

## State of the Economy\*

*Global growth remained resilient in 2025 despite heightened uncertainties. Though elevated, global uncertainty witnessed further moderation in December. The first advance estimates of GDP for 2025-26 reflected the resilience of the Indian economy, driven by domestic factors amidst a challenging external environment. High-frequency indicators for December suggest continued buoyancy in growth impulses with demand conditions remaining upbeat. Headline CPI inflation edged up in December but remained below the lower tolerance level. The flow of financial resources to the commercial sector has increased over the past year, with both non-bank and bank sources contributing to the credit pick-up.*

### Introduction

Global growth remained resilient in 2025 despite heightened uncertainties. The IMF's World Economic Outlook update of January 2026 revised upward its global growth projections for 2026, on strong technology-led investment, alongside fiscal and monetary support and broadly accommodative financial conditions. The balance of risks to the growth outlook, however, remained tilted to the downside.

Global uncertainty, though elevated, moderated further in December. Volatility in global financial markets, after moderating through much of the month, edged up in January due to rising geopolitical tensions.

Global economic activity moderated to its lowest level in six months in December as growth across manufacturing and services softened. New export

orders reverted to contraction, driven by a broad-based decline in both manufacturing and services export orders.

Major equity markets recorded modest gains in December. Non-US markets, however, showed better returns as investors diversified their portfolios amidst concerns about concentration risks in the US. In January 2026 so far, equity markets rallied till mid-month, led by Japan, but retreated later amidst increased geopolitical uncertainties. Global bond yields rose across most of the advanced economies (AEs) as a result of the repricing of worldwide interest rate expectations, the Bank of Japan's rate hike, and an improved economic outlook in the US. Portfolio flows to emerging markets rebounded, reversing the outflows in the previous month, led by inflows into the debt segment.

Global commodity prices recorded divergent movements. Prices of industrial and precious metals firmed up. Crude oil prices held steady on a favourable demand-supply balance in December. Prices edged higher in early January amidst rising geopolitical tensions but partly corrected later. Inflation eased but remained at elevated levels in the AEs amidst persistent services inflation. Monetary policy actions marked a divergence in policy stances among systemic central banks in December.

The first advance estimates of gross domestic product (GDP) for 2025-26 reflected the resilience of the Indian economy, driven by domestic factors – private final consumption expenditure (PFCE) and fixed investment – amidst a challenging external environment. A strong rebound in the manufacturing sector and continued buoyancy in services are expected to boost growth in gross value added (GVA). High-frequency indicators for December suggest continued buoyancy in growth impulses. Demand conditions remained upbeat, underpinned by a resurgence in rural demand and a gradual recovery in urban demand.

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Headline consumer price index (CPI) inflation edged up in December but continued to remain below the lower tolerance level for the fourth consecutive month. The uptick in inflation in December was driven by a lower rate of deflation in food and a pick-up in core (CPI excluding food and fuel) inflation. Core inflation continued to be disproportionately influenced by prices of precious metals, with the core inflation excluding gold and silver remaining steady at its all-time low. The December print is the last inflation reading in the current base year (2012=100) series.

In the money market, the weighted average call rate – the operating target of monetary policy – traded above the policy repo rate but largely within the corridor. Average yields on treasury bills declined, while those on commercial papers increased. Interest rates on certificate of deposits also edged up amidst an expected increase in supply following the pick-up in credit growth. In the fixed income segment, the yield curve shifted upwards across tenors in January. Growth in bank deposits and credit registered a marked increase in December. During 2025-26 so far (up to December 31), the total flow of financial resources to the commercial sector increased compared to the same period a year ago, with non-bank sources along with bank sources contributing to the credit pick-up.

Indian equity markets exhibited bidirectional movements in December. Strong buying by domestic institutional investors (DIIs) provided support to equity markets, amidst persistent selling by foreign portfolio investors (FPIs). In January 2026, downward pressures on the equity markets resurfaced in the wake of fresh tariff warnings by the US.

Net FPI registered outflows from both the equity and debt segments in December, amidst uncertainty surrounding the stalled India-US trade deal and the depreciation of the rupee. India's external sector remains resilient, as evidenced by the improved

international investment position as at end-September 2025. Comfortable foreign exchange reserves and a sustainable current account deficit continue to underpin India's external sector stability.

Set against this backdrop, the remainder of the article is structured into four sections. Section II covers the rapidly evolving developments in the global economy. Section III provides an assessment of domestic macroeconomic conditions. Section IV encapsulates financial conditions in India, while Section V presents the concluding observations.

## II. Global Setting

The IMF's World Economic Outlook update of January 2026 revised upward its global growth projections for 2026, even as the balance of risks remained tilted to the downside. Global growth estimate for 2025 was revised up by 10 basis points (bps) to 3.3 per cent and projections for 2026 by 20 bps to 3.3 per cent relative to the October release, reflecting strong technology-led investment, alongside fiscal and monetary support and broadly accommodative financial conditions (Table II.1). Growth projections for major AEs, including the US, the UK and the Euro area, were revised upward. Among emerging market and developing economies (EMDEs), growth remained robust, led by India and China. The World Bank's Global Economic Prospects Report (January 2026) also revised global growth estimates for 2025 upward by 40 bps to 2.7 per cent, reflecting stronger-than-expected growth in major AEs, led by the US and the Euro area (Table II.1). Global growth projections for 2026 was also revised up by 20 bps to 2.6 per cent. However, it is still expected to moderate from 2025 levels due to a likely deceleration in trade growth.

Global uncertainty declined for the third consecutive month in December, though continuing to be elevated. World policy uncertainty index moderated at a lower pace, while the world trade uncertainty index saw a significant fall in December. Financial

**Table II.1: Global GDP Growth Projections – Select AEs and EMDEs**

(Y-o-y, per cent)

Organisation	IMF*					World Bank ^					
Estimate/Projection	2025		2026		2027	2025		2026		2027	
Month of Projection	Oct 2025	Jan 2026 <sup>a</sup>	Oct 2025	Jan 2026	Jan 2026	June 2025	Jan 2026 <sup>a</sup>	June 2025	Jan 2026	June 2025	Jan 2026
<b>1. World</b>	<b>3.2</b>	<b>3.3</b>	<b>3.1</b>	<b>3.3</b>	<b>3.2</b>	<b>2.3</b>	<b>2.7</b>	<b>2.4</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>
<b>2. Advanced Economies</b>	<b>1.6</b>	<b>1.7</b>	<b>1.6</b>	<b>1.8</b>	<b>1.7</b>	<b>1.2</b>	<b>1.7</b>	<b>1.4</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>
US	2.0	2.1	2.1	2.4	2.0	1.4	2.1	1.6	2.2	1.9	1.9
UK	1.3	1.4	1.3	1.3	1.5	-	-	-	-	-	-
Euro Area	1.2	1.4	1.1	1.3	1.4	0.7	1.4	0.8	0.9	1.0	1.2
Japan	1.1	1.1	0.6	0.7	0.6	0.7	1.3	0.8	0.8	0.8	0.8
<b>3. Emerging Market and Developing Economies</b>	<b>4.2</b>	<b>4.4</b>	<b>4.0</b>	<b>4.2</b>	<b>4.1</b>	<b>3.8</b>	<b>4.2</b>	<b>3.8</b>	<b>4.0</b>	<b>3.9</b>	<b>4.1</b>
<b>Emerging and Developing Europe</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	-	-	-	-	-	-
Russia	0.6	0.6	1.0	0.8	1.0	1.4	0.9	1.2	0.8	1.2	1.0
<b>Emerging and Developing Asia</b>	<b>5.2</b>	<b>5.4</b>	<b>4.7</b>	<b>5.0</b>	<b>4.8</b>	-	-	-	-	-	-
India <sup>#</sup>	6.6	7.3	6.2	6.4	6.4	6.3	7.2	6.5	6.5	6.7	6.6
China	4.8	5.0	4.2	4.5	4.0	4.5	4.9	4.0	4.4	3.9	4.2
<b>Latin America and the Caribbean</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>2.4</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>
Mexico	1.0	0.6	1.5	1.5	2.1	0.2	0.2	1.1	1.3	1.8	1.8
Brazil	2.4	2.5	1.9	1.6	2.3	2.4	2.3	2.2	2.0	2.3	2.3
<b>Sub-Saharan Africa</b>	<b>4.1</b>	<b>4.4</b>	<b>4.4</b>	<b>4.6</b>	<b>4.6</b>	<b>3.7</b>	<b>4.0</b>	<b>4.1</b>	<b>4.3</b>	<b>4.3</b>	<b>4.5</b>
South Africa	1.1	1.3	1.2	1.4	1.5	0.7	1.3	1.1	1.4	1.5	1.5

**Notes:** 1. #: India's data is on a fiscal year basis (April-March).

2. &amp;: Estimates.

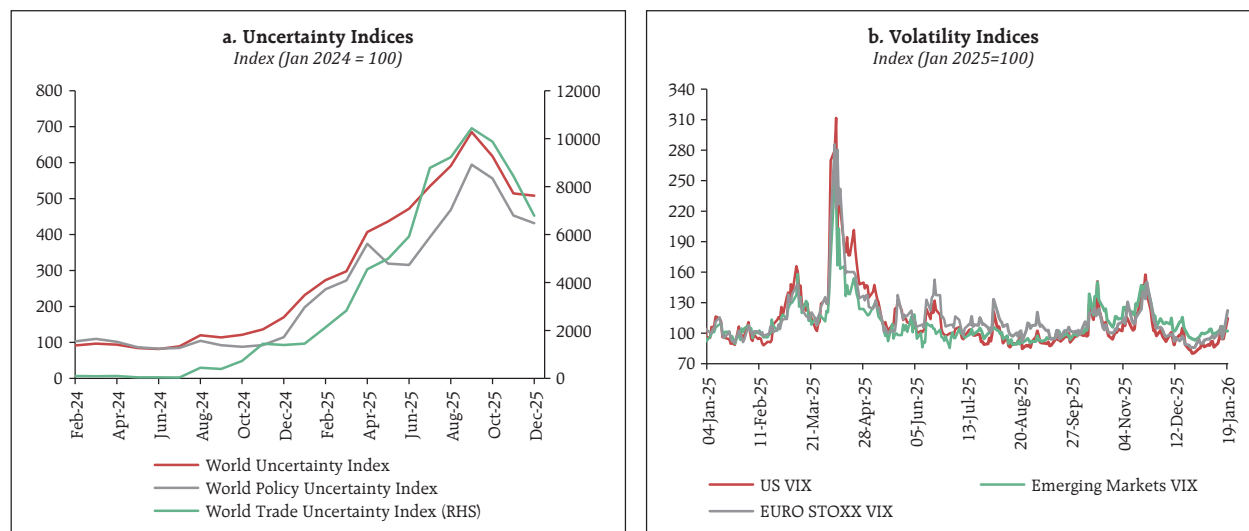
3. \* World growth rates are measured at purchasing-power-parity weights.

4. ^ Growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.

**Sources:** IMF, World Economic Outlook, January 2026; and World Bank Global Economic Prospects, January 2026.

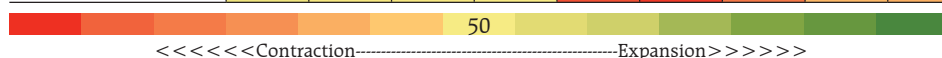
market volatility edged lower for most of December, led by reduced uncertainty and compressed risk premia across major advanced and emerging market

economies. Volatility in global financial markets edged up in January due to renewed geopolitical tensions (Charts II.1a and II.1b).

**Chart II.1: Global Uncertainty and Market Volatility****Sources:** Chicago Board Options Exchange; Bloomberg; www.PolicyUncertainty.com; and World Uncertainty Index (WUI) database.

**Table II.2: Global Composite PMI Eased, Export Orders Contracted in December**

	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
PMI Composite	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.5	52.9	52.5	53.0	52.7	52.0
PMI Manufacturing	49.6	50.1	50.6	50.3	49.8	49.5	50.4	49.7	50.9	50.7	50.9	50.5	50.4
PMI Services	53.8	52.2	51.5	52.7	50.8	52	51.8	53.5	53.3	52.9	53.5	53.2	52.4
PMI Export Orders	48.7	49.6	49.7	50.1	47.5	48.0	49.1	48.5	48.9	49.7	48.6	50.0	49.2
PMI Export Orders: Manufacturing	48.2	49.4	49.6	50.1	47.3	48.0	49.2	48.2	48.7	49.5	48.3	49.9	49.1
PMI Export Orders: Services	50.3	50.2	50.2	50.1	48.2	47.9	48.7	49.4	49.3	50.2	49.4	50.2	49.6



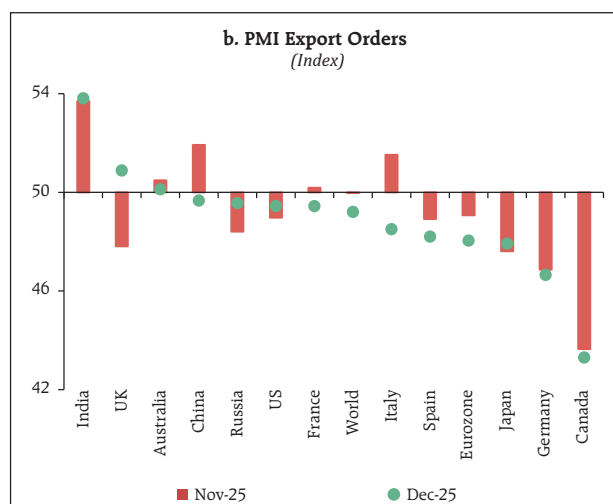
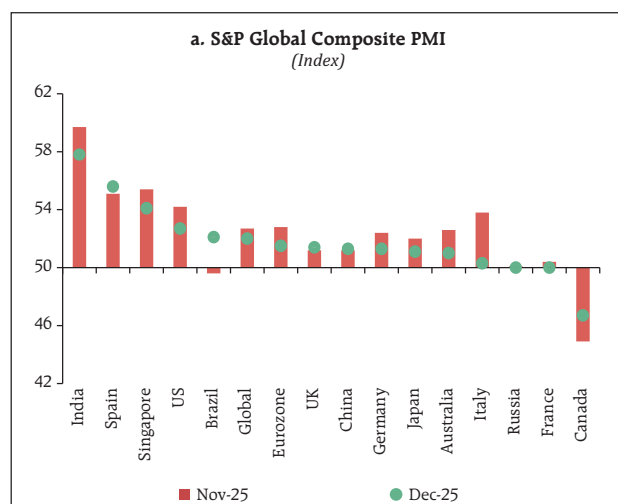
- Notes:** 1. The Purchasing Managers' Index (PMI), a diffusion index, captures the change in each variable compared to the prior month, noting whether each has risen/improved, fallen/deteriorated or remained unchanged. A PMI value >50 denote expansion; <50 denote contraction; and =50 denote 'no change'.
2. Heat map is applied on data from April 2023 onwards. 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.

The global composite PMI moderated in December to its lowest level in six months as growth in output across manufacturing and services eased. New export orders reverted to contraction in December, driven by a broad-based decline in both manufacturing and services export orders (Table II.2).

Business activity, as reflected in PMI indices, expanded across major AEs, except Canada. Among

major EMDEs, business activity expanded in India and China, while it remained broadly unchanged in Russia. New export orders continued to remain in contraction in most AEs, barring the UK and Australia. Among major EMDEs, export orders continued to expand in India at a robust pace. However, China's new export orders moved into contraction amidst subdued external demand (Charts II.2a and II.2b).

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

**Note:** A level of 50 indicates no change in activity, while a reading above 50 signals expansion and below 50 suggests contraction.

**Source:** S&P Global.

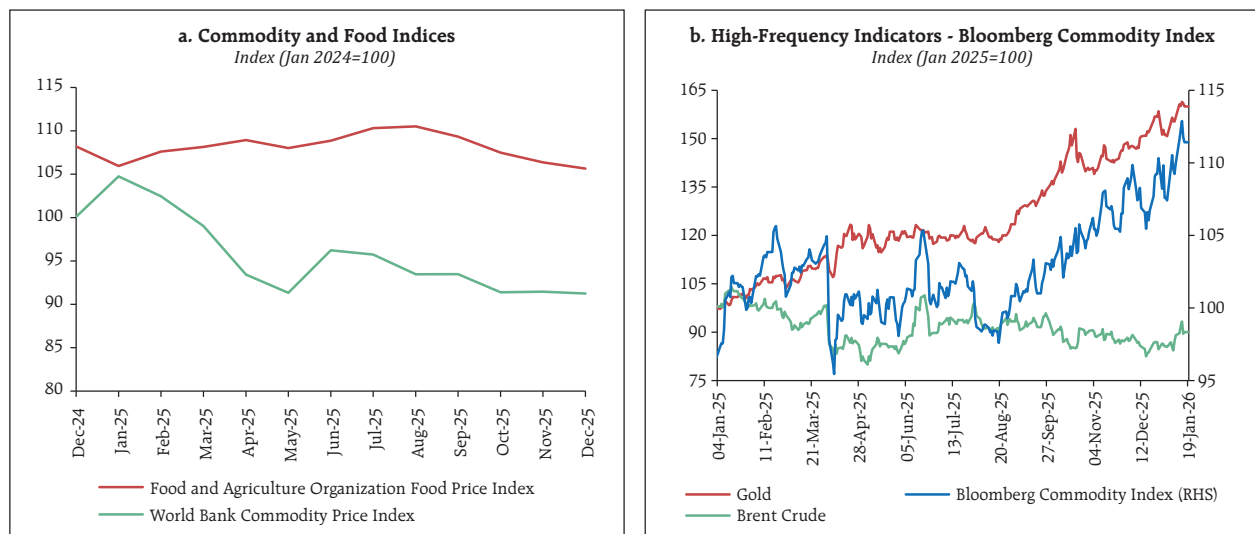
Global commodity prices exhibited divergent movements in December. The World Bank Commodity Price Index declined marginally due to lower energy prices, while non-energy items, such as metals and precious metals, registered a notable uptick. Food and Agriculture Organization's Food Price Index declined for the fourth consecutive month, dragged by dairy products, meat and vegetable oils (Chart II.3a). The Bloomberg Commodity Index registered an increase in January so far, driven by higher metal and gold prices. Gold prices which maintained an upward trajectory up to end-December, corrected thereafter due to year-end portfolio rebalancing and profit booking by investors. In January so far, prices edged up amidst renewed geopolitical tensions. Brent crude oil prices traded in a narrow range in December. Prices picked-up in early January amidst rising geopolitical tensions but partly corrected later (Charts II.3b).

Industrial metal prices have seen a substantial upsurge in the recent period, amidst supply

constraints and tariff uncertainties. Copper prices accelerated in recent months on tight demand-supply balance and on uncertainties surrounding US import tariffs. Acute supply constraints resulted in a sharp pick-up in tin prices in recent months. Aluminium prices strengthened on persistent supply pressures stemming from China's smelting capacity cap and production constraints in Europe. Silver prices surged on rising demand, for industrial use and as a safe-haven asset, amidst tight supplies (Chart II.4).

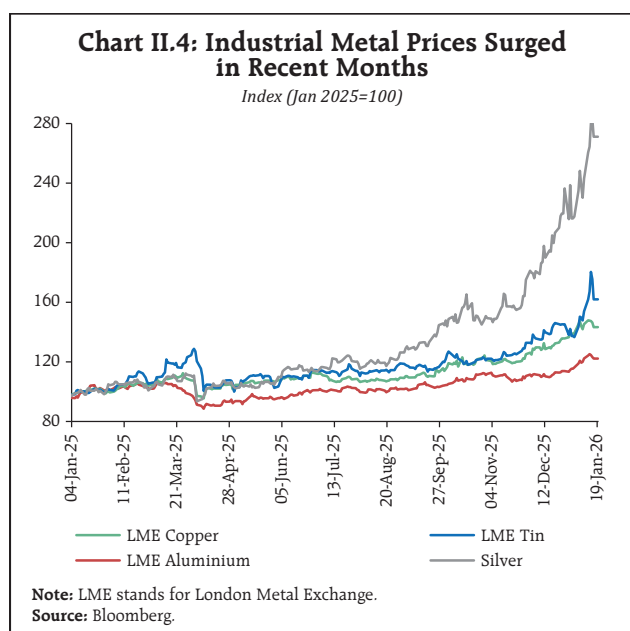
Inflation eased but remained at elevated levels in most AEs due to persistent services inflation. In the Euro area, headline inflation eased further in December, driven by a decline in energy costs, while inflation in the US remained steady. Inflation in the UK fell to a six-month low led by food and beverages. Japan's inflation also edged lower on low food inflation (Chart II.5a). Among major EMDEs, inflation edged up in China, driven by food prices, even as core inflation remained steady. In contrast, lower food and beverage prices led to easing of

**Chart II.3: Global Commodity Prices Exhibited Divergent Movements**



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

<sup>1</sup> As per the Food and Agriculture Organization's Food Price Index for the month of December 2025.

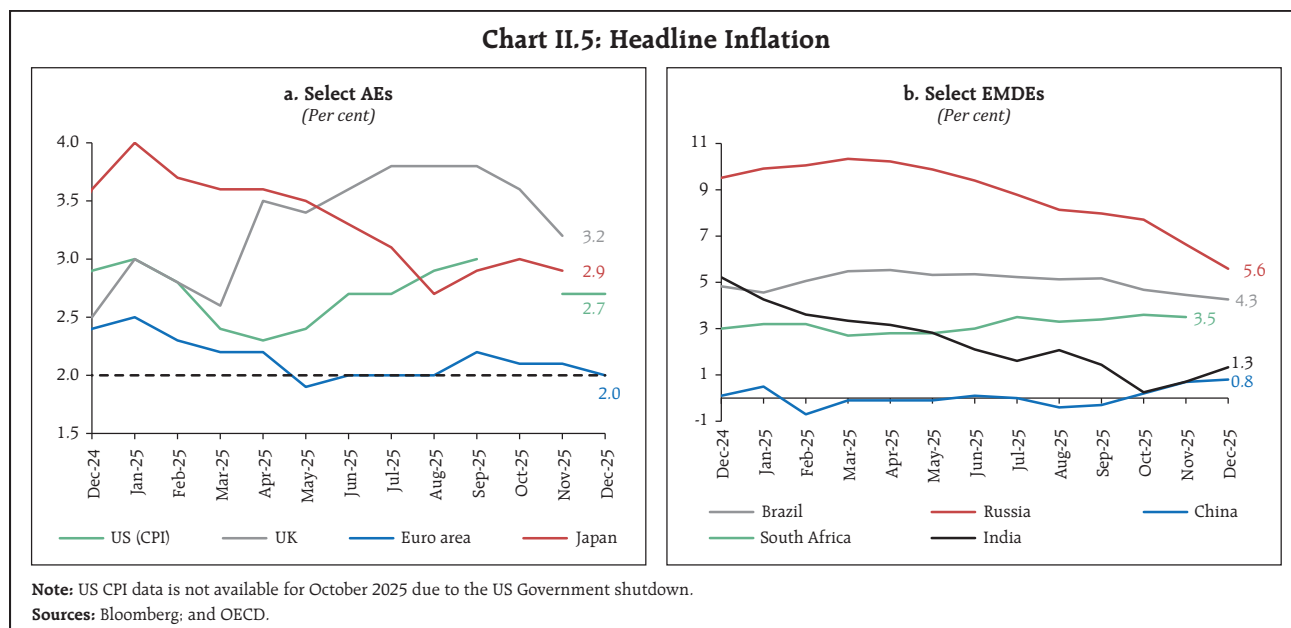


inflationary pressures in Brazil and in Russia, where headline inflation moderated to its lowest level since September 2023. Inflation in South Africa eased due to moderation in transport costs (Chart II.5b).

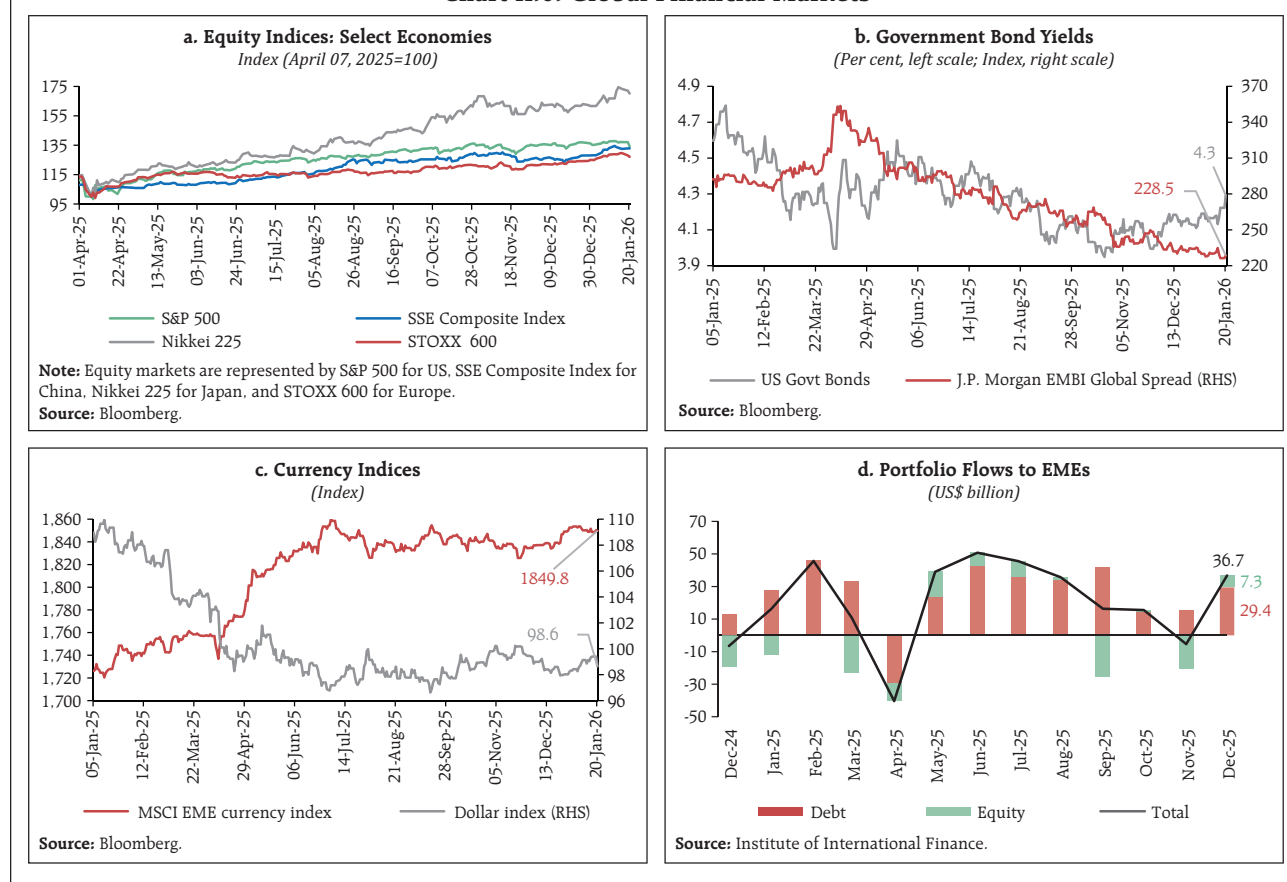
Equity markets in major economies rallied in December and early January but retreated later

amidst rising geopolitical uncertainties. Equity markets in the US experienced intermittent volatility in December and January. Markets saw a mid-month correction in December, led by sell-offs in the technology sector, before rebounding on softer-than-expected inflation data. Thereafter, markets remained range-bound till mid-January before registering a downturn due to geopolitical tensions. European equity markets remained broadly steady in December, but rising geopolitical tensions led to a decline from mid-January. Equity markets in Japan, though witnessing occasional pullbacks, saw a modest gain in December. Markets registered gains till mid-January before retreating on geopolitical considerations. Chinese equity markets strengthened since mid-December on positive domestic data. However, it eased around mid-January due to increased regulatory scrutiny on trading (Chart II.6a).

The US Treasury yields hardened in early December, following hawkish signals from the Bank of Japan, but eased subsequently after the Federal





**Chart II.6: Global Financial Markets**

Reserve's rate cut and a softer US inflation print. Yields, however, rose again towards the year-end on strong economic data and the release of FOMC minutes indicating a likely slower pace of future monetary easing. In January so far, yields eased on weaker labour data before rising again on global bond sell-off triggered by heavy selling in Japanese government debt. The JP Morgan emerging market bond yield spread narrowed in December and January, supported by positive investor demand (Chart II.6b).

The US dollar depreciated through most of December following the Federal Reserve's rate cut but rebounded thereafter on a stronger-than-expected Q3 GDP growth print (Chart II.6c). Portfolio flows to emerging markets rose to a four-month

high, supported by a weaker US dollar, an improved outlook for Asia, and investor diversification away from the US assets (Chart II.6d).

In December 2025, monetary policy actions of systemic central banks exhibited divergence. Among the AEs, the US and the UK lowered policy rates in response to weak labour market conditions, while Japan raised its policy rate to a three-decade high as inflation remained above target. In the case of EMDEs, China, Indonesia, and Brazil kept their policy rates unchanged, whereas Russia, Philippines, Thailand and Mexico undertook rate cuts. In January so far, China, South Korea and Indonesia kept their policy rates unchanged (Chart II.7).

**Chart II.7: Central Banks Pursued Divergent Policy Rate Paths in December**

Type	Countries	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	21.01.2026
Advanced Economies	Australia													
	Canada													
	Euro area													
	Japan													
	New Zealand													
	South Korea													
	Sweden													
	Switzerland													
	United Kingdom													
	United States													
Emerging Market Economies	Brazil													
	China													
	India													
	Indonesia													
	Malaysia													
	Mexico													
	Philippines													
	Russia													
	Saudi Arabia													
	South Africa													
	Thailand													

Rate change < -0.75 -0.75 to -0.50 -0.50 to -0.25 -0.25 to <0 0 (No change) >0 to 0.25 0.25 to 0.50 0.50 to 0.75 > 0.75

Colour

Note: White-coloured blocks indicate an off-policy month.

Source: Bloomberg.

### III. Domestic Developments

The first advance estimates of GDP for 2025-26 underscore the resilience of the Indian economy, with the real GDP recording a robust growth despite persistent global headwinds. On the demand side, PFCE and fixed investment were the key growth drivers. On the supply side, a strong rebound in the manufacturing sector and continued buoyancy in services boosted GVA growth. High-frequency indicators for December suggest a continued buoyancy in growth impulses. Demand conditions remained upbeat, underpinned by a resurgence in rural demand and a gradual recovery in urban demand.

#### Aggregate Demand

The Indian economy has demonstrated marked resilience amidst global uncertainties, with real GDP

growth estimated at 7.4 per cent in 2025-26, up from 6.5 per cent a year ago.<sup>2</sup>

In 2025-26, growth in PFCE – the mainstay of aggregate demand – remained broadly steady, while growth in fixed investment improved over the previous year. Government final consumption expenditure also accelerated, further supporting overall growth momentum. PFCE growth was underpinned by sustained rural demand and a gradual recovery in urban demand, part of which may be attributed to the rationalisation of the goods and services tax (GST).<sup>3</sup>

On the external front, net exports acted as a drag on growth. India's total exports recorded a

<sup>2</sup> First advance estimates of GDP for 2025-26, National Statistics Office (NSO).

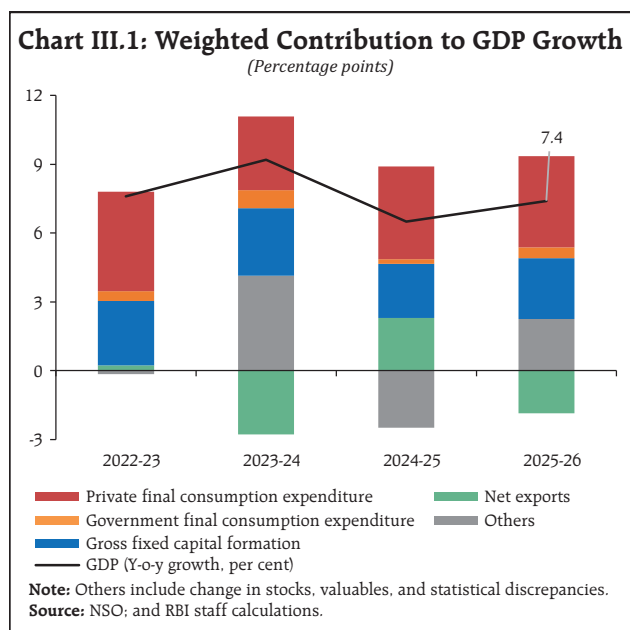
<sup>3</sup> GST rationalisation was announced on August 15, 2025 and implemented from September 22, 2025.



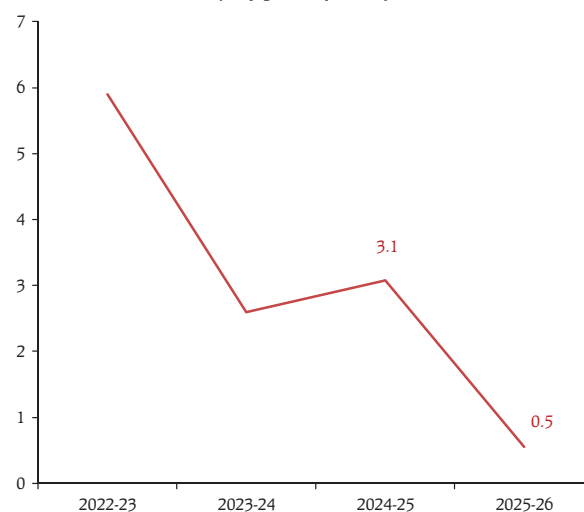
modest growth, supported by a steady performance in services, despite merchandise exports weakening following the imposition of steep tariffs by the US.<sup>4</sup> Growth in imports, on the other hand, outpaced that in exports, aided in part by base effects (Chart III.1 and Annex Table A1).

Notwithstanding the robust real GDP growth in 2025-26, the nominal GDP growth registered a five-year low of 8.0 per cent. The narrowing of the gap between nominal and real GDP growth was reflected in the fall in GDP deflator inflation, which dipped to its lowest level in 2025-26 (Chart III.2).

Economic activity continued to register a strong growth in December. E-way bill generation continued to record healthy growth, supported by GST rate rationalisation, alongside stock clearance and firms' efforts to meet year-end sales targets. Growth in GST revenue collections was primarily driven by higher



**Chart III.2: Moderation in GDP Deflator Inflation**  
(Y-o-y growth, per cent)



Sources: NSO; and RBI staff calculations.

import-related GST receipts.<sup>5</sup> Petroleum consumption registered a pick-up in growth owing to the elevated travel and logistics activity during the month.<sup>6</sup> Electricity demand recovered, with the winter-related demand gaining traction. Digital payments sustained strong robust growth in both value and volume terms (Table III.1).

Overall demand conditions remained upbeat in December. Indicators of rural demand regained momentum with retail automobile sales recording broad-based growth across categories. An increase in automobile sales was driven by enhanced affordability following GST rate cuts, year-end promotional offers, and increased demand ahead of expected price revisions in January. Retail sales of two-wheelers and tractors posted strong growth supported by increase in minimum support prices for *rabi* crops and GST rationalisation. Retail passenger vehicle

<sup>4</sup> The US imposed a 50 per cent tariff on Indian goods exports beginning from August 27, 2025. This combined the baseline tariff of 10 per cent effective from April 2, 2025, a reciprocal tariff of 25 per cent effective from August 1, 2025, and an additional 25 per cent tariff effective from August 27, 2025.

<sup>5</sup> Import-related GST receipts recorded an annual growth of 19.7 per cent in December.

<sup>6</sup> India's petroleum consumption rose to 21.75 million metric tonnes in December, marking the highest monthly level on record.

**Table III.1: High Frequency Indicators of Overall Economic Activity**

Indicator	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
GST E-way bills	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4	21.0	8.2	27.6	23.5
GST revenue	-0.2	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6	3.6	6.1
Toll collection	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	16.1	13.8	4.6	2.9	0.4
Electricity demand	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.8	3.5	-5.8	-0.6	6.5
Petroleum consumption	2.0	3.0	-5.2	-3.1	0.2	1.1	0.5	-4.4	4.8	7.0	-1.5	2.8	5.3
Of which													
Petrol	11.1	6.7	5.0	5.7	5.0	9.2	6.8	5.9	5.5	8.0	7.4	2.6	7.1
Diesel	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2	6.5	-0.3	4.7	5.0
Aviation Turbine Fuel	8.7	9.4	4.2	5.7	3.9	4.4	3.3	-2.3	-2.9	-0.8	2.1	5.4	0.3
Digital payments - Volume	33.1	33.0	26.7	30.8	30.0	29.2	28.3	30.9	31.1	28.1	21.5	30.2	23.7
Digital payments - Value	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.6	5.3	13.4	8.8	14.7	15.4

<<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 to the latest month for which data is available. Digital Payments data for December 2025 are provisional.  
 3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.  
 4. The data on toll collections for December 2025 growth rate is calculated by aggregating daily data.

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

sales stood out, marking the strongest growth in 14 months. Domestic air passenger traffic, however, recorded a decline, partly due to dense winter fog and disruption in flight schedules in early December (Table III.2).

As per the Periodic Labour Force Survey (released

on January 16, 2026), the all-India unemployment rate showed a slight uptick in December, with rural rate being steady and the urban rate edging up. Labour force participation rate continued with its upward trend seen since June. PMI employment for manufacturing moderated in December but remained in the expansionary zone, while PMI employment in

**Table III.2: High Frequency Indicators - Buoyant Demand Conditions**

	Indicator	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Urban demand	Domestic air passenger traffic	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.5	-0.5	-2.5	3.5	7.0	-3.6
	Retail passenger vehicle sales	0.1	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8	0.9	5.8	10.7	19.7	26.6
Rural demand	Retail automobile Sales	-12.5	6.6	-7.2	-0.7	2.9	5.4	4.8	-4.3	2.8	5.2	40.5	2.1	14.6
	Retail tractor sales	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0	30.1	3.6	14.2	56.5	15.8
	Retail two-wheeler sales	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5	2.2	6.5	51.8	-3.1	9.5

<<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 to the latest month for which data is available.  
 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 December 2025 growth rate is calculated by aggregating daily data.  
 5. Data for retail automobile sales consists of sales of two wheelers, three wheelers, passenger vehicles, tractors and commercial vehicles.

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

services witnessed a contraction for the first time in three-and-a-half years.<sup>7</sup> The Naukri JobSpeak Index registered a healthy growth in December led by fresh hiring especially in non-IT sectors like insurance, hospitality, and business process outsourcing. Demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) remained in contraction for the sixth consecutive month in December, pointing to sustained improvement in rural labour market conditions (Table III.3).

In December, the government introduced the *Viksit Bharat–Guarantee for Rozgar and Aajeevika Mission Gramin* (VB-G RAM G) Act, replacing the MGNREG Act, 2005. The Act provides an enhanced statutory guarantee of 125 days of

unskilled manual wage-employment per rural household annually, while strengthening livelihood security through outcome-linked creation of rural assets.

During April–November 2025, the key deficit indicators of the Centre, as per cent of budget estimates (BE), were higher than the same period last year (Chart III.3a).<sup>8</sup> The higher fiscal deficit was on account of a deceleration in revenue receipts alongside robust growth in capital expenditure.<sup>9</sup> Gross tax revenue growth moderated, driven by a slowdown in direct tax collections and a marginal contraction in indirect tax collections.<sup>10</sup>

The deficit indicators of states during April–November 2025, as a proportion of BE for the

**Table III.3: High Frequency Indicators for Employment**

Indicator	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Unemployment rate (PLFS: All-India)					5.1	5.6	5.6	5.2	5.1	5.2	5.2	4.7	4.8
Unemployment rate (PLFS: Rural)					4.5	5.1	4.9	4.4	4.3	4.6	4.4	3.9	3.9
Unemployment rate (PLFS: Urban)					6.5	6.9	7.1	7.2	6.7	6.8	7.0	6.5	6.7
Naukri JobSpeak Index	8.7	3.9	4.0	-1.5	8.9	0.3	10.5	6.8	3.4	10.1	-9.3	23.5	13.2
PMI Employment: Manufacturing	53.4	54.8	54.5	53.4	54.2	54.9	55.1	53.3	53.1	52.1	52.4	50.9	50.5
PMI Employment: Services	55.5	56.3	56.2	52.5	53.9	57.1	55.1	51.4	52.2	51.9	51.4	51.6	49.8
MGNREGS: Work demand	8.2	14.4	2.8	2.2	-6.5	4.4	4.4	-12.3	-26.2	-27.1	-35.1	-32.0	-28.9

<<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 the Naukri JobSpeak Index and MGNREGS Work Demand.  
3. The heatmap is applied on data from April 2023 to the latest month for which data is available.  
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.

<sup>7</sup> In PMI employment, about 2 per cent of firms reported job shedding, while the vast majority indicated no change.

<sup>8</sup> As per the latest data released by the Controller General of Accounts (CGA).

<sup>9</sup> During April–November 2025–26, the y-o-y growth in revenue receipts and capital expenditure were 2.1 per cent and 28.2 per cent, respectively. The moderation in the growth of the Centre's revenue receipts was due to contraction of 3.4 per cent in net tax revenue.

<sup>10</sup> The direct and indirect tax growth decelerated from 13.4 per cent and 7.6 per cent in April–November 2024–25 to 7.0 per cent and (-) 1.1 per cent, respectively, in April–November 2025–26. Within major direct and indirect tax categories, corporation tax and union excise duties registered an acceleration in growth as compared to the previous year.

financial year, remained lower than the same period last year (Chart III.3b). This improvement was a result of moderation in revenue expenditure relative to their budget estimates. In contrast, growth in capital expenditure recorded a turnaround from last year's contraction, leading to an improvement in the quality of expenditure. Within revenue receipts, States' goods and service tax collections grew at a slower pace than last year, while grants from the Centre declined.

### Trade

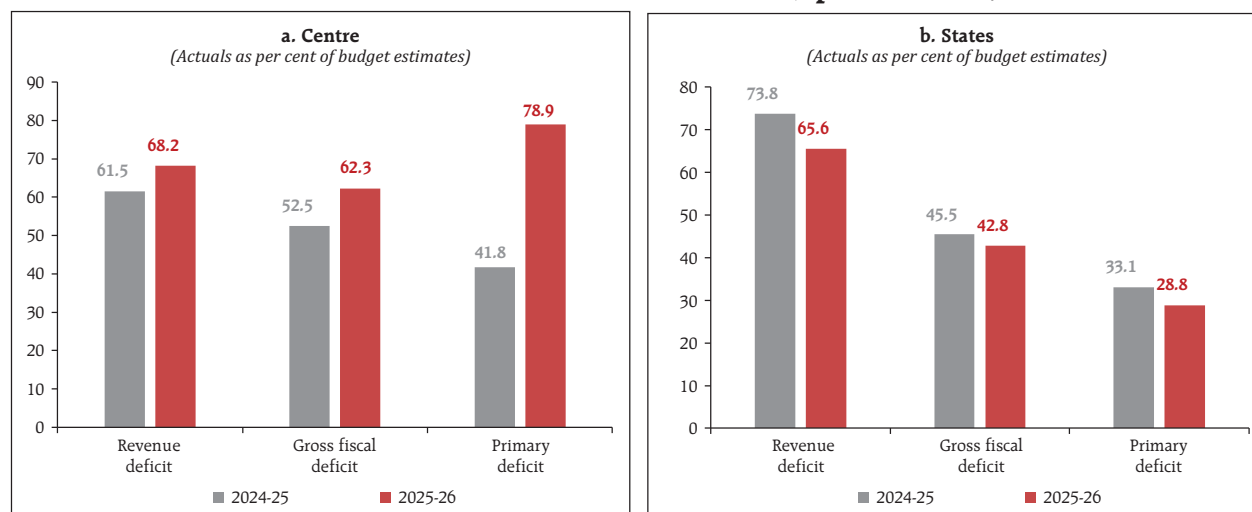
During the year so far (April-December), the merchandise trade deficit was higher than that of last year, primarily driven by petroleum products,

electronic goods and gold.<sup>11</sup> India's merchandise exports and imports during this period witnessed a broad-based expansion.<sup>12</sup>

In December, the merchandise trade deficit widened on account of a higher growth of imports than exports (Chart III.4).<sup>13</sup> While gold imports declined in December, silver imports recorded a double-digit growth. Exports to China continued to be in double digits, supported by exports of marine products and iron ore in December.<sup>14</sup>

The US has announced an additional 25 per cent tariff on countries continuing to trade with Iran. Iran has less than 0.5 per cent share in India's exports as

**Chart III.3: Government Deficit Indicators (April-November)**



**Note:** Data pertains to 25 States/UTs.

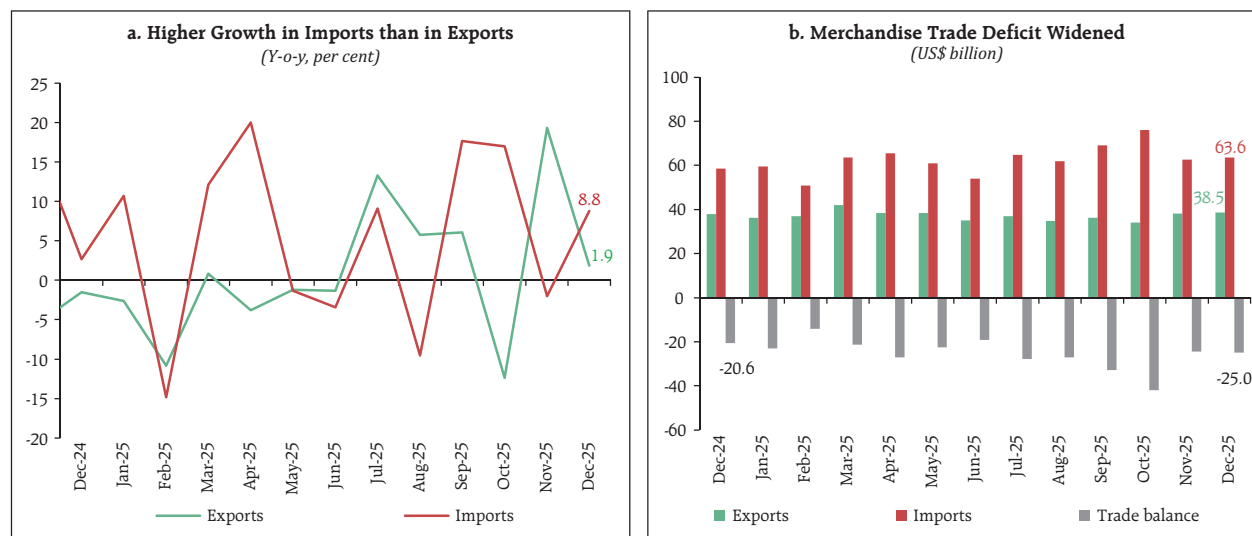
**Sources:** Controller General of Accounts; Comptroller and Auditor General of India; and Union Budget Documents.

<sup>11</sup> The merchandise trade deficit during April-December 2025 was at US\$ 248.3 billion as against US\$ 223.9 billion during April-December 2024.

<sup>12</sup> 18 out of 30 major commodities (accounting for 56.4 per cent of exports basket) and 18 out of 30 major commodities (accounting for 35.4 per cent of imports basket) registered expansion in 2025-26 (April-December).

<sup>13</sup> The merchandise trade deficit widened to US\$ 25.0 billion in December 2025 from US\$ 20.6 billion in December 2024. Merchandise exports stood at US\$ 38.5 billion in December 2025 [increase of 1.9 per cent (y-o-y)]. Key segments such as electronic goods, meat, dairy and poultry; drugs and pharmaceuticals; engineering goods; and marine products drove the exports, while rice, petroleum products, plastic and linoleum, oil meals and gems and jewellery dragged the exports down. Exports to 8 out of the top 20 major destinations expanded, with exports to destinations such as China, UAE and Germany growing, while contracting to the US, Netherlands, and the UK. Merchandise imports stood at US\$ 63.6 billion in December 2025 [expansion of 8.8 per cent (y-o-y)]. Electronic goods, machinery, electrical and non-electrical, petroleum crude and products, non-ferrous metals, and metalliferous ores and other minerals contributed positively to the imports, while Gold, transport equipment, iron and steel, chemical material and products, and wood and wood products dragged imports during the month. Imports from 13 out of 20 major destinations expanded, with imports from destinations such as China, the UAE and the US growing, while contracting from Russia, Switzerland, and Indonesia.

<sup>14</sup> Export to China increased by 67.4 per cent (y-o-y) in December 2025.

**Chart III.4: India's Merchandise Trade**

Sources: PIB; DGC&amp;S.

well as in imports in 2024-25.<sup>15</sup> After the imposition of a 50 per cent tariff by the US in end-August, India's exports to the US declined in the subsequent months, except for November 2025.

Net services exports grew in November with exports accelerating and imports declining (Chart III.5).<sup>16</sup> Services exports growth increased in November, primarily due to rise in business, computer, and transport services exports. Services imports contracted, mainly due to a fall in imports of business and transportation services.

### Aggregate Supply

On the supply side, growth in real GVA at basic prices is estimated to firm up to 7.3 per cent in 2025-26 from 6.4 per cent in 2024-25. This acceleration was propelled by a buoyant services sector and improved

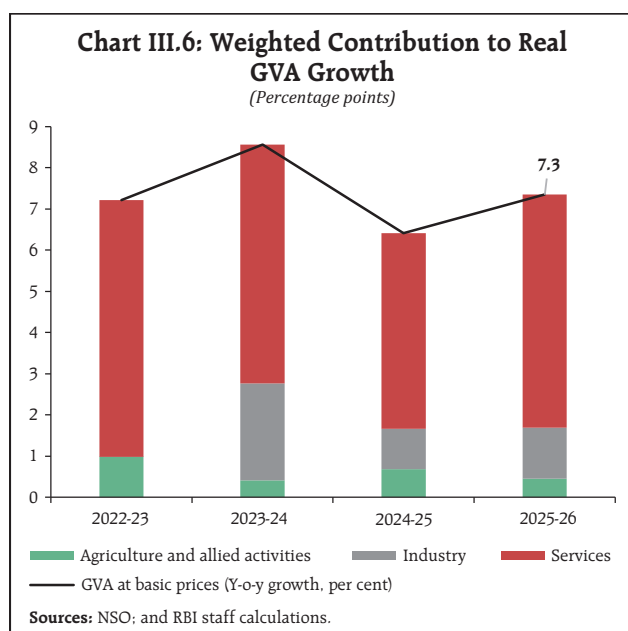
activity in the industrial sector despite some moderation in the agricultural sector (Chart III.6 and Annex Table A2). Industrial sector picked up pace, supported by a strong performance in manufacturing. Momentum in the services sector was sustained, with financial, real estate, and professional services driving the overall growth. Agriculture and allied activities witnessed a moderation in growth.

**Chart III.5: Services Exports Grew while Imports Declined**

Source: RBI.

<sup>15</sup> Iran accounted for 0.3 per cent of India's total exports and 0.06 per cent of India's total imports in 2024-25. The major export commodity to Iran is rice, while the major import commodities are petroleum products and electronic goods.

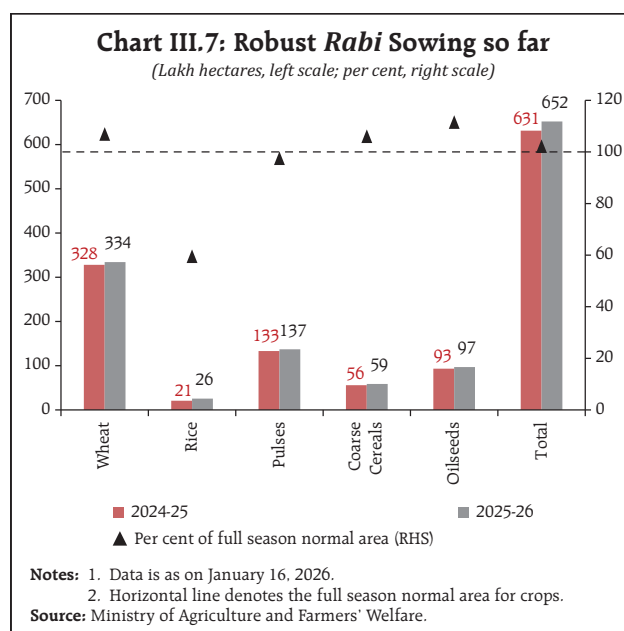
<sup>16</sup> Net services exports grew by 17.0 per cent (y-o-y) to US\$ 17.4 billion in November 2025 from US\$ 14.9 billion in November 2024. During April-November 2025, net services exports increased to US\$ 133.6 billion from US\$ 116.4 billion during April-November 2024.



## Agriculture

The *rabi* sowing season is nearing completion, and higher acreage is reported across all major crops so far.<sup>17</sup> Strong progress in *rabi* sowing has been supported by favourable rainfall in the post-monsoon season.<sup>18</sup> In the top five *rabi*-producing states – Uttar Pradesh, Madhya Pradesh, Punjab, Haryana, and Rajasthan – a combination of lower temperature and adequate soil moisture has created a conducive environment for crop growth (Chart III.7).<sup>19</sup>

For *kharif* marketing season 2025-26 so far, the procurement of rice is higher than the last year.<sup>20</sup> Consequently, the combined public stock of rice and



wheat with the government remains adequate to meet any contingency going forward.<sup>21</sup>

## Monthly Indicators of Industrial Activity

In November, growth in industrial activity, as measured by the year-on-year (y-o-y) change in the Index of Industrial Production (IIP), jumped to a 25-month high, primarily driven by a robust manufacturing growth. Mining sector also rebounded after two consecutive months of contraction. The index of eight core industries posted a four month high growth in December, led by strong growth in steel and cement and turnaround in electricity generation.

High-frequency indicators of industrial activity remained strong in December. Automobile production experienced accelerated growth across segments in December, underpinned by a healthy booking pipeline driven by policy support, including income tax relief, GST rationalisation, and easier financing conditions. Tractor production also surged in view

<sup>17</sup> As on January 16, 2026, the area sown under *rabi* crops has covered 102.3 per cent of the full season normal acreage, which is 3.3 per cent higher than the corresponding period of last year.

<sup>18</sup> Aided by above-normal post-monsoon rainfall, reservoir levels remain higher than that in the corresponding period last year and the decadal average. As of January 15, 2026, average storage in 166 major reservoirs across the country stood at 74 per cent of full capacity—6.8 per cent higher than a year ago and 23.9 per cent above the decadal average.

<sup>19</sup> Based on remote sensing data upto December 2025.

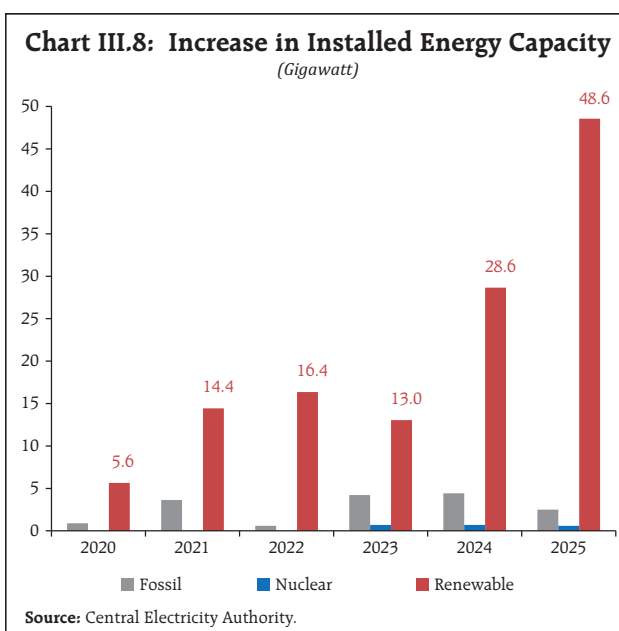
<sup>20</sup> As on January 19, 2026, rice procurement stood at 410.1 lakh tonnes, 5.1 per cent higher than last year.

<sup>21</sup> As on January 01, 2026, the rice and wheat stock stood at 679.3 lakh tonnes (8.9 times the buffer norm) and 274.6 lakh tonnes (2.0 times the buffer norm), respectively.



of buoyant sales propelled by improved cash flows from strong *kharif* output. Electricity generation, which had contracted for two consecutive months, recovered in December. The manufacturing PMI remained in expansion despite some deceleration due to slower expansion in new orders and output (Table III.4).

India has been making rapid progress towards clean energy transition. Installed power capacity has increased by nearly 36 per cent over the past five years, largely driven by the expansion of renewable energy. In 2025, India recorded its highest-ever annual addition to renewable energy capacity, primarily led by a surge in solar installations (Chart III.8). Additionally, the introduction of the



**Table III.4: High Frequency Indicators- Industry- Growth Rate**

Indicator	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
IIP-Headline	3.7	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.5	6.7	
IIP Manufacturing	3.7	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	5.6	2.0	8.0	
IIP capital goods	10.5	10.2	8.2	3.6	14.0	13.3	3.0	6.8	4.5	5.4	2.1	10.4	
PMI Manufacturing	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0
PMI Export Order	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3	56.1	56.5	54.7	54.1	54.0
PMI Manufacturing: Future Output	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6	60.5	64.8	62.3	57.1	56.9
Eight Core Index	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	-0.1	2.1	3.7
Electricity generation: Conventional	4.4	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0	0.8	-10.6	-5.0	4.3
Electricity generation: Renewable	17.9	31.9	12.2	25.2	28.0	18.2	28.7	26.4	22.7	16.4	21.4	22.9	
Automobile Production	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7	8.1	10.8	-2.8	22.3	37.1
Passenger vehicle production	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1	-4.1	16.1	9.8	22.8	23.1
Tractor production	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5	9.4	23.0	13.0	37.5	57.9
Two-wheelers production	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3	10.0	9.8	-5.6	20.9	39.9
Three-wheelers production	7.6	16.2	6.5	6.0	4.1	16.9	8.6	24.0	15.8	15.9	15.9	55.4	39.6
Crude steel production	8.3	7.4	6.0	8.5	9.3	11.0	12.6	13.8	12.8	13.7	8.9	10.8	5.3
Finished steel production	5.3	6.7	6.7	10.0	6.6	7.0	10.9	13.8	13.8	14.0	7.2	11.8	2.0
Import of capital goods	6.0	15.5	-0.5	8.6	24.5	15.7	3.4	13.3	0.2	12.7	8.6	12.8	13.2

<<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 to the latest month for which data is available.
  4. All PMI values are reported in index form. A PMI value >50 denotes expansion, <50 denotes contraction and =50 denotes 'no change'. In the PMI heatmaps, red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

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

**Table III.5: High Frequency Indicators- Services- Growth Rate**

Indicator	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
PMI Services	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0
International Air Passenger Traffic	9.0	11.1	7.7	6.8	13.0	5.0	3.4	5.5	7.7	7.3	9.7	7.5	6.4
Domestic Air Cargo	4.3	6.9	-2.5	4.9	16.6	2.3	2.6	4.8	7.1	2.8	-2.3	20.5	
International Air Cargo	10.5	7.1	-6.3	3.3	8.6	6.8	-1.2	4.2	4.5	2.3	-2.3	12.7	
Port Cargo Traffic	3.5	7.6	3.6	13.3	7.0	4.3	5.6	4.0	2.5	11.5	11.9	14.5	12.8
Retail Commercial vehicle sales	-11.7	8.2	-8.6	2.7	-1.0	-3.7	6.6	0.2	8.6	2.7	21.1	17.0	24.6
Hotel Occupancy	-0.2	1.2	0.6	1.9	7.2	-2.8	-0.3	-2.4	-3.2	-0.6	0.0	3.8	
Steel Consumption	7.7	9.0	10.9	13.6	6.0	8.1	9.3	7.3	10.0	8.9	2.4	6.0	3.4
Cement Production	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	5.4	5.0	5.2	14.6	13.5

<<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 to data from April 2023 to the latest month for which data is available.  
 4. The data on international air passenger traffic for December 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; Joint Plant Committee; Office of Economic Adviser; and S&P Global.

Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India (SHANTI) Bill<sup>22</sup>, 2025 along with the Nuclear Energy Mission is expected to boost nuclear power capacity to 100 GW by 2047 while enabling limited private participation in the nuclear energy sector under regulatory oversight.

### Monthly Indicators of Services Activity

India's services sector continued to exhibit healthy expansion in December. Retail commercial vehicles sales sustained strong growth due to improved goods movement and underlying economic activity. Port cargo traffic also maintained the growth momentum [Table III.5].

### Inflation

Headline inflation<sup>23</sup> rose for the second consecutive month in December after reaching the

lowest level in the current CPI series (2012=100) in October. It rose to 1.3 per cent in December, driven by a lower rate of deflation in food group along with an increase in core (*i.e.*, CPI excluding food and fuel) inflation [Chart III.9].<sup>24</sup>

Food prices remained in deflation for the fourth consecutive month, though the rate of deflation eased.<sup>25</sup> Within food group, prices declined for cereals, pulses, spices, and vegetables on a y-o-y basis. Inflation in sub-groups such as fruits, non-alcoholic beverages, prepared meals and oils and fats moderated, while that in egg, meat and fish, milk and products, and sugar edged up (Chart III.10).

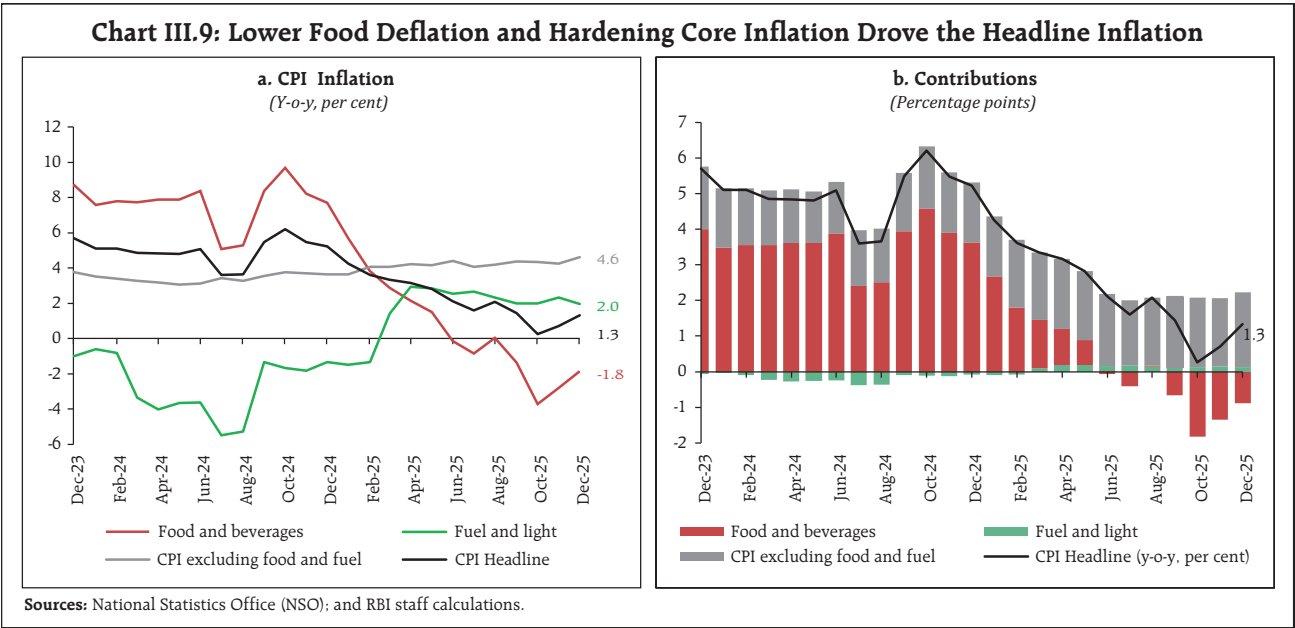
Fuel and light inflation moderated to 2.0 per cent in December from 2.3 per cent in November, mainly due to favourable base effects. This was driven by a decrease in inflation of kerosene-PDS and LPG.

<sup>22</sup> <https://www.pib.gov.in/PressNoteDetails.aspx?id=156593&NoteId=156593&ModuleId=3&reg=3&lang=2>

<sup>23</sup> As per the provisional data released by the National Statistics Office (NSO) on January 12, 2026.

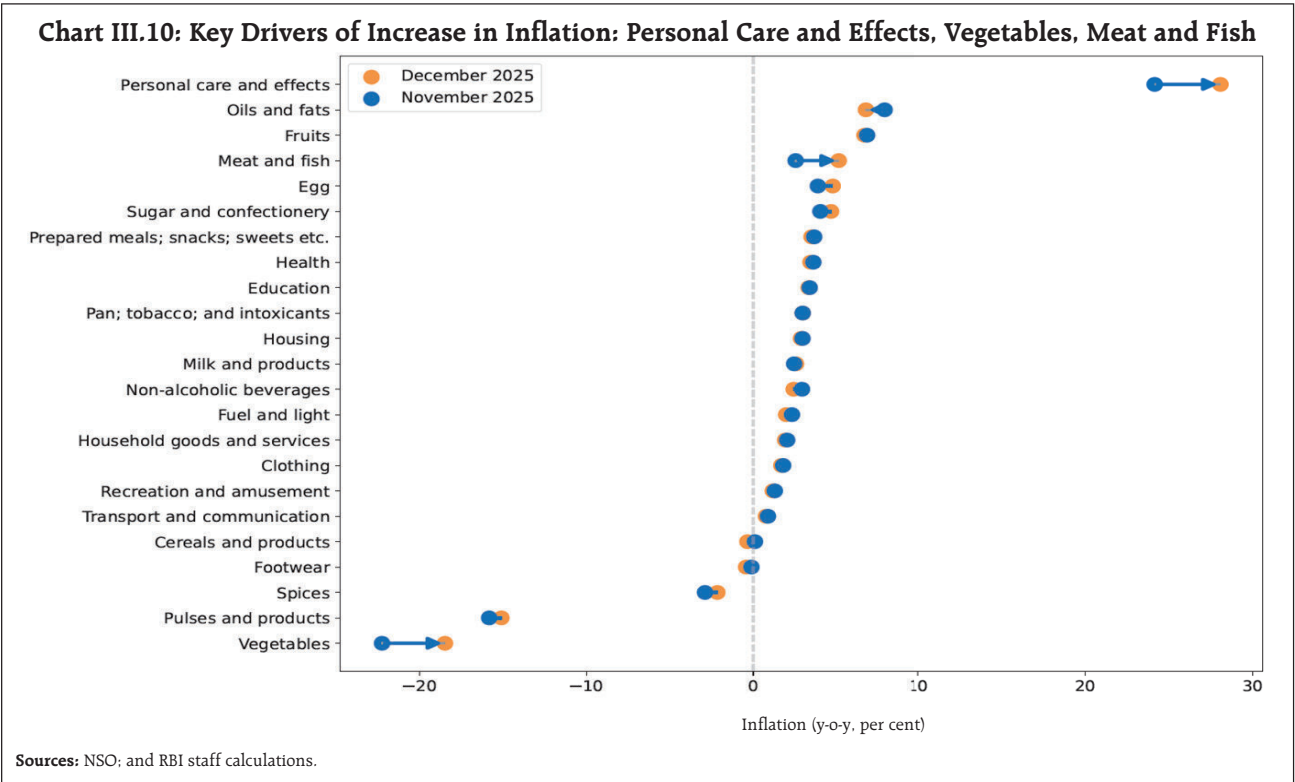
<sup>24</sup> The increase in inflation by 60 bps was on account of unfavourable base effect of 55 bps along with a positive price momentum of 5 bps.

<sup>25</sup> Food deflation moderated to 1.8 per cent in December from 2.8 per cent in the previous month.



Core inflation increased to 4.6 per cent in December from 4.3 per cent in the previous month. Inflation eased in clothing and footwear, health, household goods and services, transport and communication, housing, recreation and amusement,

and education while it picked up in personal care and effects, driven by rising gold prices. Excluding precious metals, core inflation was at 2.3 per cent in December, the same as in November.



In terms of spatial distribution, inflation in both urban and rural areas firmed up in December.<sup>26</sup> Across states/UTs, inflation varied from (-) 4.2 per cent to 9.5 per cent, with the majority of states continuing to record inflation below 2 per cent. Overall, a broad-based rise in inflation was observed, with 26 states/UTs recording an uptick in inflation (Chart III.11).

High-frequency food price data for January so far (up to 19<sup>th</sup>) point towards a softening in cereal prices. Among pulses, a broad-based moderation in prices is observed across gram, *moong* and *tur/arhar* dal. Within edible oils, sunflower oil and groundnut oil prices increased. Within vegetables, onion prices picked up while potato prices eased further (Chart III.12).

**Chart III.11: Spatial Distribution of Inflation: December 2025**

(Y-o-y, per cent)



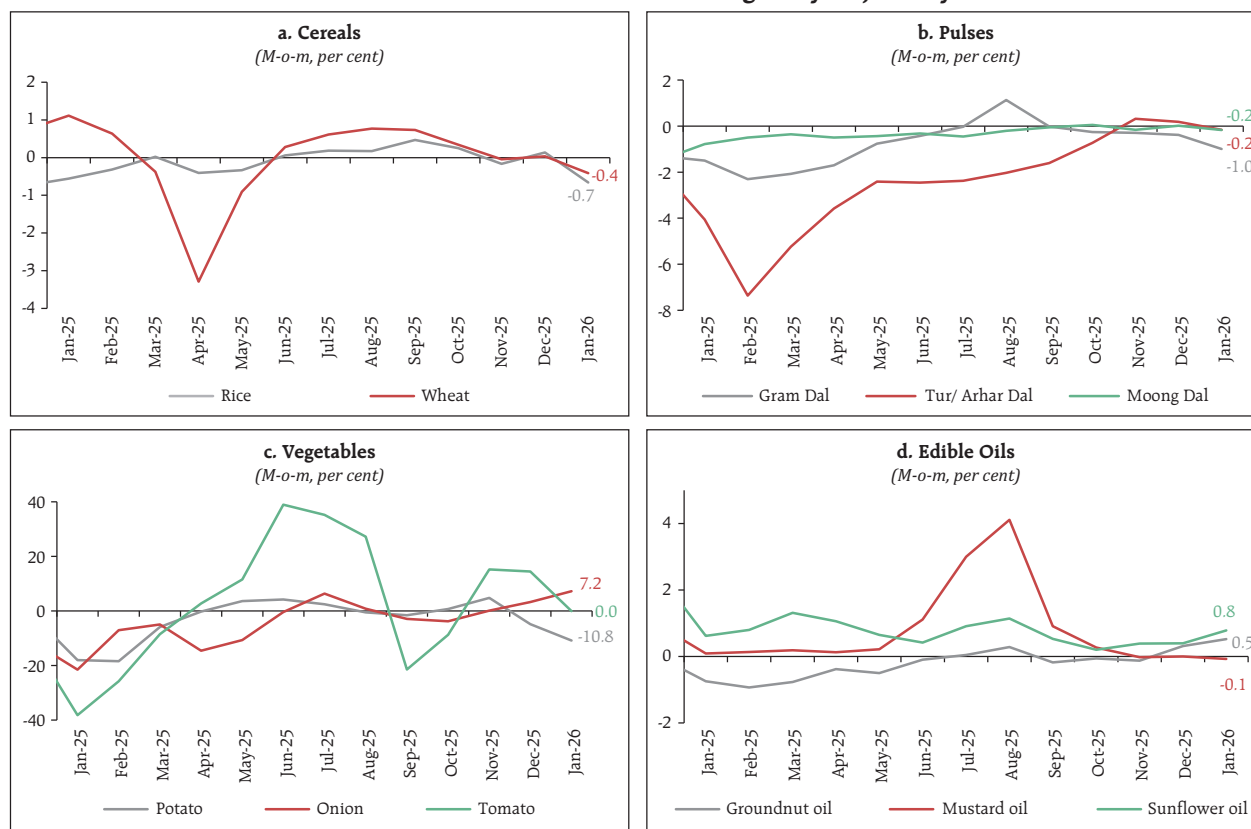
Inflation Range	Number of States/UTs
<2	24
2-4	11
4-6	0
6-8	1
8-10	1
Inflation Trend	Number of States/UTs
Decline or Stable	11
Increase	26

Notes: 1. Map is for illustrative purposes only.

2. Lakshadweep experienced inflation at 7.0 per cent and Kerala at 9.5 per cent.

Sources: NSO; and RBI Staff estimates.

**Chart III.12: Food Prices Eased Marginally in January**



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

<sup>26</sup> Inflation in urban and rural areas was at 2.0 and 0.8 per cent, respectively.

**Table III.6: Petroleum Products Prices**

Item	Unit	Domestic Prices			Month-over-month (Per cent)	
		Jan-25	Dec-25	Jan-26 ^	Dec-25	Jan-26 ^
Petrol	₹/litre	101.0	101.1	101.2	0.0	0.0
Diesel	₹/litre	90.5	90.5	90.5	0.0	0.0
Kerosene (subsidised)	₹/litre	43.9	48.6	45.1	5.9	-7.4
LPG (non-subsidised)	₹/cylinder	813.3	863.3	863.3	0.0	0.0

^: For the period January 1-19, 2026.

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

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

Retail selling prices of petrol, diesel and LPG remained unchanged in January 2026 (up to 19<sup>th</sup>) while it declined for Kerosene (Table III.6).

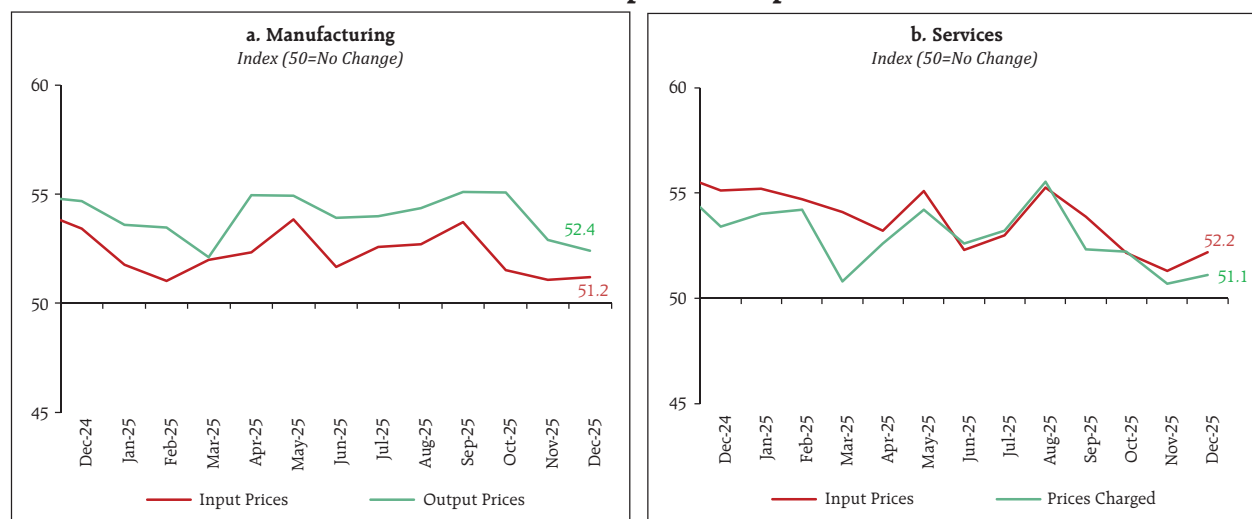
In December, both manufacturing and services PMI witnessed an increase in the rate of expansion of input prices. While the output price inflation

for manufacturing firms softened, it increased for services (Chart III.13).

#### IV. Financial Conditions

Financial conditions exhibited two-way movement since the second half of December (Chart IV.1).

The banking system's liquidity transitioned from surplus to deficit during the second half of December, due to a buildup in government cash balances resulting from advance tax and GST-related payments. To assuage the transient liquidity tightness, the Reserve Bank conducted variable rate repo (VRR) auctions.<sup>27</sup> The Reserve Bank also announced fresh open market operations (OMOs) comprising purchase auctions amounting to ₹2 lakh crore and 3-year USD/INR Buy/Sell Swap auction of USD 10 billion.<sup>28</sup> From end-December to January (up to 19<sup>th</sup>), system liquidity again turned into surplus as a result of faster government spending and RBI's durable liquidity operations.

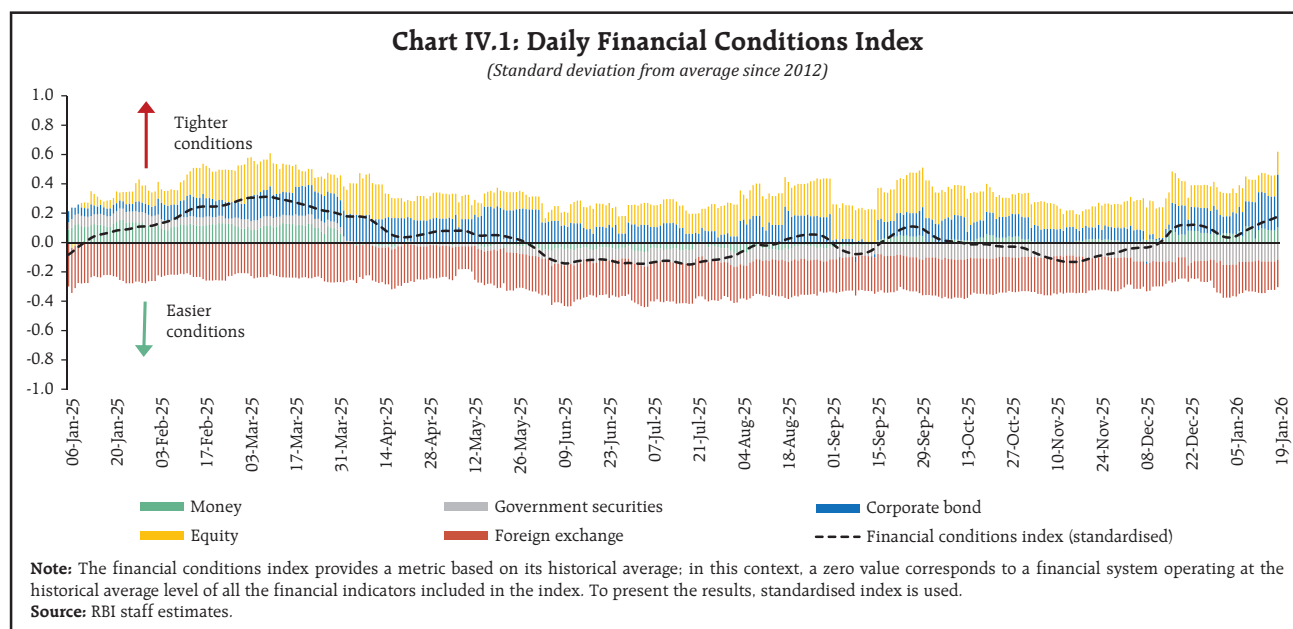
**Chart III.13: PMI: Input and Output Prices**

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

**Source:** S&P.

<sup>27</sup> During the second half of December and in January (up to January 19<sup>th</sup>), the RBI conducted 21 VRR auctions of overnight and upto 10-day maturity.

<sup>28</sup> RBI announced OMO purchase auctions of Government of India securities for an aggregate amount of ₹2 lakh crore in four tranches of ₹0.5 lakh crore each to be held on December 29, 2025, January 05, 2026, January 12, 2026, and January 22, 2026. Auctions for the first three tranches of OMO purchases aggregating to ₹1.5 lakh crore have already been conducted which saw good demand. USD/INR Buy/Sell Swap auction of USD 10 billion for a tenor of 3 years held on January 13, 2026 attracted bids roughly three times the notified amount.

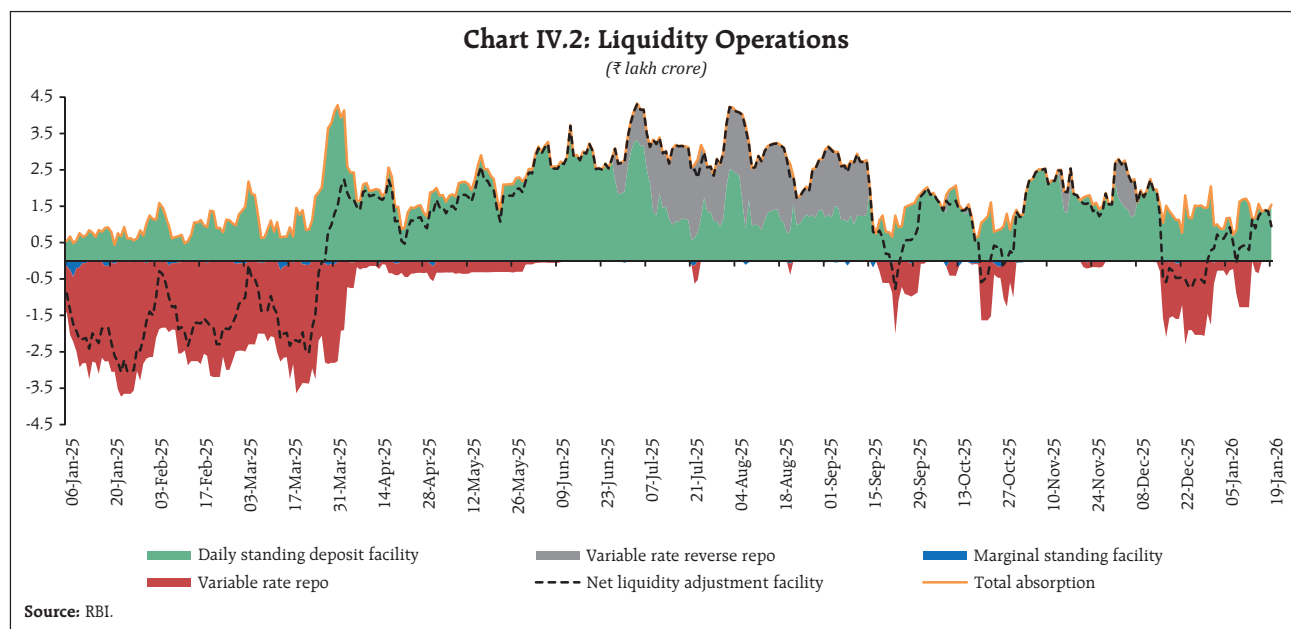


Overall, average net absorption under the liquidity adjustment facility stood at ₹0.21 lakh crore during December 16, 2025 – January 19, 2026, in comparison to net absorption of ₹1.90 lakh crore in the preceding one-month period (Chart IV.2). Average balances under the standing deposit facility declined,

and banks' recourse to the marginal standing facility increased marginally.<sup>29</sup>

#### Money Market

The weighted average call rate (WACR) generally hovered within the policy corridor during December



<sup>29</sup> Average balances under the standing deposit facility decreased to ₹1.31 lakh crore during December 16, 2025 to January 19, 2026 from ₹1.69 lakh crore in the preceding one-month period. Borrowings from the marginal standing facility averaged ₹0.018 lakh crore during this period, up from ₹0.017 lakh crore in the preceding one-month period.



and January (up to January 19<sup>th</sup>). It remained above the policy repo rate in the second half of December and January (up to January 19<sup>th</sup>). On December 31<sup>st</sup>, it rose above the MSF rate with the usual quarter-end tightness compounded by the fortnightly reserve maintenance requirements. On average, the WACR was higher at 5.4 per cent during December 16, 2025 to January 19, 2026, compared with the preceding one-month period (Chart IV.3a). Overnight rates in the collateralised segments – as measured by the benchmark secured overnight rupee rate (SORR) – moved in tandem with the uncollateralised rate. Yields on three-month treasury bills averaged lower while those on three-month commercial papers issued by non-banking financial companies edged up during this period. The interest rate on three-month certificate of deposits also edged up on account of an expected increase in supply amidst a pick-up in credit

growth (Chart IV.3b).<sup>30</sup> The average risk premium in the money market (the spread between the yields on 3-month commercial paper and 91-day treasury bill) witnessed an uptick.<sup>31</sup>

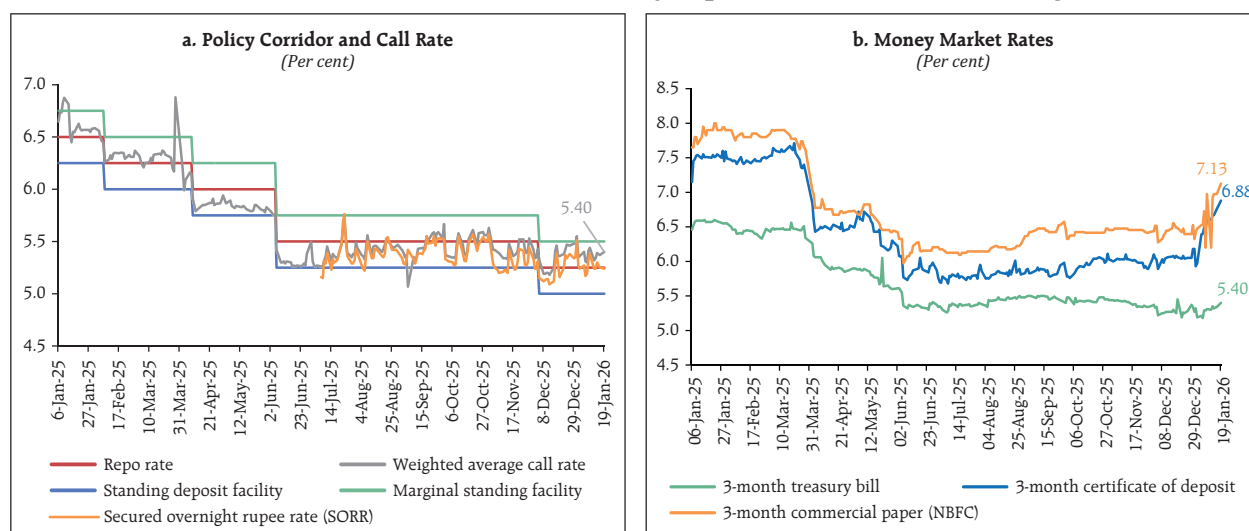
### Government Securities (G-Sec) Market

In the fixed income segment, G-Sec yields hardened for most of December and January so far (up to 19<sup>th</sup>) amidst dimming market expectations of further rate cuts. A brief softening, however, followed the announcement of OMO purchases by the Reserve Bank on December 23, 2025 (Chart IV.4a).<sup>32</sup> Compared to December 16, 2025 the yield curve (as on January 19, 2026) has risen across tenors (Chart IV.4b).

### Corporate Bond Market

Corporate bond yields hardened across tenors and the rating spectrum. Consequently, their spread

**Chart IV.3: WACR Traded above the Policy Repo Rate, Short-Term Rates Higher**

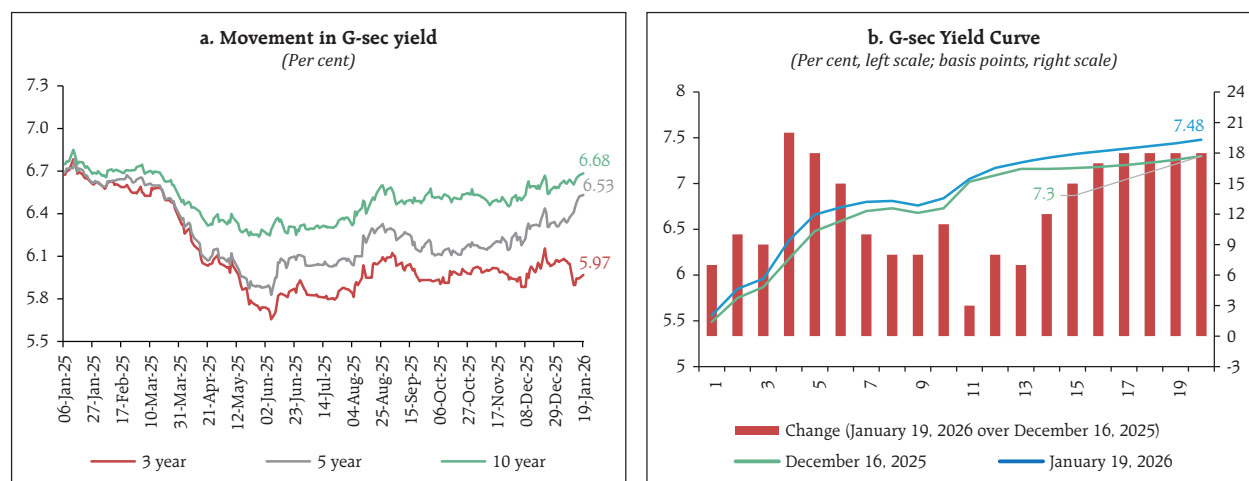


Sources: RBI; and Bloomberg.

<sup>30</sup> The average yields on 3-month treasury bills declined by 3 bps while the yields on the 3-month commercial papers issued by NBFCs and 3-month certificate of deposit hardened by 14 bps and 30 bps, respectively during December 16, 2025 to January 19, 2026, as compared to the period from November 16, 2025 to December 15, 2025.

<sup>31</sup> Increased to 127 bps during the period from December 16, 2025 to January 19, 2026, from 111 bps in the preceding one-month period.

<sup>32</sup> Following announcement of additional OMO purchases amounting to ₹ 2 lakh crore on December 23, 2025, yields on 3, 5 and 10-year Government securities softened by more than 10 bps each from their pre-announcement levels during December 23<sup>rd</sup> -24<sup>th</sup>, 2025.

**Chart IV.4: Hardening in G-sec Yields**

Sources: Bloomberg; and RBI staff calculations.

over government securities widened (Table IV.1). New corporate bond issuances decreased in November compared to October. On a cumulative basis, total issuances were marginally higher in the current financial year so far than in the same period last year.<sup>33</sup>

### Money and Credit

Reserve money growth (adjusted for CRR) for the fortnight ending January 15, 2026, moderated although

currency in circulation recorded an accelerated pace of expansion.<sup>34</sup> For the fortnight ending December 31, 2025, growth (y-o-y) in money supply picked up as compared to the previous fortnight, driven by higher aggregate deposits and currency with the public (Chart IV.5).<sup>35</sup>

Credit and deposit growth of scheduled commercial banks (SCBs) recorded a pronounced increase in December (Chart IV.6).<sup>36</sup>

**Table IV.1: Corporate Bonds Yields Hardened**

Instrument	Interest Rates (Per cent)			Spread (bps)		
				(Over Corresponding Risk-free Rate)		
	November 16, 2025 – December 15, 2025	December 16, 2025 – January 16, 2026	Variation	November 16, 2025 – December 15, 2025	December 16, 2025 – January 16, 2026	Variation
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
(i) AAA (1-year)	6.82	7.13	31	123	152	29
(ii) AAA (3-year)	7.01	7.20	19	107	123	16
(iii) AAA (5-year)	7.17	7.35	18	77	80	3
(iv) AA (3-year)	8.01	8.18	17	207	221	14
(v) BBB- (3-year)	11.66	11.79	13	573	582	9

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

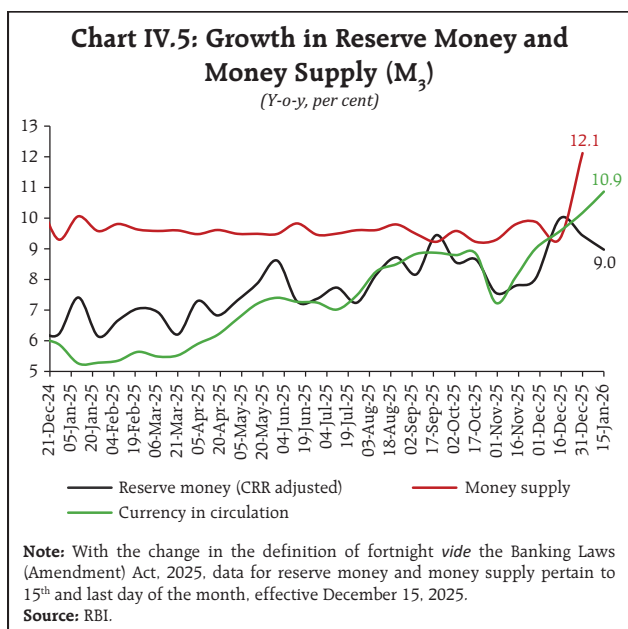
Source: FIMMDA.

<sup>33</sup> Issuances decreased to ₹0.59 lakh crore in November 2025 from ₹0.78 lakh crore in October 2025. On a cumulative basis (April to November), it stood at ₹6.07 lakh crore in 2025-26, marginally up from ₹6.06 lakh crore in the corresponding period of the previous year.

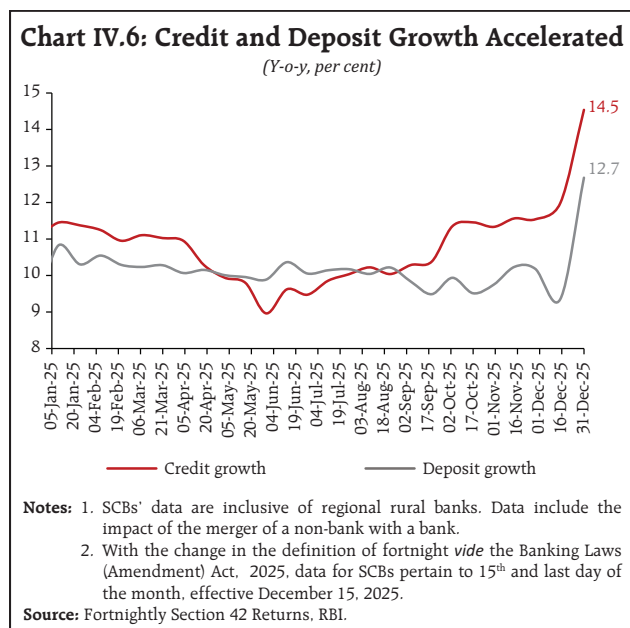
<sup>34</sup> Reserve money growth (adjusted for the first-round impact of changes in the cash reserve ratio) declined to 9 per cent (y-o-y) as on January 15, 2026 from 10 per cent (y-o-y) as on December 15, 2025 while growth in currency in circulation increased to 10.9 per cent (y-o-y), up from 9.6 per cent (y-o-y) during the same period.

<sup>35</sup> Money supply grew by 12.1 per cent (y-o-y) as on December 31, 2025, up from 9.9 per cent (y-o-y) as on November 28, 2025.

<sup>36</sup> SCBs' credit and deposit growth stood at 14.5 per cent (y-o-y) and 12.7 per cent (y-o-y), respectively, as on December 31, 2025, up from 11.5 per cent (y-o-y) and 10.2 per cent (y-o-y), respectively, as on November 28, 2025.



During 2025-26 so far (up to December 31), total flow of financial resources to the commercial sector increased to ₹30.8 lakh crore from ₹21.3 lakh crore a year ago (Table IV.2a). Non-bank sources – corporate bond issuances, and foreign direct investment to India – showed a marked increase during the year so far. As on December 31, 2025, the total outstanding



credit to the commercial sector rose by 15.0 per cent, with non-bank sources registering a growth of 16.4 per cent (Table IV.2b).

**Table IV.2a: Flow of Financial Resources to the Commercial Sector**

(₹ lakh crore)

Source	April-March		Up to December 31	
	2023-24	2024-25	2024-25	2025-26 P
<b>A. Non-Food Bank Credit</b>	<b>21.40</b>	<b>17.98</b>	<b>12.78</b>	<b>20.27</b>
<b>B. Non-Bank Sources (B1 + B2)</b>	<b>12.64</b>	<b>17.10</b>	<b>8.55</b>	<b>10.58</b>
B1. Domestic Sources	10.20	13.86	6.43	7.66
B2. Foreign Sources	2.43	3.25	2.12	2.92
<b>C. Total Flow of Resources (A+B)</b>	<b>34.04</b>	<b>35.09</b>	<b>21.32</b>	<b>30.85</b>

P: Provisional.

**Notes:** 1. Figures in the columns might not add up to the total due to rounding off of numbers.  
2. For detailed notes and data, please refer to Current Statistics Table No: 18(a).

**Sources:** RBI; SEBI; AIFIs; and RBI staff estimates.

**Table IV.2b: Outstanding Credit to the Commercial Sector**

(₹ lakh crore; Figures in parentheses are y-o-y percentage changes)

Source	At End-March		As on December 31	
	2024	2025	2024	2025 P
<b>A. Non-Food Bank Credit</b>	<b>164.09</b>	<b>182.07</b>	<b>176.87</b>	<b>202.35</b>
	(20.2)	(11.0)	(11.1)	(14.4)
<b>B. Non-Bank Sources (B1 + B2)</b>	<b>77.56</b>	<b>88.85</b>	<b>82.14</b>	<b>95.58</b>
	(4.2)	(14.6)	(11.7)	(16.4)
B1. Domestic Sources	56.59	66.37	60.21	71.62
	(4.9)	(17.3)	(14.8)	(18.9)
B2. Foreign Sources	20.97	22.48	21.93	23.96
	(2.4)	(7.2)	(4.2)	(9.2)
<b>C. Total Credit (A+B)</b>	<b>241.65</b>	<b>270.93</b>	<b>259.01</b>	<b>297.93</b>
	(14.5)	(12.1)	(11.3)	(15.0)

P: Provisional.

**Notes:** 1. Figures in the columns might not add up to the total due to rounding off of numbers.  
2. Data on non-bank sources excludes issuances of equities and hybrid instruments under domestic sources and foreign direct investment in equities under foreign sources.  
3. Flows based on outstanding data may not tally with the flows provided in Table IV.2a due to:  
(a) Merger of HDFC Limited with HDFC Bank on July 1, 2023;  
(b) Conversion of some Housing Finance Companies into Non-Banking Financial Companies; and  
(c) Valuation effect in case of foreign sources.  
4. For detailed notes and data, please refer to Current Statistics Table No: 18(b).

**Sources:** RBI; SEBI; AIFIs; and RBI staff estimates.

Overall non-food bank credit<sup>37</sup> growth (year-over-year) remained largely robust in November (Chart IV.7). Industrial credit growth eased marginally, with credit to large industries remaining stable. Credit growth (y-o-y) in the micro, small, and medium enterprises (MSME) sector continued to be in double digits in November. The credit to the services sector registered double-digit growth (year-over-year), *albeit* at a moderate pace compared to the previous month. Within the services sector, although bank lending to NBFCs eased, segments such as trade remained buoyant. Growth in personal loans softened, driven

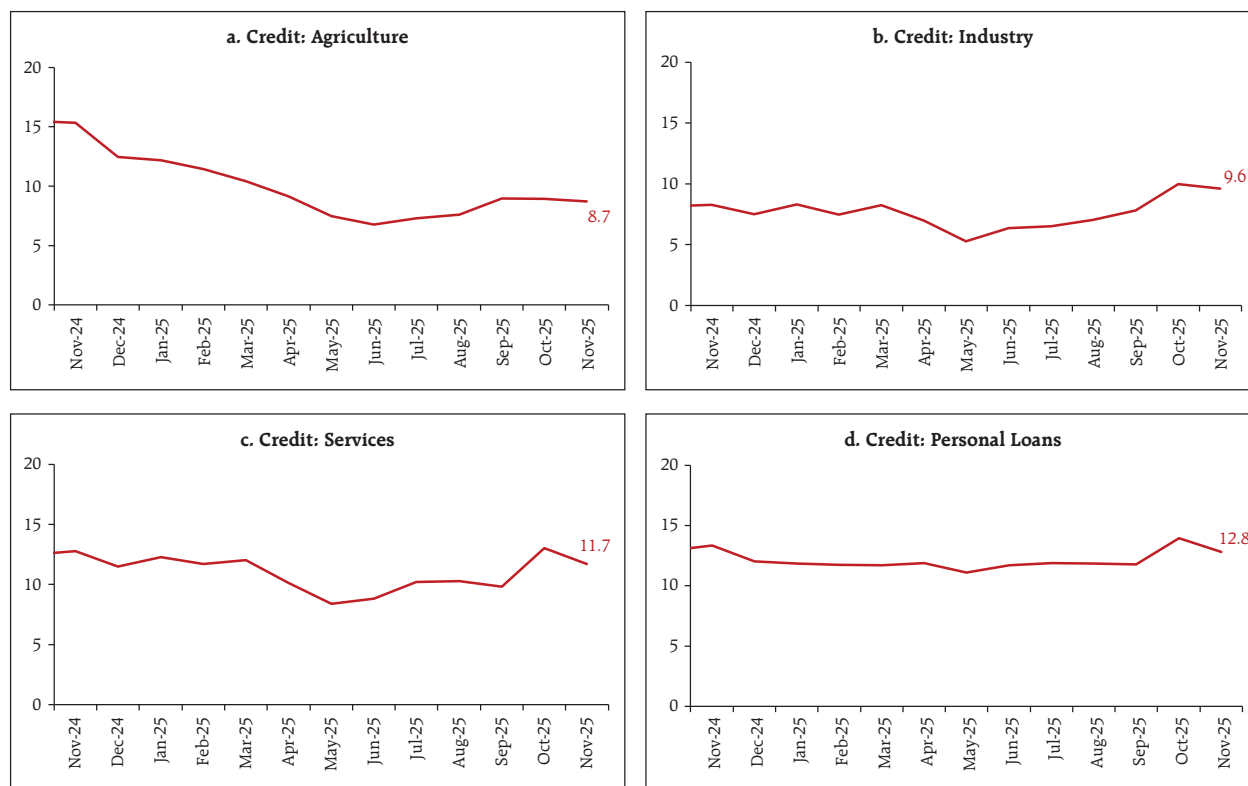
largely by a deceleration in the housing and credit card segments. Vehicle loans, however, continued to witness steady expansion.

### *Deposit and Lending Rates*

In response to the cumulative 100 basis points reduction in the policy repo rate during February–November 2025, banks reduced their repo-linked external benchmark-based lending rates (EBLRs) by the same magnitude. The marginal cost of funds-based lending rate (MCLR) of banks also moderated. The weighted average lending rates on

**Chart IV.7: Bank Credit Remained Largely Robust**

(Y-o-y, per cent)



Source: RBI.

<sup>37</sup> Provisional data. Non-food credit data is based on fortnightly Section-42 return of RBI. 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. The bank groups covered under the SIBC return are – Public Sector Banks, Private Sector Banks, Foreign Banks, and Small Finance Banks. Data includes the impact of the merger of a non-bank with a bank.

**Table IV.3: Transmission to Banks' Deposit and Lending Rates***(basis points)*

Period	Repo Rate	Term Deposit Rates		Lending Rates				
		WADTDR-Fresh Deposits	WADTDR-Outstanding Deposits	EBLR	1-Year MCLR (Median)	WALR - Fresh Rupee Loans		WALR-Outstanding Rupee Loans
						Overall	Interest Rate Effect <sup>#</sup>	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Tightening Period</b> May 2022 to Jan 2025	250	259	206	250	175	182	191	115
<b>Easing Phase</b> Feb 2025 to Nov 2025	-100	-103	-36	-100	-50	-62	-82	-66

<sup>#</sup>: Calculated at January 2025 weights.

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.

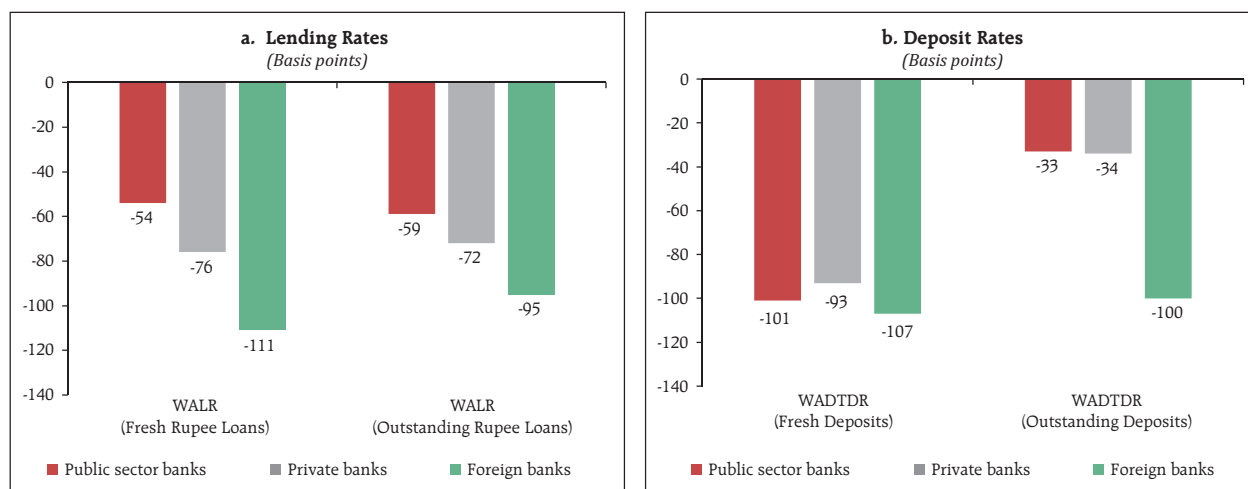
**Note:** Data on EBLR pertain to 32 domestic banks.**Source:** RBI.

both fresh and outstanding rupee loans declined during this period. On the deposit side, banks reduced interest rates on fresh term deposits significantly. The pass-through to the interest rates on outstanding deposits was gradual, reflecting the effect of longer tenor of term deposits at fixed rates (Table IV.3).

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

sector banks (Chart IV.8). On the deposit side, transmission was higher for public sector banks compared to private banks in case of fresh term deposits.

The union government reviewed the interest rates on various small savings instruments, which are linked to secondary market yields on G-secs of comparable maturities and kept them unchanged for Q4:2025-26. The prevailing rates on these instruments exceed their formula-based rates.

**Chart IV.8: Transmission across Bank Groups (February - November 2025)**

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

**Source:** RBI.

### Equity Markets

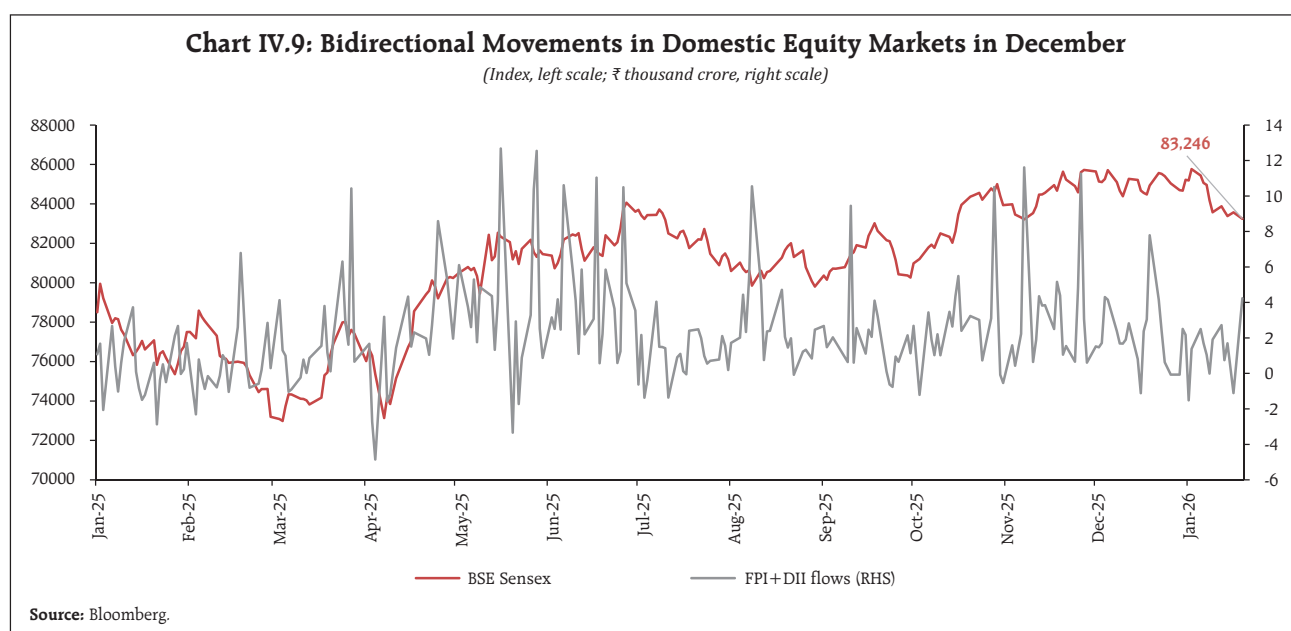
Indian equity markets exhibited bidirectional movements in December 2025 amidst caution surrounding the India-US trade deal and the Rupee's depreciation against the US dollar. Positive global cues, including the US Federal Reserve's policy rate cut, the conclusion of the India-New Zealand free trade agreement, and renewed AI optimism, provided support. The metals sector registered maximum gains due to robust domestic GDP growth, rising global metal prices, and the imposition of a three-year safeguard duty on select steel imports by the Government. Strong buying by domestic institutional investors (DIIs) provided some support to equity markets, amidst persistent selling by foreign portfolio investors (FPIs) (Chart IV.9). In January 2026 (up to the 19<sup>th</sup>), equity markets witnessed renewed downward pressure in the wake of fresh tariff warnings by the US.

### External Sources of Finance

During April-November 2025, foreign direct investment (FDI) remained higher than in the same period last year, both in gross and net terms. Gross

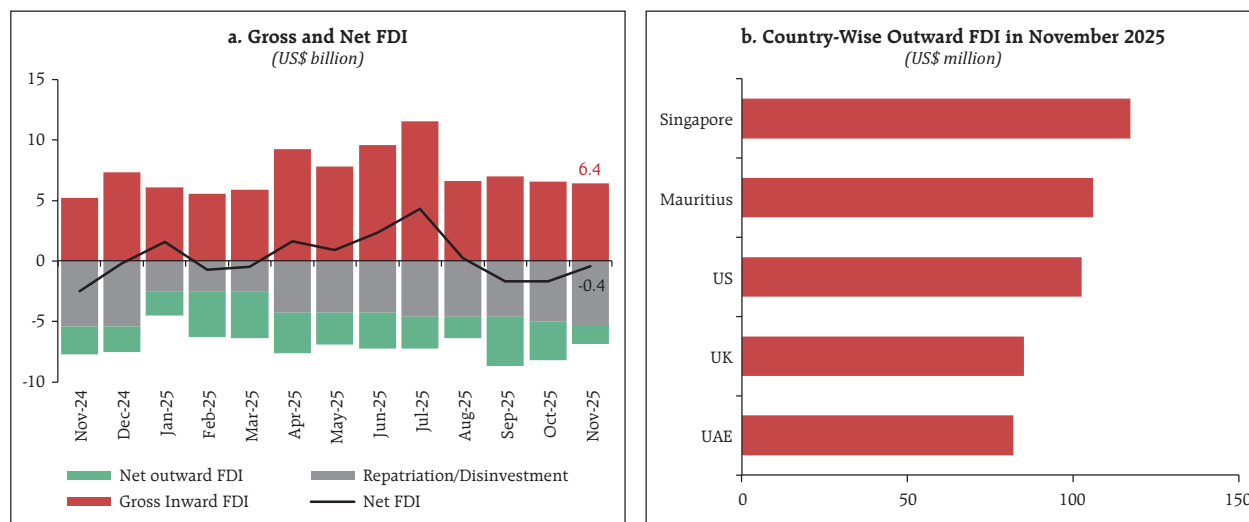
inward FDI remained steady in November with Japan, Singapore, and the US accounting for more than 75 per cent of total FDI inflows. The highest recipients (around 75 per cent) of FDI inflows were the financial services sector, followed by manufacturing, and retail and wholesale trade. However, net FDI remained negative in November for the third consecutive month, mainly due to high repatriation. Outward FDI moderated in November, with Singapore, Mauritius, the US and the UK accounting for more than half of total outward FDI (Chart IV.10). Sector-specific breakdown suggests that more than 70 per cent of outward FDI was in manufacturing, financial, insurance, and business services.

During 2025-26 so far (up to January 16), net FPI registered outflows, driven by the equity segment.<sup>38</sup> The uncertainty surrounding the India-US trade deal and the weakening of the rupee have kept net FPI flows to India muted in recent months (Chart IV.11). After a brief phase of net inflows in October and November, FPIs registered net outflows of US\$4.2 billion in December. Debt flows also turned negative in December after a five-month period.



<sup>38</sup> Net FPI outflows to the tune of US\$ 6.6 billion during 2025-26 so far (up to January 16, 2026).



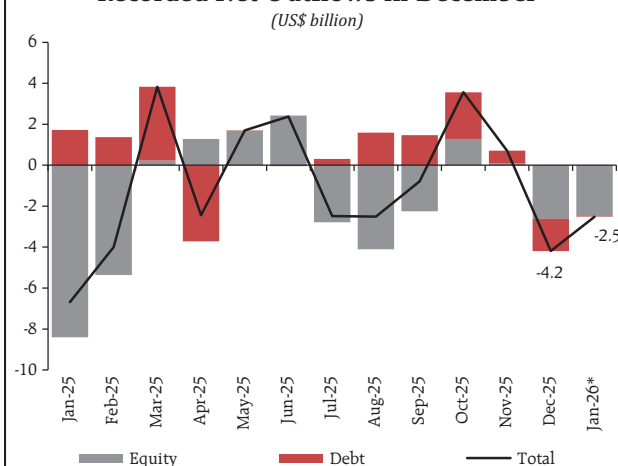
**Chart IV.10: Steady Gross Foreign Direct Investment Inflows**

Source: RBI.

The registrations and net inflows of external commercial borrowings (ECBs) moderated during April-November 2025 compared to the same period a year ago, reflecting a broader slowdown in offshore fundraising activity (Chart IV.12).<sup>39</sup> A significant

portion<sup>40</sup> of the ECB funds was mobilised for capital expenditure purposes.

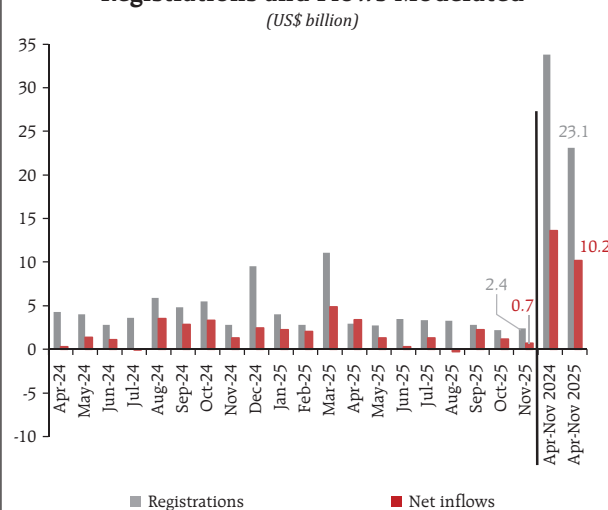
India's external sector continues to be resilient as evident in the latest key external vulnerability indicators as at end-September 2025. Debt service

**Chart IV.11: Foreign Portfolio Investment Recorded Net Outflows in December**

\*: Data up to January 16, 2026.

Note: Debt includes investments under the hybrid instruments.

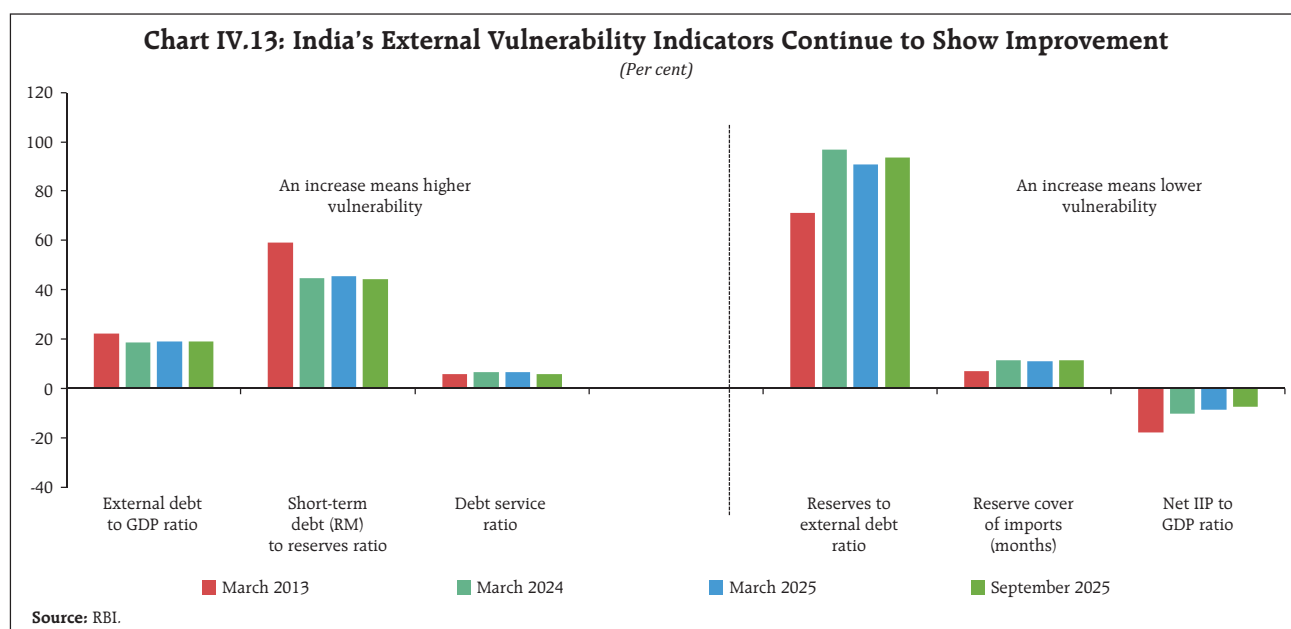
Source: National Securities Depository Limited (NSDL).

**Chart IV.12: External Commercial Borrowings - Registrations and Flows Moderated**

Source: RBI.

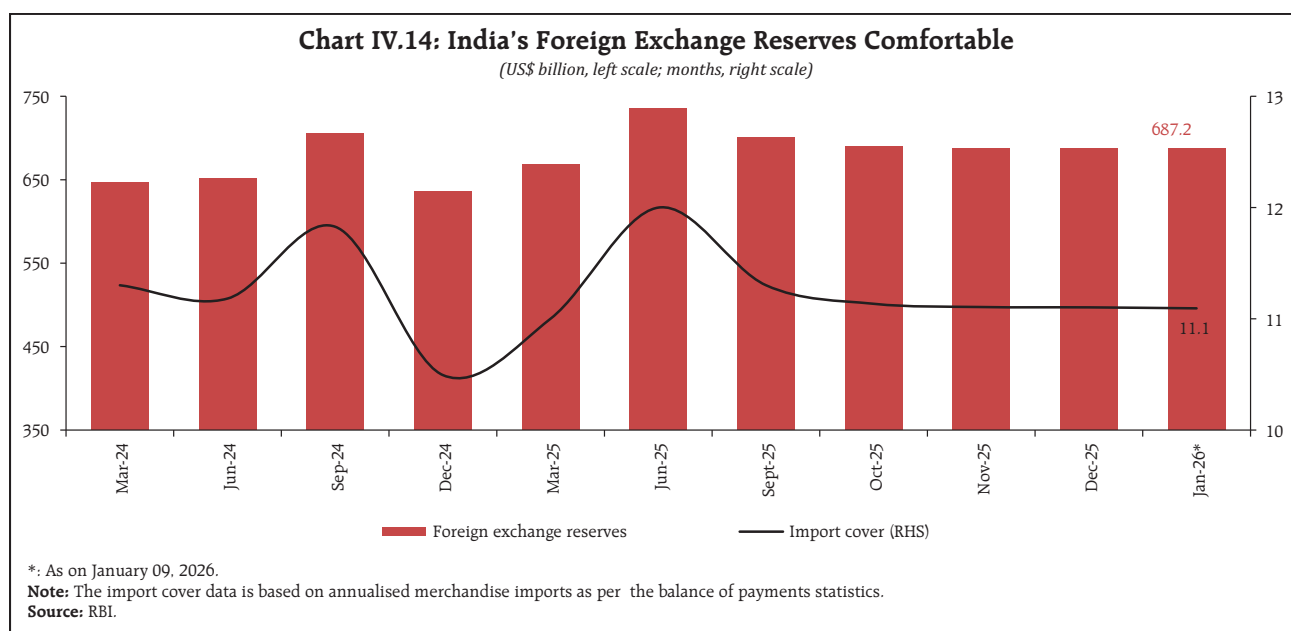
<sup>39</sup> The registrations of external commercial borrowings moderated to US\$ 23.1 billion during April-November 2025, from US\$ 33.8 billion in the corresponding period a year ago.

<sup>40</sup> around 43 per cent.

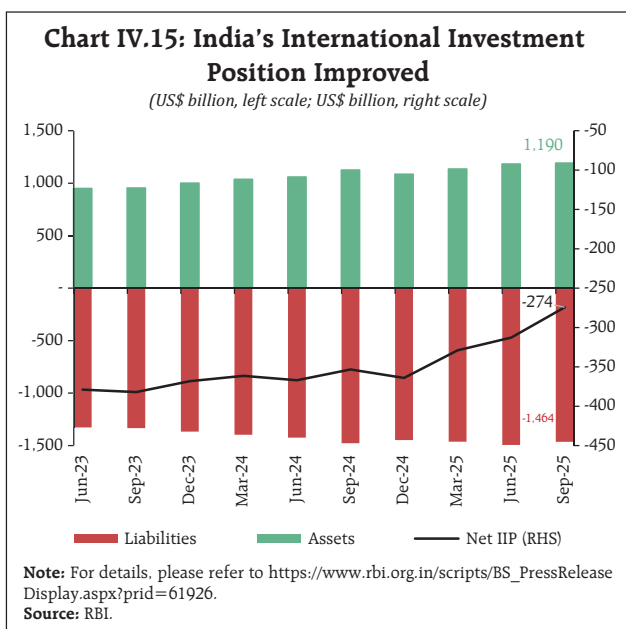


ratio and net international investment position (IIP)-to-GDP ratio improved, and the external debt-to-GDP ratio remained below 20 per cent (Chart IV.13). India's external debt increased by US\$ 9.6 billion to US\$ 746.0 billion at end-September 2025 from end-March 2025, while it declined by US\$ 0.7 billion from US\$ 746.7 billion at end-June 2025.

India's foreign exchange reserves remain comfortable, providing cover for more than 11 months of goods imports and a cover for around 92 per cent of the external debt outstanding (Chart IV.14).<sup>41</sup>



<sup>41</sup> As on January 09, 2026, the import cover for goods and services was around nine months.



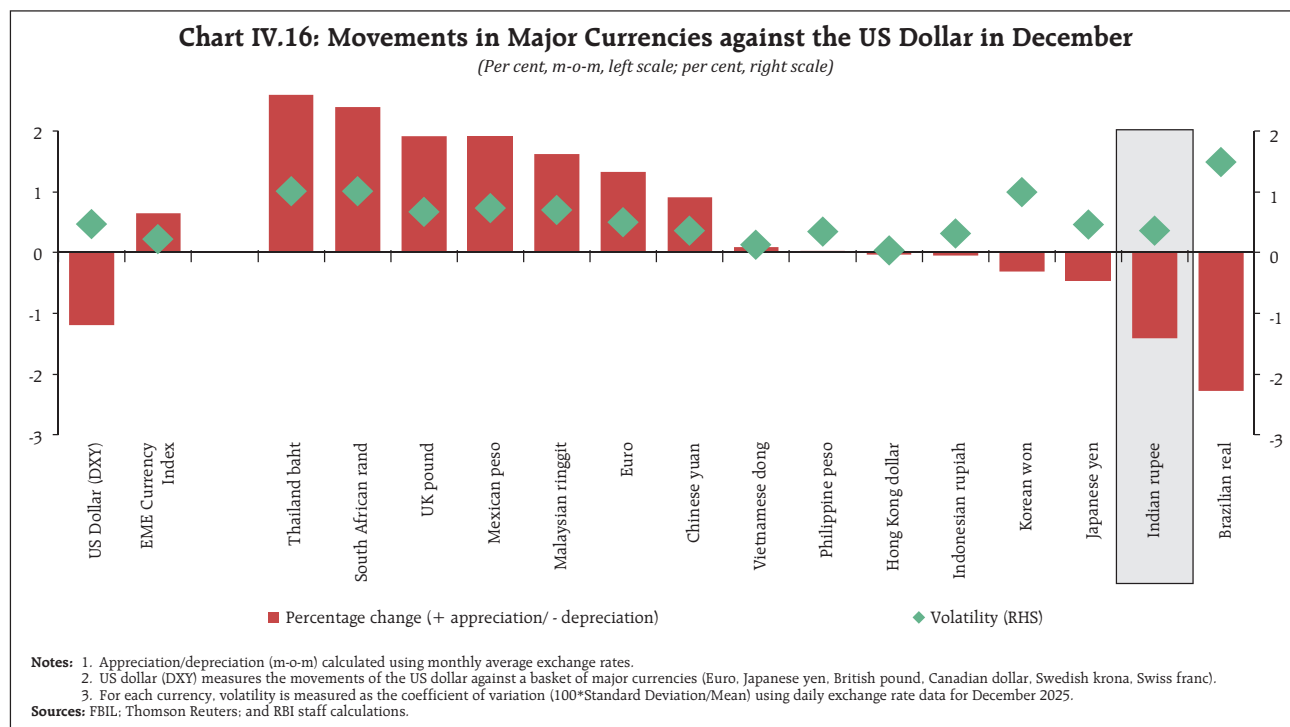
India's net IIP improved during Q2:2025-26 (Chart IV.15).<sup>42</sup> This improvement was driven by the combined impact of decrease in foreign-owned assets

in India and increase in Indian residents' overseas financial assets.<sup>43</sup>

### Foreign Exchange Market

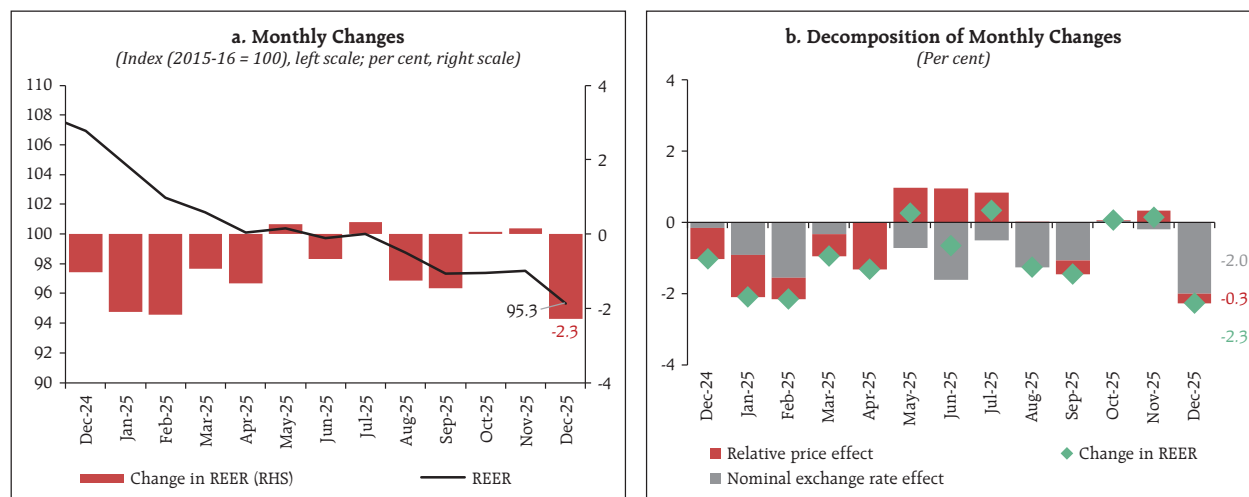
The Indian rupee (INR) depreciated against the US dollar in December, pressured by foreign portfolio outflows and uncertainty surrounding the India-US trade deal (Chart IV.16). The volatility of the INR, as measured by the coefficient of variation, remained relatively lower than that of most major currencies. In January so far (up to 19<sup>th</sup>), the INR depreciated by 1.2 per cent over its end-December level.

In real effective terms, the Indian rupee depreciated in December due to depreciation of INR in nominal effective terms and relatively lower inflation in India vis-à-vis its major trading partners (Chart IV.17).



<sup>42</sup> Improved by US\$ 38.4 billion and stood at US\$ (-) 274.3 billion.

<sup>43</sup> The ratio of India's international assets to its international liabilities improved to 81.3 per cent in September from 79.1 per cent in June.

**Chart IV.17: Movements in the 40-Currency Real Effective Exchange Rate**

**Note:** Positive change indicates an appreciation of nominal and real exchange rate and negative change indicates a depreciation.

**Source:** RBI.

## V. Conclusion

The year 2026 began with an escalation of geopolitical tensions, marked by developments such as the US intervention in Venezuela, the simmering conflict in the Middle East, ambiguity surrounding the Russia–Ukraine peace deal, and escalation of the row over Greenland, all of which point to still-elevated geo-economic risks and policy uncertainty ahead.

Even amidst these global uncertainties, the current state of the economy provides ground for optimism going forward. The GDP growth estimates for 2025-26 indicate that India will remain the fastest-growing major economy in the world. India has made significant efforts to diversify and strengthen its exports, aiming to mitigate external sector risks. The country is currently engaged in trade negotiations with 14 countries or groups, representing nearly 50 nations, including the European Union, Gulf Cooperation Council countries, and the United States.<sup>44</sup> The month of December saw India concluding trade negotiations with New Zealand and Oman. The year 2025 also witnessed major economic reforms, including the rationalisation of tax structures, implementation of labour codes for labour market reforms, and financial

sector deregulation, all of which are expected to strengthen the growth prospects.<sup>45</sup>

The Reserve Bank's Report on Trend and Progress of Banking in India 2024-25 underscored the resilience of the banking system, supported by strong capital buffers, improved asset quality, and robust profitability. Macro stress test results from the latest Financial Stability Report released in December 2025, affirmed the resilience of banks and non-banking financial companies to withstand losses under adverse scenarios and maintain capital buffers well above the regulatory minimum. Going forward, the policy focus on striking a balance between innovation and stability, consumer protection, and a prudent approach to regulation and supervision should help improve productivity and support long-term economic growth.

<sup>44</sup> Other measures to support India's international trade include lowering the cost of export credit, expanding access to finance, and strengthening India's export brand.

<sup>45</sup> Major regulatory measures by the RBI include consolidation of more than 9,000 existing circulars/ guidelines into 244 function-wise master directions, the simplification of FEMA regulations, the rationalisation of ECB rules, and enabling banks to fund corporate acquisitions, among others. In the insurance sector, the FDI limit was raised from 74 per cent to 100 per cent. In capital markets, regulatory compliances were eased for FPIs investing only in Government securities, enabling better access.

## Annex

Table A1: Real GDP Growth

(Y-o-y, per cent)

Components	Share in 2025-26 (Per cent)	Weighted Contribution (in percentage points)		2023-24 (FRE)	2024-25 (PE)	2025-26 (FAE)
		2024-25 (PE)	2025-26 (FAE)			
<b>I. Total Consumption Expenditure</b>	<b>65.2</b>	<b>4.3</b>	<b>4.5</b>	<b>5.9</b>	<b>6.5</b>	<b>6.8</b>
Private	56.3	4.0	4.0	5.6	7.2	7.0
Government	8.9	0.2	0.5	8.1	2.3	5.2
<b>II. Gross Capital Formation</b>	<b>36.7</b>	<b>2.5</b>	<b>2.6</b>	<b>10.5</b>	<b>6.7</b>	<b>7.0</b>
Fixed Investment	33.8	2.4	2.6	8.8	7.1	7.8
<b>III. Net Exports</b>	<b>-2.5</b>	<b>2.3</b>	<b>-1.9</b>	<b>-384.8</b>	<b>71.5</b>	<b>-217.8</b>
Exports	21.4	1.4	1.4	2.2	6.3	6.4
Imports	24.0	-0.9	3.2	13.8	-3.7	14.4
<b>IV. GDP</b>	<b>100.0</b>	<b>6.5</b>	<b>7.4</b>	<b>9.2</b>	<b>6.5</b>	<b>7.4</b>

**Notes:** Components may not add up to total due to other remaining items.

FRE: First revised estimates; PE: Provisional estimates; FAE: First advance estimates.

**Sources:** NSO; and RBI staff calculations.

Table A2: Real GVA Growth

(Y-o-y, per cent)

Sectors	Share in 2025-26 (Per cent)	Weighted Contribution (in percentage points)		2023-24 (FRE)	2024-25 (PE)	2025-26 (FAE)
		2024-25 (PE)	2025-26 (FAE)			
<b>I. Agriculture and allied activities</b>	<b>13.8</b>	<b>0.7</b>	<b>0.4</b>	<b>2.7</b>	<b>4.6</b>	<b>3.1</b>
<b>II. Industry</b>	<b>21.2</b>	<b>1.0</b>	<b>1.2</b>	<b>11.0</b>	<b>4.5</b>	<b>5.8</b>
Mining and quarrying	1.8	0.1	0.0	3.2	2.7	-0.7
Manufacturing	17.1	0.8	1.2	12.3	4.5	7.0
Electricity, gas, water supply and other utility services	2.2	0.1	0.0	8.6	5.9	2.1
<b>III. Services</b>	<b>65.0</b>	<b>4.8</b>	<b>5.7</b>	<b>9.2</b>	<b>7.5</b>	<b>8.8</b>
Construction	9.1	0.8	0.6	10.4	9.4	7.0
Trade, hotels, transport, communication, and services related to broadcasting	18.5	1.1	1.4	7.5	6.1	7.5
Financial, real estate and professional services	24.4	1.7	2.4	10.3	7.2	9.9
Public administration, defence and other services	13.0	1.1	1.3	8.8	8.9	9.9
<b>IV. GVA at basic prices</b>	<b>100.0</b>	<b>6.4</b>	<b>7.3</b>	<b>8.6</b>	<b>6.4</b>	<b>7.3</b>

**Note:** FRE: First revised estimates; PE: Provisional estimates; FAE: First advance estimates.

**Sources:** NSO; and RBI staff calculations.