*State of the Economy**

Global uncertainty has edged up. In the US, both trade and economic policy uncertainty increased in September. Global growth, however, has broadly held up. Investor sentiments dampened in October, on renewed US-China trade tensions and prolonged US government shutdown, after a phase of buoyancy. The Indian economy displayed resilience amidst broader global uncertainty and weak external demand. High-frequency indicators point to a revival in urban demand and robust rural demand. Headline consumer price index (CPI) inflation moderated sharply in September, marking its lowest reading since June 2017.

Introduction

Global uncertainty has edged up. In the US, both trade and economic policy uncertainty increased in September. Despite heightened uncertainties, global growth, aided by transitory factors, broadly held up in H1:2025.[1] Global financial market movements broadly exhibited optimism and buoyancy despite policy uncertainty and geopolitical tensions. In this environment, the IMF's World Economic Outlook of October 2025 revised up its 2025 global growth projection, but it still reflects a deceleration compared to 2024. Further, the risks to the growth outlook remain tilted to the downside.

Global economic activity held up in September. The global composite purchasing managers' index (PMI) expanded in September, driven by growth in output and new business.

Equity markets in major economies, supported by optimism surrounding Big Tech, the US Fed's monetary easing and softer energy prices, gained in September. The month of October, however, ushered in selling pressures as investor sentiments dampened on renewed US-China trade tensions and prolonged US government shutdown. In the bond market, US government bond yields fell, following the Fed's policy rate cut and the escalation of US-China trade tensions. Portfolio flows to major emerging market and developing economies (EMDEs) moderated in September as equity segment witnessed outflows due to country-specific risks amidst challenging external environment.

Commodity prices generally remained subdued. Prices of precious metals, however, strengthened due to safe-haven demand. Crude oil prices moderated, supported by the ceasefire in the Middle East, and forecasts of a supply glut in 2026.[2]

Inflation trends remained divergent across economies, as major advanced economies (AEs) continued to grapple with inflation remaining above target levels, while major EMDEs experienced disinflation. Persisting global uncertainties and their potential spillovers to domestic economies, continued to weigh on central banks' monetary policy decisions.

The Indian economy displayed resilience amidst broader global uncertainty and weak external demand. Despite the external sector headwinds, the International Monetary Fund (IMF), Organisation for Economic Cooperation and Development

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1 These include front-loading of trade flows and consumption, in anticipation of higher US import tariffs.

2 Oil Market Report - October 2025, International Energy Agency.

(OECD) and the World Bank have revised India's growth forecast upwards for the current financial year, underscoring the continued momentum in domestic demand. The high-frequency indicators also pointed to resilient domestic economic activity, with signs of revival in urban demand and robust rural demand. The agricultural sector sustained its growth momentum, supported by above-normal rainfall, and higher *kharif* sowing. Although manufacturing momentum moderated slightly, business confidence in manufacturing and services reached a six-month peak, reflecting higher optimism. According to the surveys of consumer sentiments, consumer confidence for the current period and the year ahead also improved.[3] The capital expenditure of the union government continued to grow at a robust pace. Receipts, however, experienced a slowdown. Merchandise trade deficit widened, on account of an increase in non-oil deficit, to a 13-month high in September.

Headline inflation in September fell sharply to its lowest level since June 2017 and remained below the target for the eighth consecutive month. The deflation in food was the key driver of the softening in headline inflation. Core inflation (CPI excluding food and fuel inflation) edged up, reflecting the combined effect of gold price inflation as well as the significant pick-up in housing inflation.

The Monetary Policy Committee, in its bi-monthly review of October 2025, kept the policy repo rate unchanged at 5.5 per cent and continued with its neutral stance. The maintenance of the *status quo* was based on the consideration that the transmission of past front-loaded policy easing was yet to fully play out, and on the need for greater clarity regarding the evolving macroeconomic situation before taking the next policy step.

Overall domestic financial conditions remained benign in October (up to October 16), after remaining mildly tight in the latter half of September. System liquidity, on average, remained in surplus during this period. The weighted average call rate – the operating target of monetary policy – hovered close to the policy repo rate in September and October. Average yields on treasury bills moderated while those on certificates of deposit and commercial papers hardened. In the fixed income segment, while the short-end of the government securities yields declined, yields at the longer-end remained flat. Corporate bond yields and spreads increased across tenors and the rating spectrum.

Indian equity markets declined in the second half of September as the hike in H-1B visa fees and fresh tariff imposition by the US weighed on investor sentiments. Thereafter, markets gained in early October amidst optimism surrounding the Reserve Bank's regulatory reform measures aimed at strengthening the resilience and competitiveness of the banking sector, improving the flow of credit, promoting ease of doing business, and enhancing consumer satisfaction. The gains were supported by domestic investors who remained net buyers notwithstanding persistent selling by foreign portfolio investors (FPIs) in the secondary market in September. Net FPI flows, however, turned positive in October amidst renewed participation in primary equity market and sustained investments in the debt segment.

The INR witnessed depreciation in September, accompanied by phases of volatility. Key external vulnerability indicators reflect improvement, with the external debt-to-GDP ratio and net international investment position (IIP)-to-GDP ratio strengthening at end-June compared to end-March.

[3] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=23428; https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=23429

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

II. Global Setting

Global uncertainty has edged up. In the US, both trade and economic policy uncertainty increased in September. Despite heightened uncertainties, global growth in H1:2025 broadly held up, supported by front-loaded trade and investment activity ahead of US tariff adjustments. Global growth momentum, going forward, is projected to moderate as temporary boost fades and structural challenges re-emerge.

The IMF's World Economic Outlook of October 2025 retained its projection of a decelerated global growth in 2025 compared to 2024, with the balance of risks tilted to the downside. Global growth projection for 2025 was revised upward by 20 basis points (bps) to 3.2 per cent, relative to the July release, largely reflecting the impact of the H1 growth. Growth projections for the major AEs, including US, UK, Euro area and Japan were revised upwards. Among EMDEs, output growth remained robust, led by India, which continued to benefit from resilient domestic demand.

The OECD's Interim Economic Outlook (September 2025) also revised global growth projections upward by 30 bps to 3.2 per cent for 2025, reflecting resilience in the first half of the year (Table II.1). Echoing IMF's outlook, both OECD and

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

(Y-o-y, per cent)

Organisation	IMF				OECD			
Projection for	**2025**		**2026**		**2025**		**2026**	
Month of Projection	**Oct**	**Jul**	**Oct**	**Jul**	**Sep**	**Jun**	**Sep**	**Jun**
World	**3.2**	**3.0**	**3.1**	**3.1**	**3.2**	**2.9**	**2.9**	**2.9**
Advanced Economies	**1.6**	**1.5**	**1.6**	**1.6**				
US	2.0	1.9	2.1	2.0	1.8	1.6	1.5	1.5
UK	1.3	1.2	1.3	1.4	1.4	1.3	1.0	1.0
Euro Area	1.2	1.0	1.1	1.2	1.2	1.0	1.0	1.2
Japan	1.1	0.7	0.6	0.5	1.1	0.7	0.5	0.4
Emerging Market and Developing Economies	**4.2**	**4.1**	**4.0**	**4.0**				
Russia	0.6	0.9	1.0	1.0	1.0	1.0	0.7	0.7
Emerging and Developing Asia	**5.2**	**5.1**	**4.7**	**4.7**				
India#	6.6	6.4	6.2	6.4	6.7	6.3	6.2	6.4
China	4.8	4.8	4.2	4.2	4.9	4.7	4.4	4.3
Latin America and the Caribbean	**2.4**	**2.2**	**2.3**	**2.4**				
Mexico	1.0	0.2	1.5	1.4	0.8	0.4	1.3	1.1
Brazil	2.4	2.3	1.9	2.1	2.3	2.1	1.7	1.6
Sub-Saharan Africa	**4.1**	**4.0**	**4.4**	**4.3**				
South Africa	1.1	1.0	1.2	1.3	1.1	1.3	1.3	1.4

Note: #: India's data is on a fiscal year basis (April-March).
Sources: IMF, World Economic Outlook, October 2025; and OECD Economic Outlook, September 2025.

World Bank cautioned that the full impact of US tariff measures and lingering policy uncertainty is yet to unfold, posing downside risks to the global outlook.

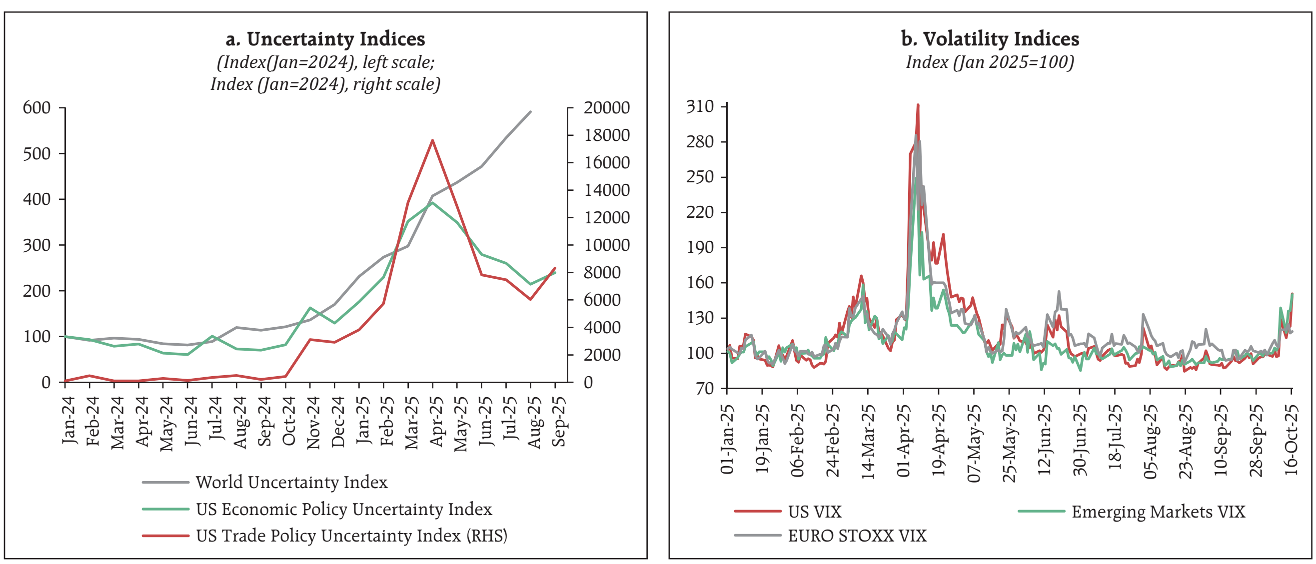
Global uncertainty edged up further in August. The US economic and trade policy uncertainty indices rose in September, amidst heightened political and fiscal concerns surrounding the potential government shutdown.[4] Financial market volatility in the US and major EMDEs remained largely stable in September. However, it increased in October on country specific developments, including political uncertainty in France, government shutdown in the US and renewed trade tensions (Chart II.1a and II.1b).

The global composite PMI, driven by growth in output and new business, expanded in September, though at a slightly slower pace. Both manufacturing and services sectors signalled an expansion, with the services sector continuing to outpace the manufacturing sector. Amidst subdued global demand, new export orders contracted for the sixth consecutive month. While service export orders recorded a modest expansion, manufacturing export orders continued to contract (Table II.2).

Economic activity, as per PMI indices, expanded in major AEs, including the US, the UK, Japan, and the Eurozone in September. Among major EMDEs, economic activity expanded in India and China, while it continued to contract in Brazil and Russia (Chart II.2a). New export orders declined across major economies, reflecting subdued external demand, whereas they recorded an expansion in India and China (Chart II.2b).

Global commodity prices generally remained subdued in September. Gold and metal prices firmed up, whereas food and crude oil prices softened. Food prices eased as decline in sugar, dairy, cereals, and vegetable oil prices more than offset an increase in meat prices (Chart II.3a). Crude oil prices moderated

Chart II.1: Lingering Economic and Trade Policy Uncertainty



Sources: Chicago Board Options Exchange; Bloomberg; www.PolicyUncertainty.com; and World Uncertainty Index (WUI) database.

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

Table II.2: Global Composite PMI Expanded, but Export Orders Remained Weak

	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
PMI Composite	51.9	52.3	52.4	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.5	52.9	52.4
PMI Manufacturing	48.7	49.4	50.1	49.6	50.1	50.6	50.3	49.8	49.5	50.4	49.7	50.9	50.8
PMI Services	52.9	53.1	53.1	53.8	52.2	51.5	52.7	50.8	52	51.8	53.5	53.3	52.8
PMI Export orders	48.5	48.9	49.3	48.7	49.6	49.7	50.1	47.5	48.0	49.1	48.5	48.9	49.6
PMI Export orders: Manufacturing	47.5	48.3	48.6	48.2	49.4	49.6	50.1	47.3	48.0	49.2	48.2	48.7	49.5
PMI Export orders: Services	51.6	50.7	51.3	50.3	50.2	50.2	50.1	48.2	47.9	48.7	49.4	49.3	50.1

50

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

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

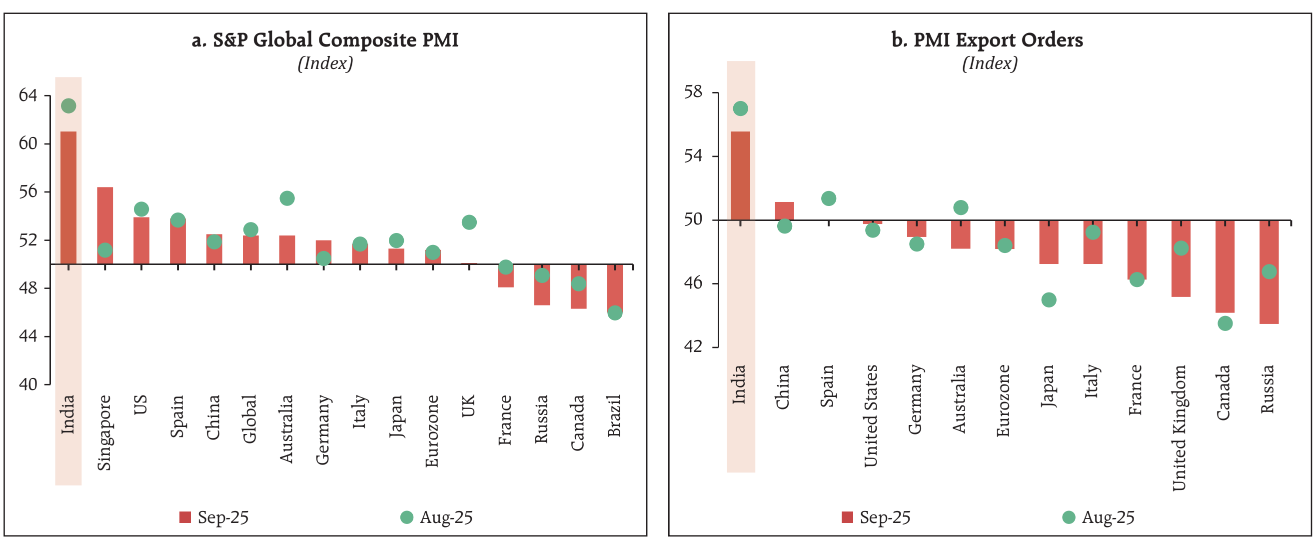
2. The heat map is applied to data from April 2023 to September 2025. The map is colour coded–red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

Source: S&P Global.

in October supported by the ceasefire in the Middle East, and forecasts of a supply glut in 2026[5]. Gold prices firmed on safe-haven demand amidst trade tensions, weak economic data from the Euro area, US fiscal uncertainty and expectations of Fed rate cuts (Chart II.3a and II.3b).

Inflation trends remained divergent across economies, as major AEs continued to grapple with inflation remaining above their target levels, while major EMDEs experienced disinflation. In the US, CPI inflation edged up to its highest level since January 2025, although core inflation remained stable. In

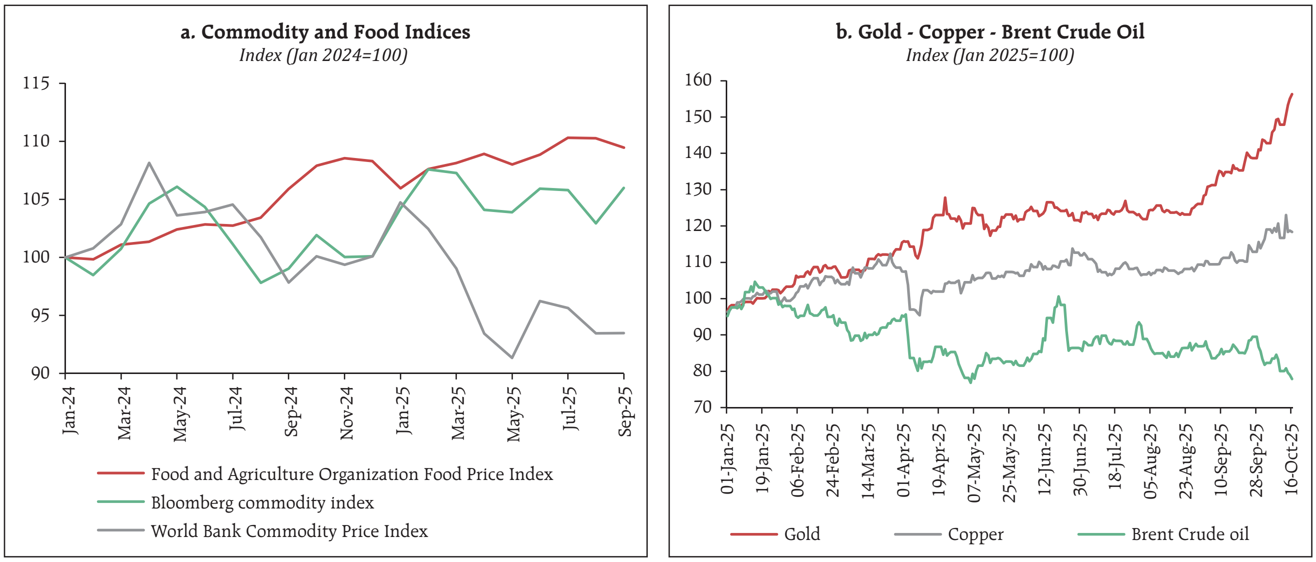
Chart II.2: Purchasing Managers' Index: Comparison across Jurisdictions



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

5 Oil Market Report - October 2025, International Energy Agency.

Chart II.3: Commodity and Food Prices

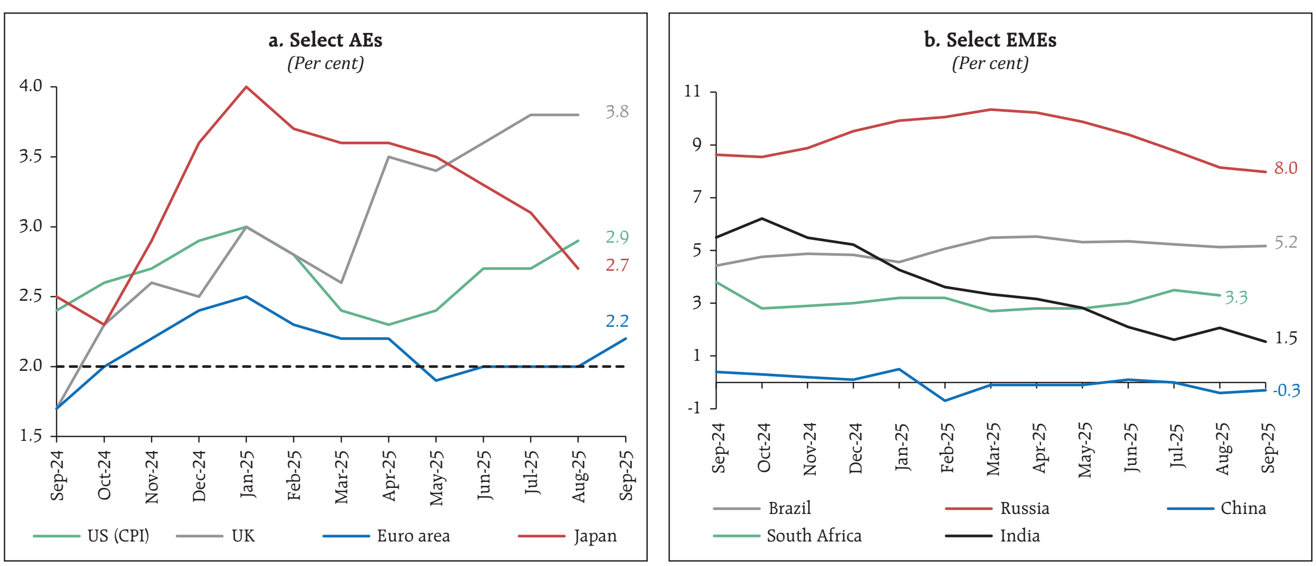


Sources: Food and Agriculture Organization; Bloomberg; and World Bank Pink Sheet.

the Euro area, headline inflation rose in September, driven by higher prices for food and services. The UK recorded its highest inflation rate since January 2024, whereas in Japan, headline inflation eased to its lowest level since November 2024 (Chart II.4a). Among major EMDEs, inflation in Brazil witnessed a modest uptick. China remained in the deflationary zone for the second consecutive month in September. In Russia, inflation, although on a moderating path, remained well above the target. South Africa's inflation eased in August (Chart II.4b).

Equity markets in major economies, particularly in the US, gained in September, supported by optimism surrounding Big Tech, the US Fed's monetary easing, and softer energy prices. The month of October, however, witnessed selling pressures

Chart II.4: Divergent Inflation Trends across Economies



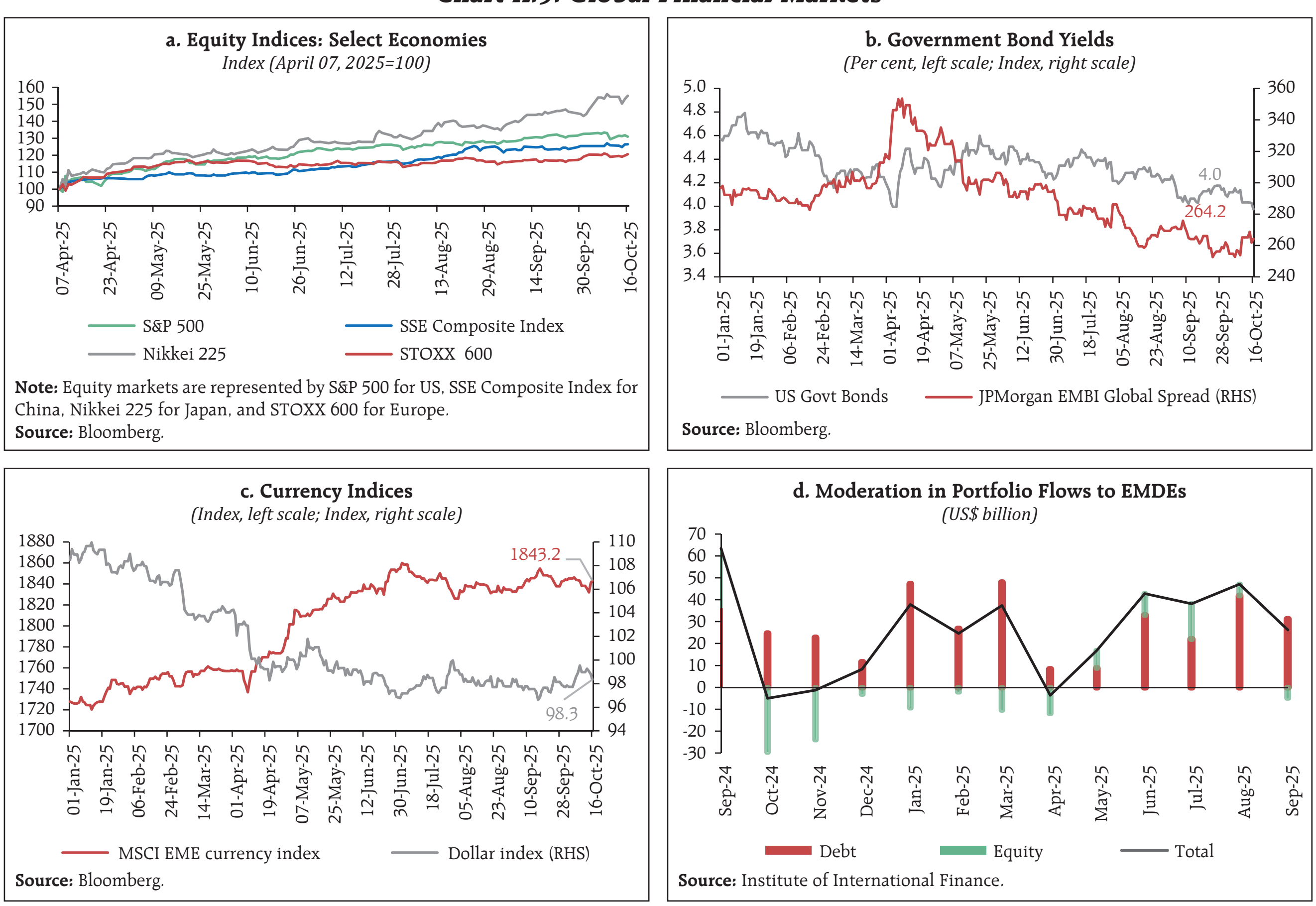
Sources: Bloomberg; and OECD.

as investor sentiments dampened on renewed US-China trade tensions, and prolonged US government shutdown. In the Euro area, equities posted modest gains, supported by the US Fed's monetary easing and sector-specific rallies, although the upside was capped by weak Q2 GDP data and renewed trade tensions. Japanese equities gained on a weaker yen and expectations of prolonged accommodative monetary policy stance, but witnessed selling pressures in October on political uncertainty, renewed trade tensions and a strengthening yen. In China, equity markets remained broadly range-bound as trade uncertainty and soft domestic economic indicators weighed on investor sentiment, offsetting support from government stimulus (Chart II.5a).

In the bond market, US government bond yields fell, following the Fed's rate cut in September. It declined further in October in the wake of escalating US-China trade tensions and the US government shutdown (Chart II.5b). The JP Morgan Emerging Markets Bond Index (EMBI) spread narrowed in September reflecting improved risk appetite as investors exposure to emerging market debt increased amidst expectations of monetary easing in major AEs and favourable domestic inflation conditions in major EMDEs. Renewed fears around trade wars and policy uncertainty in some EMDEs, however, widened the spread in October.

The US dollar index moved range-bound during September-October. It initially weakened on softer labour data and rising Fed rate cut expectations but gained later as investors sought safety amidst US fiscal uncertainty and renewed US-China trade tensions. Emerging market currencies appreciated against US

Chart II.5: Global Financial Markets



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

Source: Bloomberg.

Source: Bloomberg.

Source: Institute of International Finance.

dollar in September, following the Fed's rate cut, but the gains moderated in October on renewed US tariff threats and a prolonged US government shutdown (Chart II.5c). Portfolio flows to EMDEs moderated in September as equity segment witnessed outflows due to country-specific risks amidst challenging external environment (Chart II.5d).

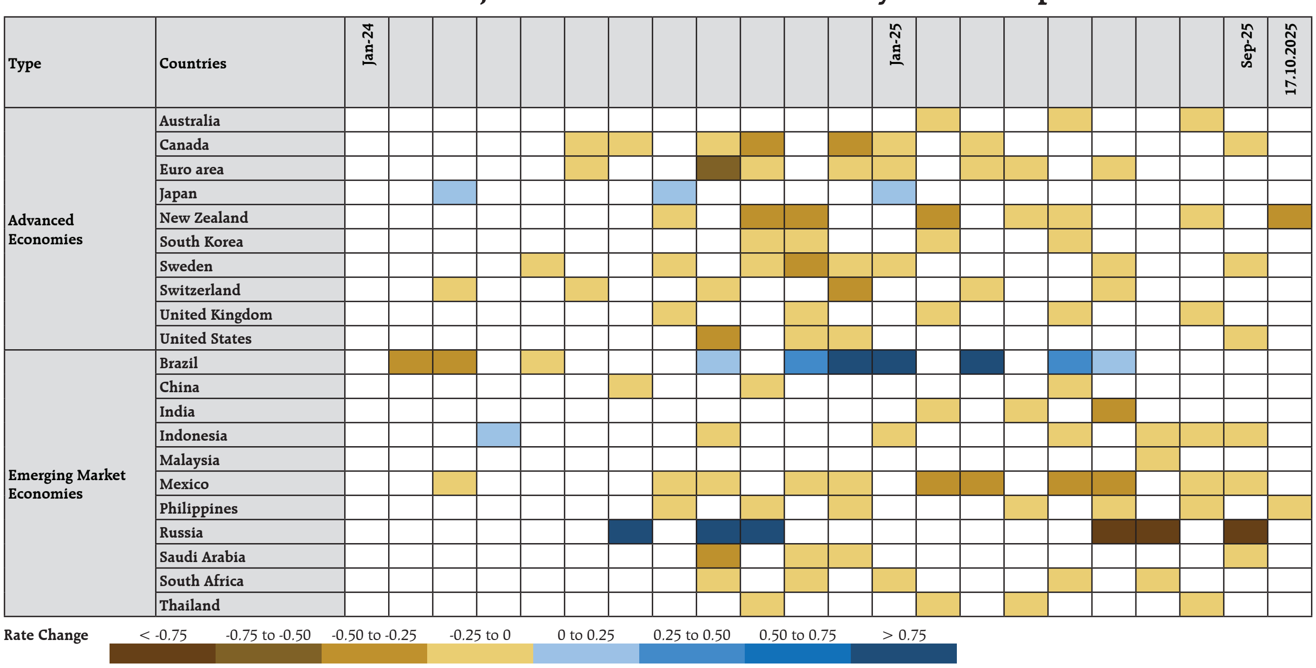
Persisting global uncertainties and their potential spillovers to domestic economies, continued to weigh on central banks' monetary policy decisions. A third of select major central banks surveyed reduced their policy rate in September (Chart II.6). Among major AEs, the US, Canada, and Sweden reduced their policy rates by 25 bps each in September, whereas the Euro area, the UK, and Japan kept their benchmark interest rates unchanged. Among major EMDEs, Indonesia and Russia reduced their policy rates by 25 bps and 100 bps, respectively, in September, while Malaysia, Brazil, South Africa, and China kept their benchmark rates steady. In October, New Zealand reduced its policy rate by 50 bps, Philippines by 25 bps while Thailand kept its policy rate unchanged.

III. Domestic Developments

The Indian economy continued to exhibit resilience amidst an uncertain external environment. Indicators of capacity utilisation and domestic demand signalled improvement. Lead indicators of manufacturing and services continued to show a robust expansion. Inflation remained benign, well below the target rate.

The IMF revised upwards India's GDP growth projections for 2025 by 20 bps to 6.6 per cent.[6] India's growth projection for 2026 was, however, revised downwards, reflecting the medium-term impact of the steep US import tariffs. The OECD also revised upwards India's GDP growth projections for 2025 by 40 bps to 6.7 per cent from the earlier 6.3 per cent underscoring the continued momentum in domestic demand.

Chart II.6: A Third of Major Central Banks Reduced Policy Rates in September



Source: Bloomberg.

6 The World Bank also revised India's growth forecast upwards to 6.5 per cent for the current financial year, from 6.3 per cent earlier, based on South Asia Development Update: Jobs, AI, and Trade.

The Monetary Policy Committee, in its bi-monthly review of October 2025, kept the policy repo rate unchanged at 5.5 per cent and continued with the neutral stance. The maintenance of the *status quo* was based on the consideration that the transmission of past front-loaded policy easing is still ongoing, and on the need for greater clarity regarding the evolving macroeconomic situation before taking the next policy step. The Reserve Bank also announced a slew of regulatory reform measures aimed at strengthening the resilience and competitiveness of the banking sector, improving the flow of credit, promoting ease of doing business, and enhancing consumer satisfaction[7].

Aggregate Demand

The high-frequency indicators for overall economic activity remained robust in September. GST e-way bill generation reached a record high as businesses ramped up inventory ahead of the festive season, buoyed by GST reforms. While electricity demand remained stable, petroleum consumption picked up pace. Digital payments recorded robust double-digit growth (y-o-y) in volume and value (Table III.1). Average daily payments value in September 2025 witnessed the sharpest month-on-month uptick in the FY 2025-26 so far. This could possibly reflect a significant pick-up in festive season demand, aided by the GST rate reductions and offers on e-commerce platforms.

During September, overall demand conditions showed signs of improvement. Rural demand remained strong, as evidenced by the pick-up in growth of two-wheeler and automobile sales, on the back of good monsoon and robust agricultural activity. Urban demand showed some signs of revival with passenger vehicle sales recording their highest growth in six months (Table III.2).[8]

Table III.1: High Frequency Indicators – Robust Economic Activity

	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
GST E-way bills	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4	21.0
GST revenue	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1
Toll collection	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	12.7	4.5
Electricity demand	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.8	3.4
Petroleum consumption	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	0.5	-3.9	2.6	7.0
Of which Petrol	3.0	8.7	9.6	11.1	6.7	5.0	5.7	5.0	9.2	6.8	5.9	5.5	8.0
Diesel	-1.9	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2	6.6
Aviation turbine fuel	10.4	9.4	8.5	8.7	9.4	4.2	5.7	3.9	4.3	3.3	-2.3	-2.9	-0.9
Digital payments-volume	36.3	40.3	30.1	33.1	33	26.7	30.8	30	29.2	28.3	30.9	31.1	25.4
Digital payments-value	21.5	27.5	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.6	5.3	13.6

<<Contraction -- Expansion>>

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

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

[7] The package of twenty-two regulatory measures announced includes simplification of FEMA regulations for non-residents establishing businesses, rationalisation of external commercial borrowing rules, and enabling banks to fund corporate acquisitions, among others. For further details, see https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=61333.

[8] As per the Federation of Automobile Dealers Association (FADA), the overlap of Navratri and GST cuts drove a 35 per cent (y-o-y) surge in passenger vehicle sales.

Table III.2: High Frequency Indicators- Revival of Urban Demand

		Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Urban demand	Domestic air passenger traffic	7.4	9.6	13.8	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.5	-0.5	
	Retail passenger vehicle sales	-18.8	32.4	-13.7	-2.0	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8	0.9	5.8
Rural demand	Retail automobile Sales	-9.3	32.1	11.2	-12.5	6.6	-7.2	-0.7	2.9	5.4	4.8	-4.3	2.8	5.2
	Retail tractor sales	14.7	3.1	29.9	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0	30.1	3.6
	Retail two-wheeler sales	-8.5	36.3	15.8	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5	2.2	6.5

<<Contraction -- Expansion>>

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

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

Various indicators of employment conditions reflected a mixed picture. The all-India unemployment rate inched up marginally to 5.2 per cent after declining during the last two months. Labour force participation rate and worker population ratio increased to their highest level since May, driven by gains in rural areas. PMI employment indices for both manufacturing and services witnessed some deceleration in September but remained in expansion zone. As per the Naukri JobSpeak index, the growth in white-collar job listings accelerated, led by hiring in insurance, real estate and BPO/ITES. Further, the sharp decline in work demand under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) indicated improving rural employment conditions (Table III.3).

During FY 2025-26 (April-August), the key deficit indicators of the union government stood higher,

Table III.3: Robustness in High Frequency Indicators for Employment

Indicator	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Unemployment rate (PLFS: All-India)								5.1	5.6	5.6	5.2	5.1	5.2
Unemployment rate (PLFS: Rural)								4.5	5.1	4.9	4.4	4.3	4.6
Unemployment rate (PLFS:Urban)								6.5	6.9	7.1	7.2	6.7	6.8
Naukri JobSpeak Index	6.0	10.0	2.0	8.7	3.9	4.0	-1.5	8.9	0.3	10.5	6.8	3.4	10.1
PMI employment: manufacturing	52.1	53.3	52.9	53.4	54.8	54.5	53.4	54.2	54.9	55.1	53.3	53.1	52.1
PMI employment: services	53.4	54.3	56.6	55.5	56.3	56.2	52.5	53.9	57.1	55.1	51.4	52.2	51.9
MGNREGA: work demand	-13.4	-7.6	3.9	8.2	14.4	2.8	2.2	-6.5	4.4	4.4	-12.3	-26.1	-27.0

<<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 index.
3. The heatmap is applied to data from April 2023 to September 2025.
4. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series.
5. All PMI values are reported in index form. A PMI value >50 denotes expansion, <50 denotes contraction and =50 denotes 'no change'. In the PMI heatmaps, red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

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

as compared to the corresponding period of the previous year (Chart III.1a).[9] This was mainly due to a higher growth in total expenditure, especially capital expenditure, coupled with a decline in tax revenue receipts. The direct tax collections shrank marginally due to a decline in income tax collections.[10] The growth in indirect tax collections also witnessed a slowdown owing to a moderation in the growth of GST collections, and a contraction in customs duty collections.[11]

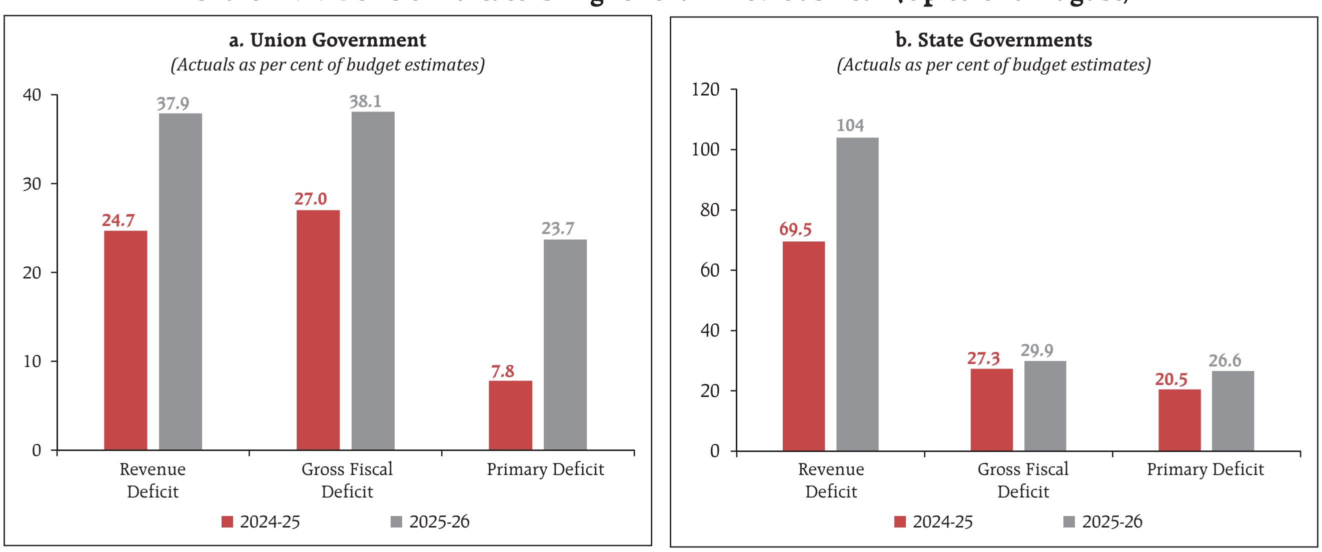
Key deficit indicators of states during April-August 2025 were also higher than the same period last year (Chart III.1b). This was largely due to a moderation in the growth of states' GST collections and sales tax/VAT. Growth in revenue expenditure decelerated slightly, while capital expenditure rebounded.

Trade

As India's economy remains majorly powered by domestic sources, high US tariffs on India's exports do not pose a major concern for the overall growth. Despite turbulence in the external sector, India's merchandise trade during H1:2025-26 remained resilient. During H1, the merchandise trade deficit was higher than that of last year, primarily driven by oil and electronic goods. Exports to the US, which had been buoyant up to August, contracted thereafter, partly reflecting the impact of the 50 per cent tariffs.

More recently, on September 25th, the US announced 100 per cent tariff on the pharma sector effective from October 1, 2025. This tariff will be applicable on branded or patented pharmaceutical products, except on companies building their manufacturing plants in the US. For India, US is the largest export destination for pharmaceutical products.[12] Out of the total pharma exports from India to the US, generic medicines constitute the most.[13] Hence, majority of India's pharmaceutical exports to the US is expected to remain shielded from the tariff impact.

Chart III.1: Deficit Indicators Higher than Previous Year (Up to end-August)



Note: In Chart b, data pertains to 25 States/UTs.
Sources: Controller General of Accounts; and Comptroller and Auditor General of India.

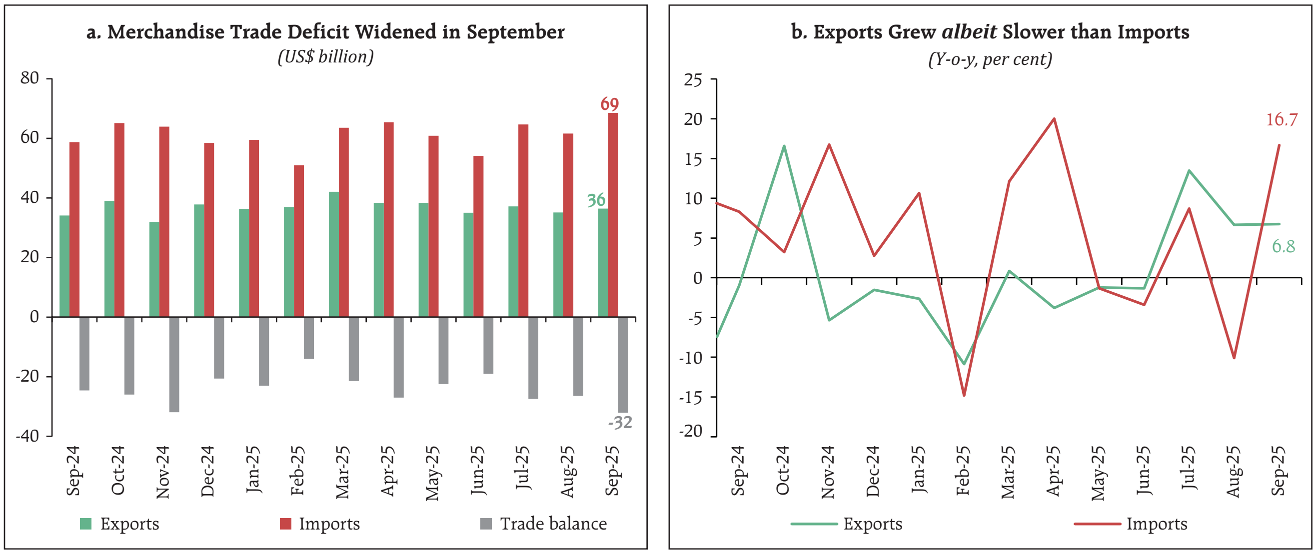
9 As per the latest data released by the Controller General of Accounts (CGA).

10 The direct tax collections declined by 0.9 per cent in April-August 2025-26 compared to the corresponding period of 2024-25. The income tax contracted by 2.5 per cent, while corporate taxes recorded a modest growth of 2.1 per cent.

11 The growth in indirect tax collection stood lower at 2.7 per cent during April-August 2025-26 than that of 9.4 per cent in the corresponding period of the previous year. The growth in GST collections and custom duty stood at 5.0 per cent and -11.9 per cent, respectively, during the same period.

12 Share of the US in India's total pharmaceutical exports stood at 34.5 per cent in 2024-25.

Chart III.2: India's Merchandise Trade



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

In September, merchandise trade deficit widened to 13-month high of US$ 32.1 billion from US$ 24.7 billion in September 2024 on account of the increasing non-oil deficit (Chart III.2a).[14] While merchandise exports expanded at a moderate pace, merchandise imports surged in September (Chart III.2b).[15]

Services trade continued to remain favourable in August 2025. The net services export earnings expanded by 12.2 per cent (y-o-y) to US$ 15.6 billion. Services exports growth decelerated in August, reflecting moderation in business services and software services exports. Services imports contracted primarily due to a fall in imports of transportation services (Chart III.3).

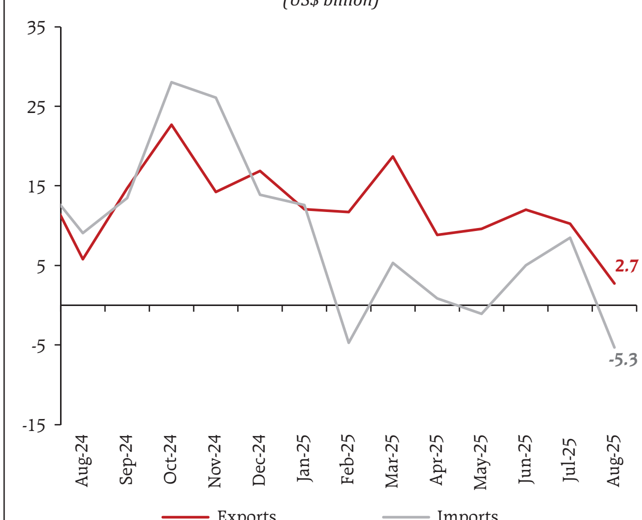
Aggregate Supply

Agriculture

Southwest monsoon rainfall at the all-India level stood 8 per cent above normal (Chart III.4a).[16] While

Chart III.3: Services Exports Record Moderating Growth

(US$ billion)



Source: RBI.

[13] Generic medicines are mostly accounted for in drug formulations and the biological category, which constituted around 92 per cent of total pharma exports to the US in 2024-25.

[14] The non-oil deficit increased to US$23.1 billion in September 2025, compared to US$14.1 billion a year ago due to a rise in gold deficit. The share of non-oil deficit in total deficit increased to 71.8 per cent from 57.0 per cent a year ago.

[15] Merchandise exports stood at US$36.4 billion in September [growth of 6.8 per cent (y-o-y)]. Electronic goods, petroleum products, engineering goods, rice, and marine products performed well while tobacco, plastic and linoleum, and textile products contributed negatively to exports. Merchandise imports stood at US$68.5 billion in September [growth of 16.7 per cent (y-o-y)]. Gold, fertilisers (crude and manufactured), electronic goods, silver, and vegetable oil were the major drivers contributing to the increase in import growth during the month. Petroleum, crude and products; coal, coke and briquettes; pulses, iron and steel, and organic and inorganic chemicals dragged imports down.

[16] Further, the cumulative post-monsoon rainfall (October 01-16) has been 23 per cent above the normal as compared to 3 per cent below the normal during corresponding period of the previous year.

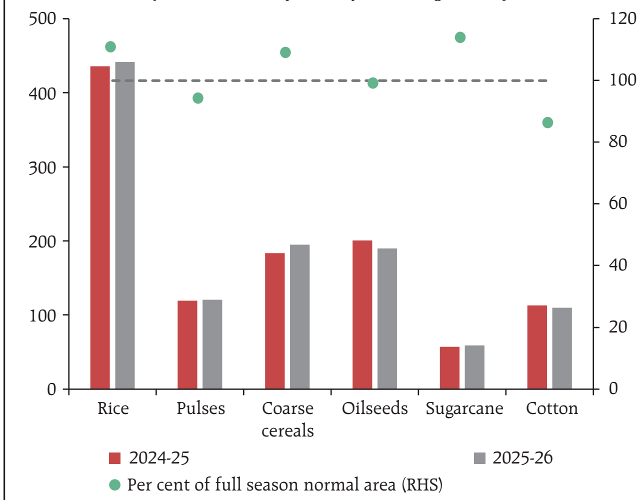
the excessive rains towards the end of the season have increased the possibility of damage for *kharif* crops, adequate soil moisture and record high reservoir levels augur well for the upcoming *rabi* season (Chart III.4b).

Aided by good southwest monsoon, the overall acreage under the *kharif* season surpassed the previous year's levels (Chart III.5).[17] Rice, maize, pulses, and sugarcane saw an increase in sown area, while the area under oilseeds and cotton declined.

The combined stock of rice and wheat with the government remains comfortable due to strong procurement operations.[18] The increase in minimum support prices (MSP) for the *rabi* marketing season (April 2026 to March 2027), announced on October 01, seeks to ensure remunerative prices to farmers while incentivising crop diversification (Chart III.6).[19]

Chart III.5: Increased *Kharif* Sown Area

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

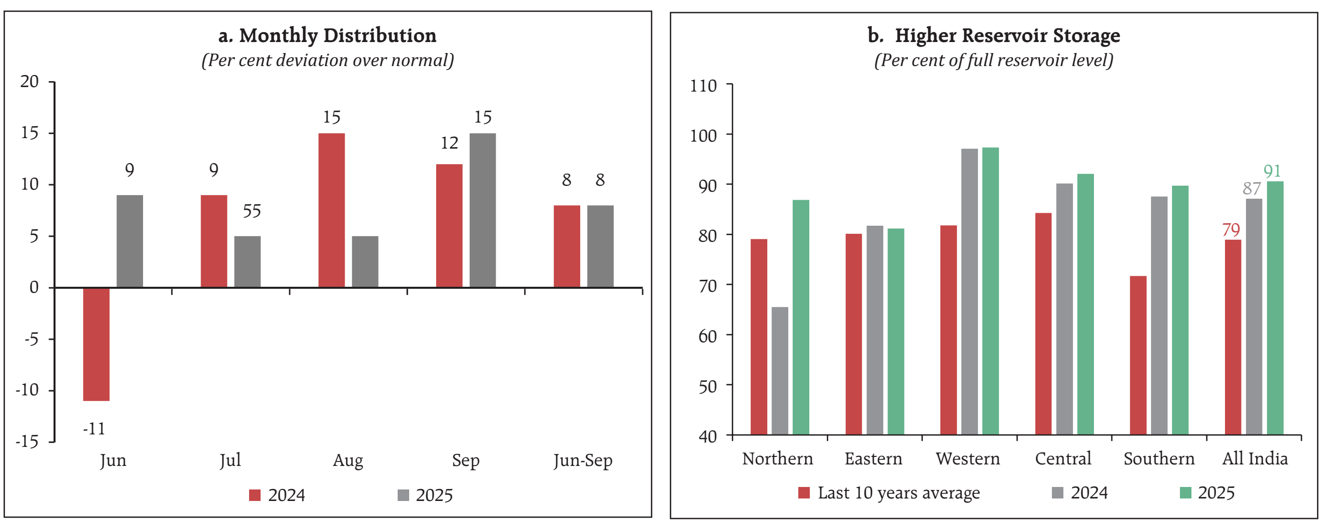


Notes: 1. Data is as on October 03.
2. Horizontal line denotes the full season normal area for crops.
Source: Ministry of Agriculture and Farmers' Welfare.

Industry

In August, growth in industrial activity, as measured by the year-on-year change in the Index of Industrial Production (IIP), moderated from the

Chart III.4: Southwest Monsoon Rainfall Ends Above Normal



Note: 1. While the actual end date of the southwest monsoon may vary slightly, the India Meteorological Department assumes September 30 as the official end date.
2. Reservoir levels as on October 16, 2025.
Sources: India Meteorological Department and Central Water Commission.

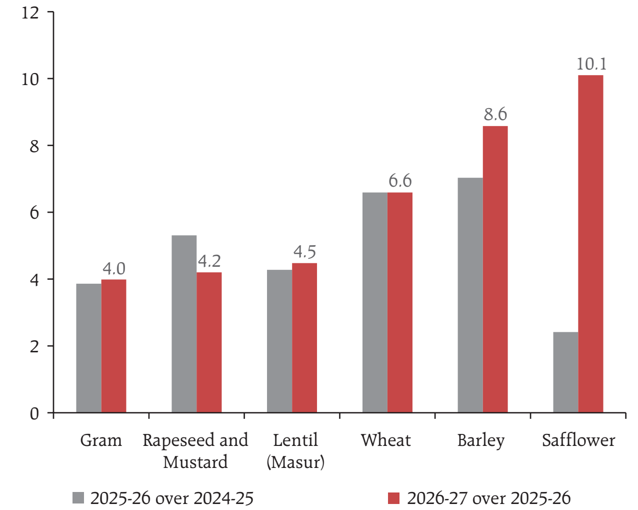
[17] As on October 03 2025, the overall *kharif* acreage stood at 1121.5 lakh hectares, 0.6 per cent higher over the previous year and 2.3 per cent over the full season normal acreage.

[18] As on October 01, 2025, public stock was 2.5 times the buffer norm. As of October 15, 2025, the cumulative procurement of paddy stood at 64.9 lakh tonnes against 29.4 lakh tonnes on the corresponding date of the previous year.

[19] The minimum support prices (MSP) for the rabi marketing season (April 2026 to March 2027), announced on October 01, 2025, have been increased in the range of 4.0 per cent (for Gram) to 10.1 per cent (for Safflower).

Chart III.6: MSP Increased for *Rabi* Crops for Marketing Season 2026-27

(Y-o-y, per cent)



Source: Ministry of Agriculture and Farmers' Welfare.

previous month following a deceleration in the manufacturing sector growth.

The available high-frequency indicators for September suggest robust manufacturing activity. Business expectations under the PMI manufacturing index jumped to a seven-month high, driven by optimism surrounding the GST reforms. Crude and finished steel output growth accelerated, reflecting renewed momentum in infrastructure and construction activity. Automobile production recorded double-digit growth in September, led by the passenger vehicles segment. Stable domestic demand, coupled with a sharp rise in exports sustained the sector's strong momentum. Going forward, festive demand impulse and the GST rate cut are expected to further boost production and enhance affordability (Table III.4).

Over time, there has been a consistent increase in the share of renewable capacity in the total

Table III.4: High Frequency Indicators for Industry Showed Robust Growth

Indicator	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
IIP headline	3.2	3.7	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.0	
IIP manufacturing	4.0	4.4	5.5	3.7	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	
IIP capital goods	3.5	2.9	8.9	10.5	10.2	8.2	3.6	14.0	13.3	3.0	6.8	4.4	
PMI manufacturing	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7
PMI export order	52.9	53.6	54.6	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3	56.1	56.5
PMI manufacturing: future output	61.6	62.1	65.5	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6	60.5	64.8
Eight Core Index	2.4	3.8	5.8	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.3	
Electricity generation: conventional	-1.3	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0	0.7
Electricity generation: renewable	12.5	14.9	19.0	17.9	31.9	12.2	25.2	28.0	18.2	28.7	26.4	22.7	
Automobile production	10.1	10.0	8.0	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7	8.1	10.8
Passenger vehicle production	-3.4	-4.0	6.5	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1	-4.1	16.1
Tractor production	2.7	0.4	24.7	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5	9.4	23.0
Two-wheelers production	12.9	13.3	8.8	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3	10.0	9.8
Three-wheelers production	3.9	-6.7	-5.5	7.6	16.2	6.5	6.0	4.1	16.9	8.6	24.0	15.8	15.9
Crude steel production	0.3	4.2	4.5	8.3	7.4	6.0	8.5	9.3	11.0	12.6	13.8	12.7	15.0
Finished steel production	0.7	4.0	2.8	5.3	6.7	6.7	10.0	6.6	7.0	10.9	13.8	13.8	14.7
Imports of capital goods	10.9	7.0	4.7	6.1	15.5	-0.5	8.6	24.6	15.7	3.4	12.0	-1.4	10.1

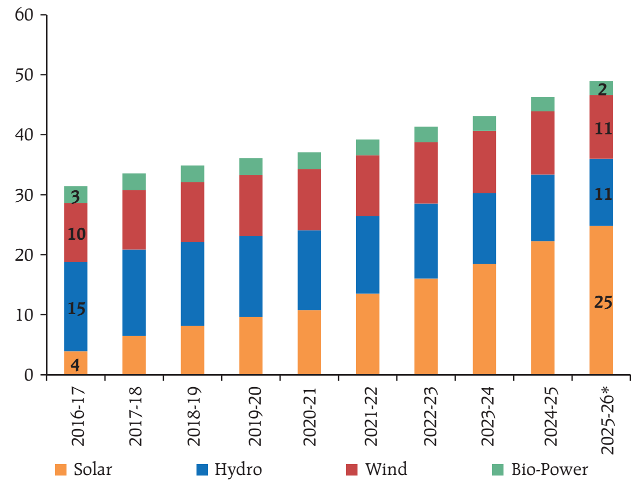
<<Contraction -- Expansion>>

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

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

Chart III.7: Renewable Capacity Additions Remain Robust

(As a percentage of total installed capacity)



Note: *As at end- August 2025.
Source: Central Electricity Authority.

installed capacity, particularly of solar energy (Chart III.7)[20]. India's clean energy transition gained momentum in September. India launched its first National Geothermal Energy Policy[21], representing a major diversification of its renewable energy portfolio to complement the intermittency of solar and wind power. Fiscal policy also became more supportive of the green transition with reduction in GST on key renewable energy components.[22] This would make clean power more affordable and also increase competitiveness of India-made renewable energy equipment.

Services

India's services sector activity showed resilience in September. PMI services continued to show strong expansion in business activity. Growth in port traffic accelerated, led by an uptick in containerised cargo and coal while, retail commercial vehicles sales remained steady. Growth in steel consumption remained stable (Table III.5).

Table III.5: High Frequency Indicators for Services Showed Resilience

Indicator	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
PMI services	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9
International air passenger traffic	11.2	10.3	10.7	9.0	11.1	7.7	6.8	13.0	5.0	3.4	5.5	7.7	
Domestic air cargo	14.0	8.9	0.3	4.3	6.9	-2.5	4.9	16.6	2.3	2.6	4.8	7.1	
International air cargo	20.5	18.4	16.1	10.5	7.1	-6.3	3.3	8.6	6.8	-1.2	4.2	4.5	
Port cargo traffic	5.8	-3.4	-5.0	3.4	7.6	3.6	13.3	7.0	4.3	5.6	4.0	2.5	11.5
Retail commercial vehicle sales	-10.4	6.4	-6.1	-5.2	8.2	-8.6	2.7	-1.0	-3.7	6.6	0.2	8.6	2.7
Hotel occupancy	2.1	-5.3	11.1	-0.2	1.2	0.6	1.9	7.2	-2.8	-0.3	-2.4	-3.1	
Steel consumption	11.2	8.1	9.5	5.2	10.9	10.9	13.6	6.0	8.1	9.3	7.3	10.0	9.1
Cement production	7.6	3.1	13.1	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	6.1	

<<Contraction -- Expansion>>

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

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

[20] As of August 2025, the country has added roughly 33 GW of new renewable capacity since January 2025. The cumulative installed renewable capacity now exceeds 240 GW, bringing India closer to its 500 GW non-fossil-fuel target by 2030.

[21] https://www.pib.gov.in/PressReleasePage.aspx?PRID=2167657

[22] GST on key renewable energy components were reduced from 12 per cent to 5 per cent.

Inflation

Headline CPI inflation moderated sharply to 1.5 per cent in September from 2.1 per cent in August, marking the lowest year-on-year rate since June 2017 (Chart III.8)[23]. The decline in headline inflation was primarily due to food and beverages group moving back into deflation territory.

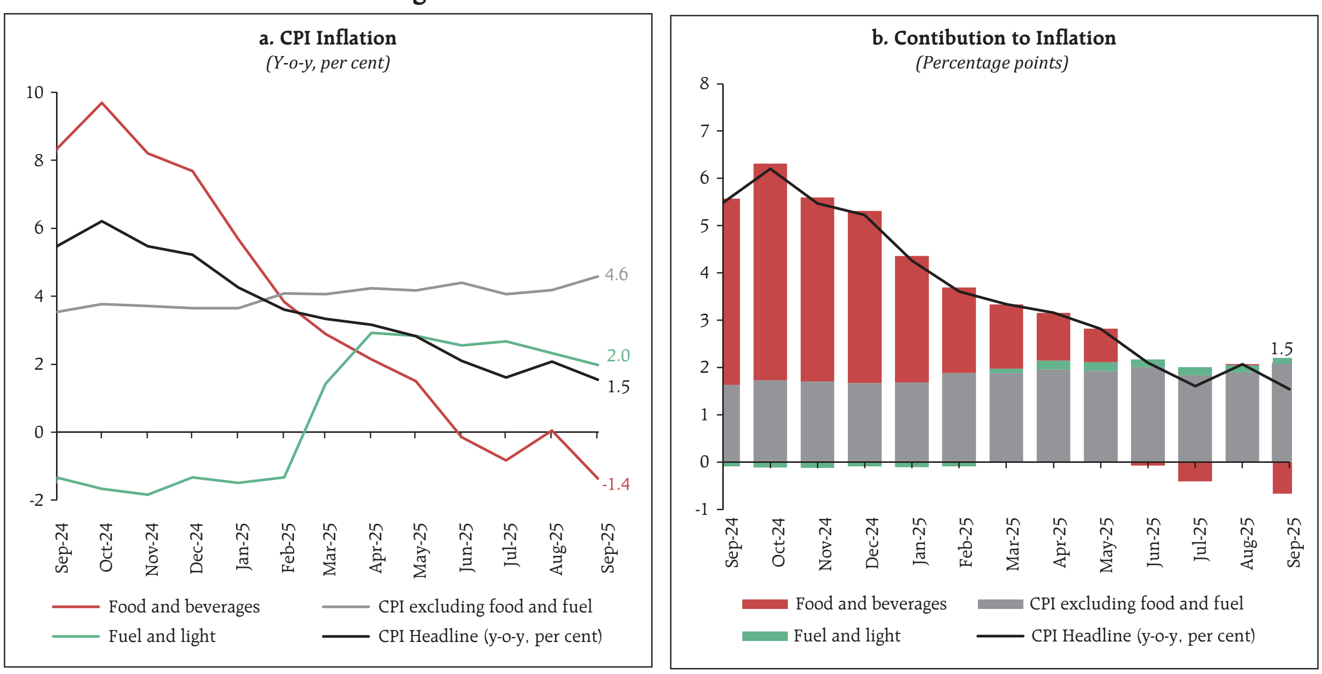
The deflation in the food group placed at 1.4 per cent, was on account of a decline in the prices of vegetables, pulses and spices. Inflation in sub-groups such as cereals, eggs, oils and fats, fruits, milk, prepared meals, and non-alcoholic beverages moderated. Meat and fish, and sugar, however, witnessed an increase in inflation (Chart III.9).

Fuel and light inflation moderated in September driven by a decline in electricity prices while inflation continued to remain elevated for LPG.

Core (*i.e.*, CPI excluding food and fuel) inflation edged up to 4.6 per cent in September from 4.2 per cent in August, driven by 'personal care and effects' sub-group, on account of rising gold and silver prices. Core inflation excluding gold and silver also picked up to 3.2 per cent from 3.0 per cent led by increased inflation in housing and 'pan, tobacco and intoxicants'. Footwear, health, education, transport and communication, and recreation and amusement sub-groups recorded a moderation in inflation.

Inflation in both rural and urban areas eased to 1.1 per cent and 2.0 per cent, respectively, in September. While the state level inflation ranged from (-) 1.0 per cent to 9.1 per cent. Majority of states recorded inflation below 2 per cent. A broad-based moderation in state-level inflation rates was observed, as inflation declined or remained stable in 26 states/UTs (Chart III.10).

Chart III.8: Easing Food Inflation Drove the Decline in Headline Inflation

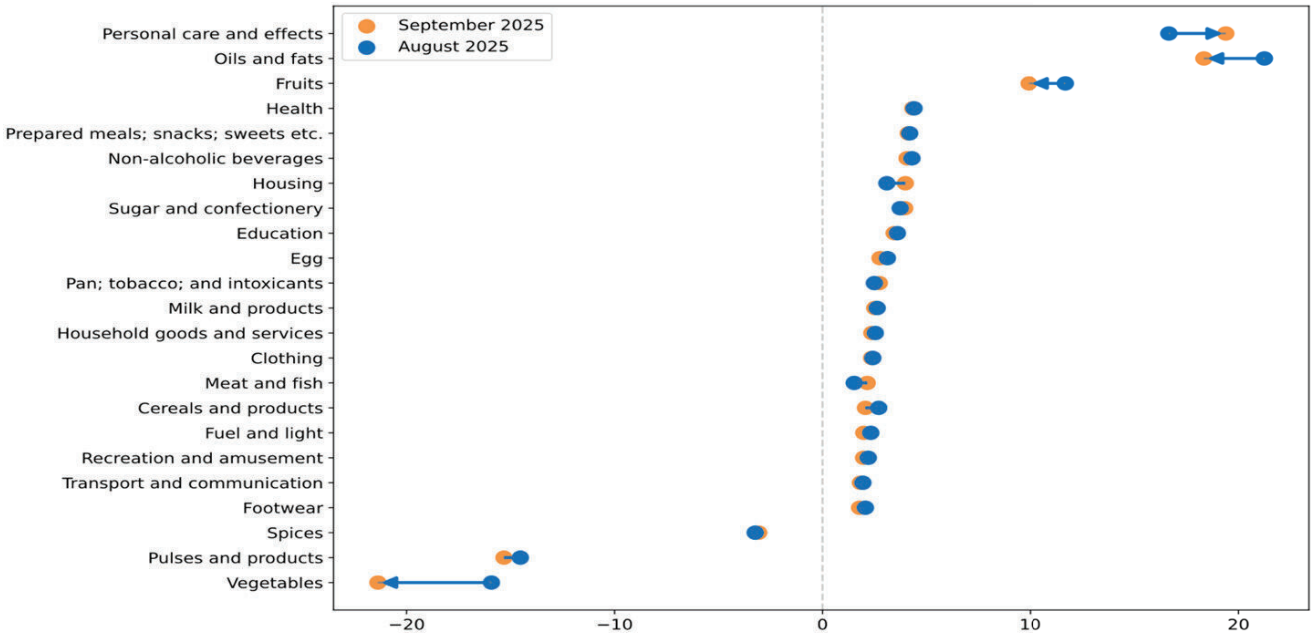


Sources: National Statistics Office (NSO); and RBI staff estimates.

[23] The decline in headline inflation by about 50 basis points (bps) came entirely on account of favourable (negative) base effects which offset a positive momentum of 10 bps.

Chart III.9: Key Drivers of the Decline in Inflation: Vegetables, and Oils and Fats

(Y-o-y, Per cent)

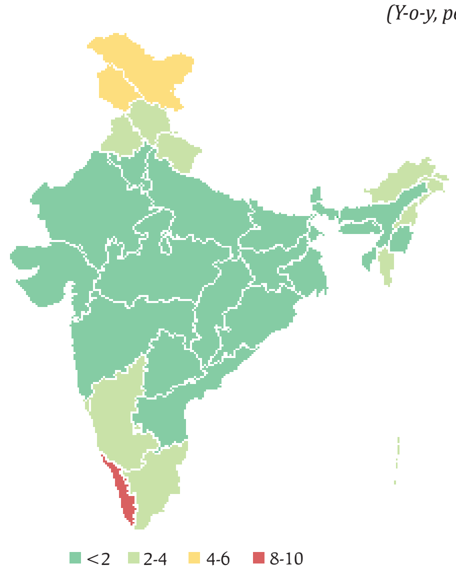


Sources: NSO; and RBI staff estimates.

High-frequency food price data for October so far (up to 17th) point towards a pick-up in cereal prices. Among pulses, prices moderated for gram dal, *tur/arhar* dal and moong dal. Within edible oils, prices firmed up for mustard oil, sunflower oil and palm oil while groundnut oil prices eased. Key vegetable (tomato, onion, and potato) prices softened, with the decline being most pronounced for tomatoes (Chart III.11).

Chart III.10: Broad-based Moderation in State-level CPI Inflation

(Y-o-y, per cent)



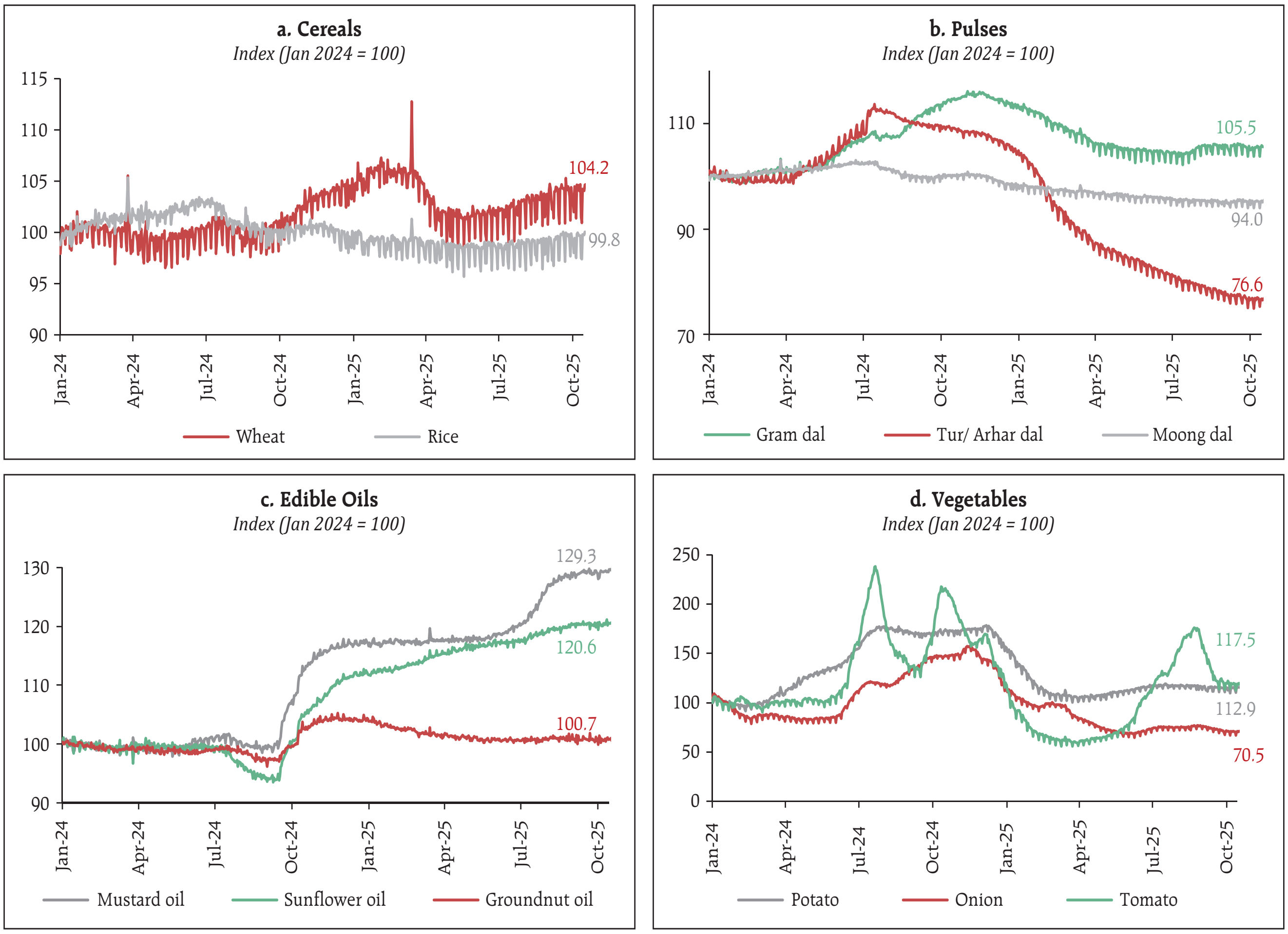
Inflation Range	Number of States/UTs
<2	21
2-4	12
4-6	2
6-8	0
8-10	2*

Inflation Trend	Number of States/UTs
Decline or Stable	26
Increase	11

Notes: 1. Map is for illustrative purposes only.
2. *: Lakshadweep and Kerala have experienced inflation at 8-10 per cent.

Sources: NSO; and RBI Staff estimates.

Chart III.11: DCA Essential Commodity Prices



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

Retail selling prices of petrol and diesel remained unchanged in October (up to 17th). Kerosene prices witnessed an increase while LPG prices remained unchanged (Table III.6).

The PMIs for September recorded a pick-up in the rate of expansion of both input and output prices for manufacturing, with notable increase in input prices for battery, cotton, electronic component, and steel. In contrast, both input and selling prices for services firms decelerated due to slowdown in the growth of new businesses and foreign sales (Chart III.12).

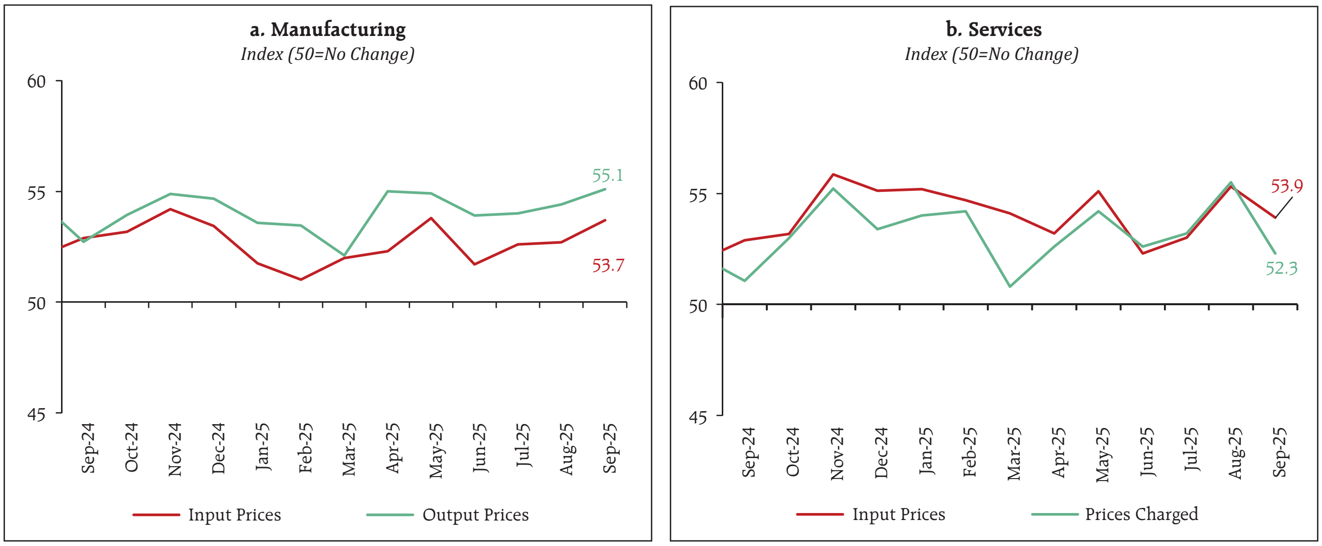
Table III.6: Petroleum Products Prices Remain Broadly Unchanged

Item	Unit	Domestic Prices			Month-over-month (per cent)	
		Oct-24	Sep-25	Oct-25^	Sep-25	Oct-25^
Petrol	₹/litre	101.0	101.1	101.1	0.0	0.0
Diesel	₹/litre	90.4	90.5	90.5	0.0	0.0
Kerosene (subsidised)	₹/litre	42.9	44.3	45.4	-0.5	3.4
LPG (non-subsidised)	₹/cylinder	813.3	863.3	863.3	0.0	0.0

Notes: 1. ^: For the period October 1-17, 2025.
2. Other than kerosene, prices represent the average Indian Oil Corporation Limited (IOCL) prices in four major metros (Delhi, Kolkata, Mumbai and Chennai). For kerosene, prices denote the average of the subsidised prices in Kolkata, Mumbai and Chennai.

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

Chart III.12: Input Cost Pressures Hardened for Manufacturing but Eased for Services Firms



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

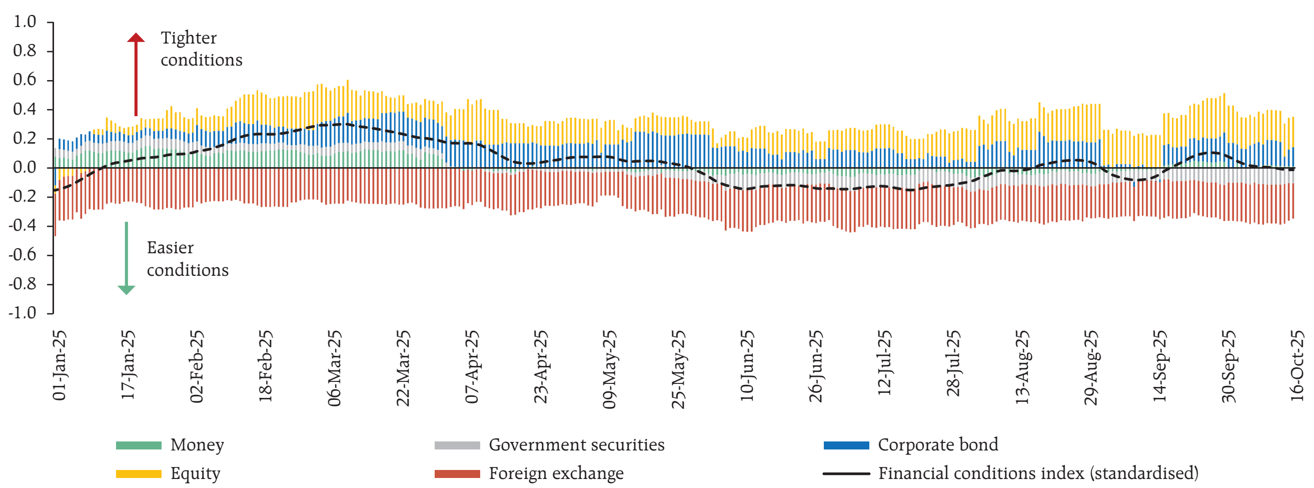
IV. Financial Conditions

Overall financial conditions remained benign in October (up to 16th), after remaining mildly tight in the latter half of September, primarily due to easing in the money, equity and corporate bond markets (Chart IV.1).

System liquidity remained in surplus during the second half of September and in October (up to 16th), although an increase in government cash balances, driven by advance tax and GST collections, briefly pushed it into deficit during September 22-24. Since then, government spending and the release of

Chart IV.1: Benign Financial Conditions for India

(Standard deviation from average since 2012)

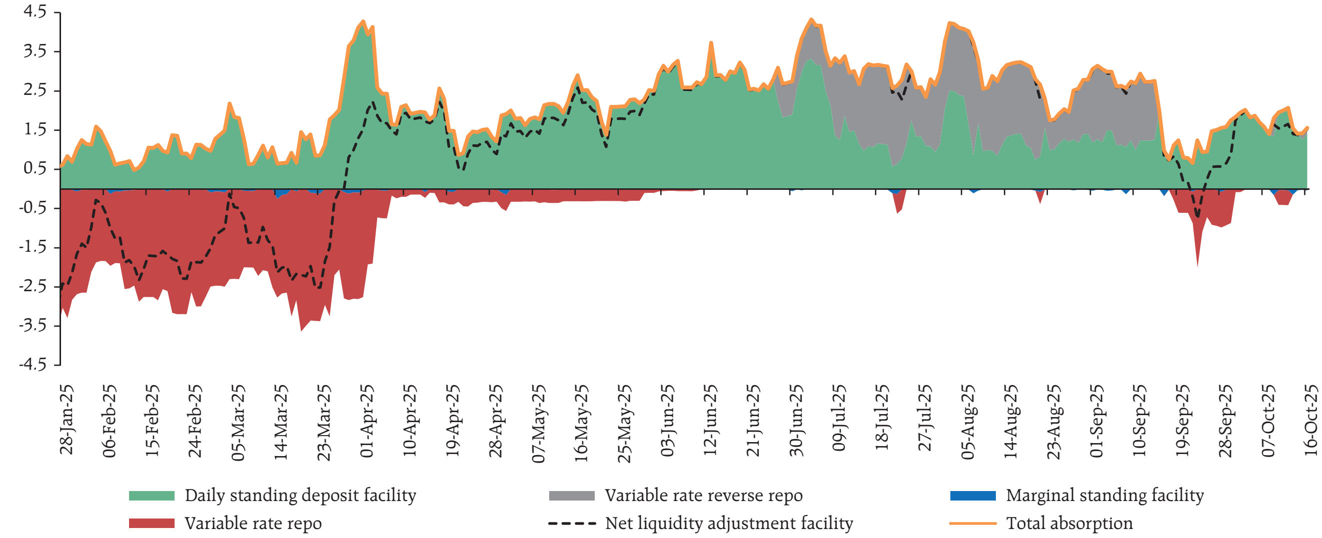


Note: The financial conditions index provides a metric based on its historical average; in this context, a zero value corresponds to a financial system operating at the historical average level of all the financial indicators included in the index. To present the results, a standardised index is used.[24]
Source: RBI staff estimates.

[24] For detailed methodology see https://rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=23451

Chart IV.2: Liquidity Moderated amidst Tax Outflows

(₹ lakh crore)



Source: RBI.

primary liquidity from the 25 bps reduction in the cash reserve ratio[25] restored liquidity to surplus conditions. Overall, average net absorption under the liquidity adjustment facility declined to ₹1.0 lakh crore during September 16 to October 16, 2025, from ₹2.6 lakh crore in the preceding one-month period (Chart IV.2). To offset the liquidity tightness during this period, the Reserve Bank conducted 14 variable rate repo auctions (overnight to 6-day maturity) to inject liquidity and align overnight money market rates with the policy repo rate. With overall liquidity conditions in surplus, the average balances under the standing deposit facility remained elevated, and banks' recourse to the marginal standing facility stayed low.[26]

The Reserve Bank on September 30, 2025, announced the revised liquidity management framework. The overnight weighted average call rate (WACR) will remain as the operating target for the monetary policy. For managing short-term/transient liquidity, the Reserve Bank would be primarily using the 7-day variable rate repo/ variable rate reverse repo.[27]

Money Market

The WACR generally hovered around the policy repo rate in September and October. It traded above the policy rate during the latter half of September on temporary tightness in liquidity demand due to tax outflows. The WACR moved below the policy rate as liquidity conditions improved since the beginning of October, prompting the RBI to conduct two variable rate reverse repo auctions on October 9 and October 15, 2025. Overall, the WACR was aligned better with the policy rate during September 16 to October 16, 2025, as compared to the preceding one-month period (Chart IV.3a).[28] Overnight rates in the collateralised

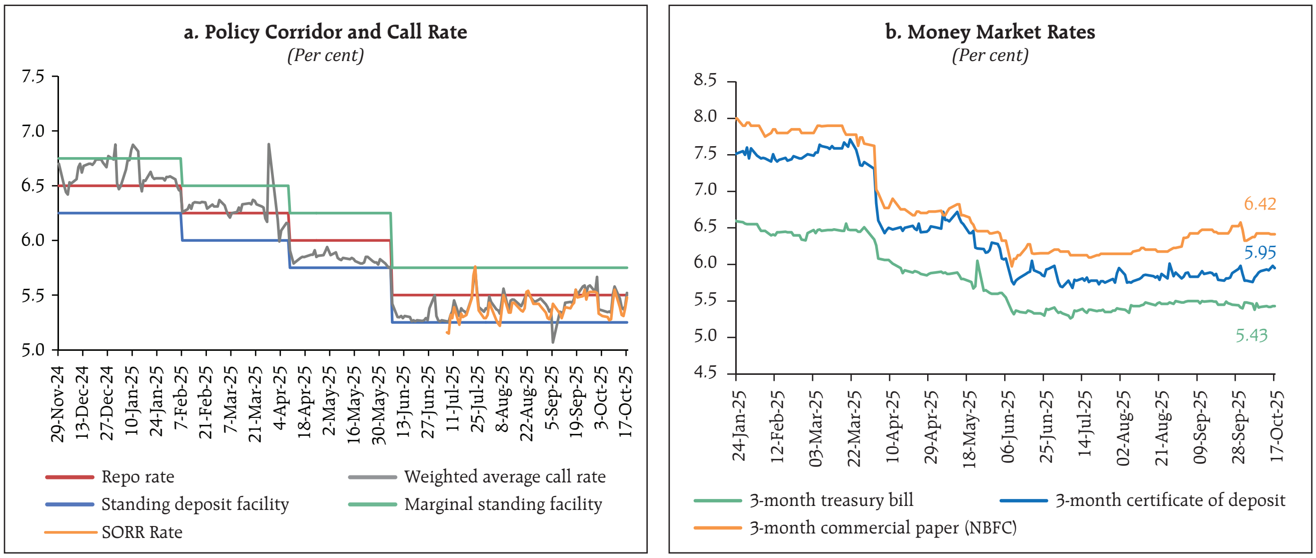
[25] Effective October 4, 2025

[26] Balances under the standing deposit facility increased to ₹1.4 lakh crore during September 16 to October 16, 2025 from that of ₹1.2 lakh crore in the preceding one-month period. Borrowings from the marginal standing facility stood at an average of ₹0.04 lakh crore during this period.

[27] The Reserve Bank will also use other variable rate repo/ variable rate reverse repo operations of tenors from overnight up to 14 days, based on the evolving liquidity conditions. Further details on the revised liquidity management framework are available at https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=61317#AN1

[28] The average absolute deviation stood lower at 8.4 bps during the period September 16 to October 16, 2025, than that of 10.1 bps during the period August 16 to September 15, 2025.

Chart IV.3: Money Market Rates Remained Stable



Sources: RBI; and Bloomberg.

segments – as measured by the benchmark secured overnight rupee rate – largely moved in tandem with the uncollateralised rate. Average yields on three-month treasury bills eased while those on three-month certificates of deposit and commercial papers issued by non-banking financial companies hardened during this period (Chart IV.3b).[29] The average risk premium in the money market (the spread between the yields on 3-month commercial paper and 91-day treasury bill) increased.[30]

Government Securities (G-Sec) Market

In the fixed income segment, the shorter end of the yield curve declined during the second half of September and in October (up to October 17), while yields at the longer end remained flat.[31] Consequently, the average term spread (the difference between the yields of 10-year G-sec and 91-day treasury bill) inched up marginally during September 16 to October 17, 2025 (Charts IV.4a and IV.4b).[32]

Corporate Bond Market

Corporate bond yields and their spreads over government securities increased across tenors and the rating spectrum (Table IV.1). Fresh issuances in corporate bonds moderated in August over July. On a cumulative basis, total issuances were higher in the current financial year (up to August) compared to the previous year.[33]

Money and Credit

During October, reserve money growth[34] remained steady, tracking currency in circulation.[35]

[29] The average yields on 3-month treasury bills eased by 4 bps while the yields on 3-month certificate of deposit and the 3-month commercial papers issued by NBFCs hardened by 1 and 11 bps respectively during the period September 16 to October 17, 2025, as compared to the period August 16 to September 15, 2025.

[30] Increased to 99 bps during the period September 16 to October 17, 2025, from 84 bps in the preceding one-month period.

[31] The average yields on the benchmark 3-year government security and 5-year government security eased by 11 and 13 bps respectively while the yields on benchmark 10-year security softened by 1 bps during the period September 16 to October 17, 2025, as compared to the period August 16 to September 15, 2025.

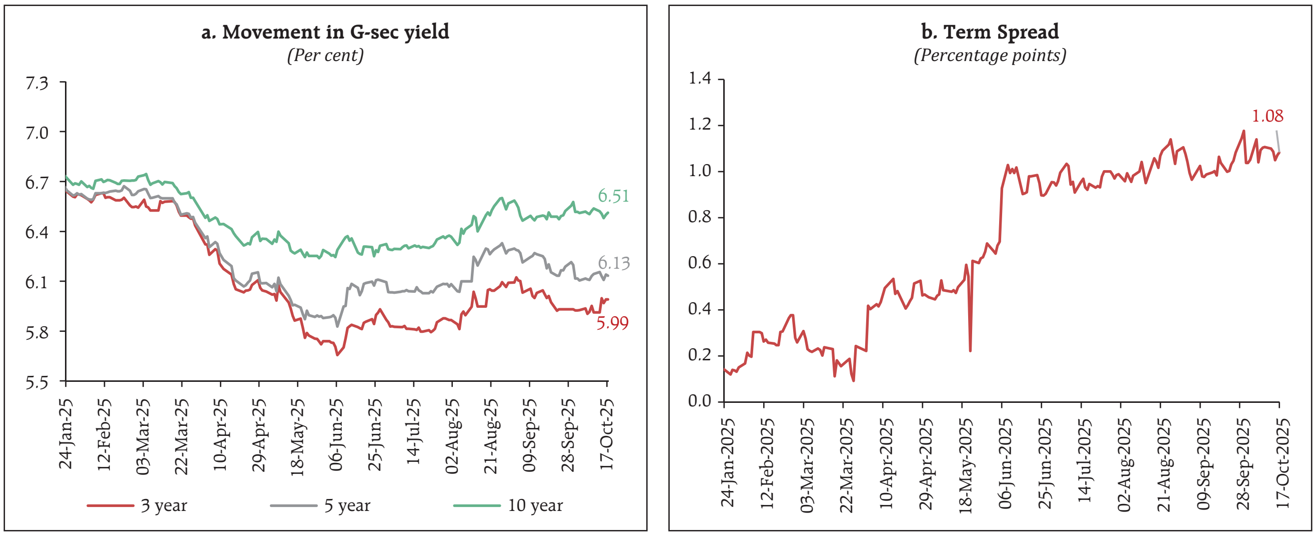
[32] The average term spread between the 10-year G-sec and 91-day treasury bill increased by around 2 bps during September 16 to October 17, 2025 as compared to the period August 16 to September 15, 2025.

[33] Declined to ₹0.43 lakh crore in August 2025, compared to ₹0.58 lakh crore in July 2025. On a cumulative basis (April to August), it was at ₹4.0 lakh crore in 2025-26 as compared to ₹3.3 lakh crore in the corresponding period of the previous year.

[34] Adjusted for the first-round impact of changes in the cash reserve ratio.

[35] Reserve money (adjusted for CRR) grew by 8.3 per cent (y-o-y) as on October 10, 2025 [8.6 per cent (y-o-y) as on September 12, 2025]. Currency in circulation grew by 8.1 per cent (y-o-y) as on October 10, 2025 [8.7 per cent (y-o-y) as on September 12, 2025].

Chart IV.4: Short Term G-Sec Yields Moderated, Long Term Stable



Note: In chart b, term spread is calculated as the difference between the 10-year G-Sec yield and the 3-month treasury bill yield.
Sources: Bloomberg; and RBI staff estimates.

Growth in money supply remained largely stable (Chart IV.5).[36]

Credit growth in scheduled commercial banks (SCBs) picked up, with the pace of credit expansion outpacing deposit growth during the fortnight ended October 3, 2025 (Chart IV.6).[37] During 2025-26 so far (upto October 3, 2025), the flow of financial resources to the commerical sector increased, mainly due to an inrease in flow of non-food bank credit and flows from non-bank sources including corporate bond issuances and foreign direct investment to India.[38]

Across key sectors, bank credit exhibited steady growth in August,[39] led by personal loans, services,

Table IV.1: Increasing Corporate Bonds Yields and Spread

	Interest Rates *(Per cent)*			Spread *(bps)* (Over Corresponding Risk-free Rate)		
Instrument	**August 16, 2025 – September 15, 2025**	**September 16, 2025 – October 15, 2025**	**Variation**	**August 16, 2025 – September 15, 2025**	**September 16, 2025 – October 15, 2025**	**Variation**
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
(i) AAA (1-year)	6.58	6.69	11	90	104	14
(ii) AAA (3-year)	7.02	7.05	3	94	108	14
(iii) AAA (5-year)	7.08	7.21	13	79	92	13
(iv) AA (3-year)	7.92	8.18	26	198	221	23
(v) BBB- (3-year)	11.32	11.86	54	566	590	24

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

[36] Money supply grew by 9.6 per cent (y-o-y) as on October 3, 2025 [9.5 per cent (y-o-y) as on September 5, 2025].

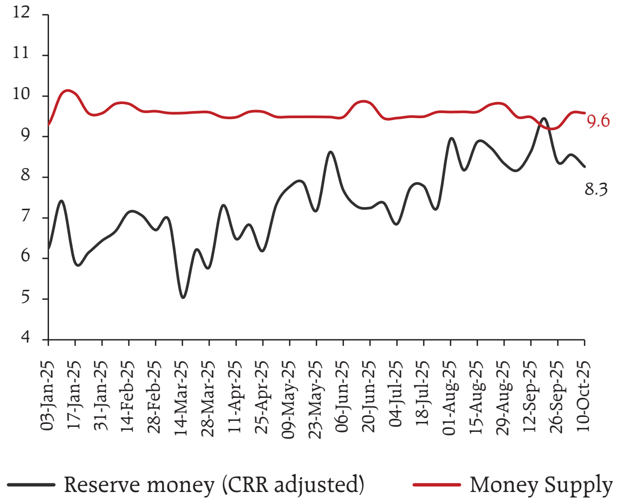
[37] Credit growth of scheduled commercial banks was 11.4 per cent (y-o-y) as on October 3, 2025 [10.3 per cent (y-o-y) a month ago]. Deposit growth was 9.9 per cent (y-o-y) as on October 3, 2025 [9.8 per cent (y-o-y) a month ago]. The outstanding credit of scheduled commercial banks was at ₹192.7 lakh crore as on October 3, 2025 (₹187.6 lakh crore a month ago).

[38] During 2025-26 so far (up to October 3, 2025), the flow of non-food bank credit to the commercial sector increased by 16.7 per cent (y-o-y) [₹1.5 lakh crore] vis-à-vis a decline by 11.1 per cent (y-o-y) [₹0.7 lakh crore] a month ago. Total flow of financial resources to the commercial sector rose by 28.3 per cent (y-o-y) [₹4.1 lakh crore] vis-à-vis 18.0 per cent (y-o-y) [₹1.9 lakh crore] a month ago.

[39] As at end-August, growth in non-food bank credit stood at 9.9 per cent (y-o-y), the same as in July 2025. Non-food credit data are based on fortnightly Section-42 return for the last reporting Friday of the month, which covers all scheduled commercial banks (SCBs). Sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 95 per cent of total non-food credit extended by all scheduled commercial banks, pertaining to the last reporting Friday of the month.

Chart IV.5: Expanding Reserve Money and Stable Money Supply (M_3)

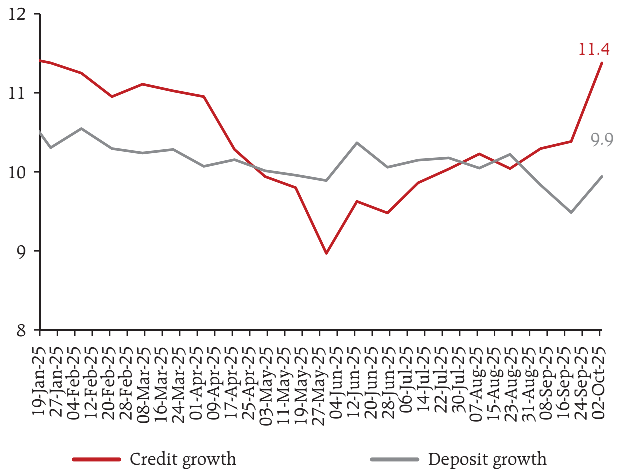
(Y-o-y, per cent)



Source: RBI.

Chart IV.6: Scheduled Commercial Banks: Credit Expansion Surpassing Deposit Growth

(Y-o-y, per cent)

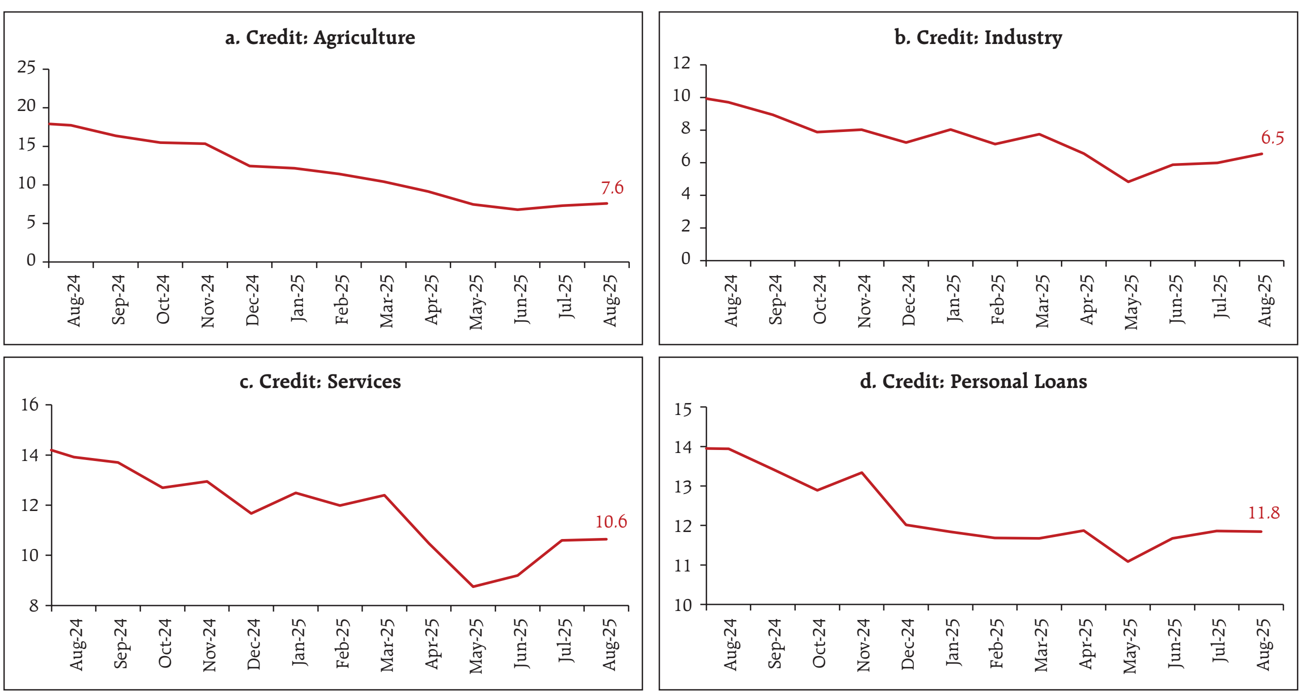


Note: Scheduled commercial banks' data are inclusive of regional rural banks.
Source: Fortnightly Section 42 Returns, RBI.

and industry (Chart IV.7).[40] Personal loans continued to demonstrate double digit growth. Credit growth for housing remained stable but softened for vehicle loans segment. Credit to services sector remained

Chart IV.7: Sectoral Deployment of Bank Credit

(Y-o-y, per cent)



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

Source: RBI.

[40] In terms of contribution to overall credit growth.

resilient. Non-Banking Financial Companies (NBFCs) – the largest recipient of bank credit within services sector – recorded a pick-up in growth, even as bank credit to trade and commercial real estate decelerated as compared to July 2025. Although credit to Micro, Small and Medium Enterprise (MSME) segment softened marginally, it continued to be the prime driver of robust credit growth in the industrial sector. Infrastructure segment observed a marginal uptick in credit growth. Agriculture sector registered an improvement in credit growth.

Deposit and Lending Rates

In response to the 100 basis points repo rate cut during the current easing cycle, the weighted average lending rates on fresh and outstanding rupee loans have declined by 58 bps (71 bps on account of interest rate) and 55 bps, respectively (Table IV.2). On the deposit side, the weighted average domestic term deposit rates on fresh and outstanding deposits moderated by 106 bps and 22 bps, respectively. The significant decline in the fresh term deposit rates was driven by a moderation in interest rates on bulk deposits. Across bank groups, the transmission to lending rates was higher for private banks than for public sector banks (Chart IV.8). On the deposit side, the pass-through was higher for public sector banks than for private banks.

The union government reviewed and kept the rates on small savings schemes unchanged for Q3:2025-26. The prevailing rates on these instruments exceed the formula-based rates.[41]

Equity Markets

During September and October, Indian equity markets exhibited bidirectional movements in response to a host of domestic and global factors. Markets declined for eight consecutive sessions following the announcement of a steep hike in H-1B visa fees and imposition of fresh sector-specific tariffs by the US. Thereafter, markets rebounded in early October supported by the Reserve Bank's announcement of measures aimed at strengthening

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

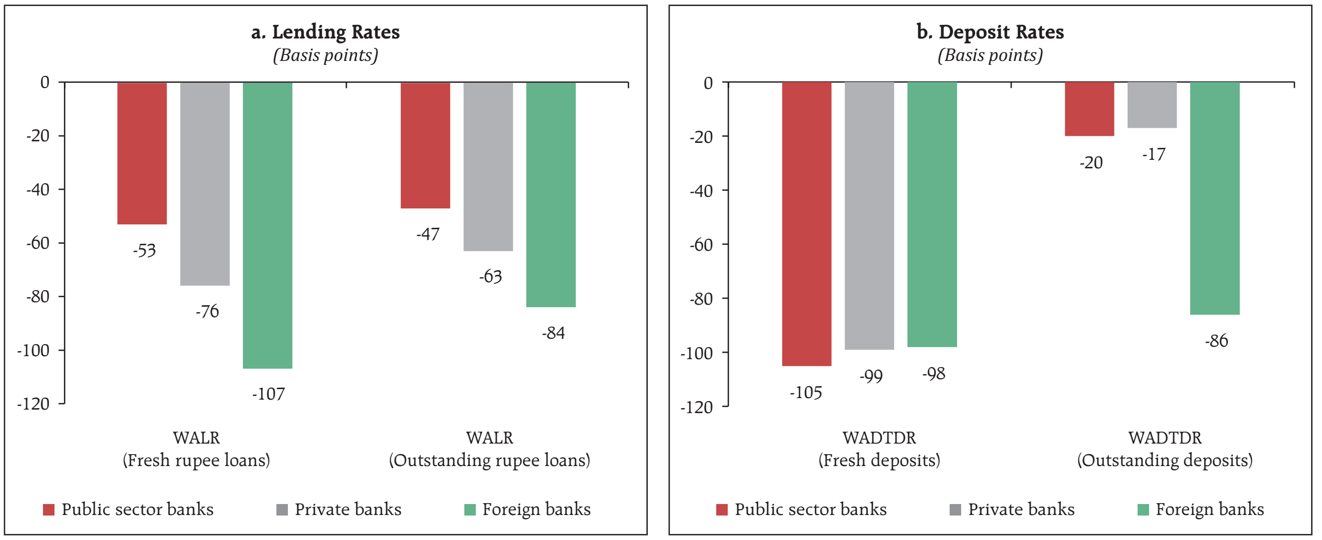
(basis points)

Period	Repo Rate	Term Deposit Rates		Lending Rates				
		WADTDR-Fresh Deposits	WADTDR-Outstanding Deposits	EBLR	1-Year MCLR (Median)	WALR - Fresh Rupee Loans: Overall	WALR - Fresh Rupee Loans: Interest Rate Effect #	WALR-Outstanding Rupee Loans
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Tightening Period May 2022 to Jan 2025	+250	259	206	250	175	182	191	115
Easing Phase Feb 2025 to Aug 2025	-100	-106	-22	-100	-40	-58	-71	-55

Notes: Data on EBLR pertain to 32 domestic banks.
#: The interest rate effect can be arrived at by keeping the weight constant, with the residual change in the weighted average lending rate attributed to the weight effect.
WALR: Weighted Average Lending Rate; **WADTDR**: Weighted Average Domestic Term Deposit Rate;
MCLR: Marginal Cost of Funds-based Lending Rate; **EBLR**: External Benchmark-based Lending Rate.
Source: RBI.

41 Monetary Policy Report – October 2025, Chapter IV, RBI.

Chart IV.8: Robust Transmission across Bank Groups (February - August 2025)



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

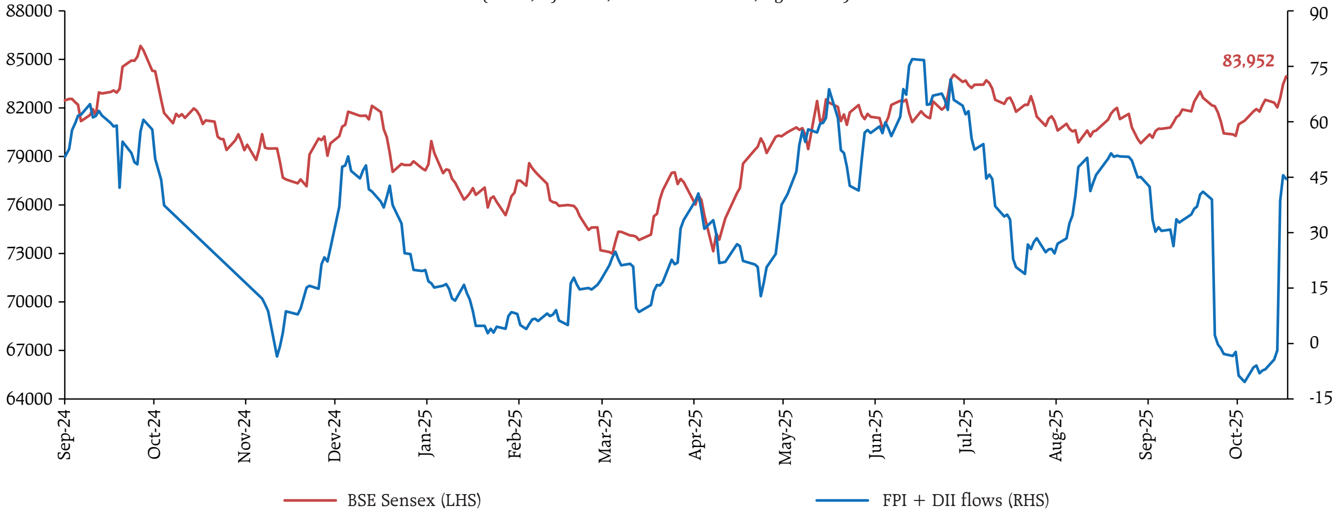
the resilience and competitiveness of the banking sector, promoting ease of doing business and enhancing flow of credit. The gains were supported by DIIs who remained net buyers and FPIs who turned net buyers in October (up to 16th) amidst renewed participation in primary equity market (Chart IV.9). Growth in the secondary market (BSE Sensex and NIFTY 50) remained subdued, whereas primary market activity picked up in September 2025.[42]

External Sources of Finance

Gross inward foreign direct investment (FDI) moderated in August (Chart IV.10a). Singapore, Cayman Islands, the UAE, the Netherlands, and the US accounted for more than three-fourths of

Chart IV.9: Domestic Equity Markets Remained Rangebound

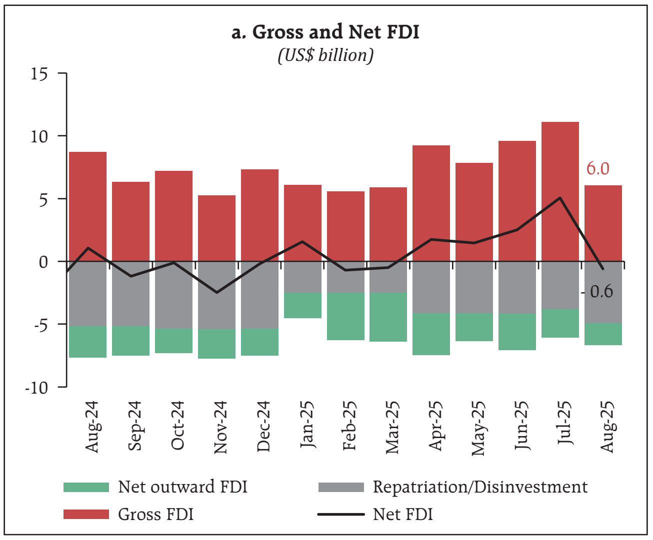
(Index, left scale; ₹ thousand crores, right scale)

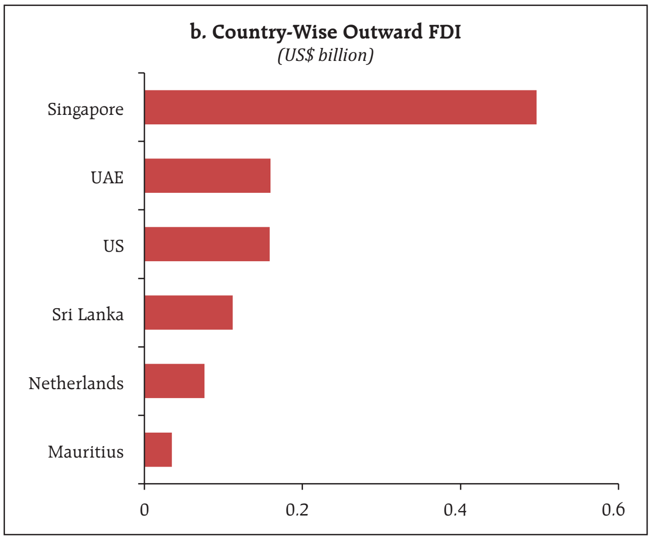


Note: FPI and DII flows are represented on a 15-days rolling sum basis.
Sources: Bloomberg; and Capitaline.

[42] The primary market issuances (including Initial Public Offers, Follow-on Public Offers and Offer for Sale) increased from ₹10,454 crore in August 2025 to ₹13,302 crore in September 2025, as the number of issuances increased from 12 to 25 during this period (Source: Prime Database)

Chart IV.10: Muted Foreign Direct Investment Flows





Source: RBI.

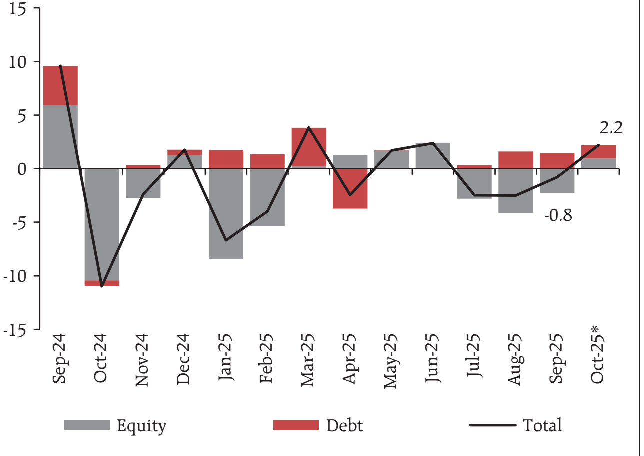
total inflows. Manufacturing, computer services, construction, and financial services were the top recipient sectors. Net FDI turned negative in August, due to a moderation in gross inflows and an increase in repatriation. Outward FDI also declined in August. These investments were mainly directed towards financial, insurance and business services, and manufacturing sectors, with Singapore, the UAE, and the US being the major destinations (Chart IV.10b).

Net foreign portfolio investment flows continued to remain negative for the third consecutive month in September (Chart IV.11). This was driven by equity outflows amidst weak investor sentiments on concerns over US tariff measures and the steep hike in H-1B visa fees. In contrast, the debt segment continued to record net inflows, supported by expectations of US rate cut and favourable yield differentials. In October so far (up to October 15), net foreign portfolio investment turned positive on renewed investor's optimism amidst expected revival in corporate earnings and improved valuations.

The registrations of external commercial borrowings moderated during April-August 2025.[43] Despite this slowdown, net inflows remained positive at US$ 6.0 billion, as inflows continued to outpace repayments (Chart IV.12). Notably, 39 per cent of the total external commercial borrowing loans registered during this period were earmarked for capital expenditure.

Chart IV.11: Foreign Portfolio Investments Showed Early Signs of Recovery

(US$ billion)



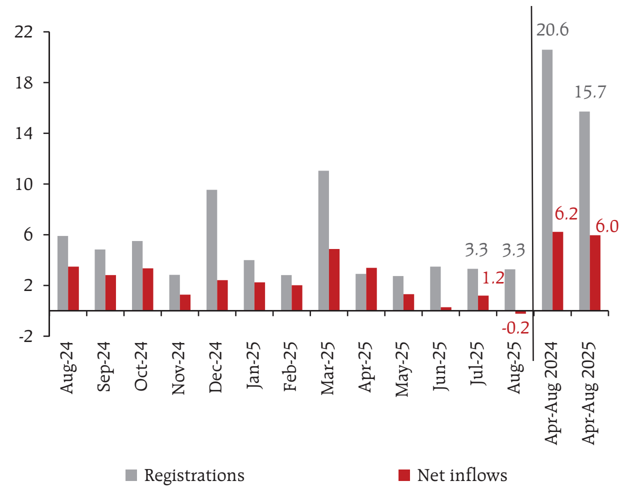
Notes: 1. Debt also includes investments under the hybrid instruments.
2. *: Data up to October 15, 2025.

Source: National Securities Depository Limited (NSDL).

[43] Moderated to US$ 15.7 billion, compared with US$ 20.6 billion in the same period a year ago.

Chart IV.12: External Commercial Borrowings – Registrations Eased but Inflows Stayed Positive

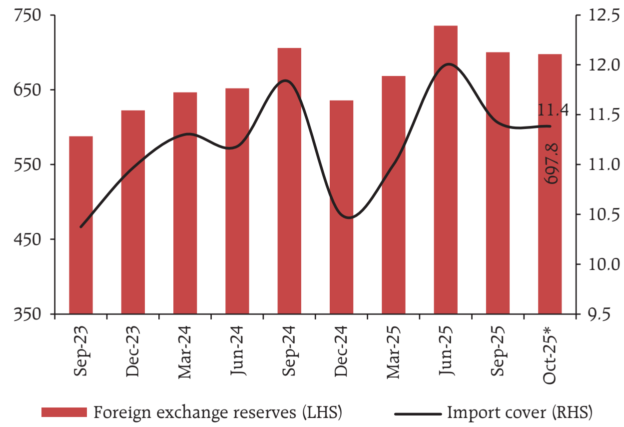
(US$ billion)



Source: Form ECB, RBI.

Chart IV.13: Adequate Foreign Exchange Reserves in India

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



Notes: 1. *: As on October 10, 2025.

2. The import cover data is based on annualised merchandise imports as per the balance of payments statistics.

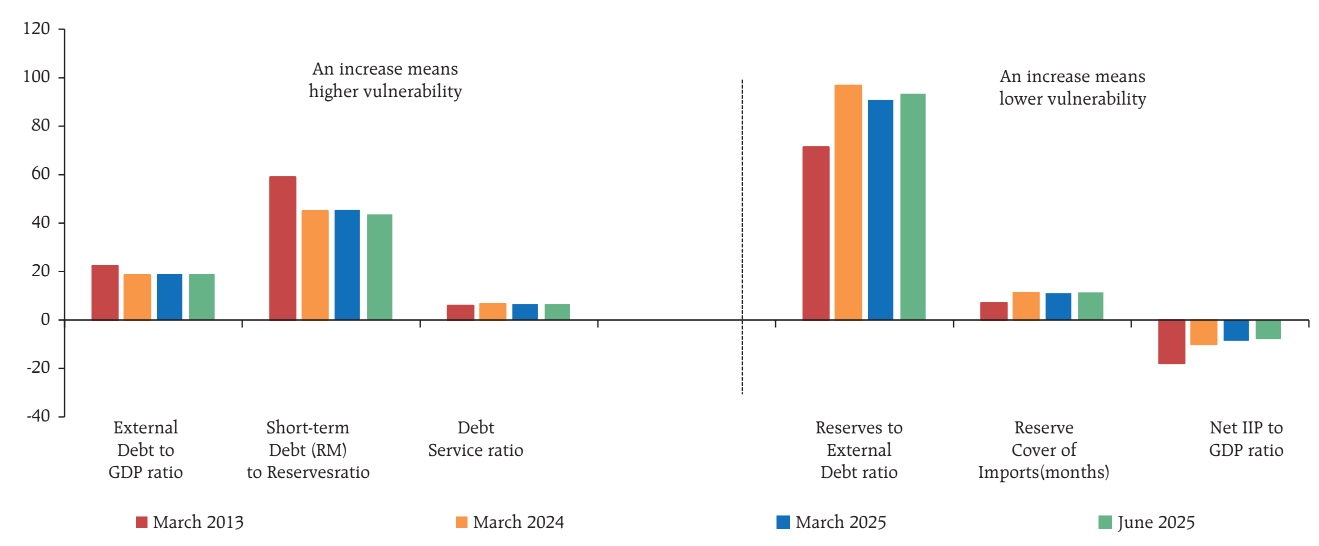
Source: RBI.

India's foreign exchange reserves remained adequate, providing a cover for more than 11 months of goods imports and for about 93 per cent of the external debt outstanding at end-June 2025 (Chart IV.13).[44]

India's key external vulnerability indicators improved between end-March to end-June 2025. External debt to GDP ratio, short-term debt to reserves ratio and reserves to external debt ratio turned favourable (Chart IV.14). India's external debt rose by US$ 11.2 billion to US$ 747.2 billion during this period.

India's net International Investment Position improved during Q1:2025-26 (Chart IV.15).[45] This

Chart IV.14: India's External Vulnerability Indicators Improved



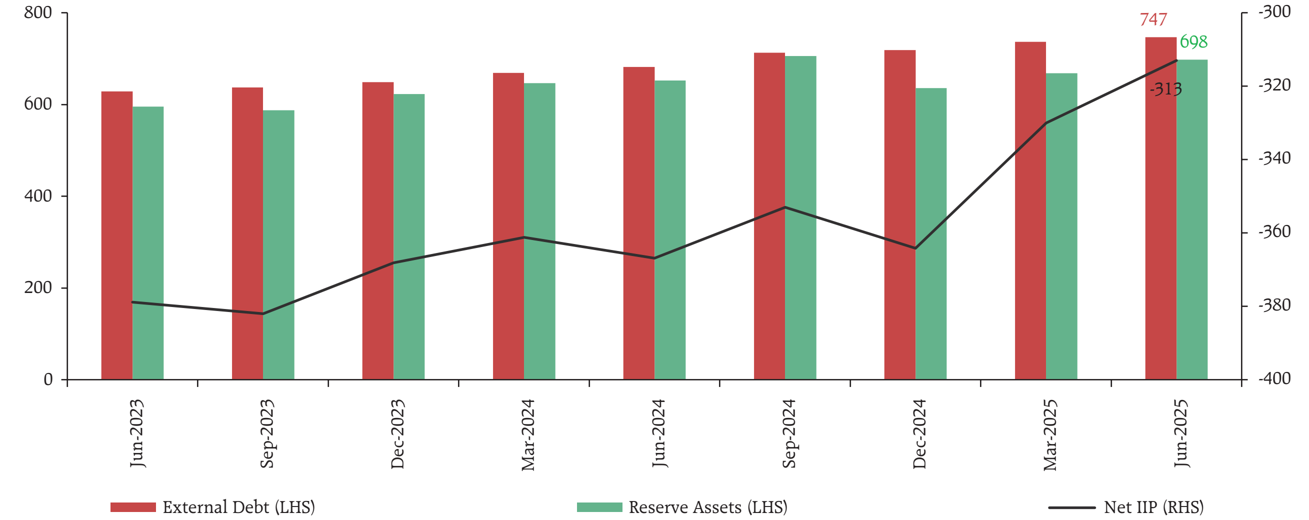
Source: RBI.

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

[45] Improved by US$ 16.4 billion and stood at US$ (-) 312.8 billion.

Chart IV.15: Net International Investment Position Strengthened

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



Source: RBI.

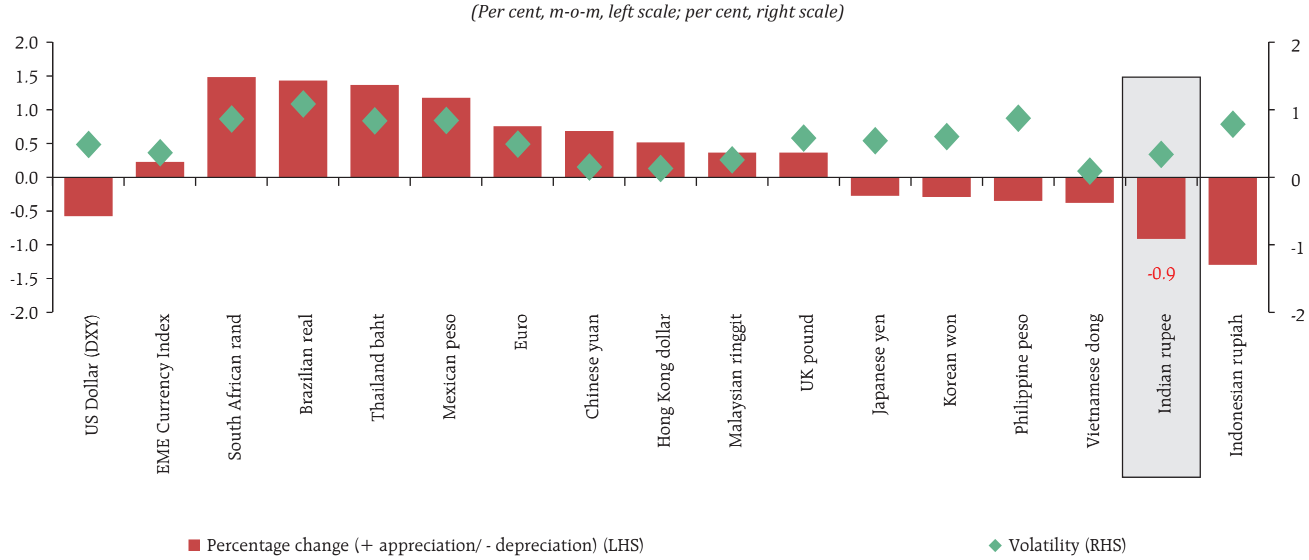
improvement was driven by higher accumulation of overseas financial assets by Indian residents relative to the foreign-owned assets in India. As a result, the ratio of India's international assets to international liabilities improved to 79.2 per cent in June as compared to 77.6 per cent in March.

Foreign Exchange Market

The Indian rupee depreciated against the US dollar in September amidst elevated trade tensions, heightened global uncertainties, and persistent foreign portfolio investment outflows (Chart IV.16).

Chart IV.16: Movements in Major Currencies against the US Dollar in September

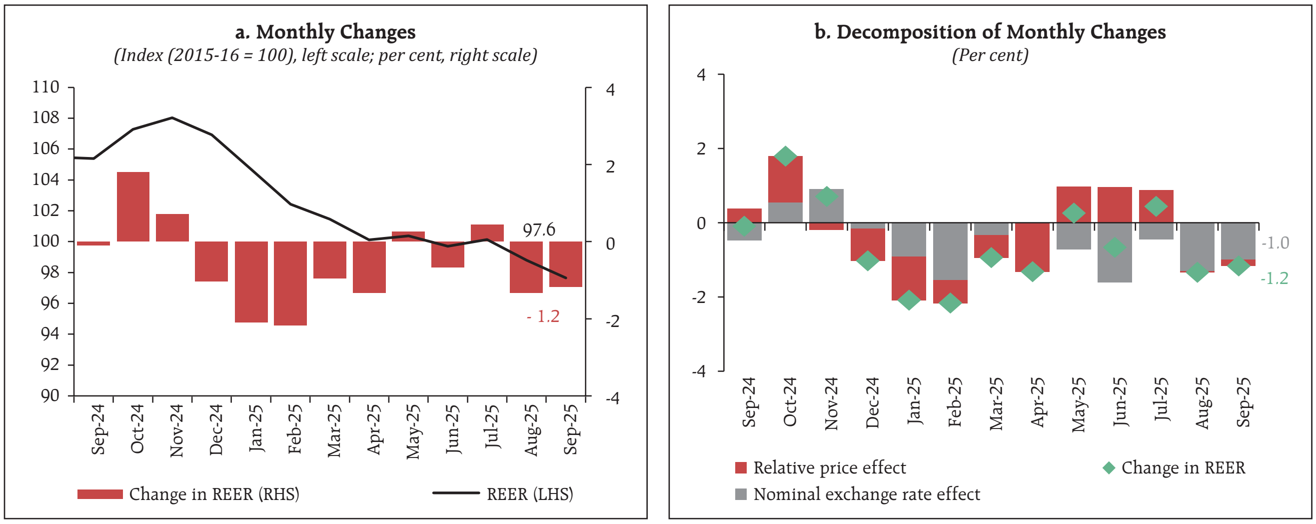
(Per cent, m-o-m, left scale; per cent, right scale)



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

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

Chart IV.17: 40-Currency Real Effective Exchange Rate Depreciated



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

In real effective terms too, the Indian rupee depreciated in September (Chart IV.17a). The depreciation in the real effective exchange rate was mainly driven by the depreciation in the nominal effective exchange rate (Chart IV.17b).

V. Conclusion

Trade tensions have started to simmer yet again. In the context of rising protectionism in the US, and rising fiscal risks in AEs, IMF's October World Economic Outlook talks about 'a new global economic landscape slowly takes shape'.[46] The state of flux of the global economy and policies present considerable uncertainties to the macroeconomic outlook. In this scenario, the need for economic resilience has become a key priority. While the Indian economy is not immune to global headwinds, it has so far exhibited resilience, driven by a focus on strong and durable macroeconomic fundamentals – including low inflation, robust balance sheets of banks and corporates, adequate foreign exchange reserves and a credible monetary and fiscal framework.

As noted in the Monetary Policy Committee resolution of October 1, 2025, the growth outlook remains resilient, supported by domestic drivers, despite uncertainties on the external front. Domestic structural reforms are helping to somewhat offset the drag on growth from the weakening external demand conditions.[47] The current macroeconomic conditions and the outlook, as noted by the MPC, has opened up policy space for further supporting growth.

[46] World Economic Outlook, Chapter 1 "Global Prospects and Policies".

[47] Real GDP growth for 2025-26 has been revised upwards by 30 bps to 6.8 per cent in the October 1, 2025, MPC resolution from the projection of 6.5 per cent in the August 6, 2025, resolution. CPI inflation projection for 2025-26 has been revised downwards by 50 basis points to 2.6 per cent from the earlier 3.1 per cent.