2). The share of oil in total trade deficit increased as compared to a year ago.[8] Non-oil deficit remained roughly the same at US$ 16.1 billion.

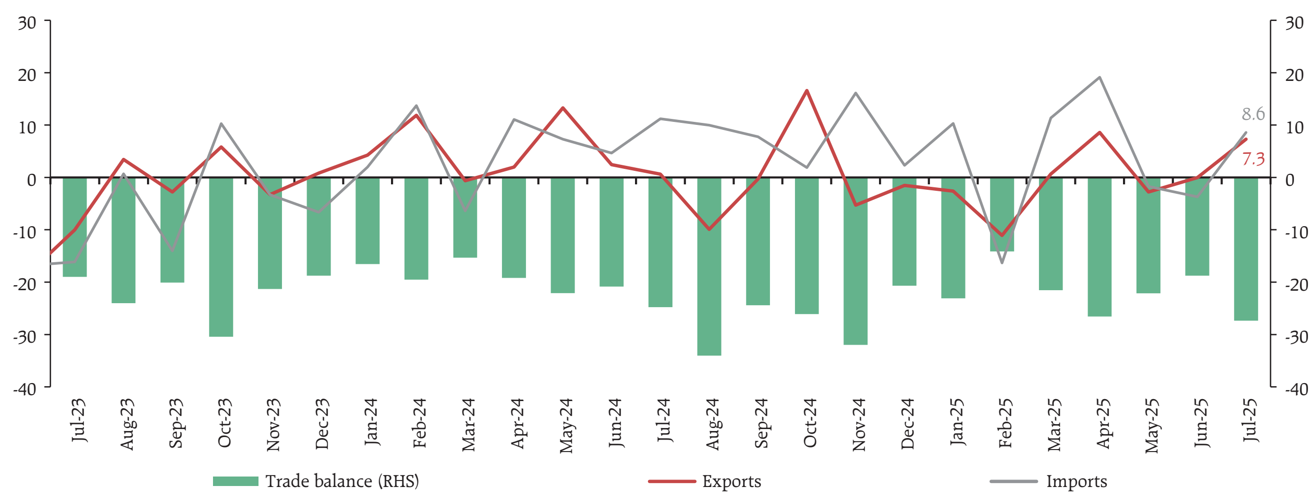
Merchandise exports expanded after declining in the previous two months (Annex chart A4).[9] Engineering goods, electronic goods, gems and jewellery, drugs and pharmaceuticals, and organic and inorganic chemicals performed well while petroleum products, iron ore, and oil meals contributed negatively.

Merchandise imports also expanded after declining in the previous two months (Annex chart A5).[10] Electronic goods, petroleum crude and products, fertilisers, crude and manufactured, machinery, electrical and non-electrical, and gold supported import growth during the month while, coal, coke and briquettes, pulses, and leather and leather products dragged overall imports down.

Services trade remained robust despite challenging global trade scenario. In June 2025, net services export earnings increased by 19.8 per cent (y-o-y) to US$ 16.2 billion. Services exports grew at a fast pace, underscoring the sustained strength of India's services sector. At the same time, imports also rose rapidly, reflecting a rise in software services and transportation services imports (Chart III.3).[11]

Chart III.2: Merchandise Trade Deficit

(Per cent, y-o-y, left scale; US$ billion, right scale)



Sources: PIB; DGCI&S; and RBI staff estimates.

8 Oil trade deficit increased to US$ 11.2 billion in July from US$ 8.7 billion a year ago. Oil's share in total trade deficit increased to 41.1 per cent in July from 35.1 per cent a year ago.

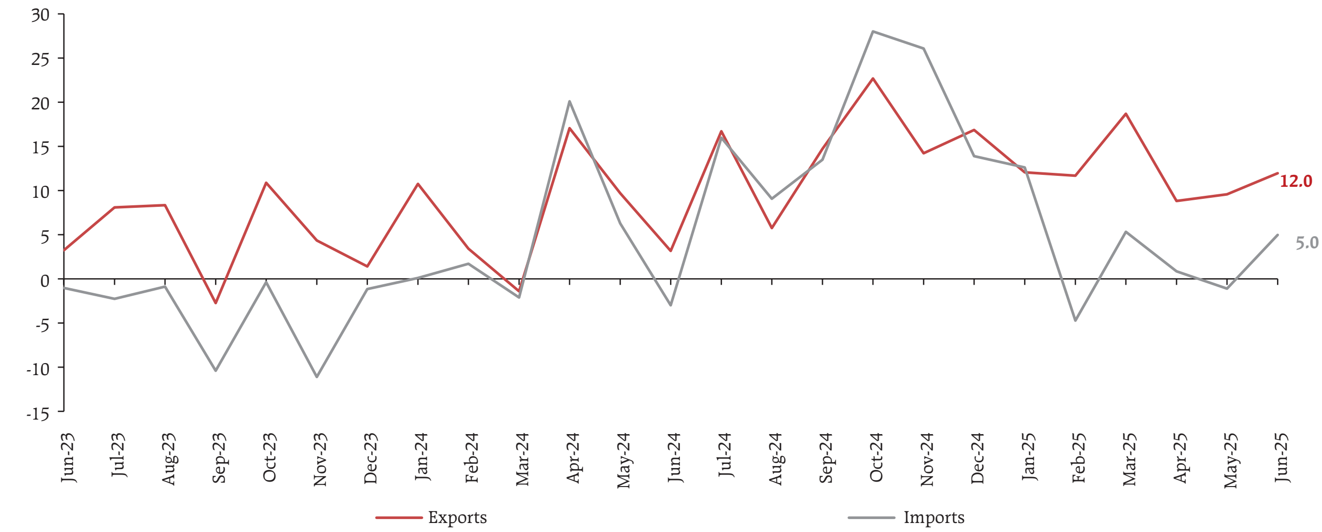
9 US$ 37.2 billion in July [growth of 7.3 per cent (y-o-y)]

10 US$ 64.6 billion in July [growth of 8.6 per cent (y-o-y)]

11 Services exports and imports increased to US$ 32.1 billion and US$ 15.9 billion, respectively in June 2025.

Chart III.3: Trend in Services Exports and Imports

(Per cent, y-o-y)



Source: RBI.

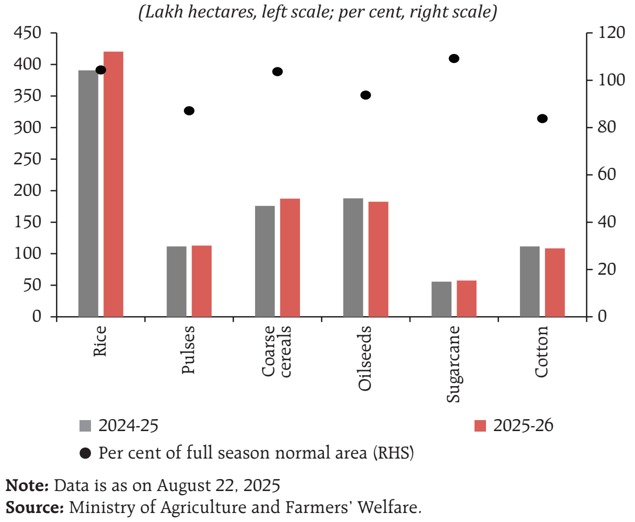
Aggregate Supply

Agriculture

Timely progress of the southwest monsoon has helped increase *kharif* sowing (Chart III.4).[12] The increase in sown area was mainly in rice and maize, while the area under oilseeds and cotton declined. *Tur*, which accounts for 35 per cent of area under pulses, witnessed a decline as farmers shifted to more lucrative crops such as maize.[13]

Chart III.4: *Kharif* Sown Area

(Lakh hectares, left scale; per cent, right scale)



Note: Data is as on August 22, 2025

Source: Ministry of Agriculture and Farmers' Welfare.

The cumulative rainfall during June 1 - August 22, 2025 at the all-India level stands 2 per cent above normal. Reservoir levels stood well above the previous year and the decadal average (Chart III.5).

The combined public stock of rice and wheat remained comfortable supported by strong procurement.[14]

Industry and Services

Q1:2025-26 Results for Listed Companies

Results of listed non-government non-financial companies[15] for Q1:2025-26 indicated a subdued performance in the corporate sector. Sales growth of listed private manufacturing companies moderated further primarily due to a slowdown in petroleum industry, automobiles, electrical machinery, and food products.[16] Following a period of steady improvement, sales growth of IT firms also declined during Q1, reflecting the impact of global headwinds. Sales

12 *Kharif* sowing was at 1074 lakh hectares, covering around 97.9 per cent of the normal area as on August 22, 2025.

13 Sown area of *tur* declined by 1.8 per cent, while that of maize rose by 11.7 per cent as compared to the previous year.

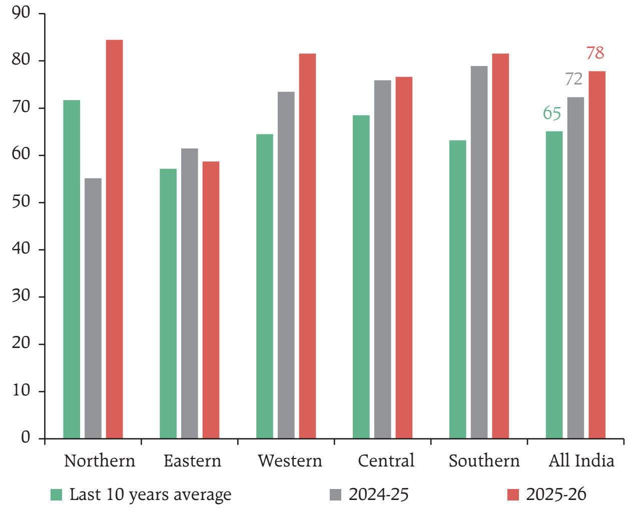
14 As on August 01, 2025, public stock was 2.1 times the buffer norm

15 Based on quarterly results of 3,079 listed non-government non-financial companies.

16 Aggregate sales growth moderated to 5.5 per cent (y-o-y) during Q1:2025-26, down from 7.1 per cent in the previous quarter.

Chart III.5: Reservoir Storage

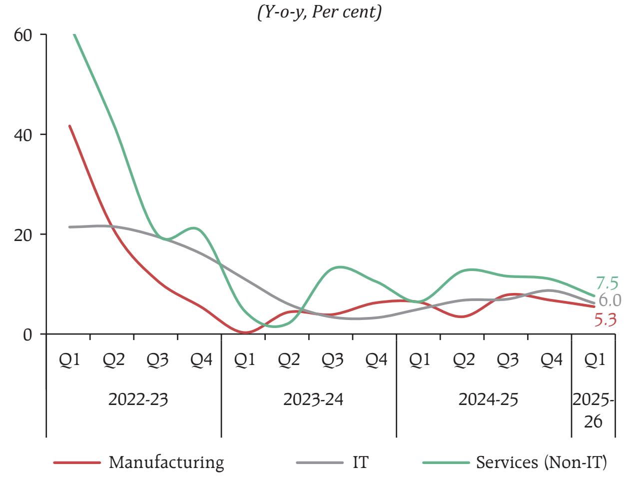
(Per cent of full reservoir level)



Note: Data is as on August 21, 2025.
Source: Central Water Commission.

Chart III.6: Sales Growth of Listed Private Non-Financial Companies

(Y-o-y, Per cent)



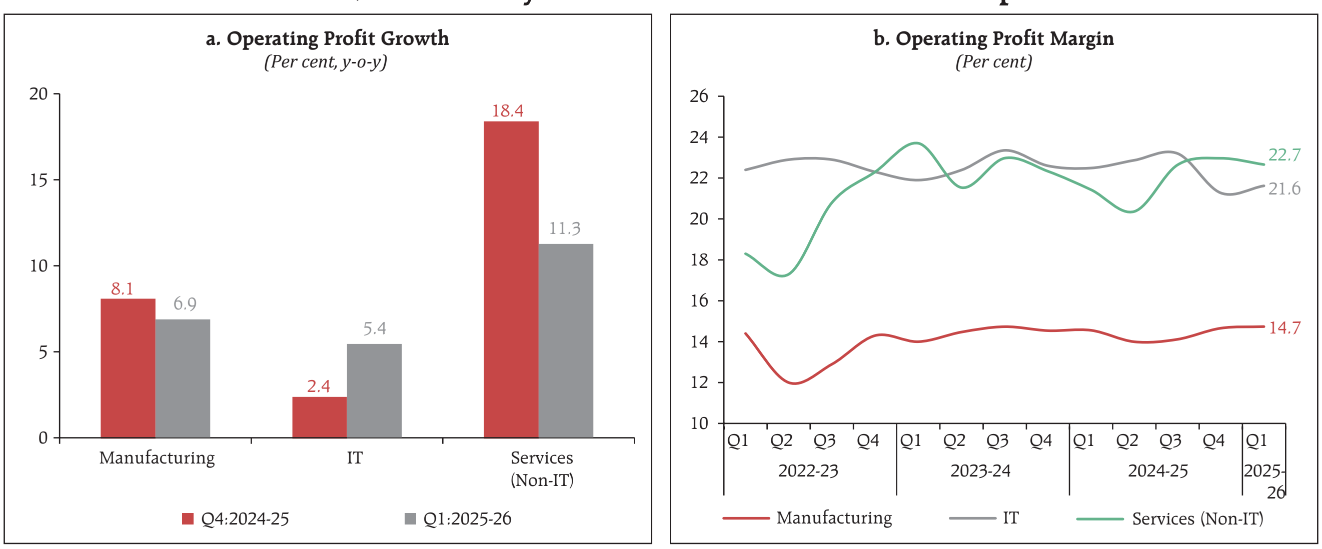
Note: Data is based on results of 3,079 listed non-government non-financial companies (1,736 manufacturing, 198 IT, and 892 non-IT services).
Sources: Capitaline database; and RBI staff estimates.

growth of non-IT services companies also moderated (Chart III.6).

Despite subdued sales growth, the operating profits and margins remained stable for manufacturing and services companies during Q1:2025-26 on account of slower increase in expenses (Chart III.7a & III.7b).

During Q1:2025-26, listed Indian banking and financial sector companies[17] underwent a moderation in both revenue and net profit growth (Chart III.8). Revenue continued to expand but at a slower pace. Costs rose on account of sequential increase in salary and wage expenses. Higher provisioning costs and

Chart III.7: Profitability of Listed Private Non-Financial Companies

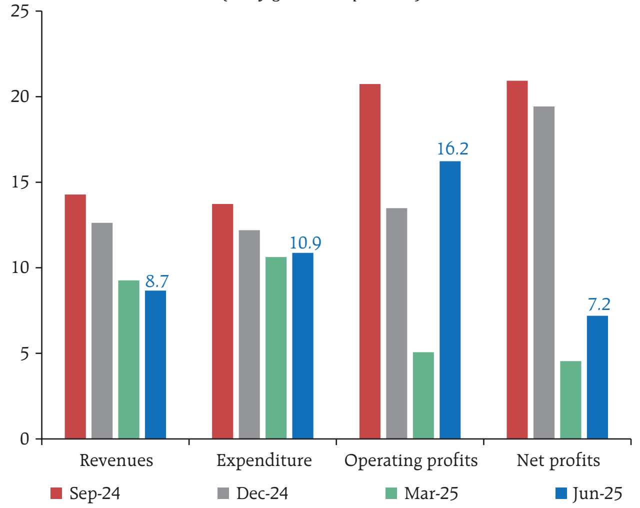


Note: Data is based on results of 3,079 listed non-government non-financial companies (1,736 manufacturing, 198 IT, and 892 non-IT services).
Sources: Capitaline database; and RBI staff estimates.

[17] Based on a sample of 349 companies constituting around 84 per cent of the total market capitalisation of listed banking and financial sector companies.

Chart III.8: Performance of Listed Financial Companies

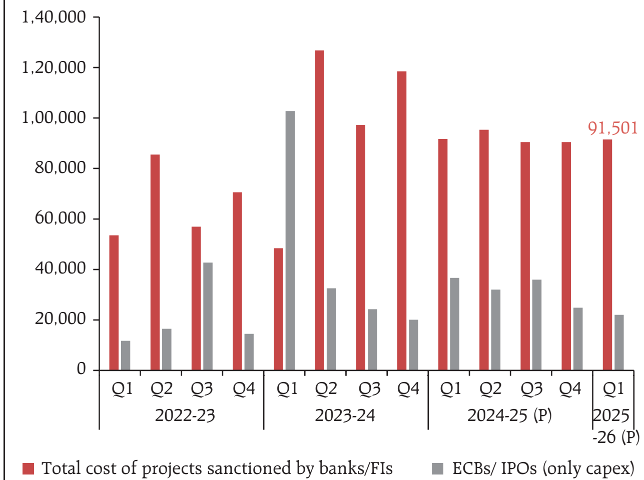
(Y-o-y growth in per cent)



Sources: CMIE Prowess; and RBI staff estimates.

Chart III.9: Private Corporates' Investment Intentions

(₹ crore)



Note: Data for 2024-25 and Q1:2025-26 are provisional.
Sources: Data on project finance gathered from banks/FIs; and RBI staff estimates.

deterioration in asset quality of some companies contributed to slower growth of net profits relative to operating profits.

On the investment front, the total cost of capex projects sanctioned by select banks and financial institutions during Q1:2025-26 recorded a modest increase over the previous quarter. About 66 per cent of intended investment was concentrated in power, construction and IT software industries. Funds raised through external commercial borrowings and initial public offering for capex purposes were slightly lower than in the previous quarter. Overall, fund mobilisation for capex by private corporates through various channels indicated stable investment activity despite heightened uncertainties (Chart III.9).

Monthly Indicators of Industrial Activity

Growth in industrial activity, as measured by the year-on-year change in Index of Industrial Production (IIP), eased to a ten-month low in June 2025. While mining and electricity continued to experience contraction, manufacturing expanded. In July, growth in index of eight core industries remained subdued with four out of the eight sectors contracting, although steel and cement industries performed well.

Available high-frequency indicators for July point to expansion in manufacturing activity, with its PMI surging to a 16-month high. Automobile production recorded its fastest growth in a year, led by strong output of three-wheelers and two-wheelers. Conventional electricity generation remained subdued for the fourth consecutive month, driven by early rains and softer industrial output. In contrast, renewable energy generation sustained its pace. Import of capital goods rebounded in July (Table III.4). Supply chain pressures inched up in July 2025 but stayed below their historical average levels (Annex chart A6).

India has emerged as the third-largest country in terms of solar power generation – a significant milestone in its pursuit of an energy-secure future.[18] India's installed solar power capacity has increased sharply in recent years (Chart III.10). Moreover, as a measure of accelerated e-mobility in India, the PM Electric Drive Revolution in Innovative Vehicle

[18] International Renewable Energy Agency (IRENA). Renewable Energy Statistics, July 2025.

Table III.4: High Frequency Indicators- Industry

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
IIP headline	5.0	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	
IIP manufacturing	4.7	1.2	4.0	4.4	5.5	3.7	5.8	2.8	4.0	3.1	3.2	3.9	
IIP capital goods	11.7	0.0	3.5	2.9	8.9	10.5	10.2	8.2	3.6	14.0	13.3	3.5	
PMI manufacturing	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1
PMI export orders	57.2	54.4	52.9	53.6	54.6	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3
PMI manufacturing: future output	64.1	62.1	61.6	62.1	65.5	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6
Index of eight core industries	6.3	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.5	1.0	1.2	2.2	2.0
Electricity generation: conventional	6.8	-3.8	-1.3	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.9
Electricity generation: renewable	14.2	-3.7	12.5	14.9	19.0	17.9	31.9	12.2	25.2	28.0	18.2	28.7	
Automobile production	16.8	4.4	10.1	10.0	8.0	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7
Passenger vehicle production	1.2	0.7	-3.4	-4.0	6.5	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1
Tractor production	8.1	-1.0	2.7	0.4	24.7	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5
Two-wheelers production	21.1	4.9	12.9	13.3	8.8	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3
Three-wheelers production	6.0	9.0	3.9	-6.7	-5.5	7.6	16.2	6.5	6.0	4.1	16.9	8.6	24.0
Crude steel production	6.8	2.6	0.3	4.2	4.5	8.3	7.4	6.0	8.5	9.3	11.0	12.6	14.0
Finished steel production	6.9	2.7	0.7	4.0	2.8	5.3	6.7	6.7	10.0	6.6	7.0	10.9	13.8
Import of capital goods	11.6	12.3	10.9	7.0	4.7	6.1	15.5	-0.5	8.6	21.5	14.3	2.6	12.2

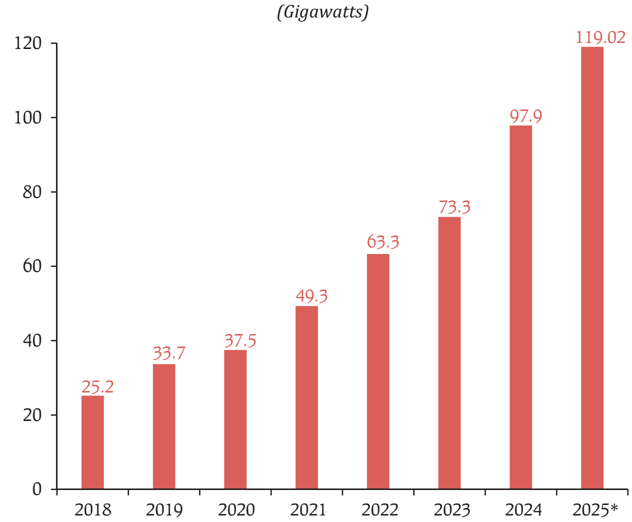
<<Contraction --- Expansion>>

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 July 2025, other than for IIP, and 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.

Chart III.10: Solar Energy Capacity

(Gigawatts)



Note: *: Capacity as of July 2025.
Source: Central Electricity Authority (CEA).

Enhancement (PM E-DRIVE) Scheme has been extended by two years till March 31, 2028.

Monthly Indicators of Services Activity

India's services sector sustained its growth momentum in July, with PMI services recording the highest expansion in 11 months, driven by new orders and output on the back of strong domestic and international demand. International air passenger traffic remained firm while retail commercial vehicles segment expanded. Port traffic rose for the eighth consecutive month led by higher growth in fertilisers, petroleum, oil and lubricants, and containerised cargo. Growth in construction sector indicators – steel consumption and cement production – remained robust (Table III.5).

Table III.5: High Frequency Indicators- Services

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
PMI services	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5
International air passenger traffic	8.8	11.1	11.2	10.3	10.7	9.0	11.1	7.7	6.8	13.0	5.0	3.4	5.4
Domestic air cargo	8.8	0.6	14.0	8.9	0.3	4.3	6.9	-2.5	4.9	16.6	2.3	2.6	
International air cargo	24.4	20.7	20.5	18.4	16.1	10.5	7.1	-6.3	3.3	8.6	6.8	-1.2	
Port cargo traffic	5.9	6.7	5.8	-3.4	-5.0	3.4	7.6	3.6	13.3	7.0	4.3	5.6	4.0
Retail commercial vehicle sales	5.9	-6.0	-10.4	6.4	-6.1	-5.2	8.2	-8.6	2.7	-1.0	-3.7	6.6	0.2
Hotel occupancy	3.6	0.7	2.1	-5.3	11.1	-0.2	1.2	0.6	1.9	7.2	-2.8	-0.3	
Tourist arrivals	-1.3	-4.2	0.4	-1.4	-0.1	-6.6	-0.2	-8.6	-13.7	-3.8			
Steel consumption	14.6	9.1	11.8	8.9	9.5	5.2	10.9	10.9	13.6	6.0	8.1	9.3	7.3
Cement production	5.1	-2.5	7.6	3.1	13.1	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.7

<<Contraction -- Expansion>>

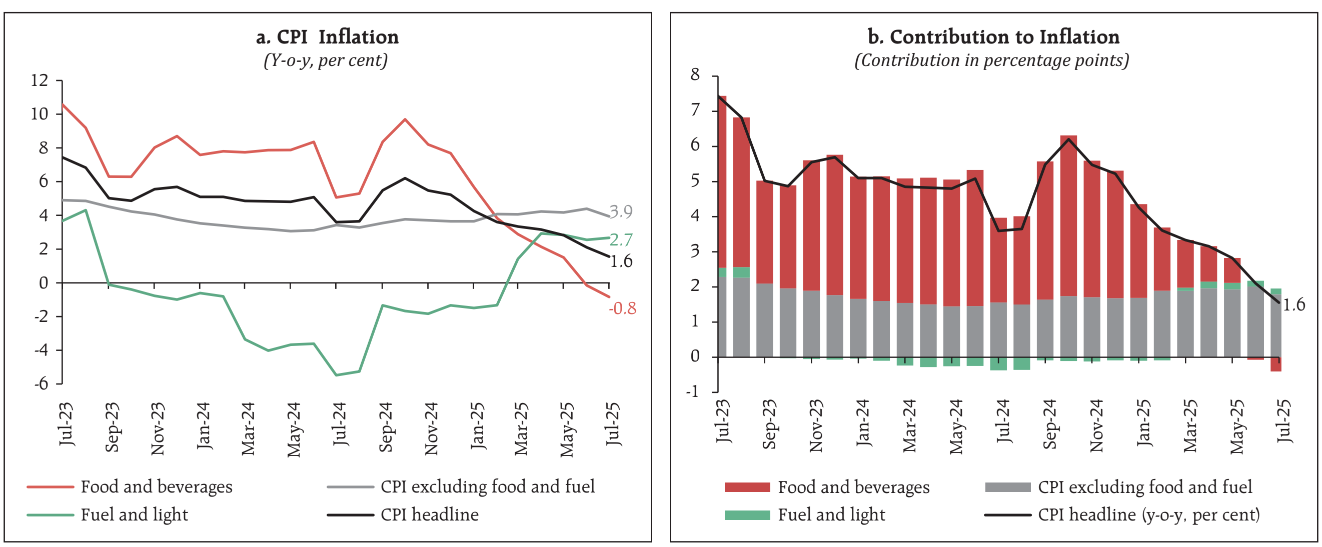
Notes:
1. The y-o-y growth (in per cent) has been calculated for all indicators (except for PMI).
2. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.
3. The heatmap is applied on data from April 2023 till July 2025, other than for domestic and international air cargo, and hotel occupancy, where the data are till June 2025. The latest data for tourist arrivals is till April 2025.
4. The data on international air passenger traffic for July 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 inflation declined for the ninth consecutive month in July, reaching its lowest level since June 2017, driven by deeper food deflation and a softening of core inflation (CPI excluding food and fuel).[19] The all-India CPI inflation was at 1.6 per cent in July 2025 as against 2.1 per cent in June (Chart III.11). Strong favourable base effects, which were partly

Chart III.11: Trends and Drivers of CPI Inflation

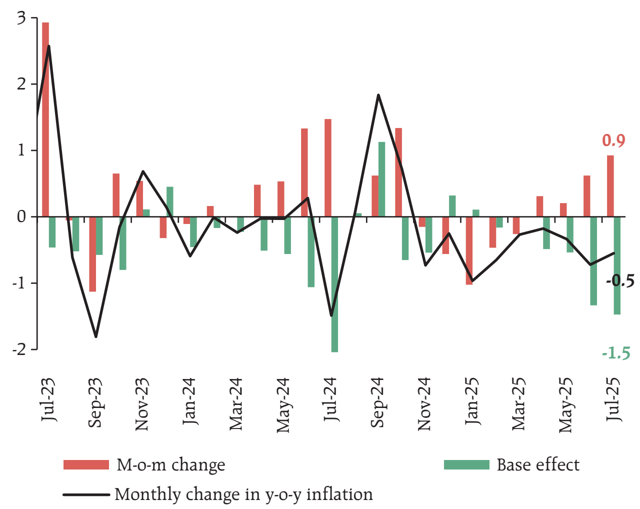


Sources: NSO; and RBI staff estimates.

[19] As per the provisional data released by the National Statistical Office (NSO) on August 12, 2025.

Chart III.12: CPI Headline: Momentum and Base Effect

(Percentage points)



Sources: NSO; and RBI staff estimates.

offset by a positive price momentum, also contributed to the fall in headline inflation (Chart III.12).

Food inflation dipped to its lowest level in 78 months driven by a deflation in vegetables, pulses, spices, and meat and fish sub-groups.[20] Inflation in cereals, eggs, milk and products, sugar and confectionery moderated, while that in oils and fats, non-alcoholic beverages, fruits, and prepared meals edged up (Chart III.13).

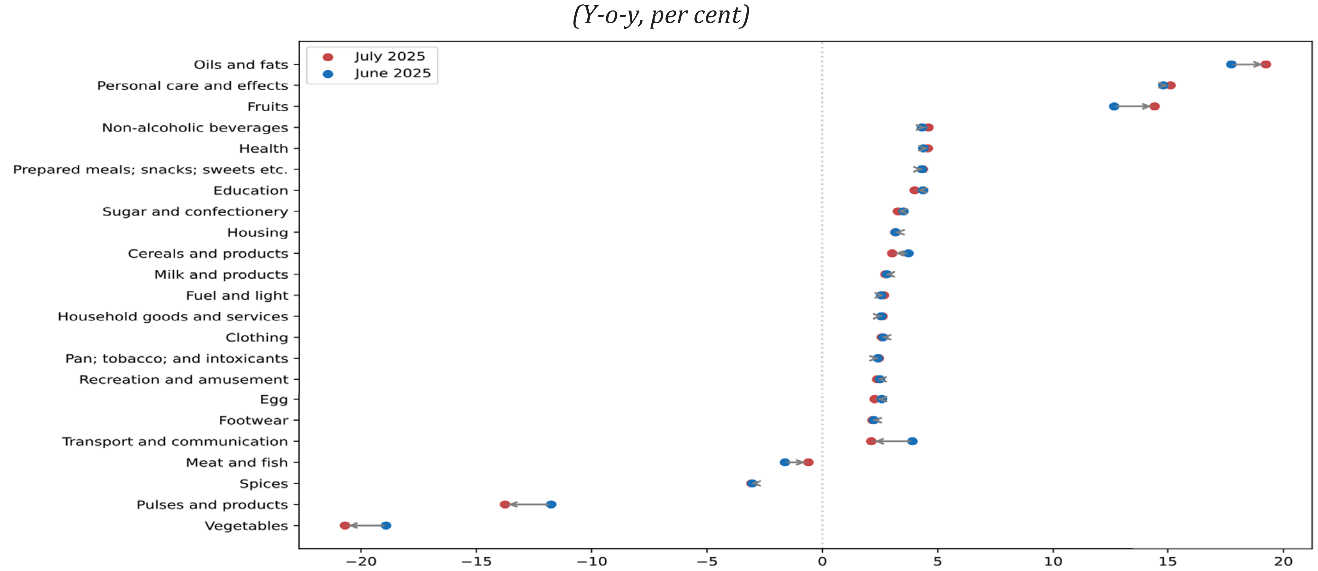
Fuel and light inflation inched up in July with inflation remaining elevated for LPG while moderating for electricity.[21] Kerosene prices continued to record deflation, though at a slower pace.

Core inflation eased to 3.9 per cent in July 2025 from 4.4 per cent in June. The decline in inflation was mostly driven by transport and communication and education sub-groups, while inflation in health and personal care and effects inched up. Clothing and footwear recorded a marginally lower inflation, while that in pan, tobacco and intoxicants, household goods and services, and housing remained unchanged.

Both rural and urban inflation eased further to 1.2 per cent and 2.0 per cent, respectively, in July. While state-level inflation rates varied between (-) 0.61 per cent and 8.89 per cent, majority of the states experienced inflation of less than 2 per cent (Chart III.14).

Chart III.13: Annual Inflation across Sub-groups

(Y-o-y, per cent)



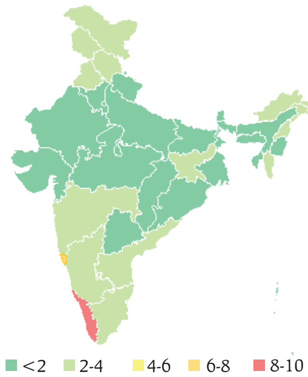
Sources: NSO; and RBI staff estimates.

[20] Food inflation was (-)0.8 per cent (y-o-y) in July.

[21] Inflation in fuel and light subgroup was 2.7 per cent in July.

Chart III.14: Spatial Distribution of Inflation: July 2025 (CPI-Combined)

(Y-o-y, per cent)



Inflation Range	Number of States/UTs
<2	20
2-4	14
4-6	1
6-8	1
8-10	1

Inflation Trend	Number of States/UTs
Decline	32
Stable	0
Increase	5

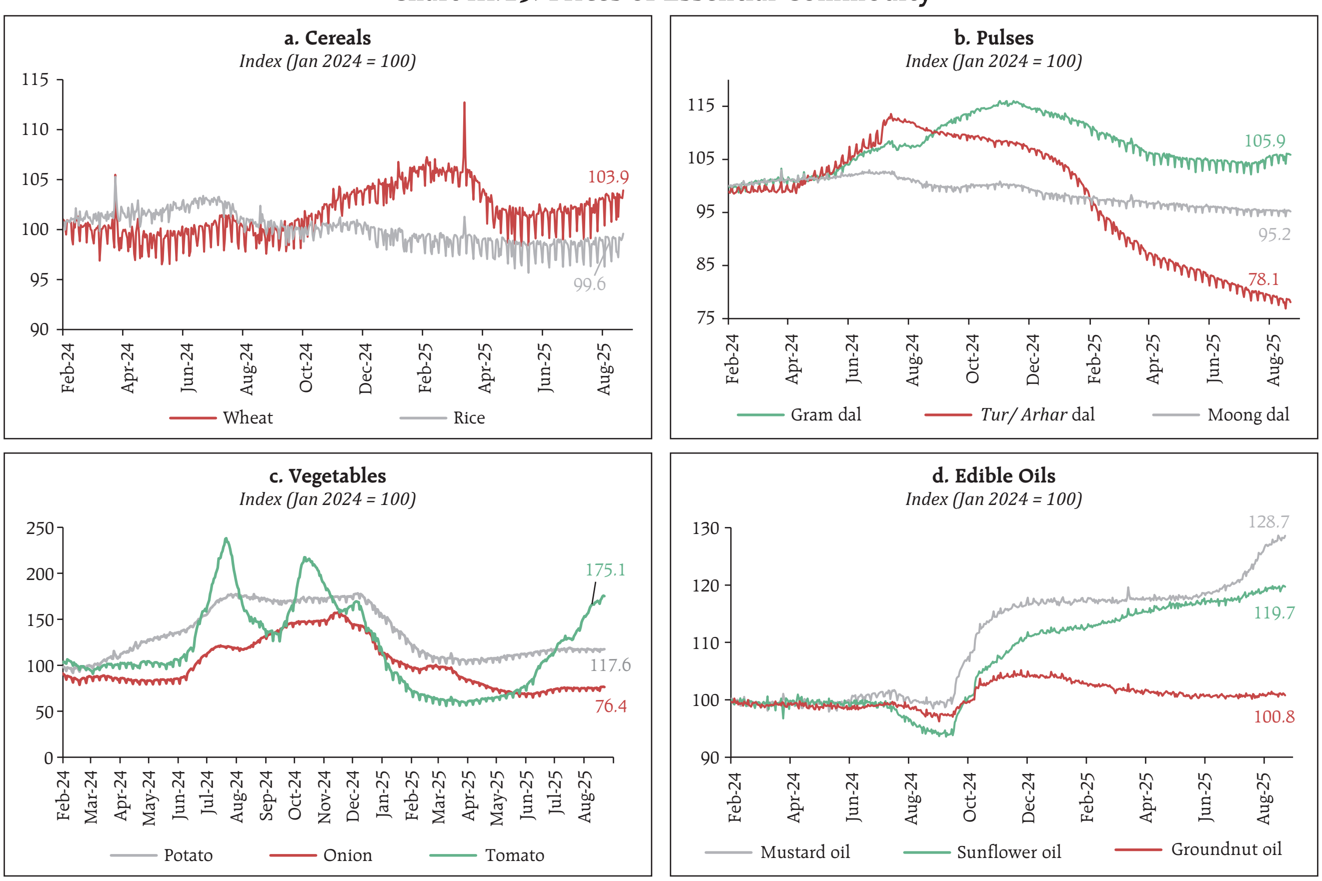
Note: Map is for illustrative purposes only.
Sources: NSO; and RBI Staff estimates.

High-frequency food price data for August so far (up to 22nd) indicate a pick-up in cereal prices. Pulses recorded a mixed trend, with a decline in *tur/arhar* dal prices, and an increase in gram dal price. Among edible oils, prices firmed up for mustard, sunflower, groundnut and soybean oils, while palm oil prices remained steady. Among key vegetables, tomato prices continued to increase. The prices of potatoes and onions remained steady (Chart III.15).

Retail selling prices of petrol and diesel remained unchanged in August. Kerosene prices firmed up while LPG prices remained unchanged (Table III.6).

The PMIs for July recorded a sequential pick-up in the rate of expansion of input prices for manufacturing and services. Selling prices also accelerated for both services and manufacturing firms (Annex chart A7).

Chart III.15: Prices of Essential Commodity



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

Table III.6: Petroleum Products Prices

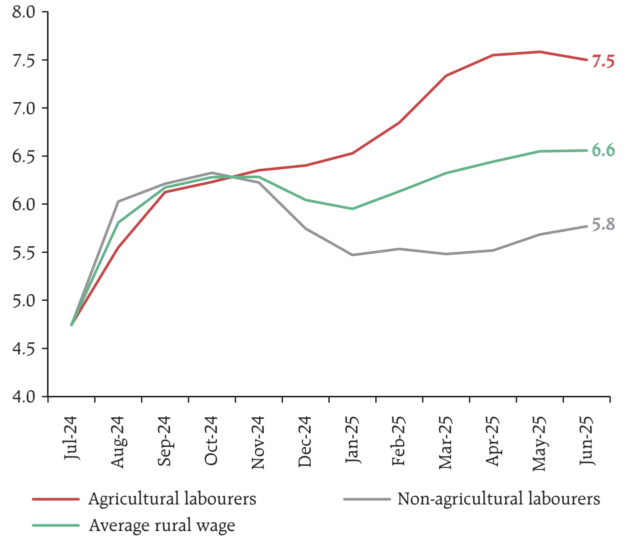
Item	Unit	Domestic Prices			Month-over-month (per cent)	
		Aug-24	Jul-25	Aug-25^	Jul-25	Aug-25^
Petrol	₹/litre	100.97	101.12	101.12	0.0	0.0
Diesel	₹/litre	90.42	90.53	90.53	0.0	0.0
Kerosene (subsidised)	₹/litre	46.65	43.03	44.47	7.1	3.4
LPG (non-subsidised)	₹/cylinder	813.25	863.25	863.25	0.0	0.0

Notes: 1. ^: For the period August 1-22, 2025.
2. 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.

Chart III.16: Rural Nominal Wage

(Y-o-y, per cent)



Sources: Labour Bureau, Ministry of Labour and Employment.

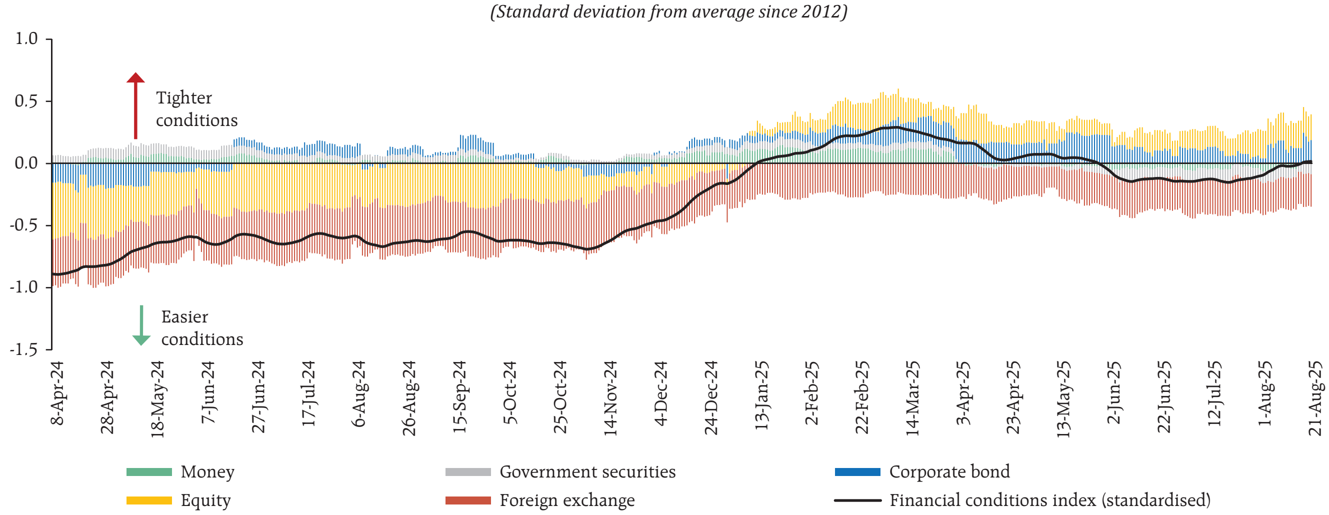
Rural labour wage growth remained largely stable in June 2025 as the non-agricultural sector wage edged up, while wage growth in the agricultural sector saw a modest moderation (Chart III.16). Increase in non-agricultural wage growth was primarily driven by occupations including sweeping/cleaning, light motor vehicle and tractor drivers, and mason workers.

IV. Financial Conditions

Overall financial conditions remained benign during July and August (till August 21) [Chart IV.1].

Chart IV.1: Daily Financial Conditions Index for India

(Standard deviation from average since 2012)



Note: The financial conditions index provides a metric based on its historical average; in this context, a zero value corresponds to a financial system operating at the historical average level of all the financial indicators included in the index. To present the results, standardised index is used.[22]

Source: RBI staff estimates.

[22] For detailed methodology, refer to Bandyopadhyay, P., Kumar, A., Kumar, P. and Bhattacharyya, I. (2025), 'Financial Condition Index for India: A High-frequency Approach'; Reserve Bank of India Bulletin, June. https://rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=23451

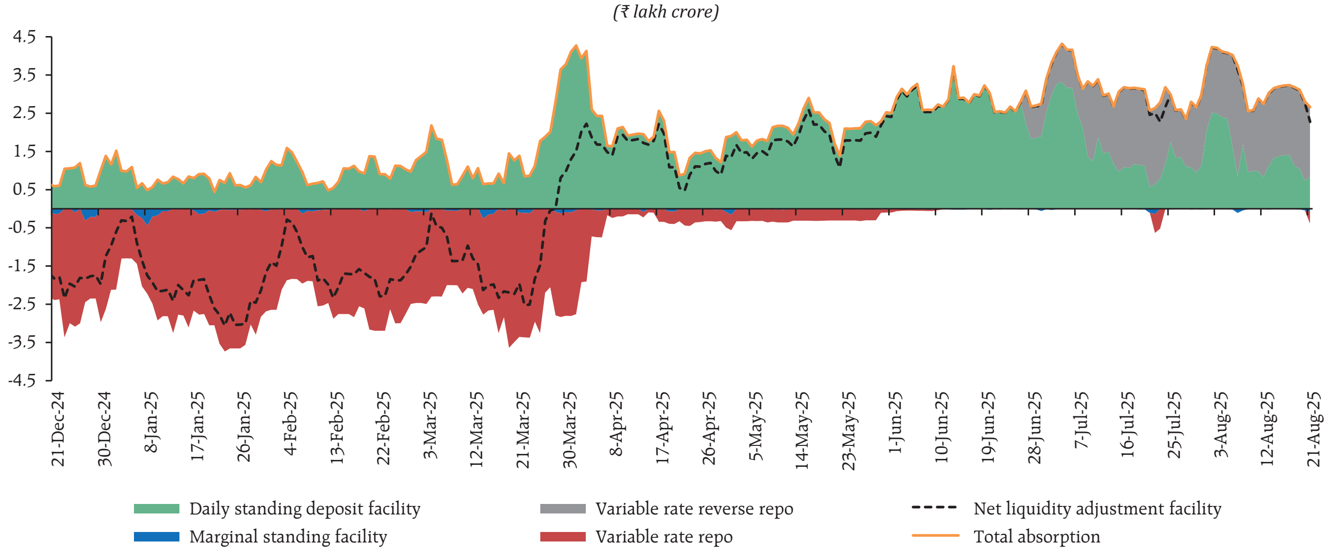
System liquidity remained in surplus during July and August (up to August 21), primarily driven by higher government spending. The average daily net absorption under the liquidity adjustment facility stood at ₹3.07 lakh crore during July 16 to August 21, 2025, marginally lower than in the preceding one-month period (Chart IV.2). During this period, to absorb excess liquidity which was exerting downward pressure on the overnight money market rates, the Reserve Bank conducted 12 variable rate reverse repo (VRRR) auctions (overnight to 8-day).[23] To tide over temporary liquidity tightness due to tax related outflows, the Reserve Bank also conducted three variable rate repo (VRR) auctions of 2-day and overnight maturity. The banks' recourse to the marginal standing facility remained low on easy liquidity conditions.[24]

Money Market

Amidst ample liquidity, the weighted average call rate – the operating target of monetary policy – hovered in the lower half of the corridor. The rate, however, briefly inched towards the marginal standing facility rate during July 21 to July 23 on account of large GST outflows. Consequent to surplus liquidity absorption through VRRR auctions, the spread between the weighted average call rate and the policy repo rate narrowed (Chart IV.3a).[25] 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.[26] Recently, an Internal Working Group to review the Reserve Bank's extant liquidity management framework has recommended the continuation of

Chart IV.2: Liquidity Operations

(₹ lakh crore)



Source: RBI.

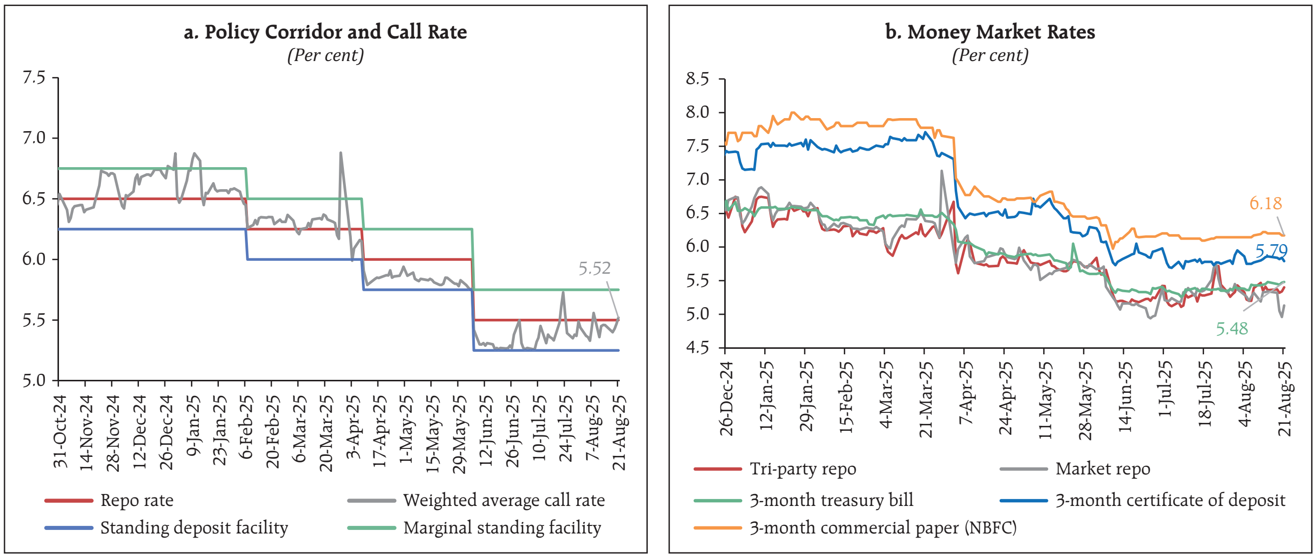
23 Accordingly, the average absorption through the standing deposit facility declined to 40.3 per cent of the total absorptions during July 16 to August 21, 2025, as against 76.3 per cent during June 16 to July 15, 2025.

24 Average of 0.02 lakh crore.

25 The spread between weighted average call rate and repo rate narrowed to (-) 6 bps during July 16 to August 14, 2025 from (-)19 bps during June 16 to July 21, 2025.

26 In line with the recommendations of the Committee on the MIBOR Benchmark (Chairperson: Shri Ramanathan Subramanian), it was proposed to develop a benchmark secured overnight rupee rate based on the secured money markets (both basket repo and triparty repo). Financial Benchmarks India Private Limited (FBIL) has started publishing the rate at a daily frequency.

Chart IV.3: Policy Corridor and Money Market Rates



Sources: RBI; Clearing Corporation of India Limited; and Bloomberg.

weighted average call rate as the operating target of monetary policy.[27]

Overall, interest rates in the term money market remained broadly stable (Chart IV.3b).[28] The average yields hardened marginally for treasury bills while commercial papers and certificates of deposit rates softened.[29]

Government Securities (G-sec) Market

In the fixed income segment, 10-year G-sec yields firmed up during mid-July to early August, amidst uncertainties over India-US trade negotiations and receding expectations of further monetary policy easing. Following the announcement of S&P's upgrade of India's sovereign rating on August 14, 2025 the 10-year G-sec yields eased briefly. Thereafter, yields hardened during the third week of August. The average term premium (the difference between the 10-year G-sec yield and the 91-day treasury bill yield) increased by 3 bps during July 16 to August 21, 2025 as compared to June 16 to July 15, 2025 (Charts IV.4a and IV.4b).

Corporate Bond Market

Corporate bond yields as well as their spreads over the corresponding risk-free rates generally rose across tenors and rating spectrum (Table IV.1).[30]

Money and Credit

Reserve money growth, adjusted for the first-round impact of changes in the cash reserve ratio, increased during the month, tracking growth in currency in circulation. Currency in circulation grew

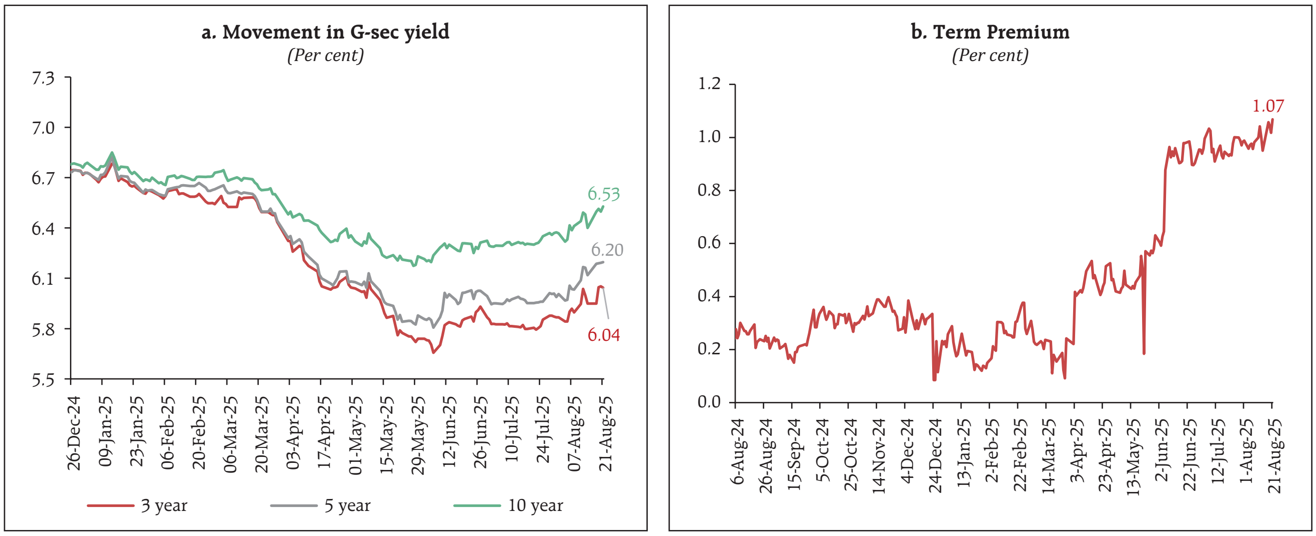
[27] The weighted average call rate is found to be highly correlated with other overnight money market rates in the collateralised segments and is also found to be effective in transmitting signals to other money market instruments across maturities. Further details can be found in the Report of the Internal Working Group to Review the Liquidity Management Framework – July 2025. https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/IWG060820254255B36745A04F23A683956447CB227A.PDF

[28] The average yields on 3-month treasury bills hardened by 6 bps, while the average yields on 3-month commercial papers issued by NBFCs and 3-month certificate of deposit declined by 1 bps and 3 bps, respectively, during the period July 16 to August 21, 2025, as compared to the period June 16 to July 15, 2025.

[29] The average risk premium in the money market (the spread between the yields on 3-month commercial paper by NBFCs and 91-day treasury bill) declined to 75 bps during the current period from 82 bps in the preceding period.

[30] Corporate bond issuances remained high at ₹1.08 lakh crore up to June 2025, up from 0.95 lakh crore in May 2025.

Chart IV.4: Developments in G-sec Market



Note: In chart b, term premium is calculated as the difference between the 10-year G-sec yield and the 91-day treasury bill yield.
Sources: Bloomberg; FIMMDA; and RBI staff estimates.

ahead of the festive season and waning impact of withdrawal of ₹2000 denominated banknotes. The growth in money supply (M_3) remained broadly stable during July (Chart IV.5).[31,32]

Scheduled commercial banks' credit growth continued to remain subdued in July, despite a marginal uptick compared to the previous month, with deposit growth remaining steady (Chart IV.6 and Annex Chart A9).[33] During 2025-26 so far, while the flow of non-food bank credit declined, this reduction was more than offset by higher inflows from non-bank sources. Consequently, the total flow of financial resources to the commercial sector

Table IV.1: Corporate Bonds - Rates and Spread

	Interest Rates *(Per cent)*			Spread *(bps)* (Over Corresponding Risk-free Rate)		
Instrument	**June 16, 2025 – July 15, 2025**	**July 16, 2025 – August 20, 2025**	**Variation (bps)**	**June 16, 2025 – July 15, 2025**	**July 16, 2025 – August 20, 2025**	**Variation (bps)**
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
Corporate Bonds						
(i) AAA (1-year)	6.55	6.54	-1	95	92	-3
(ii) AAA (3-year)	6.91	6.97	6	95	97	2
(iii) AAA (5-year)	7.13	7.13	0	96	93	-3
(iv) AA (3-year)	7.84	8.03	19	188	203	15
(v) BBB- (3-year)	11.49	11.66	17	553	566	13

Note: Yields and spreads are computed as averages for the respective periods.
Sources: Fixed Income Money Market and Derivatives Association of India; and Bloomberg.

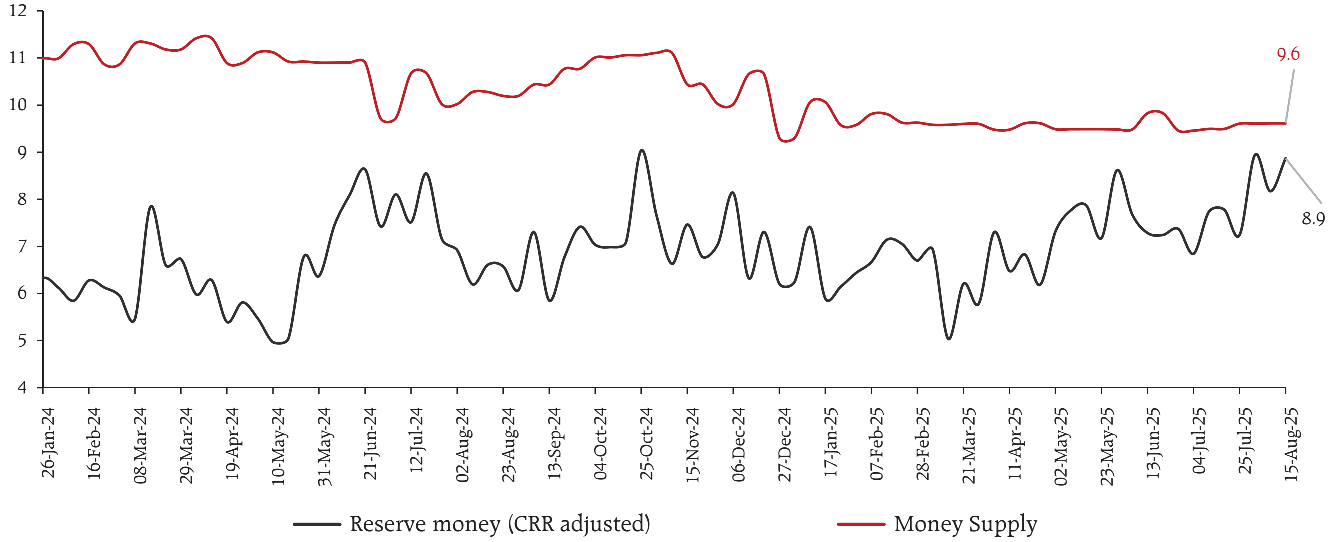
[31] Reserve money (adjusted for CRR) grew by 8.9 per cent (y-o-y) as on August 15, 2025 [7.8 per cent (y-o-y) as on July 18, 2025]. Currency in circulation grew by 8.8 per cent (y-o-y) as on August 15, 2025 [7.2 per cent (y-o-y) as on July 18, 2025].

[32] Money supply grew by 9.6 per cent (y-o-y) as on August 8, 2025 [9.5 per cent (y-o-y) as on July 11, 2025]. It includes the impact of the merger of a non-bank with a bank (with effect from July 1, 2023).

[33] Credit growth of scheduled commercial banks was 10.2 per cent (y-o-y) as on August 8, 2025 [9.9 per cent (y-o-y) a month ago]. Deposit growth was 10.1 per cent (y-o-y) as on August 8, 2025 [10.1 per cent (y-o-y) a month ago].

Chart IV.5: Growth in Reserve Money and Money Supply (M_3)

(Y-o-y, per cent)



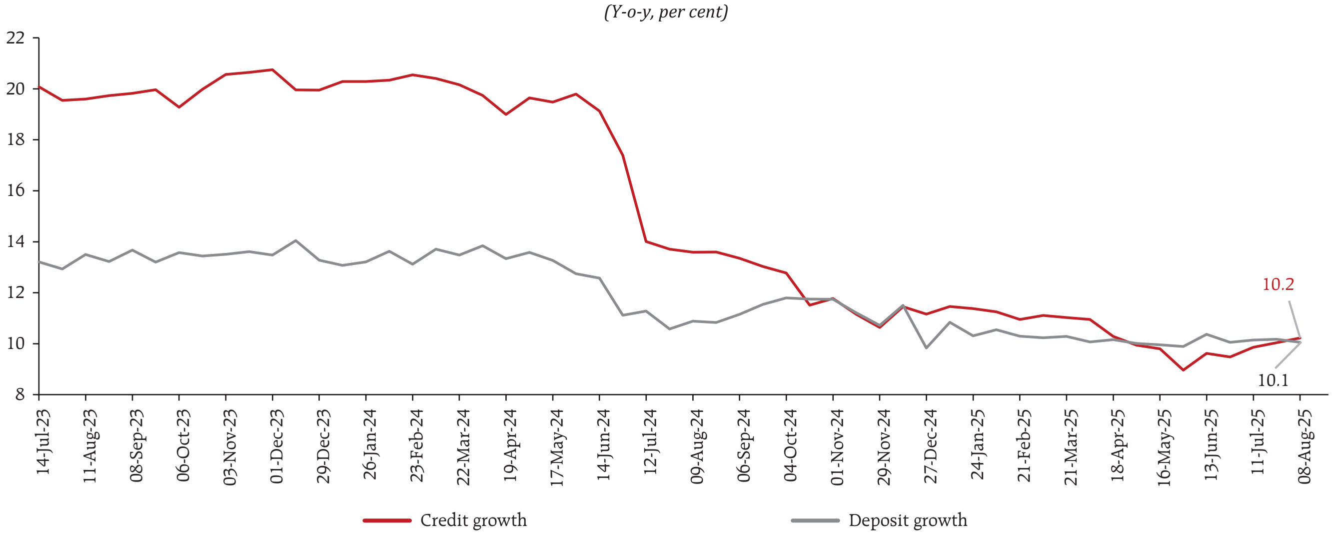
Sources: RBI.

registered an increase, notwithstanding slower growth in bank credit. With faster monetary policy transmission to money markets, large corporates have increasingly turned to market-based instruments such as commercial paper and corporate bonds for funding, thereby reducing the demand for bank credit.

Across key sectors, bank credit growth recorded a modest improvement in June (Annex Chart A10).[34,35] Personal loans, the primary driver of credit growth, registered a notable pick-up. It was largely supported by the housing segment, which accounts for nearly half of the loans extended under

Chart IV.6: Scheduled Commercial Banks: Credit and Deposit Growth

(Y-o-y, per cent)



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 Returns, RBI.

[34] As at end-June, growth in non-food bank credit stood at 10.2 per cent (y-o-y), up from 9.8 per cent (y-o-y) recorded in May 2025.

[35] 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 exclude the impact of the merger of a non-bank with a bank.

personal loans, along with an increase in vehicle loans and other personal loans. Services sector also recorded an uptick, as bank credit to NBFCs turned positive, reversing the contraction observed in the previous month. Nevertheless, these entities continued to access funds through money and capital market instruments. Industrial credit also witnessed an improvement. While there was continued contraction in infrastructure sector, credit to the MSMEs has been expanding at a strong pace.

Deposit and Lending Rates

The pass-through of the cumulative 100-bps reduction in the repo rate during February 2025 to June 2025 to lending and deposit rates, especially for fresh deposits and loans, has been strong. The weighted average lending rate on fresh and outstanding rupee loans of scheduled commercial banks declined. 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 public sector banks relative to private banks (Chart IV.7). Similarly, on the deposit side, transmission was higher for public sector banks compared to private banks.

Equity Markets

Equity markets declined in July amidst lingering tariff uncertainty and mixed corporate earnings results for Q1:2025-26. Steady inflows from domestic institutional investors, notably mutual funds, helped cushion the impact of FPI outflows from equities. A marginal recovery led by gains in automobile sector stocks in early August was wiped out by fresh uncertainty surrounding India-US trade negotiations. The markets recovered subsequently amidst optimism surrounding India's sovereign credit rating upgrade and the announcement of GST reforms (Chart IV.8).

External Sources of Finance

Gross inward FDI reached a four-year high in June (Chart IV.9a). The US, Cyprus and Singapore together accounted for more than three-fourths of total FDI inflows. Computer services, manufacturing, and construction were the top recipient sectors.

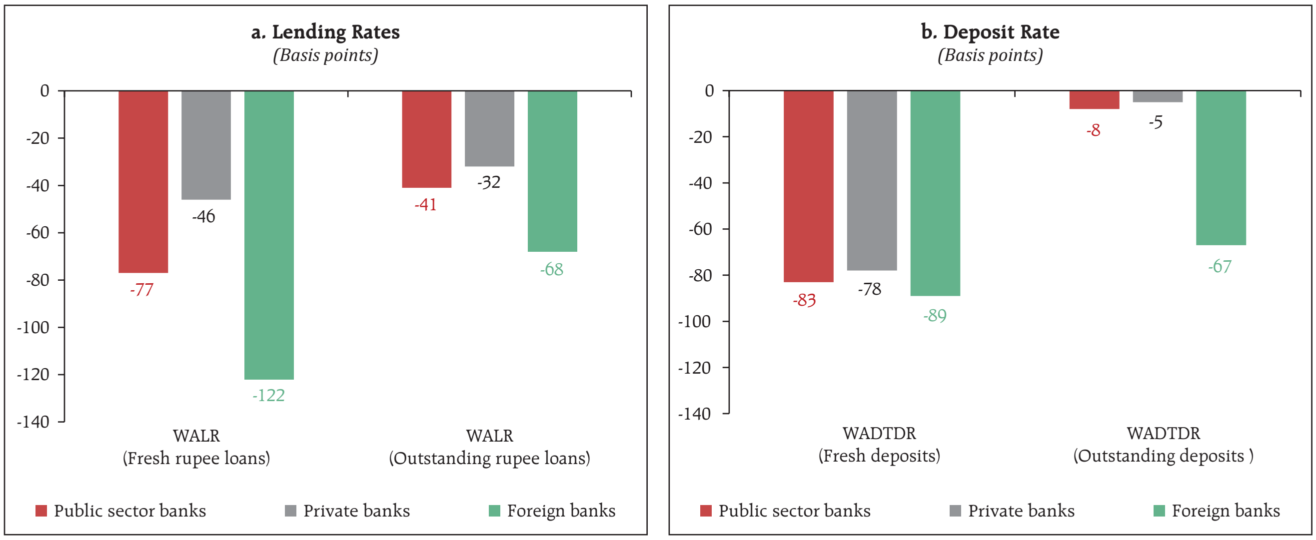
Table IV.2: Transmission to Banks' Deposit and Lending Rates

(Variation in basis points)

Period		Term Deposit Rates		Lending Rates				
	Repo Rate	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 Jul* 2025	-100	-87	-10	-100	-25	-71	-55	-39

Notes: Data on EBLR pertain to 32 domestic banks.
*: Data on WADTDR and WALR pertain to June 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.

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



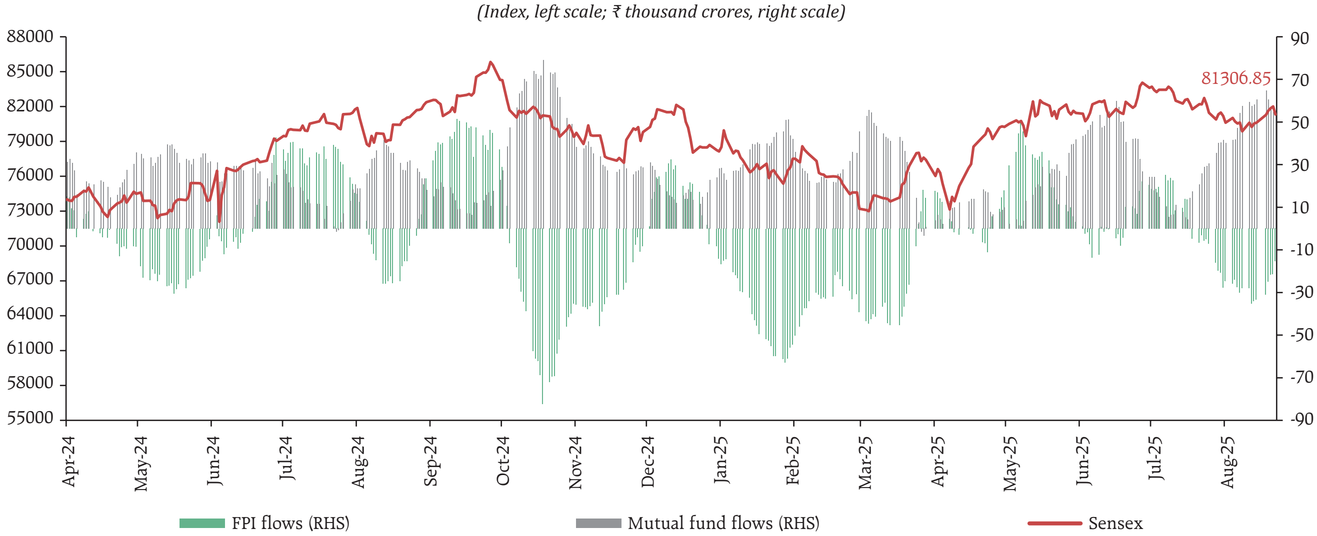
Note: Transmission during February to June 2025 is calculated by subtracting the weighted average lending and deposit rates of January 2025 from those of June 2025.
Source: RBI.

However, both repatriation of FDI and outward FDI also increased. Top sectors for outward FDI included financial, manufacturing, insurance and business services, and the major destinations were Singapore, the US, the UK and the UAE (Chart IV.9b). As a result, net FDI inflows remained muted.

FPI recorded net outflows in July and August, reversing two consecutive months of inflows, as equity outflows intensified amidst persistent global trade tensions and heightened risk-off sentiment following US tariff announcements (Chart IV.10). In contrast, the debt segment saw modest net inflows,

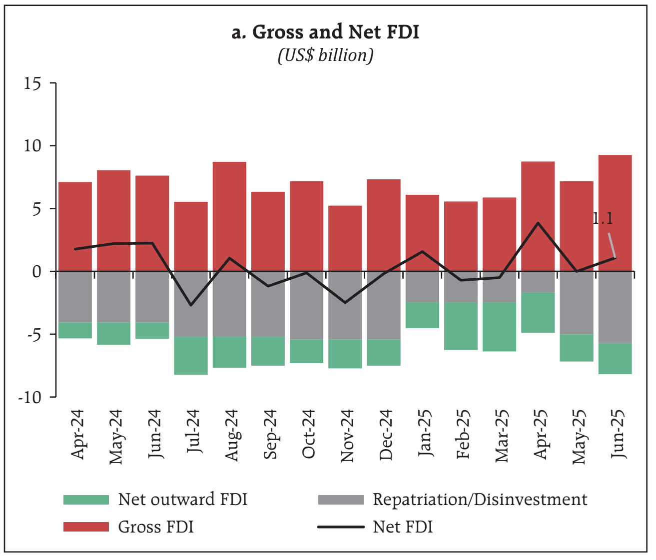
Chart IV.8: BSE Sensex and Institutional Flows

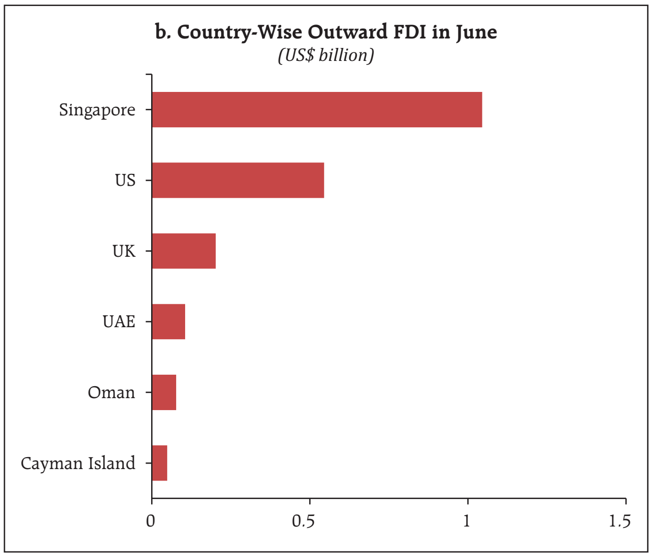
(Index, left scale; ₹ thousand crores, right scale)



Note: FPI and mutual fund flows are represented on 15-days rolling sum basis.
Source: Bloomberg.

Chart IV:9: Foreign Direct Investment Flows





Source: RBI.

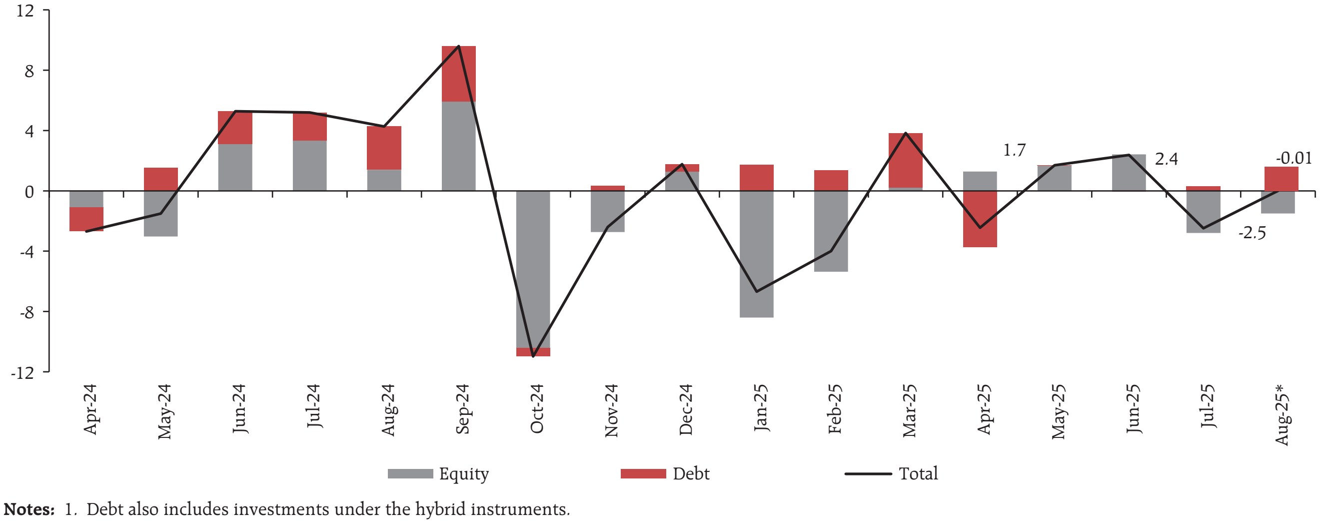
supported by primary debt issuances and inflows in G-sec through fully accessible route.[36]

The registrations of external commercial borrowings moderated in Q1:2025-26, although inflows continued to outpace outflows, resulting in positive net inflows (Chart IV.11). Notably, nearly half 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 94 per cent of

Chart IV.10: Foreign Portfolio Investments

(US$ billion)



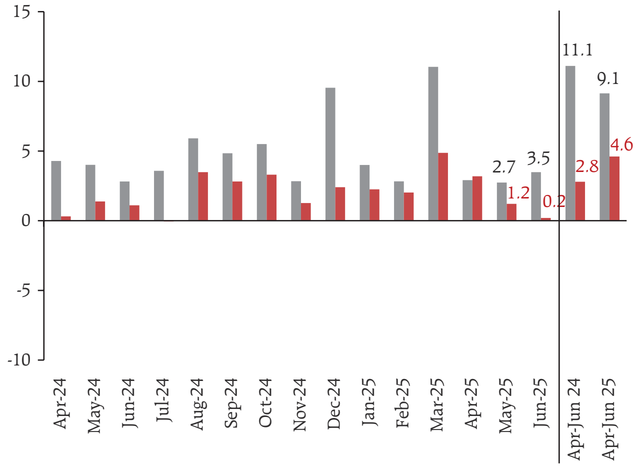
Notes: 1. Debt also includes investments under the hybrid instruments.
2. *: Data up to August 21.

Source: National Securities Depository Limited (NSDL).

[36] Fully accessible route is a separate channel introduced by RBI with effect from April 1, 2020 to enable non-residents to invest in specified Government of India securities without any investment ceilings.

Chart IV.11: External Commercial Borrowings - Registrations and Flows

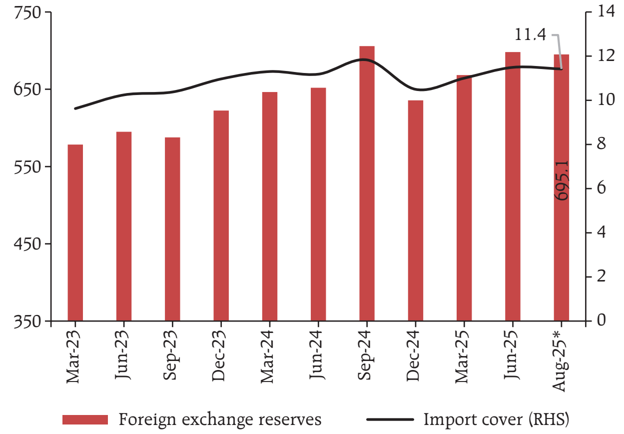
(US$ billion)



Source: Form ECB, RBI.

Chart IV.12: India's Foreign Exchange Reserves

(US$ billion, left scale; months, right scale)



Notes: 1. *: As on August 15, 2025.
2. The import cover data for June and August 2025 is based on total merchandise imports for 2024-25, as per the balance of payments statistics.

Source: RBI.

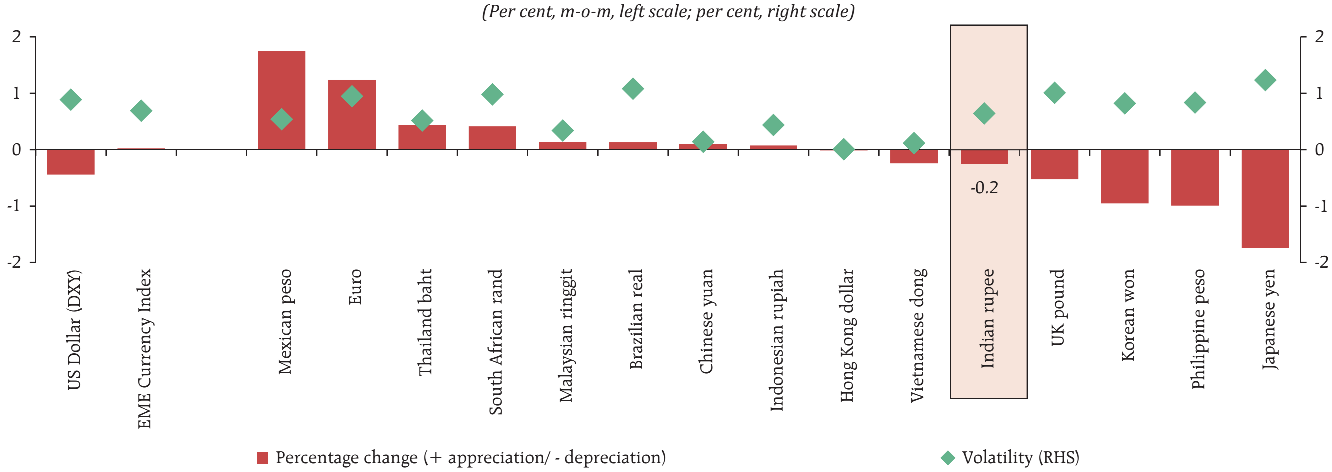
the external debt outstanding at end-March 2025 (Chart IV.12).[37]

Foreign Exchange Market

The Indian rupee depreciated marginally against the US dollar in July, reflecting ongoing global trade uncertainties and FPI outflows (Chart IV.13). Despite such depreciation, the rupee remained one of the least volatile currencies among major EMDEs during the month. In August, the Indian rupee registered some gains against the US dollar following the announcement of S&P's upgrade of India's sovereign rating.

Chart IV.13: Movements in Major Currencies against the US Dollar in July 2025

(Per cent, m-o-m, left scale; per cent, right scale)

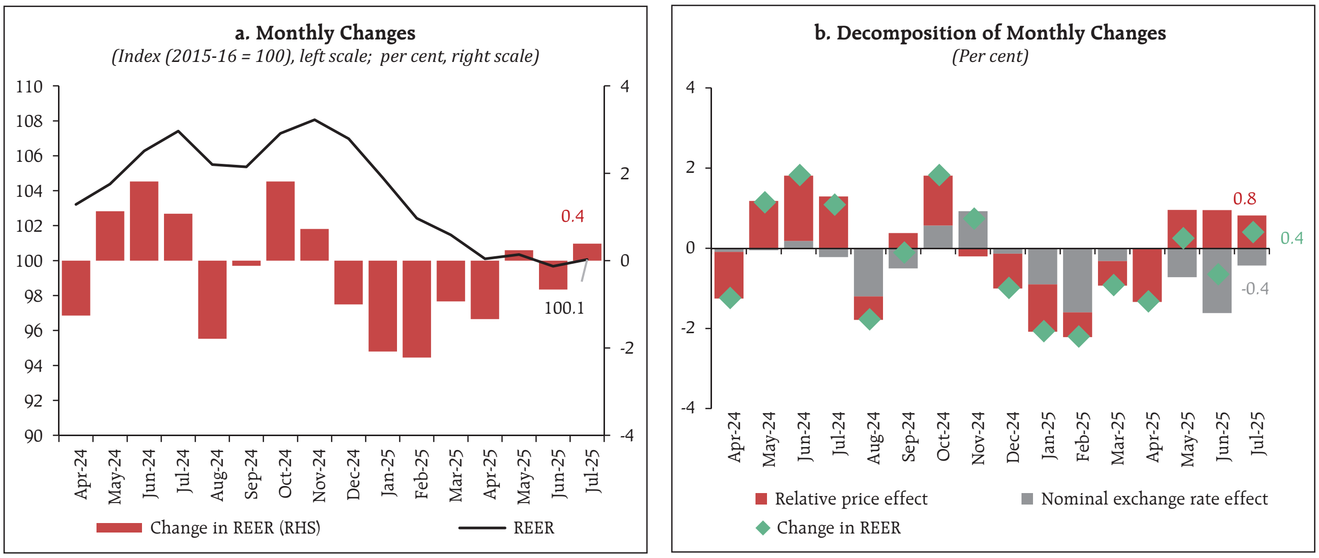


Notes: 1. Appreciation/depreciation (m-o-m) calculated using monthly average exchange rates.
2. US dollar (DXY) measures the movements of the US dollar against a basket of major currencies (Euro, Japanese yen, British pound, Canadian dollar, Swedish krona, Swiss franc).
3. For each currency, volatility is measured as the coefficient of variation (100*Standard Deviation/Mean) using daily exchange rate data for July 2025.

Sources: FBIL; Thomson Reuters; and RBI staff estimates.

[37] The import cover for goods and services combined was around nine months.

Chart IV.14: Movements in the 40-Currency Real Effective Exchange Rate



Source: RBI.

In real effective terms, the Indian rupee appreciated in July (Chart IV.14a). India's inflation (on a m-o-m basis) was higher than the weighted average inflation of its major trading partners, outweighing depreciation of the Indian rupee in nominal effective terms (Chart IV.14b).

V. Conclusion

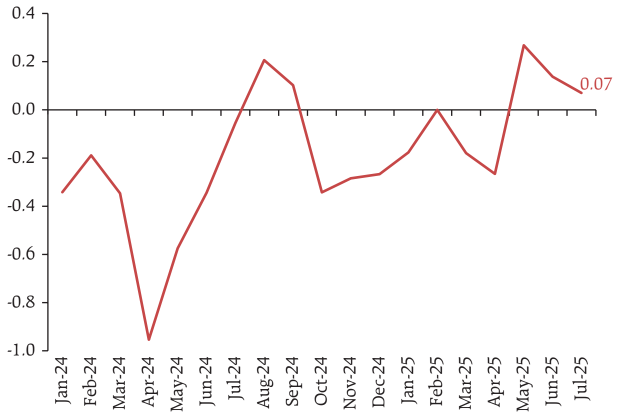
Favourable rainfall and temperature conditions bode well for the *kharif* agriculture season. An increase in real rural wages may support rural demand in the second half of the financial year.[38] Coupled with the benign financial conditions, ongoing transmission of rate cuts, supportive fiscal measures and rising household optimism, the environment is conducive for holding up aggregate demand. On the other hand, persisting uncertainties related to India-US trade policies continue to pose downside risk. Inflation outlook for the near term has become more benign than anticipated earlier. Headline inflation, driven by muted food price pressures supported by favourable base effects, are likely to soften further below the 4 per cent target in Q2 before inching up in the last quarter of the financial year. Overall, the average headline inflation this year is expected to remain significantly below the target.[39] Monetary policy, going forward, would continue to maintain a close vigil on the incoming data and the evolving domestic growth-inflation dynamics to chart out the appropriate monetary policy path.

[38] The monetary policy committee resolution of August 6th 2025, retained the real GDP growth for 2025-26 at 6.5 per cent, with Q1 at 6.5 per cent, Q2 at 6.7 per cent, Q3 at 6.6 per cent, and Q4 at 6.3 per cent. Real GDP growth for Q1:2026-27 was projected at 6.6 per cent.

[39] The monetary policy committee resolution of August 6th 2025, projected CPI inflation for 2025-26 at 3.1 per cent with Q2 at 2.1 per cent; Q3 at 3.1 per cent; and Q4 at 4.4 per cent. CPI inflation for Q1:2026-27 was projected at 4.9 per cent.

Annex

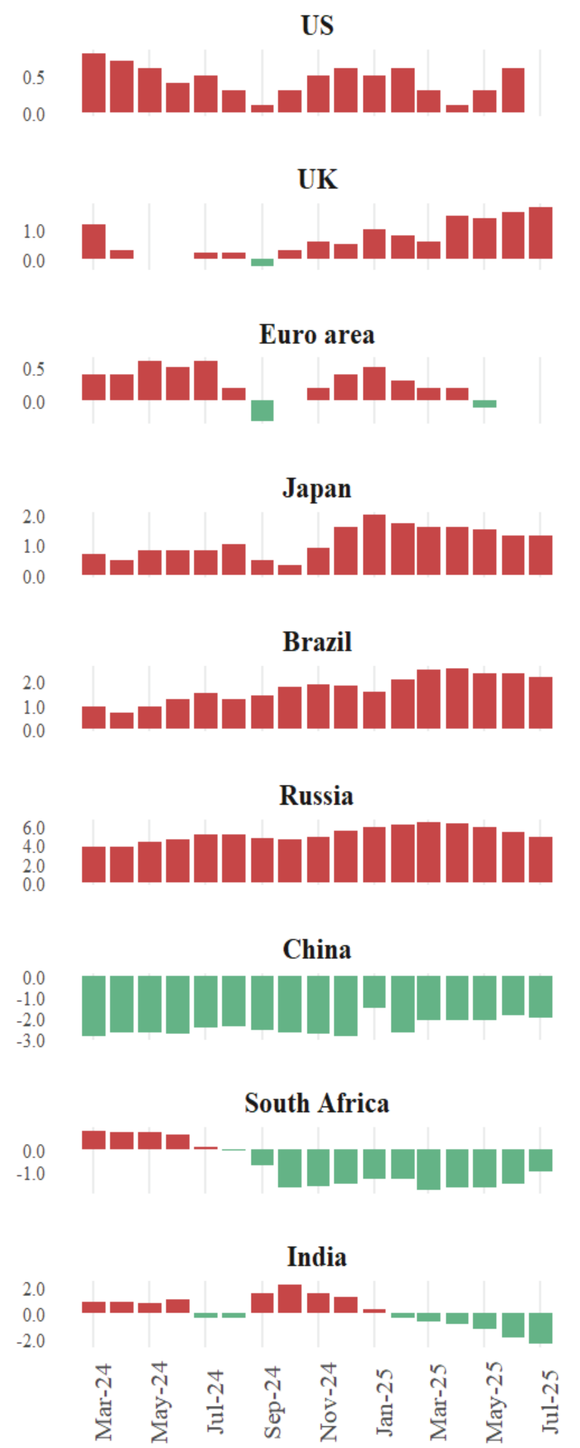
Chart A1: Global Supply Chain Pressure Index



Note: Index readings measure standard deviations from the index's historical average.
Source: Federal Reserve Bank of New York.

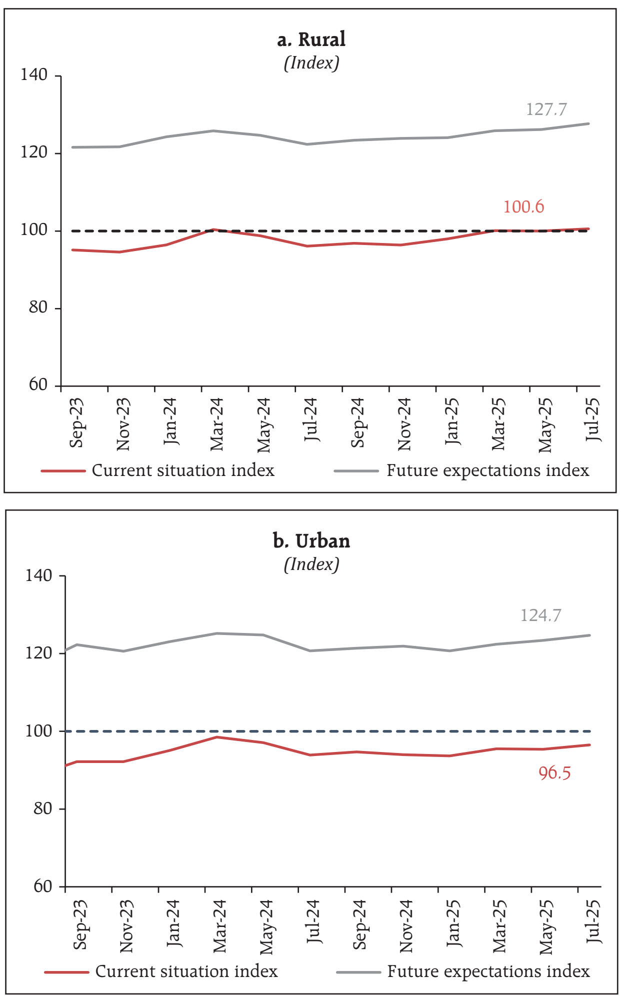
Chart A2: Inflation Gap (Actual minus Target)

(Percentage points)



Note: Inflation for the US is based on the US(PCE) data.
Sources: Bloomberg; and RBI staff estimates.

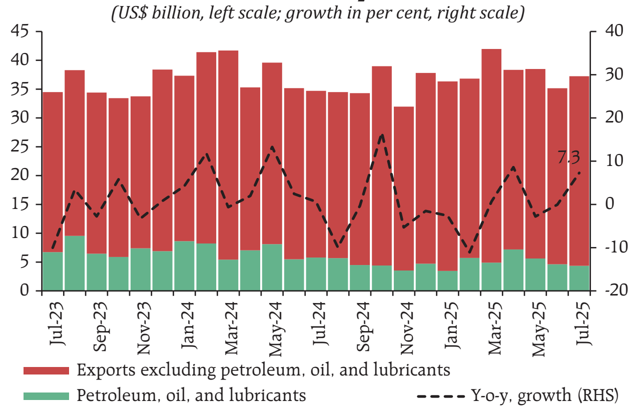
Chart A3: Consumer Confidence Indices



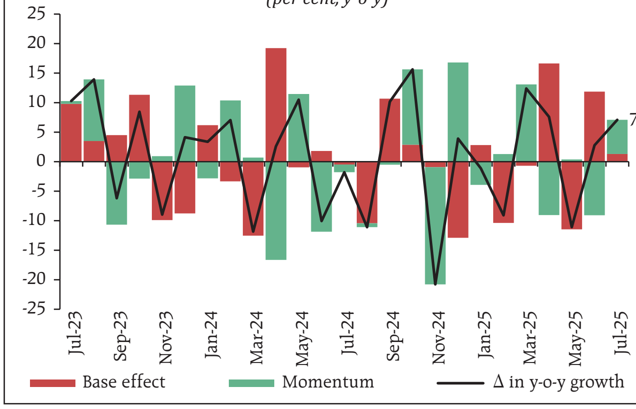
Sources: Rural and Urban Consumer Confidence Surveys, RBI.

Chart A4: India's Merchandise Exports

a. Trend in Exports
(US$ billion, left scale; growth in per cent, right scale)



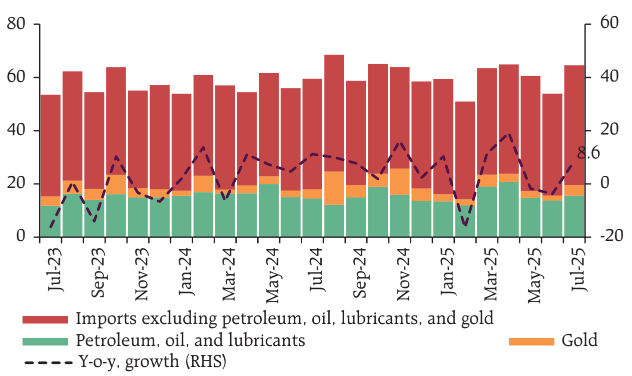
b. Decomposition of Sequential Change in Export Growth
(per cent, y-o-y)



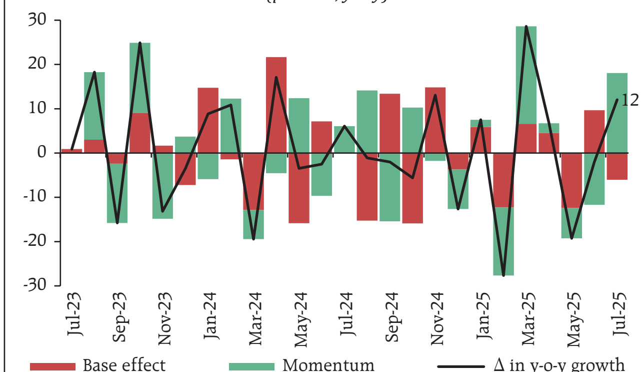
Sources: PIB; DGCI&S; and RBI staff estimates.

Chart A5: India's Merchandise Imports

a. Trend in Imports
(US$ billion, left scale; growth in per cent, right scale)



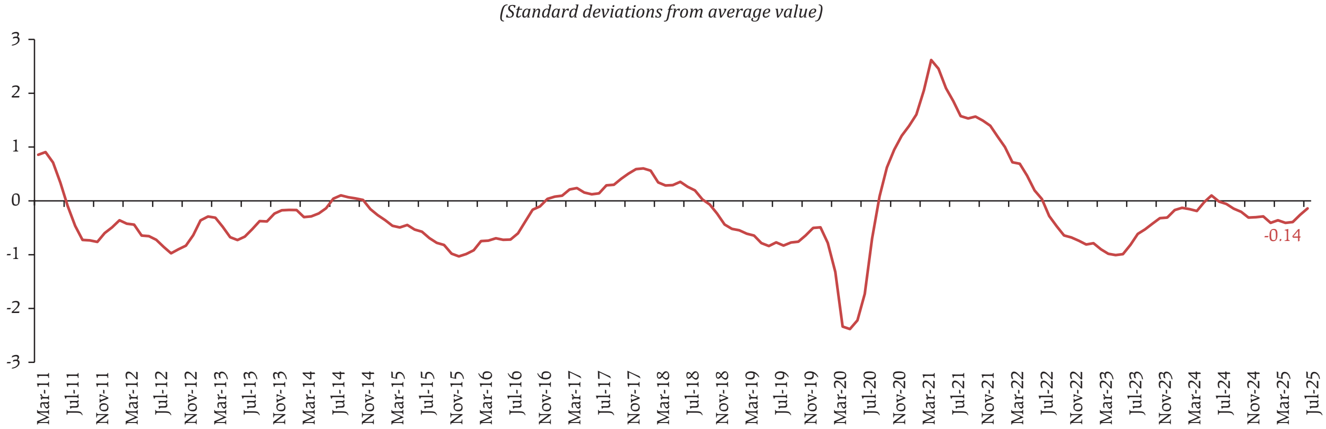
b. Decomposition of Sequential Change in Import Growth
(per cent, y-o-y)



Sources: PIB; DGCI&S; and RBI staff estimates.

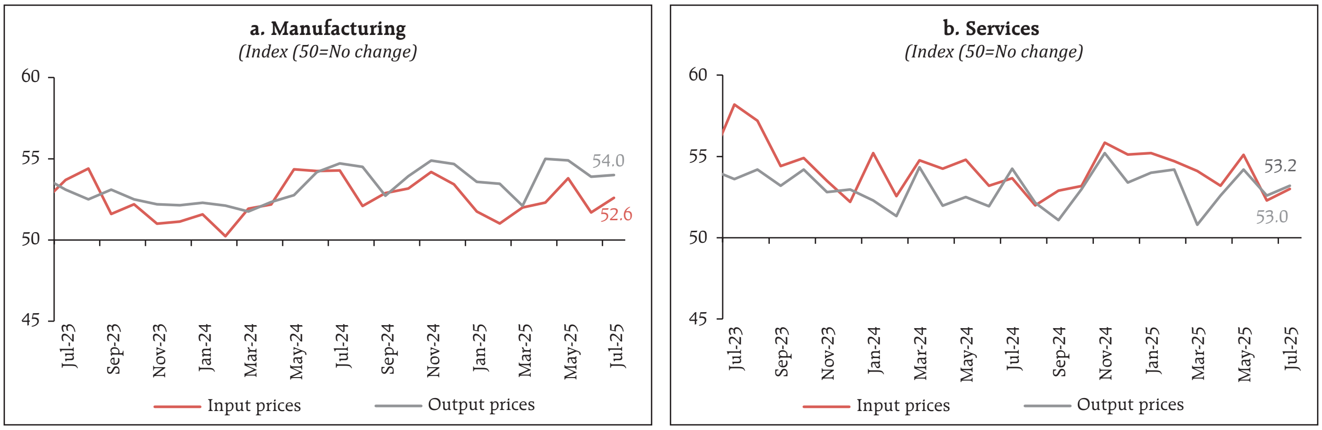
Chart A6: Index of Supply Chain Pressures for India

(Standard deviations from average value)



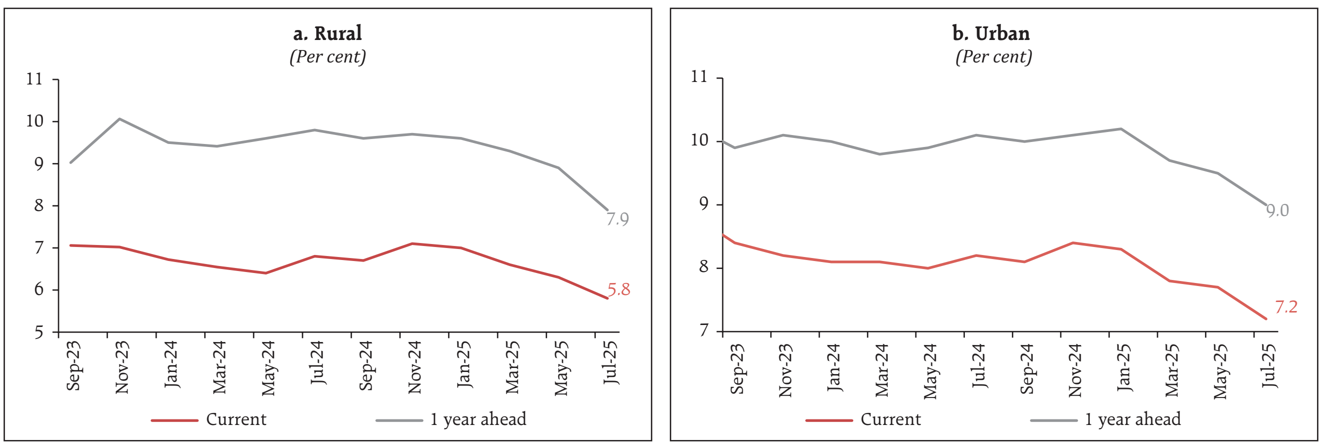
Note: ISPI depicts the deviation of supply chain situation in each month from long period average (time series starting from March 2005).
Source: RBI staff estimates.

Chart A7: PMI: Input and Output Prices



Note: A level of 50 corresponds to no change in activity, and a reading above 50 denotes expansion and vice versa.
Source: S&P.

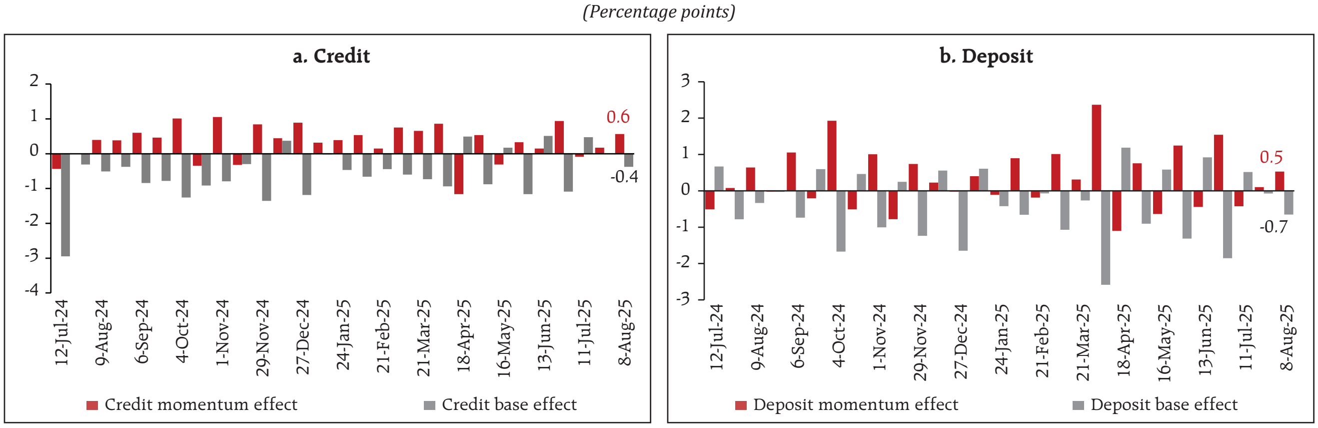
Chart A8: Households' Median Inflation Expectations



Sources: Rural Consumer Confidence Survey; and Inflation Expectations Survey of Households, RBI

Chart A9: Scheduled Commercial Banks: Credit and Deposit Growth

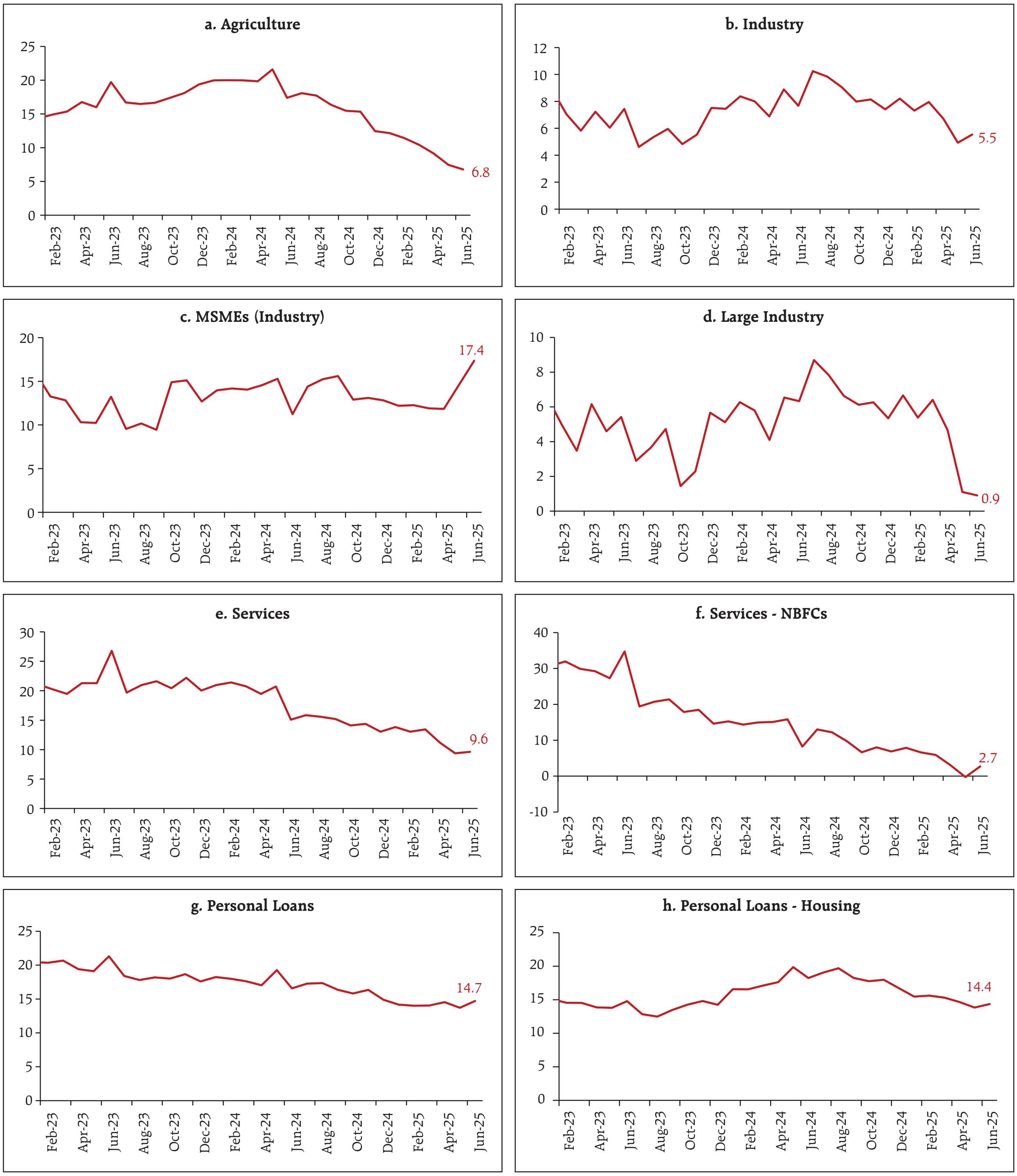
(Percentage points)



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 A10: 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 exclude the impact of the merger of a non-bank with a bank.

Source: RBI.