*For the Year April 1, 2024 to March 31, 2025**

PART ONE: THE ECONOMY - REVIEW AND PROSPECTS

I ASSESSMENT AND PROSPECTS

I.1 The global economic expansion steadily continued in 2024, although growth was uneven amidst geopolitical tensions, geoeconomic fragmentation, heightened trade tensions and elevated public debt. Global inflation moderated in 2024 on the back of softening commodity prices, easing supply conditions and the lagged impact of monetary tightening in 2022. The disinflationary process, however, remains varied across countries with persisting stickiness in services inflation in major advanced economies (AEs). Financial conditions broadly eased as major central banks pivoted to accommodative monetary policy stance by mid-2024. Yet, bouts of volatility in global financial markets were visible during the year due to the interplay of policy shifts, geopolitical developments and stretched valuations of technological stocks, among others. Merchandise trade rebounded gradually in spite of persisting geopolitical tensions and policy uncertainty. Capital flows to emerging market economies (EMEs) remained volatile owing to elevated geoeconomic and policy uncertainties.

I.2 The global economy in 2025 is likely to grow not only below its historical average (2000-19) of 3.7 per cent, but also below the growth of 3.3 per cent in 2024, on account of heightened global trade protectionism, rising policy uncertainty and ongoing geopolitical tensions. Disinflationary path is expected to continue but at a slower pace with AEs likely to reach their targets earlier than EMEs. Accordingly, many central banks pivoted to an easing cycle, while remaining cautious of escalating trade tensions, lingering geopolitical uncertainties, global financial market volatility and climate change risks. Policymakers face the daunting task of suitably calibrating monetary and fiscal policies to support growth, while safeguarding financial and macroeconomic stability.

I.3 Amidst challenging global economic environment, the Indian economy exhibited resilience during 2024-25, supported by robust macroeconomic fundamentals and proactive policy measures. Inflation eased and moved below the target by the end of the year. The financial sector remained resilient and robust on the back of healthier bank and non-bank balance sheets, improved asset quality and capital buffers that enabled double-digit credit growth. On fiscal front, the central government continued with its efforts towards fiscal consolidation, supported by buoyant tax revenues, while maintaining the thrust on expenditure quality. A modest current account deficit (CAD) and adequate forex reserves provided resilience to the external sector even as capital flows exhibited volatility.

* : Wherever information is available, this chapter has been updated beyond March 2025.

I.4 The Indian economy is poised to sustain its position as the fastest growing major economy during 2025-26, supported by pick-up in private consumption, healthy balance sheets of banks and corporates, easing financial conditions and the government's continued thrust on capital expenditure. The easing of supply chain pressures, softening of global commodity prices and higher agricultural production on the back of a likely above-normal south-west monsoon augur well for the inflation outlook in 2025-26. Financial markets may exhibit sporadic episodes of volatility triggered by turbulent global financial markets in the wake of heightened uncertainty regarding the evolution of trade tariff policies, among others. Export sector is also expected to encounter some headwinds from rising geopolitical tensions, inward-looking policies and risk of potential tariff-war among major economies. However, India's participation in 14 free trade agreements (FTAs) and six preferential trade agreements (PTAs), along with the new trade deals under negotiation with the US, Oman, Peru and the European Union (EU) may support growth in trade. Resilient services exports and inward remittances are likely to cushion CAD, which would remain eminently manageable in 2025-26.

2. Assessment of 2024-25

Global Economy

I.5 According to the International Monetary Fund (IMF)[1], global growth at 3.3 per cent in 2024 (3.5 per cent a year ago) was below the historical average (2000-19) of 3.7 per cent, owing to structural challenges like weak investment, slow productivity growth and high debt levels. Moreover, the pace of economic activity was impacted by moderation in economic growth in some Asian and European economies, protracted geopolitical tensions and sluggish recovery in China's consumption demand and property market. Global inflation eased to 5.7 per cent in 2024 from 6.6 per cent in 2023, reflecting the impact of gradual monetary tightening and the easing of supply chain constraints, but still remained above pre-pandemic levels, largely driven by persistent price pressures in the services sector.

I.6 Global merchandise[2] trade volume expanded by 2.9 per cent in 2024 after contracting by 1.0 per cent in 2023 with easing of supply chain pressures. Global trade flows, however, continue to be confronted by geoeconomic fragmentation and restrictive trade policies. Services trade exhibited resilience on the back of continued recovery in spending on travel from the pandemic lows and sustained demand for digitally delivered services.

I.7 Global financial conditions remained largely accommodative in major AEs, reflecting the shift towards less restrictive policy to boost economic activity as inflation started gradually converging to the target levels. After softening in the first half of 2024, sovereign bond yields rose again in AEs during the second half of the year amid renewed inflation concerns and divergent monetary policy trajectories of major central banks. Sovereign bond yields in emerging market and developing economies (EMDEs) generally moderated amidst the global rate cut

[1] World Economic Outlook, April 2025, IMF.

[2] Global Trade Outlook and Statistics Update, April 2025, World Trade Organisation (WTO).

cycle. The US dollar remained strong throughout the year with consequent downward pressures on a number of AE and EME currencies. Global equity markets inched up higher notwithstanding intermittent volatility driven by concerns over stretched valuations, divergent monetary policies, slower pace of disinflation, geopolitical risks and uncertainty on the evolution of tariff policies.

I.8 Brazil assumed the G20 Presidency from India for 2023-24, forming a historic troika of three nations from the Global South. Under the overarching theme of 'Building a Just World and a Sustainable Planet', Brazil's Presidency prioritised three key areas: (a) combating hunger, poverty, and inequality; (b) advancing the three dimensions of sustainable development – economic, social, and environmental; and (c) reforming global governance structures. The Brazilian Presidency advanced initiatives such as strengthening international financial institutions, advancing financial inclusion, enhancing cross-border payments, promoting cybersecurity, addressing vulnerabilities in non-banking financial institutions (NBFIs), climate-related financial risks, and ensuring stability of the global financial system.

Domestic Economy

I.9 Against the backdrop of a steady global growth amidst multiple headwinds, the Indian economy remained resilient during 2024-25, supported by robust macroeconomic fundamentals, proactive policy measures and sustained government capital expenditure. Although real gross domestic product (GDP)[3] growth moderated to 6.5 per cent in 2024-25, India remained the fastest growing major economy. Economic activity was supported by an improvement in consumption demand and net exports on the expenditure side, and buoyant services sector and recovery in agricultural production on the supply side.

I.10 Growth in gross value added (GVA) in the agriculture and allied sector in 2024-25 stood at 4.6 per cent as compared with 2.7 per cent a year ago, driven by record foodgrains production aided by adequate reservoir levels and favourable weather conditions. Horticulture sector also performed better than last year, driven by higher production of onion and potato. The government has initiated Digital Agriculture Mission to bring innovative farmer-centric digital services, which will enable transparent, efficient, easier and faster service delivery to the farmers. This will also enhance productivity and sustainability of India's agriculture sector. Moreover, the government is promoting quality seed production and distribution through various schemes to enhance climate-resilience and improve crop yield in the agriculture sector.

I.11 Growth in industrial sector moderated to 4.3 per cent in 2024-25, primarily due to deceleration in manufacturing GVA. Manufacturing sector witnessed robust growth in Q1:2024-25, but moderated in the next three quarters, reflecting both base effect and muted demand conditions. The mining sector remained subdued during the year with extended monsoon affecting mining activity during Q2:2024-25. Electricity generation registered a modest growth with an above-average monsoon and a relatively mild winter

[3] All references to GDP data in this Report are based on the Second Advance Estimates (SAE) of National Income 2024-25 released by the National Statistical Office on February 28, 2025, unless indicated otherwise.

bringing down electricity demand. Public sector continued to spearhead investment growth in 2024-25. The production linked incentive (PLI) scheme helped to steer growth across several key manufacturing industries. As of November 2024, investment under PLI scheme reached 57 per cent of the aggregate committed target under the schemes.

I.12 The services sector, with a share of 64.1 per cent in GVA, remained the mainstay of aggregate supply with a growth of 7.5 per cent in 2024-25. Despite moderation, construction activity remained resilient with its share reaching the highest level since 2012-13. Public administration, defence and other services (PADO) remained buoyant, recording their highest growth in the last eight years, supported by robust expenditure by the central and state governments as well as sustained momentum in other services. Meanwhile, growth in trade activity and telecom subscriber base softened during the year.

I.13 As per the annual Periodic Labour Force Survey (PLFS) data, the labour market remained resilient during January-December 2024. The post-pandemic increase in the agriculture sector's share in total employment reversed in 2024, while the share of other services, construction and trade sectors rose in 2024 as compared to 2023. The quarterly urban PLFS data pertaining to October-December 2024 also indicate robust employment in urban areas.

I.14 Despite uncertainty around globally coordinated action against climate change, India remained focused on its mitigation and adaptation measures. This is also reflected in the Climate Change Performance Index (CCPI) 2025, which ranked India among the top 10 high performers for the sixth year in a row since 2020. Renewable energy capacity additions were highest during 2024-25 led by solar energy, with more than 10 lakh households installing rooftop solar panels under *Pradhan Mantri Surya Ghar Muft Bijli Yojana*. During the year, Green Steel Mission and Critical Minerals Mission were launched along with advancements in National Green Hydrogen Mission. Efforts were strengthened to clean transportation system through PM Electric Drive Revolution in Innovative Vehicle Enhancement (E-DRIVE) scheme, focusing on green mobility and development of electric vehicle (EV) manufacturing ecosystem to achieve the target of 30 per cent EV adoption by 2030. Moreover, measures aimed at greening of the economy such as issuance of sovereign green bonds, green deposits scheme and increased support to the renewable energy sector in terms of the revised priority sector lending (PSL) guidelines bear testimony to a strong commitment towards facilitating resources for sustainable development.

I.15 Inflation converged closer towards the target during 2024-25 aided by easing input cost pressures, proactive supply management measures by the government and continuing transmission of past monetary policy actions. Headline inflation moderated to an average of 4.6 per cent during 2024-25 from 5.4 per cent in the previous year, largely driven by a moderation in core (CPI excluding food and fuel) inflation to 3.5 per cent and deflation in fuel at 2.5 per cent. The moderation in core inflation was broad-based across goods and services. The uptick in core inflation in the second half of the year was driven primarily by increase in international gold prices. An upward revision in mobile charges by private telecom service providers also pushed up services inflation. Deflation in fuel was driven by reduction in liquefied petroleum gas (LPG) and kerosene prices on the back of softer global energy prices. In contrast, food inflation remained elevated at 6.7 per cent in 2024-25, with intermittent spikes due to overlapping supply shocks emanating from weather anomalies imparting volatility to headline inflation. Food inflation recorded an intra-year peak of 9.7 per cent in October 2024, before declining dramatically to 2.9 per cent by March 2025. While vegetables inflation experienced heightened volatility during the year, inflation persisted in cereals, fruits, edible oils, and meat and fish, reflecting tight supply conditions. Domestic import duty hikes coupled with export restrictions imposed by Indonesia on edible oils imparted rigidity to food inflation.

I.16 Considering the growth-inflation dynamics, the Monetary Policy Committee (MPC) changed the policy stance from withdrawal of accommodation to neutral in October 2024 providing the flexibility to monitor the outlook and progress on disinflation and growth and act in accordance with the evolving situation. Subsequently, with the growth-inflation dynamics opening up policy space to support growth, the MPC reduced the policy repo rate by 25 bps to 6.25 per cent in February 2025 after maintaining *status quo* since February 2023 at 6.50 per cent. Liquidity conditions improved during 2024-25 *vis-à-vis* last year. Within the year, however, system liquidity moved from surplus during July-November 2024 to deficit during December 2024-March 2025 on account of high increase in currency in circulation and the Reserve Bank's forex operations. For the year as a whole, liquidity conditions remained in surplus as reflected in average daily net absorption under the liquidity adjustment facility (LAF) increasing to ₹1,605 crore during 2024-25 from ₹485 crore in the previous year. The Reserve Bank conducted a suite of market operations, including open market operation (OMO) purchases, USD/INR buy/sell swaps, and longer tenor variable rate repo (VRR) operations, besides reducing the cash reserve ratio (CRR) by 50 bps (in two tranches of 25 bps each), to provide durable liquidity to the system. The weighted average call rate (WACR), on an average, traded 6 bps above the policy repo rate during 2024-25.

I.17 Domestic financial markets remained resilient during 2024-25 amidst an uncertain global environment. Government security (G-sec) and corporate bond yields declined over the year, leading to an increase in corporate bond issuances. Domestic equities surged in the first half, scaling fresh peaks before declining in the second half amidst concerns over slowdown in GDP growth and corporate earnings growth, tariff policy uncertainty and foreign portfolio investment (FPI) outflows. Primary market activity remained upbeat in 2024-25 although it moderated in Q4.

I.18 The Indian Rupee (INR) underwent depreciation *albeit* less than some of its EME peers as the US dollar and the US asset yields remained strong. Nevertheless, India's robust macroeconomic fundamentals characterised by stable and moderate current account and fiscal deficits allowed for an orderly evolution of the INR. Moreover, the Reserve Bank also undertook various measures to promote the increasing use of INR and local currencies of partner trading countries for international cross-border transactions and focused on rationalising regulatory, supervisory and authorisation frameworks for ease of undertaking forex transactions.

I.19 The transmission of policy repo rate changes to banks' deposit and lending rates remained robust during 2024-25. The proportion of external benchmark linked loans in total outstanding floating rate loans increased further during the year, with concomitant fall in marginal cost of funds-based lending rate (MCLR) linked loans.

I.20 The central government delivered on its fiscal consolidation commitment, with gross fiscal deficit (GFD) declining to 4.7 per cent of GDP in 2024-25 [revised estimates (RE)] from 5.5 per cent of GDP in 2023-24[4]. On the expenditure side, the effective capital expenditure[5] registered a growth of 5.2 per cent over and above 19.8 per cent recorded in 2023-24, while growth in revenue expenditure was 5.8 per cent in 2024-25 (RE). On the receipt side, gross-tax and non-tax receipts recorded resilient growth of 11.2 per cent and 32.2 per cent, respectively, in 2024-25 (RE). Provisional accounts data during April 2024-February 2025 reveal that states' revenue receipts recorded moderate growth on account of deceleration in tax revenue growth and decline in grants from the central government. While revenue expenditure of states picked up during April 2024-February 2025, capital expenditure remained modest. Nevertheless, the consolidated GFD of states is likely to remain within the budget estimate of 3.2 per cent of GDP.

I.21 The Reserve Bank revised the ways and means advances (WMA) limits of the state governments/union territories (UTs), based on the recommendations of the Working Group constituted under the aegis of the 33rd Conference of the State Finance Secretaries (SFS). The aggregate WMA limit of the state governments/UTs was revised to ₹60,118 crore from the extant limit of ₹47,010 crore, effective from July 1, 2024. Based on the recommendations of the Working Group constituted by the Reserve Bank on consolidated sinking fund (CSF) and guarantee redemption fund (GRF), the special drawing facility (SDF) limits were revised to provide greater flexibility to state governments/UTs in managing temporary mismatches in their cash flows.

I.22 India's merchandise exports grew marginally by 0.1 per cent in 2024-25 as against a contraction of 3.1 per cent a year ago. On the other hand, merchandise imports grew by 6.2 per cent during this period as against a contraction of 5.3 per cent a year ago. Consequently, India's merchandise trade deficit widened to US$ 282.8 billion during 2024-25 from US$ 241.1 billion a year ago. Nonetheless, strong services exports and a steady flow in inward remittances cushioned India's CAD to remain within sustainable level at 1.3 per cent of GDP during April-December 2024 (1.1 per cent a year ago).

I.23 Capital flows exhibited volatility during the year. Net foreign direct investment (FDI)

4 The figures may be at variance with those reported in Union Budget 2025-26, as they are computed using the latest available estimates of the GDP.

5 Capital expenditure *plus* grants in aid for creation of capital assets.

inflows stood at US$ 0.4 billion during 2024-25, lower than US$ 10.1 billion a year ago, and FPI recorded net inflows of US$ 1.7 billion during 2024-25 (US$ 41.6 billion a year ago). In terms of external financing needs, net capital flows were more than sufficient to finance CAD in H1:2024-25, and accordingly, there was an accretion to foreign exchange reserves (on a BoP basis) of US$ 23.8 billion. However, the situation reversed in H2. Foreign portfolio investors turned net sellers in the domestic market with net outflows at US$ 18.5 billion during October 2024 to March 2025. Notably, net FPI flows in the debt segment exhibited resilience with US$ 17.4 billion of inflows during 2024-25. Although other forms of capital flows, such as external commercial borrowings (ECB) and non-resident deposits remained robust, net capital flows fell short of CAD during Q3:2024-25, leading to a depletion in reserves (on a BoP basis) to the tune of US$ 37.7 billion. Overall, there was a depletion in reserves to the tune of US$ 13.8 billion during April-December 2024. Nonetheless, strong buffers in the form of ample forex reserves at US$ 668.3 billion (as at end-March 2025), covering 11 months of merchandise imports, helped mitigate external financing needs and adverse global spillovers.

I.24 During the year, credit-to-deposit ratio of scheduled commercial banks (SCBs) marginally increased, as bank credit growth outpaced deposit growth. The gap between credit and deposit growth, however, narrowed, with banks continuing to increase their term deposit rates to mobilise deposits to bridge the funding gap. SCBs witnessed further improvement in asset quality, as evident from reduction in both gross NPA (GNPA) ratio and net NPA (NNPA) ratio, along with a steady decline in the slippage ratio. The provision coverage ratio (PCR) as well as profitability indicators, *viz*., return on asset (RoA) and return on equity (RoE) remained robust, while the net interest margin (NIM) softened. Capital and liquidity buffers remained well above the regulatory requirements. Macro stress tests suggest that banks' aggregate capital would remain above the regulatory minimum under all adverse scenarios.

I.25 Aggregate credit extended by non-banking financial companies (NBFCs) expanded in double digits as at end-December 2024 although growth in unsecured lending moderated. Profitability indicators and NPA ratios continued to improve further during this period, while capital adequacy ratio remained robust. Risk weights on bank credit to NBFCs were reduced effective April 1, 2025 to facilitate credit offtake and support economic growth.

I.26 The credit growth of urban cooperative banks (UCBs) improved as at end-December 2024. The financial performance of UCBs also improved on the back of strengthened capital buffers and lower GNPA ratio as compared to the corresponding period of the previous year.

I.27 Several regulatory and supervisory guidelines were issued during the year in line with global best practices towards strengthening governance, risk management practices and operational resilience. These, *inter alia*, relate to: (a) principles for management of model risks in credit; (b) eligibility criteria for voluntary transition of small finance banks (SFBs) to universal banks; (c) harmonisation of regulations applicable to housing finance companies (HFCs) and NBFCs;

and (d) enhancing operational risk management and operational resilience.

I.28 On the supervision front, the Reserve Bank actively engaged with supervised entities (SEs) to convey expectations related to governance and assurance functions and compliance with the extant guidelines. The supervisory initiatives, *inter alia*, include: (a) setting up advanced supervisory analytics group for increasing the use of techniques like artificial intelligence (AI)/ machine learning (ML) in the supervisory process; (b) proactively strengthening international supervisory cooperation by establishing and deepening formal relationships with authorities in key global jurisdictions with an aim to enhance the stability of the financial system; (c) development of supervisory data quality index (sDQI) to identify and address deficiencies in risk data aggregation capabilities and risk reporting practices across SEs; (d) issuing guidelines on prompt corrective action (PCA) framework for UCBs; and (e) strengthened cyber risk oversight through onsite/offsite assessments across SEs.

I.29 Starting with the initial use cases of person-to-person (P2P) and person-to-merchant (P2M), the Reserve Bank expanded the central bank digital currency (CBDC)-Retail (e₹-R) pilot to include offline and programmability features during 2024-25. As at end-March 2025, the pilot in the e₹-R segment was expanded to 17 banks and 60 lakh users since its inception in December 2022. To further enhance adoption and improve distribution, certain non-banks have been allowed to offer CBDC wallets. Moreover, the scope of e₹-Wholesale was further expanded and diversified with the addition of four standalone primary dealers (SPDs).

I.30 India is strategically focusing on building a strong AI ecosystem to pave the way for self-reliance and innovation in this emerging sector. The government has launched several initiatives such as IndiaAI Mission and the establishment of three centres of excellence (CoE) for AI in healthcare, agriculture, and sustainable cities. To further support AI innovation in the electronics sector and encourage domestic manufacturing, India is rapidly building a strong semiconductor infrastructure through initiatives like India Semiconductor Mission.

I.31 As part of the Reserve Bank's focus on monitoring the use and adoption of technology in the financial ecosystem, a unique initiative of 'FinTech Repository' was launched on May 28, 2024. The repository aims to capture essential information about FinTech entities and their technology stack. Simultaneously, a related repository for regulated entities (REs) called 'EmTech Repository' was also launched to capture information on their adoption of emerging technologies such as AI, ML, cloud computing, distributed ledger technology (DLT), *etc.* These are secure web-based applications and are managed by the Reserve Bank Innovation Hub (RBIH). The repositories would enable availability of aggregate sectoral level data, trends and analytics that would be useful for both policymakers and participating industry members.

I.32 During 2024-25, total digital payments recorded growth of 34.8 per cent and 17.9 per cent in volume and value terms, respectively. Moreover, the success of Unified Payments Interface (UPI) placed India in a leadership position with a share of 48.5 per cent in global real-time payments by volume[6]. The Reserve Bank continued to chart the course laid down in the Payments Vision 2025 document. Under the 'Inclusion Pillar', 'Delegated Payments' was introduced to deepen the reach and usage of digital payments. This feature enables individuals (primary user) to allow another individual (secondary user) to make UPI transactions up to a limit from the primary user's bank account. Further, to promote accessibility of payment system and foster inclusive growth, all payment system participants were advised to review their payment systems/devices and make necessary modifications to enhance their accessibility to persons with disabilities.

I.33 Regulatory efforts also took centre stage on strengthening fraud reporting mechanisms and encouraging information security preparedness, with an emphasis on cyber resilience. The central payments fraud information registry (CPFIR) reporting was extended to various categories of banks during the year. Moreover, robust governance mechanisms for identification, analysis, monitoring and management of cyber security risks and vulnerabilities were also prescribed for non-bank payment system operators.

I.34 To combat the increasing instances of fraud in digital payments, the Reserve Bank proposed to introduce an exclusive internet domain for the banks in India in the form of 'bank.in' on February 7, 2025. This initiative would help in enhancing trust in digital banking and payment services and aid in streamlining secure financial services. The exclusive internet domains would also help identify cybersecurity threats and malicious activities like phishing and would also considerably reduce instances of financial loss to the general public. Going forward, it is also proposed to have an exclusive domain for other non-bank entities in the Indian financial sector in the form of 'fin.in'.

I.35 In the cross-border payment space, the Reserve Bank joined Project Nexus, a multilateral international initiative to enable instant cross-border retail payments, which aims to connect the fast payment systems (FPS) of four ASEAN countries (*viz.*, Malaysia, Philippines, Singapore and Thailand) and India.

I.36 The Reserve Bank's Financial Inclusion Index (FI-Index)[7], that measures the extent of financial inclusion in the country, improved from 60.1 in March 2023 to 64.2 in March 2024, with growth witnessed across all three sub-indices of access, usage and quality. Improvement in FI Index was mainly contributed by usage sub-index, reflecting deepening of financial inclusion. The Financial Literacy Week (FLW) 2025 was observed during February 24-28, 2025 on the theme of 'Financial Literacy - Women's Prosperity', with a focus on creating financial awareness among women.

I.37 During the year, the Reserve Bank embarked on a systematic approach to improve awareness on issues related to consumer protection. The processes adopted under Reserve Bank - Integrated Ombudsman Scheme was further fine-tuned to enhance its efficiency.

[6] ACI Worldwide, 2024.

[7] Reserve Bank's press release dated July 9, 2024 on 'Financial Inclusion Index for March 2024'.

I.38 The Reserve Bank commemorated the 90th year of its establishment during 2024-25 with year-long events and activities reflecting on the Reserve Bank's legacy of nine decades (RBI@90), while looking ahead towards strategies for the coming decade (RBI@100). The commemoration was launched with an opening ceremony, graced by the Hon'ble Prime Minister of India as the Chief Guest on April 1, 2024 in Mumbai and concluded with a grand event, graced by the Hon'ble President of India as the Chief Guest on April 1, 2025 in Mumbai.

3. Prospects for 2025-26

Global Economy

I.39 The global economic outlook for 2025 and 2026 remains clouded by multiple challenges: the pace of disinflation losing momentum; elevated public debt across several economies; protracted geopolitical tensions; heightened trade tensions; financial market volatility; and climate shocks. The global economy is projected[8] to grow by 2.8 per cent in 2025 and 3.0 per cent in 2026 (3.3 per cent in 2024). The growth in EMDEs is projected at 3.7 per cent in 2025 and is expected to improve marginally to 3.9 per cent in 2026. The growth rate in AEs is projected to decelerate to 1.4 per cent in 2025 from 1.8 per cent in 2024, before marginally improving to 1.5 per cent in 2026.

I.40 Global inflation is expected to moderate from 5.7 per cent in 2024 to 4.3 per cent in 2025 and further to 3.6 per cent in 2026. However, the near-term trajectory of price stability may still face challenges with services inflation remaining stubborn in several parts of the world, enhanced tariffs increasing inflation in the US and possible risks of desynchronisation of monetary policy responses.

I.41 Global merchandise trade volume is projected to contract by 0.2 per cent in 2025[9] under the adjusted scenario based on the tariff situation as of April 14, 2025. However, the signing of a trade deal between the US and the UK on May 8, 2025 and the agreement made by the US and China on May 12, 2025 to avoid retaliation and to engage in future discussions augur well for global trade, going ahead.

I.42 High levels of public debt in major AEs and EMEs are raising concerns around the sustainability of public finances in these economies and run the risk of adding to already heightened financial market volatility. Elevated sovereign debt levels in systemic economies are already leading to spikes in risk premia and yields. Stretched asset valuations, with capital flows chasing yields, could lead to tightening financial conditions, thereby raising financial stability concerns as evidenced by episodic sell-off pressures in global equity markets during 2024. Disorderly adjustments in financial markets of systemic AEs have the potential to spillover to EMDEs amidst persistent geopolitical tensions, geoeconomic fragmentation, emergence of trade tensions and disruptive technological shocks. Climate change, cybersecurity, crypto currency, FinTech, CBDC and tech disruptions through AI/ML also require coordinated policy response at the global level.

[8] World Economic Outlook, April 2025, IMF.
[9] Global Trade Outlook and Statistics Update, April 2025, WTO.

Domestic Economy

I.43 The outlook for the Indian economy remains promising in 2025-26, supported by revival in consumption demand, government's continued thrust on capex while adhering to the path of fiscal consolidation, healthy balance sheets of banks and corporates, easing financial conditions, continuing resilience of the services sector and strengthening of consumer and business optimism, besides sound macroeconomic fundamentals. However, uncertainty about global trade post-protectionist measures, protracted geopolitical tensions and global financial market volatility pose downside risks to the growth outlook and upside risks to the inflation outlook.

I.44 The prospects for agriculture sector appear favourable in 2025-26 on the back of expected above normal south-west monsoon and several productivity-enhancing government policies. In the Union Budget 2025-26, various new initiatives have been announced for boosting agriculture sector such as Prime Minister *Dhan-Dhaanya Krishi Yojana*[10]; Mission for *Aatmanirbharta* (self-reliance) in pulses; comprehensive programme to promote production, efficient supplies and processing of vegetables and fruits; launch of National Mission on High Yielding Seeds[11]; Mission for Cotton Productivity; and enhancement of credit limit under the modified interest subvention scheme from ₹3 lakh to ₹5 lakh for loans taken through the *kisan* credit card (KCC). Moreover, with rising global demand for organic produce, efforts are being made towards promoting sustainable farming, including a plan to cover one crore farmers under the National Mission on Natural Farming, to enhance the climate resilience of the agriculture sector as well as soil health and biodiversity.

I.45 Manufacturing sector is expected to gain further traction in 2025-26 supported by improvement in domestic demand, higher capacity utilisation, healthy balance sheets of corporates and banks, and consumer and business optimism. The government's focus on widening the manufacturing base and the policy support through the ongoing PLI scheme and National Manufacturing Mission[12] announced in the Union Budget 2025-26 is expected to further strengthen 'Make in India' initiative. The construction sector is also expected to continue its robust performance in 2025-26 aided by increased allocation for *Pradhan Mantri Awas Yojana* (PMAY). Moreover, the announcement of the second Asset Monetisation Plan (2025-30), aimed at unlocking ₹10 lakh crore through asset monetisation, is expected to provide a significant boost to the infrastructure sector. These factors are expected to create new employment opportunities, improve labour income and strengthen domestic demand. The optimism about manufacturing and services sectors is also reflected in the forward-looking

[10] The programme will cover 100 districts with low productivity, moderate crop intensity and below-average credit parameters to: (a) enhance agricultural productivity; (b) adopt crop diversification and sustainable agriculture practices; (c) augment post-harvest storage at the *panchayat* and block level; (d) improve irrigation facilities; and (e) facilitate availability of long-term and short-term credit.

[11] Aimed at: (a) strengthening the research ecosystem; (b) targeted development and propagation of seeds with high yield, pest resistance and climate resilience; and (c) commercial availability of more than 100 seed varieties released since July 2024.

[12] Emphasis on five focal areas, *viz.*, (a) ease and cost of doing business; (b) future ready workforce; (c) vibrant and dynamic micro, small and medium enterprise (MSME) sector; (d) availability of technology; and (e) quality products.

surveys conducted by the Reserve Bank. Taking into account these factors, real GDP growth for 2025-26 is projected at 6.5 per cent, with risks evenly balanced.

I.46 To support the country's energy transition, the Union Budget 2025-26 has set the target of 100 gigawatt (GW) of nuclear power capacity by 2047. The emphasis on small modular reactors (SMRs), with their smaller size and lower capital investment requirements, is expected to aid in achieving this target. The Union Budget also advanced power sector reforms by permitting states an additional borrowing limit of 0.5 per cent of gross state domestic product (GSDP) for improving distribution and transmission infrastructure. Additionally, funding for the *Pradhan Mantri Surya Ghar Muft Bijli Yojana* has been significantly increased in the Union Budget, aimed at accelerating the adoption of renewable energy.

I.47 The budgetary provision for the Ministry of Science and Technology has more than doubled in 2025-26 from the previous year. This bodes well for enhancing India's relatively low share of research & development (R&D) expenditure in GDP (0.6 per cent) to catch up with the levels of its peers such as China (2.4 per cent), Korea (4.8 per cent) and Malaysia (1 per cent)[13]. The stepped-up budget for science and technology is likely to enhance India's innovation landscape and R&D programmes, which are positively associated with productivity growth in the long-run. To further strengthen[14] its AI capabilities, the government has planned to facilitate the development of multiple sovereign foundational AI models, including large language models (LLMs) and problem-specific AI solutions.

I.48 Supply management measures by the government contained food inflation, and with the lagged impact of monetary policy tightening working through the system, headline inflation eased by 73 bps to 4.6 per cent in 2024-25. Going forward, easing supply chain pressures, softening global commodity prices, expected higher agricultural production supported by above-normal south-west monsoon and elevated reservoir levels augur well for the inflation outlook in 2025-26. The increasing incidence of climate shocks as seen in recent years, however, warrants careful monitoring of food price outlook. Prolonged geopolitical uncertainties, excessive global financial market volatilities, trade fragmentation and restrictive trade policies pose upward risks to the inflation trajectory. Taking into account these factors, CPI inflation for 2025-26 is projected at 4.0 per cent, with risks evenly balanced.

I.49 With inflation falling below the target in February and March 2025, supported by a sharp fall in food inflation, there is now greater confidence about a durable alignment of headline inflation with the target of 4.0 per cent over a 12-month horizon. The benign inflation outlook and moderate growth warrant monetary policy to be growth supportive, while remaining watchful about the rapidly evolving global macroeconomic conditions. Accordingly, the MPC in its April 2025 meeting unanimously voted to reduce the policy repo rate by 25 bps to 6.0 per cent. Moreover,

[13] World Development Indicators, World Bank.

[14] The Union Budget 2025-26 announced the fourth CoE for AI in education with an outlay of ₹500 crore.

the MPC also decided to change the stance from neutral to accommodative. The Reserve Bank will continue to undertake liquidity management operations in sync with the monetary policy stance to keep system liquidity adequate to meet the productive requirements of the economy. It will deploy an appropriate mix of instruments to modulate frictional as well as durable liquidity, ensuring orderly movement of money market interest rates.

I.50 In 2025-26, markets will closely track the implications of tariff policies of the US and reciprocal measures by others, as an uncertain policy environment may instil volatility in global financial markets. Following a correction in the second half of 2024, Indian equity markets are expected to remain resilient amidst stable macroeconomic conditions and moderation in equity market valuations, although geopolitical uncertainty poses downside risk. Resource mobilisation through primary market is expected to regain momentum as secondary market sentiments stabilise. In the short-run, however, markets may experience volatility reflecting global policy uncertainty. Amidst accentuation of the trend in protectionism worldwide, measures to promote the use of INR (*i.e.,* internationalisation of INR) through increased accessibility and acceptability thereof for cross-border transactions, and use of local currencies for cross-border transactions with trade-partner countries are expected to continue during the year as reflected in memoranda of understanding towards local currency settlement signed with Maldives and Mauritius in November 2024 and March 2025, respectively.

I.51 The impetus to growth-inducing capital spending would be sustained by the central government, with effective capital expenditure budgeted to rise to 4.3 per cent of GDP in 2025-26 from 4.0 per cent in 2024-25 (RE). Moreover, to encourage capital spending by states, the central government's financial assistance scheme for states' capital expenditure has been extended to 2025-26 with an outlay of ₹1.5 lakh crore. The central government adhered to its medium-term objective of bringing the GFD below 4.5 per cent of GDP by 2025-26 by targeting the GFD at 4.4 per cent of GDP in 2025-26 (BE), down from 4.7 per cent in 2024-25 (RE). From 2026-27 onwards, the central government aims to maintain the fiscal deficit on a trajectory that ensures a declining public debt-to-GDP ratio, reaching around 50 per cent by end-March 2031. The fiscal outlook for states remains positive for 2025-26 with their consolidated GFD budgeted at 3.3 per cent of GDP[15]. The gross transfer to states from the centre during 2025-26 is budgeted to increase by 12.5 per cent, driven mainly by tax devolution, centrally sponsored schemes (CSS) and special assistance to states for capital expenditure, providing adequate fiscal headroom to pursue higher capital expenditure.

I.52 India's merchandise exports are expected to be uncertain from a projected slowdown in global trade due to downside risks emanating from ongoing geopolitical conflicts, geoeconomic fragmentation and policy uncertainty. However,

[15] Data pertain to 28 states and 3 union territories which have presented their budget for 2025-26.

the ongoing trade agreement negotiations with several trade partners may facilitate India's greater participation in global trade. The expansion of key export sectors including electronics, pharmaceuticals, engineering goods and agriculture, coupled with innovations in e-commerce and digital trade, would benefit India's export growth[16].

I.53 Robust outlook for India's services trade balance and inward remittance receipts is expected to support CAD to remain well within the sustainable limit during 2025-26. Moreover, the inclusion of Indian sovereign bonds in global bond indices and raising the FDI cap in insurance sector to 100 per cent from 74 per cent earlier, as announced in the Union Budget 2025-26, should continue to bolster foreign investment flows. Additionally, export friendly environment and nurturing of India's comparative advantage, harnessing the potential of regional trade agreements, greater Indian participation in global value chains (GVCs), diversifying India's merchandise trade and services baskets to new frontiers and leveraging international trade in INR would boost India's exports and further strengthen the resilience of India's external sector, going forward.

I.54 Indian banking sector has been resilient, although heightened global uncertainties underscore the importance of proactive risk management. Considering the dynamic nature of the interest rate risk, banks need to address both trading and banking book risks, especially in light of moderation in NIM.

I.55 Despite some moderation, NBFCs remain significantly dependent on banks for funding, underscoring the need for greater diversification of their funding sources. Scale-based regulatory framework is expected to further improve governance and risk management.

I.56 In order to make the financial system more resilient, sound, safe and inclusive, the Reserve Bank would be undertaking several initiatives in areas such as regulation, supervision, FinTech, payment systems, customer protection and financial inclusion. Moreover, the Reserve Bank would leverage on technology towards providing secure, accessible, affordable and an efficient financial sector.

I.57 In the regulatory space, the Reserve Bank would consolidate and streamline regulations to improve business efficiency and simplify compliance. The PRAVAAH[17] portal, which was launched in May 2024, has now been made mandatory *w.e.f.* May 1, 2025 for REs to submit their applications to the Reserve Bank. It will continue to improve the efficiency and effectiveness of the portal.

I.58 The Reserve Bank would continue with the supervisory initiatives aimed at early identification of risks and vulnerabilities, increasing the focus on root cause of vulnerabilities, and harmonising the supervisory rigour across various segments of the financial system. Further, the Reserve Bank would focus on enhancing cyber resilience and capabilities of supervised entities (SEs) by implementing recommendations of the inter-regulatory Working Group on uniformity in baseline cybersecurity guidelines of financial entities.

[16] PIB (2025), 'India's Exports Reach Historic Heights', Ministry of Commerce and Industry, Government of India, February 1.

[17] Platform for Regulatory Application, Validation and Authorisation (PRAVAAH), launched on May 28, 2024, is a unified and secure portal for submission of applications for regulatory approvals, authorisations and licenses from the Reserve Bank.

I.59 The Reserve Bank would further expand the scope and coverage of ongoing pilots in e₹-Retail and e₹-Wholesale by introducing new use cases and features, besides bringing improvements to technological aspects of the account aggregator framework to enhance transparency, customer convenience and efficiency. Moreover, the Reserve Bank is exploring commencement of CBDC pilots on cross-border payments both on bilateral and multilateral basis to overcome key challenges related to turnaround time, efficiency and transparency.

I.60 As Payments Vision 2025 culminates in 2025-26, the Reserve Bank will embark upon drafting a new Payments Vision document, which would aim to build on the growth of payment systems in the last decade and provide further impetus to entities in the payments ecosystem to develop and deploy solutions in this space. A survey on usage of digital payments will be conducted to facilitate evidence-based decision making, which will lay the groundwork for a more inclusive payments ecosystem. Internationalisation of domestic payment systems will also remain a key priority and the Reserve Bank will continue to explore collaboration with other countries on bilateral as well as multilateral level.

I.61 As digital payments continue to rise, the Reserve Bank's commitment to enhancing security, customer protection and fraud prevention will remain key priorities in 2025-26. The Digital Payments Intelligence Platform is being planned, which will leverage advanced technologies to curb payment related frauds.

I.62 The Reserve Bank would continue to focus on ensuring availability of accessible and affordable banking services to all sections of society and strengthening the credit delivery system to cater to the needs of productive sectors of the economy, particularly agriculture, and micro and small enterprises. Towards this end, a technology-based initiative in the form of Unified Lending Interface (ULI) has been operationalised through Reserve Bank Innovation Hub (RBIH) which is aimed at improving access and enhancing efficiency in terms of turnaround time, cost and convenience among the borrowers in the agriculture, dairy and MSME segments. The Reserve Bank issued the revised Master Directions on PSL, which has come into effect from April 1, 2025. Moreover, a review of Financial Inclusion Index (FI-Index) would be undertaken in 2025-26.

I.63 A review of citizens' charter would be undertaken by the Reserve Bank towards further improving the timeliness of regulatory approvals and citizen centric services. Moreover, to enhance quality and speed of grievance resolution under the Reserve Bank - Integrated Ombudsman Scheme, 2021, the Reserve Bank shall be undertaking a review of the Scheme and embarking upon technology driven initiatives, especially the upgradation of the complaint management system. The Reserve Bank will also focus on strengthening the internal grievance redressal processes of the regulated entities for enhanced customer satisfaction.

4. Conclusion

I.64 To sum up, the Indian economy exhibited resilience during 2024-25, supported by strong macroeconomic fundamentals and proactive policy measures, amidst protracted geopolitical tensions and geoeconomic fragmentation. Inflation moderated during the year, moving closer to the target, largely due to easing input cost pressures, proactive supply-side measures and the continued impact of past monetary policy actions. The strength of the financial sector, reflected in improved asset quality and well-capitalised banks, further supported economic activity. Amidst multiple global headwinds, the Indian financial markets demonstrated resilience and orderly movements. The central government sustained its fiscal consolidation efforts, supported by buoyant tax revenues and prudent expenditure management. On the external front, merchandise trade deficit was offset by robust services exports and steady remittance inflows, keeping the CAD at a sustainable level.

I.65 Going forward, global financial market volatility, geopolitical tensions, trade fragmentation, supply chain disruptions and climate-induced uncertainties pose downside risks to the growth outlook and upside risks to the inflation outlook. However, the Indian economy is poised to remain the fastest-growing major economy in 2025-26 by leveraging its sound macroeconomic fundamentals, robust financial sector and commitment towards sustainable growth.