ECONOMIC DIVISION

MONTHLY ECONOMIC REVIEW

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DEPARTMENT OF ECONOMIC AFFAIRS
सत्यमेव जयते

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Abstract

India's economy sustained its growth momentum in the first quarter of FY26, supported by robust domestic demand, resilient business and services activity, and a favourable onset of the southwest monsoon. High-frequency indicators reflected broad-based strength, registering strong year-on-year growth. While the manufacturing and construction sectors continued to expand, the services sector anchored the overall economic growth in Q1 of FY26.

As of now, favourable progress in the southwest monsoon has bolstered agricultural activity, leading to higher kharif sowing compared to the previous year. Adequate fertiliser availability and comfortable reservoir levels augur well for a healthy harvest outlook, providing fresh impetus to rural incomes and consumption.

Inflationary pressures continue to recede in Q1 of FY26, with CPI inflation falling to a 77-month low of 2.1 per cent in June 2025. This sharp moderation was driven by a significant decline in food inflation, particularly in the prices of vegetables and pulses. Wholesale price inflation also moved into the deflationary zone at -0.1 per cent, providing further relief on the cost front.

Amid shifting global trade patterns, India's trade performance remains resilient in Q1 of FY26. Total exports (goods and services) grew by 5.9 per cent (YoY), while core merchandise exports rose by 7.2 per cent (YoY). Foreign exchange reserves remained at a comfortable level, providing an import cover of more than 11 months. Despite external headwinds, ranging from brief conflict in the Middle East to fluctuations in oil price, the exchange rate movements were well contained, with the rupee exhibiting low volatility through June.

India's financial markets have demonstrated notable resilience, primarily driven by strong domestic investor participation. This resilience is further underpinned by the robust health of the banking sector, as banks have strengthened their capital and liquidity buffers while improving their asset quality. Reflecting these improvements, the GNPA ratio and the NNPA ratio of the scheduled commercial banks are at a multi-decade low of 2.3 per cent and 0.5 per cent, respectively, complemented with strong earnings.

The labour market has remained steady, with white-collar hiring witnessing a strong rebound with a double-digit YoY hiring rise. The employment sub-indices of the PMI indicate robust employment growth, remaining in the expansionary zone for the 16th consecutive month. Formal job creation is also on the rise, with the Employee Provident Fund Organisation recording an all-time high addition of net members during May 2025.

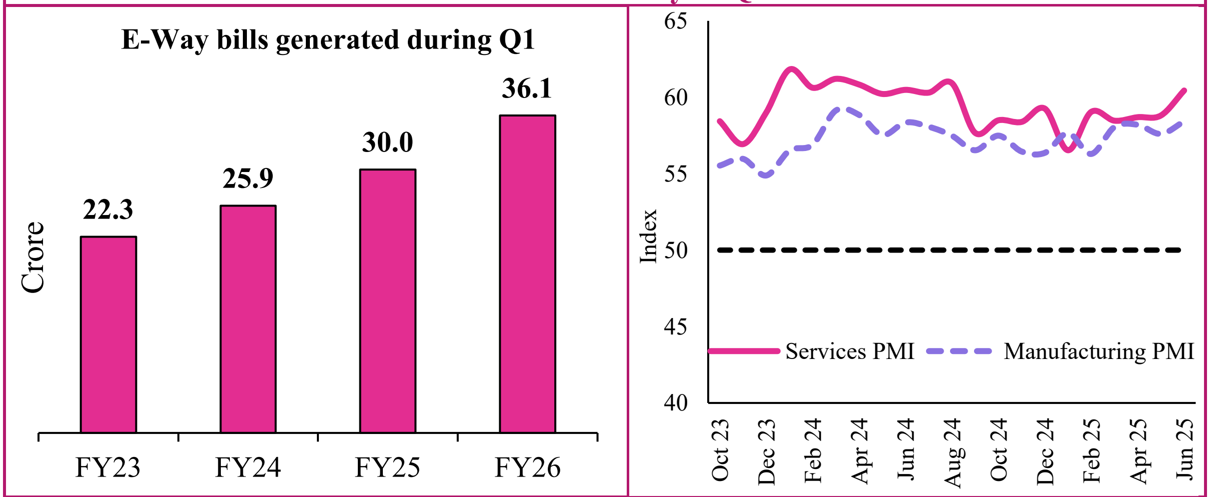
Overall, the first quarter of FY26 presents a picture of resilient domestic supply and demand fundamentals. With inflation remaining within the target range and monsoon progress on track, the domestic economy enters the second quarter of FY26 on a relatively firm footing.

Macroeconomic Developments: Q1 of 2025-26

1. The month of June holds particular significance for the Indian economy, marking the onset of the southwest monsoon—a key driver of agricultural output, rural demand, and overall economic sentiment. As the first quarter of the financial year concludes, it is also a month to take a pause and review, as government departments push forward on budget execution and businesses adjust to evolving demand patterns. June 2025 strikes a reassuring note with the Indian economy continuing to demonstrate resilience in Q1 of FY26, underpinned by sustained domestic demand. While the global environment remained clouded by persistent uncertainties, including elevated commodity prices and uneven external demand, the domestic drivers of growth, particularly services and consumption, continued to provide stability to the economy. Several high-frequency indicators aggregated for the first quarter of FY26 suggest that the underlying momentum in the economy has remained intact.

2. Goods movement, transport and business activity remained robust through the first quarter of FY26. E-way bill generation exceeded 36 crore during the quarter after registering a double-digit year-on-year growth. The record-high number of e-way bills generated in May 2025 was followed by a marginal sequential dip in June, consistent with the expected moderation post-peak. The continued growth in diesel and petrol consumption reflects sustained activity in freight transport, passenger mobility, and industrial and agricultural usage.

Robust business activity in Q1 FY26



Source: E-Way Bill dashboard | Source: HSBC

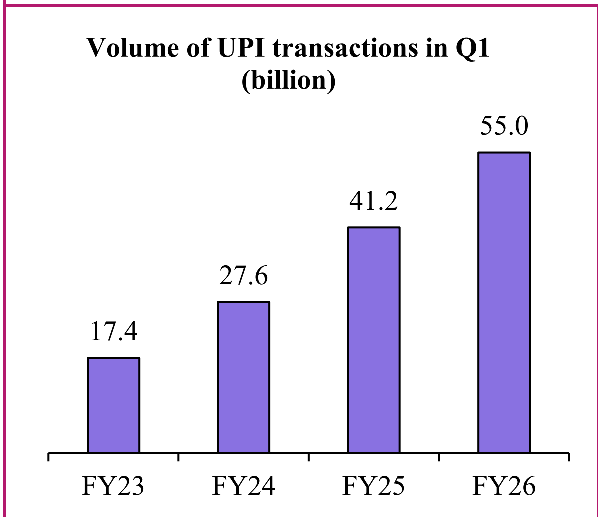
3. Manufacturing activity remained in the expansionary zone throughout the quarter. The Manufacturing PMI averaged 58.1 in Q1, well above the threshold of 50 and the long-run average of 54.1. In June 2025, the manufacturing PMI rose to a 14-month high of 58.4 from 57.6 in May 2025, indicating a continued improvement in manufacturing conditions. This upturn was supported by improvements in output and new orders, along with the record growth in employment. Notably, export orders in June 2025 witnessed their sharpest increase registered in

the history of the Survey, suggesting improved external demand for Indian products, also an outcome of frontloading of exports in the wake of impending higher US Tariffs.

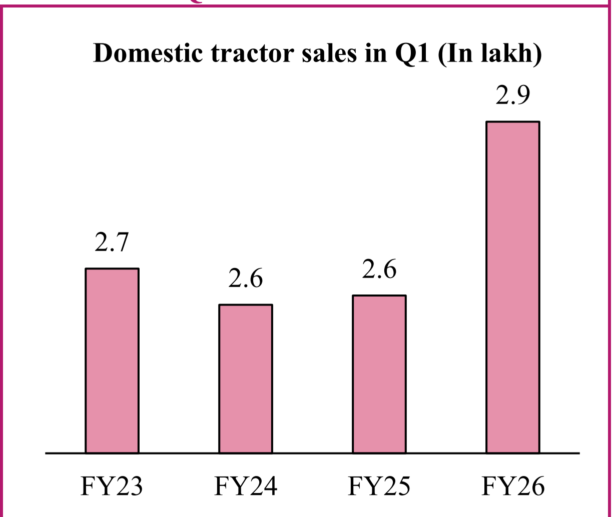
4. Indicators of construction-related activity continued to reflect a healthy growth. Steel consumption grew by 7.9 per cent year-on-year during April–June 2025, while cement production rose by 7 per cent during April–May 2025, compared to the same period last year. Although the pace of growth exhibited some moderation relative to that in the previous quarter, the performance remains consistent with seasonal trends associated with pre-monsoon activity in infrastructure and housing projects.

5. Services sector performance remained the principal driver of economic activity in Q1 FY26. The Services PMI averaged 59.3 during the quarter, with June recording the highest print in the last 10 months, aided by resilient domestic demand and continued strength in export-oriented services. Air cargo volumes rose steadily, registering an 8.1 per cent YoY increase in April-May 2025. Cargo handled at major ports also remained on a firm growth path, expanding by 5.6 per cent in Q1 of FY26.

Favourable demand conditions in Q1 FY26



Source: NPCI



Source: SIAM

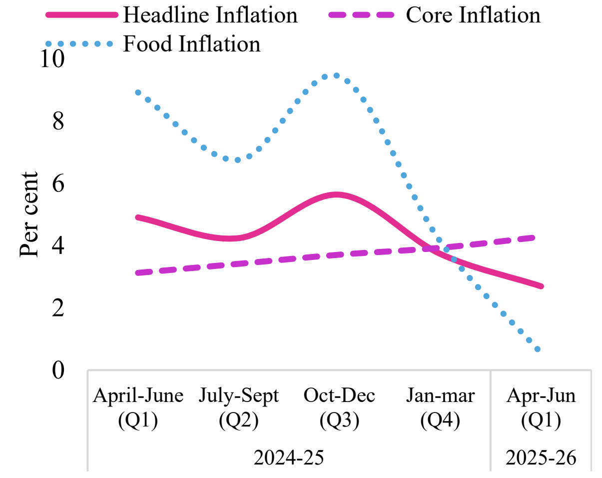
6. Consumption demand indicators exhibited favourable sentiment during Q1 FY26. Air passenger traffic rose by 6.6 per cent YoY in April-May 2025, reflecting rising disposable incomes and robust demand in the services economy. The retail passenger vehicle sales recorded a modest growth of 2.6 per cent in Q1 FY26. On the other hand, platform-based digital payments, indicative of routine consumer spending, continued to expand at a robust pace in the first quarter of the fiscal year. The UPI registered a substantial 33.3 per cent year-on-year increase in transaction volume in Q1 FY26. Rural consumption indicators also strengthened further in Q1 FY26. Domestic tractor sales rose by 9.2 per cent during the quarter, driven by a strong rabi harvest and a favourable southwest monsoon onset. Retail sales of two- and three-wheeler

vehicles increased by 5.4 per cent in the first quarter of FY26, reflecting positive demand conditions in rural areas.

Headline Inflation has declined further

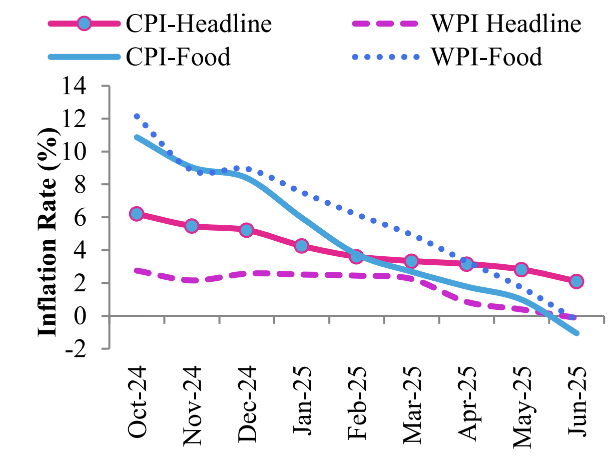
7. India's retail inflation, based on the Consumer Price Index (CPI), eased further to 2.1 per cent in June 2025 from 2.8 per cent in May, bringing the first-quarter inflation for FY26 down to 2.7 per cent - comfortably below the Reserve Bank of India's projection of 2.9 per cent. Meanwhile, inflation measured by the Wholesale Price Index (WPI) slipped into deflation, recording (-)0.1 per cent for June 2025, indicating a downward trend in producer prices. After consistently exceeding urban inflation since January 2022, rural retail inflation turned lower during Q1 of FY26 (since March 2025), driven by the higher weight of food items in the rural CPI basket and the moderation in food prices throughout the quarter.

Moderation in CPI Inflation



Source: MoSPI

Declining CPI and WPI Inflation



Source: MoSPI & O/o EA, DPIIT

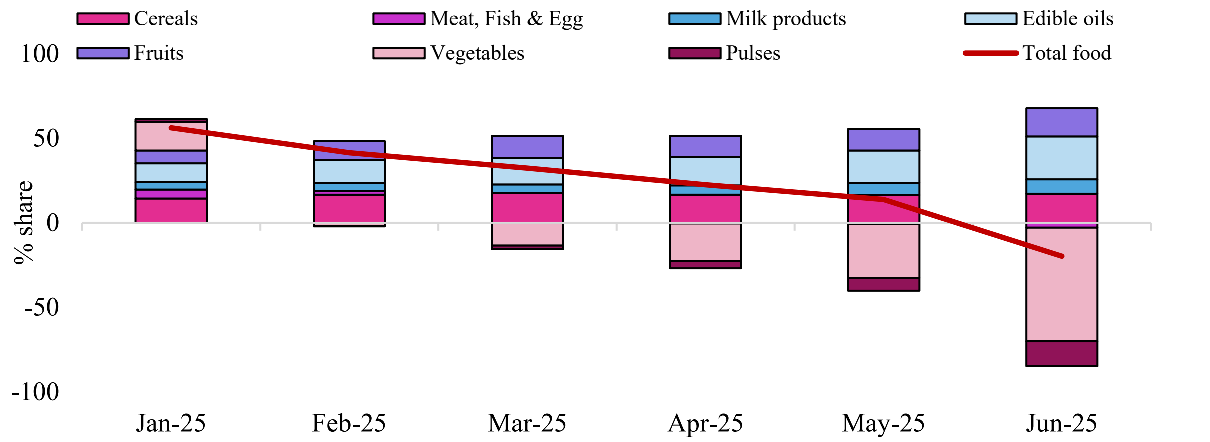
8. Core CPI inflation (non-food, non-fuel) saw a slight uptick to 4.4 per cent from 4.2 per cent in May, and core WPI inflation rose modestly from 0.78 per cent to 0.97 per cent. However, retail core inflation excluding gold and silver stood at a comparatively lower 3.5 per cent, suggesting that precious metals, which also have an investment demand, exerted upward pressure on the broader core inflation metric. If one were to exclude the petrol and diesel prices by treating them as a component of the volatile fuel group, then inflation inches down to 3.2 per cent.

Food inflation moved to the negative zone

9. Food inflation continued its downward trajectory through Q1 of FY2025-26, entering negative territory at (-)1.1 per cent in June 2025, an event occurring after February 2019. A key driver of this trend was the sustained deflation in vegetable and pulse prices – these items together represent around 8.4 per cent of the overall CPI and 21 per cent of the consumer food price index. In June 2025, these categories remained in the deflationary zone. This steep drop,

compounded by a high base effect, led to an overall decline in food inflation. Supporting this trend was a 4.1 per cent rise in pulse production in 2024-25, which improved supply and stabilised prices. Meanwhile, inflation for cereals moderated to 3.7 per cent, whereas oils & fats continued with double-digit inflation.

Negative contribution of pulses and vegetables to food inflation

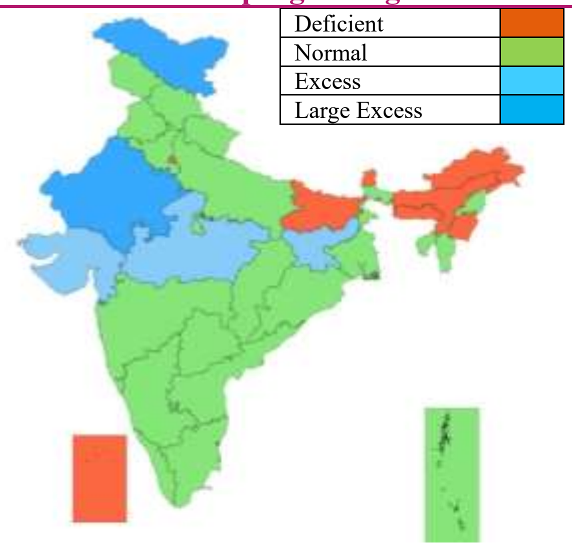


Source: MoSPI

Healthy monsoon boosts agricultural activity

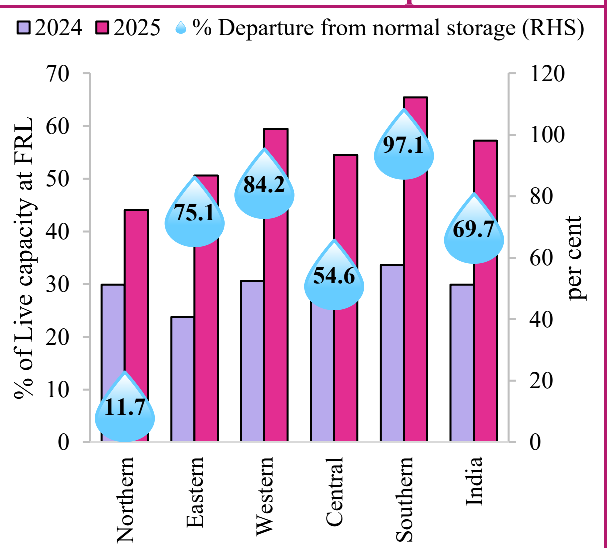
10. Agriculture activity is gaining momentum with healthy progress in monsoon and kharif sowing. According to the India Meteorological Department (IMD), the southwest monsoon covered the entire country on 29 June, nine days ahead of the normal date of July 8. By July 27, the nation had received about 8 per cent more rainfall than the Long Period Average, with approximately 78 per cent of the country experiencing normal or excess rainfall. As of 17 July 2025, total live storage in 161 important reservoirs is nearly 1.91 times last year's level and 1.70 times the average of the last ten years. This augurs well for a bountiful kharif output.

Monsoon is progressing well



Source: IMD
Data as on 27 July 2025

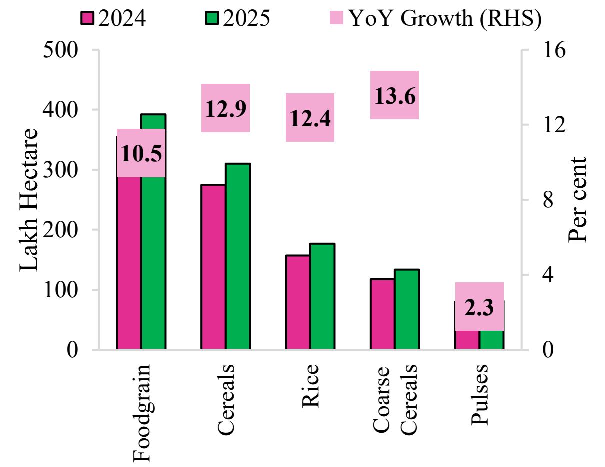
Reservoir levels are at adequate levels



Source: CWC
Note: FRL stands for Full Reservoir Level

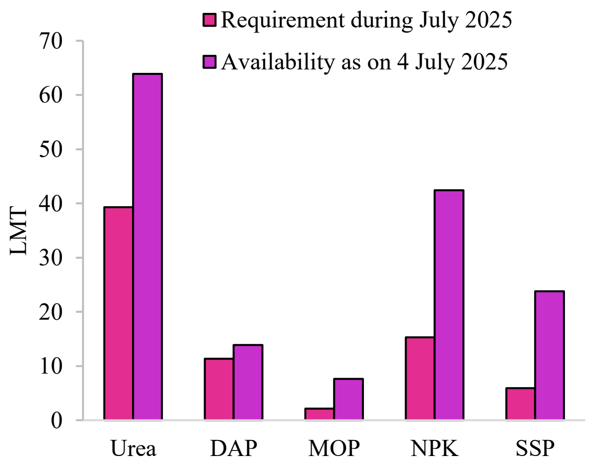
11. As of 18 July 2025, the area sown under kharif foodgrains has seen a notable increase of 10.5 per cent compared to the same period last year. This growth is largely attributed to the expansion in crops, i.e rice and coarse cereals, whose sown areas rose by 12.4 per cent and 13.6 per cent, respectively. Input availability for kharif sowing in July remains strong, with certified seed supply exceeding the required 164.05 lakh quintals by 9 per cent. Also, fertiliser stocks are more than double the monthly requirement for July 2025, ensuring an uninterrupted and smooth progression of the kharif sowing season.

Kharif Sowing as of 18 July 2025



Source: Ministry of Agriculture and Farmers Welfare

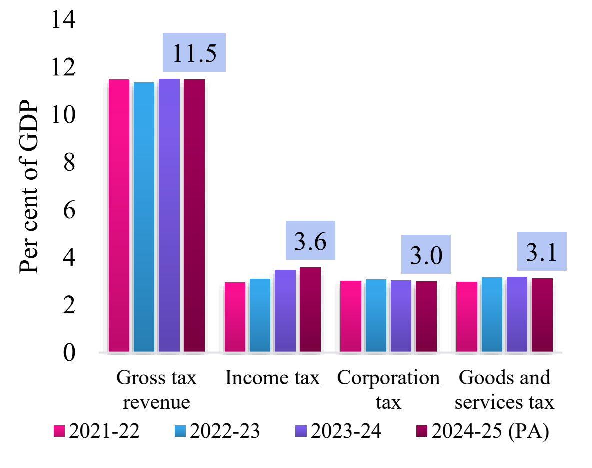
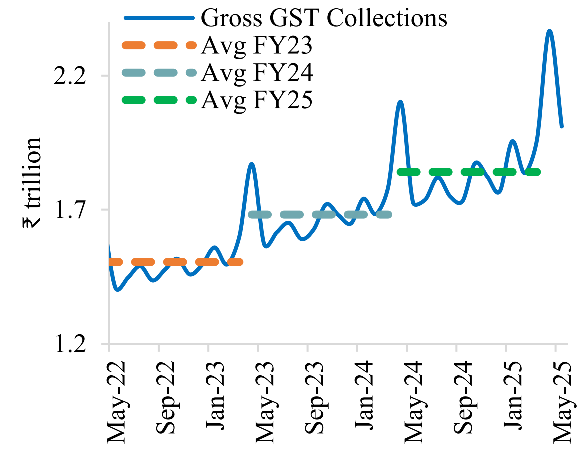
Surplus fertiliser availability for July 2025



Source: CWWG report, Ministry of Agriculture and Farmers Welfare

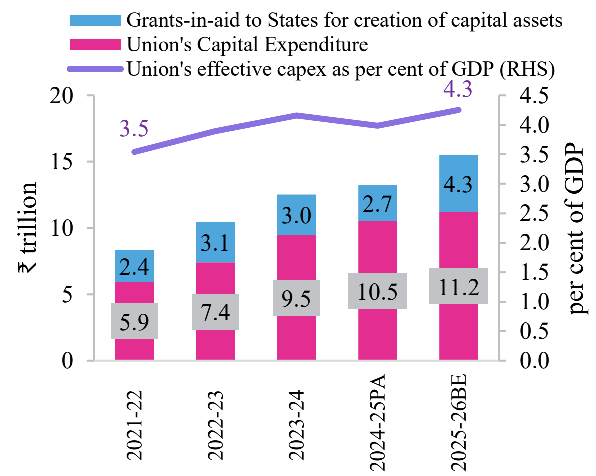
Union finances: Steadfast fiscal consolidation with improving quality of expenditure

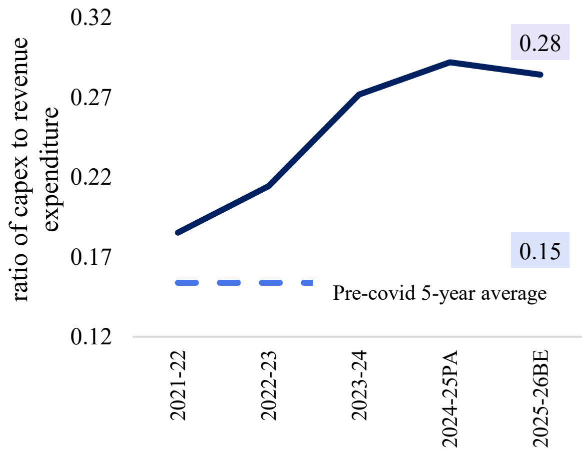
12. The release of provisional actuals (PA) for the financial year 2024-25 reveals continued fiscal consolidation. On the revenue front, gross tax revenue of the Union surged to ₹37.95 trillion in 2024-25 (PA), led by high growth in income tax of 13.2 per cent over the previous year. Average Goods and Services Tax (GST) collections also witnessed a consistent increase on a y-o-y basis. Overall, including non-tax revenue, gross revenue receipts of the Union registered a growth of 12.1 per cent over the previous year. Against this, the growth of net revenue receipts of the Union was lower at 11.3 per cent, owing to increased tax devolution to States, which witnessed a y-o-y growth of 13.9 per cent.

Stable revenue mobilisation trends	Consistent growth in GST collections
	
Source: Union budget documents and CGA	Source: GST portal

13. Stable revenue mobilisation has been accompanied by consistent improvement in the quality of expenditure. Both the Union's capital expenditure as well as grant-in-aid to States for creation of capital assets are seen to double from 2021-22 to 2025-26 (BE). In 2024-25, capital expenditure was ₹10.52 trillion, surpassing the revised estimates. The quality of expenditure, measured as the ratio of capital expenditure to revenue expenditure, has remained higher than 0.27 for the past three years, almost double the pre-COVID average.

Continued enhancement in quality of expenditure

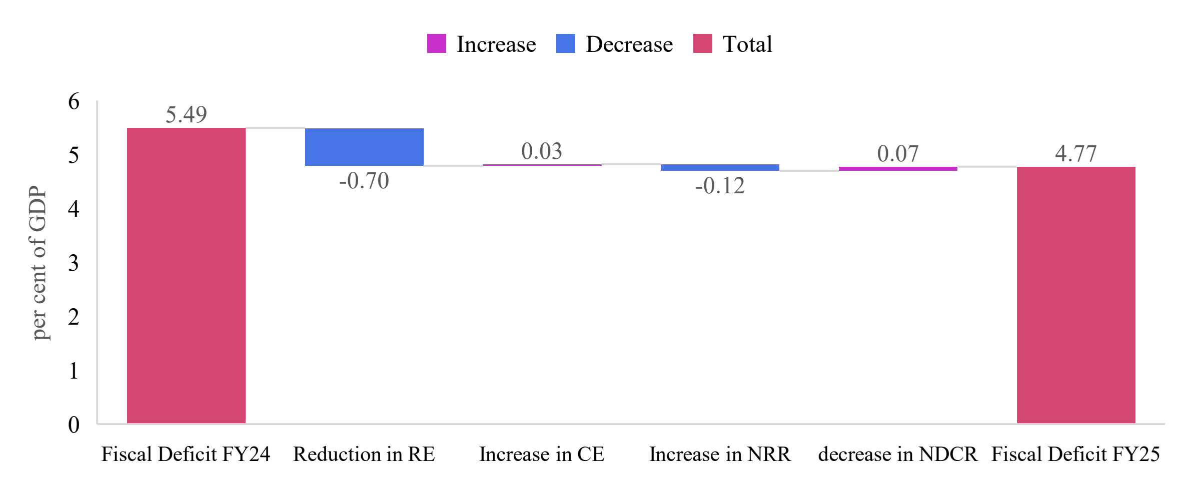




Source: Union budget documents.

14. As may be seen from below, continued rationalisation of revenue expenditure with enhancement of non-debt capital receipts, while sustaining capex, has enabled a faster fiscal consolidation. Fiscal deficit thus reduced by 0.74 per cent of GDP to 4.77 per cent of GDP in 2024-25. During April-May 2025, the fiscal deficit is 0.8 per cent of the 2025-26 budget estimates.

Fiscal consolidation driven by rationalisation of revenue expenditure

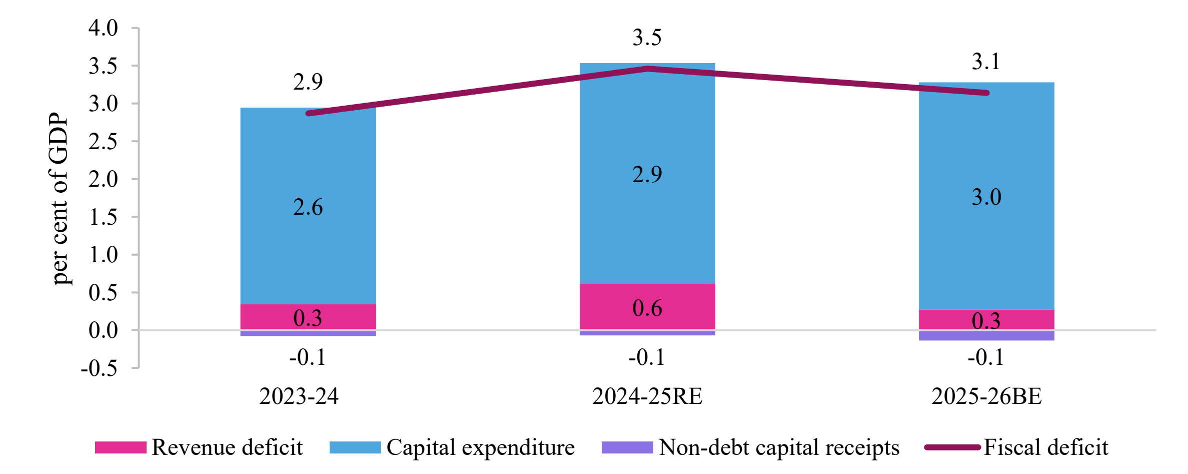


Source: Union budget documents and CGA.
Notes: RE – Revenue Expenditure; CE -Capital Expenditure; NRR – Net Revenue Receipt; NDCR – Non-Debt capital receipts

State finances: Higher capex spend anticipated

15. States have had the benefit of higher finance commission (FC) transfers since tax devolution to States was increased from 32 per cent to 42 per cent by the 14th FC. This has provided more fiscal space to States to undertake capex. Special assistance to States for Capital Investment (SASCI) provided by the Centre in the form of 50-year interest-free loans for capital projects complements the States' effort. While capex induces a higher multiplier effect in the economy, reforms linked to SASCI incentivise States to improve the marginal productivity of capital, which steepens the overall growth trajectory. During 2023-24 to 2025-26BE, fiscal deficit relative to GDP of States combined is seen to increase, with most of the borrowings utilised for capital expenditure. Maintaining revenue balance would contribute further to enhancing productive investments.

Higher thrust on capital expenditure by States' combined

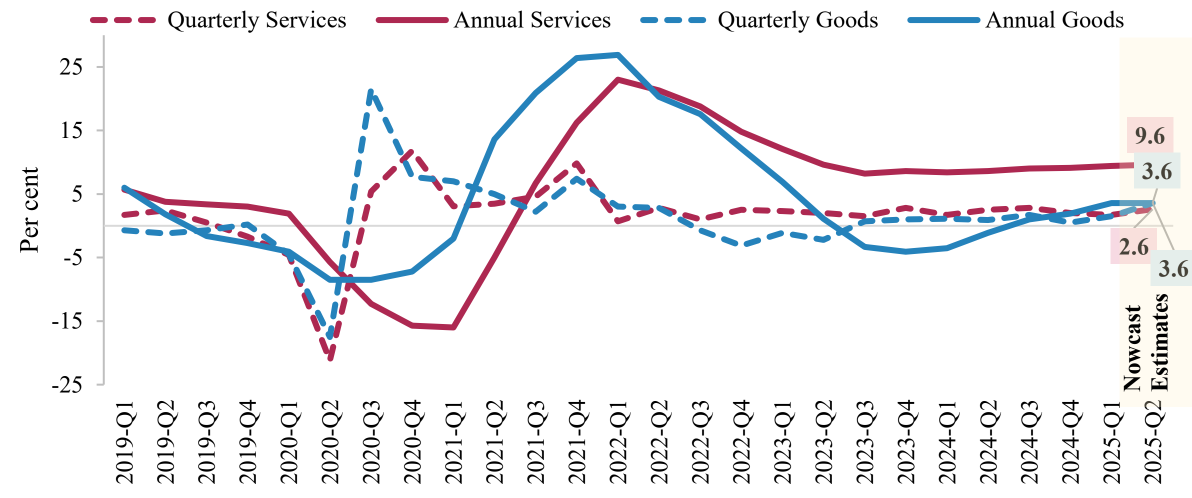


Source: States' budget documents.

Global trade developments

16. Continuing geopolitical tensions have been adding to the uncertainty and complexity of the global trade landscape. Notwithstanding this, global trade growth in goods and services showed resilience in H1 2025, increasing by USD 300 billion. As per UNCTAD's July 2025 update, while global trade growth slowed in Q1 of 2025, it rebounded in Q2 of 2025. Further, developing countries' trade growth lagged behind that of developed countries in Q1 of 2025 despite the former having shown strong performance in recent quarters.

Global trade in goods and services remains strong in the first half of 2025

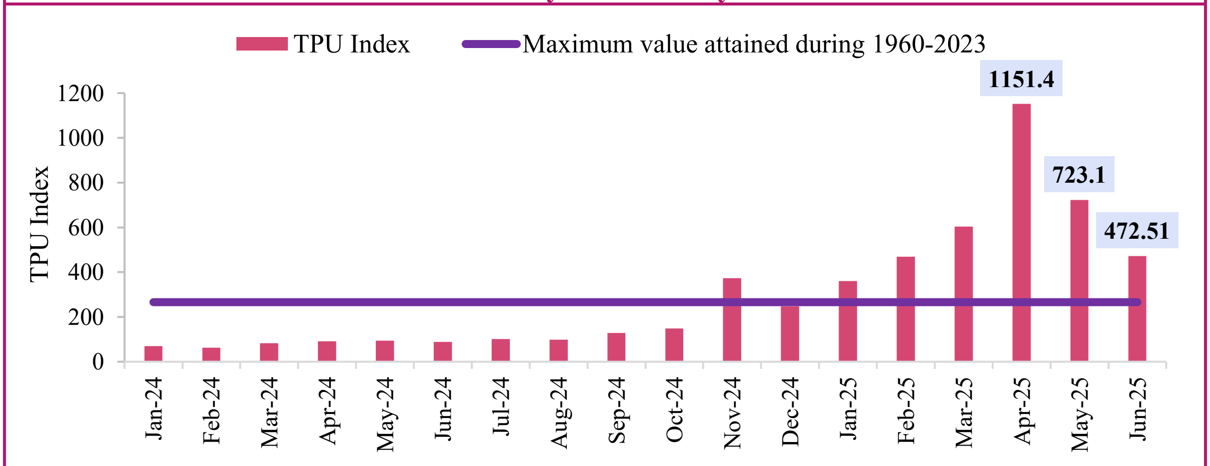


Note: Quarterly growth is the quarter-over-quarter growth rate of seasonally adjusted values.
Annual growth is calculated using a trade-weighted moving average over the past four quarters.
Figures for Q1 2025 are estimates. Q2 2025 is a nowcast as of 17 June 2025.

Source: UNCTAD calculations based on national statistics and UNCTADstat

17. Uncertainty has, however, started to come down since April 2025 (when it peaked) as per the Trade Policy Uncertainty Index, which declined by approximately 35 per cent on a month-on-month basis in June 2025.

Trade Policy Uncertainty Index



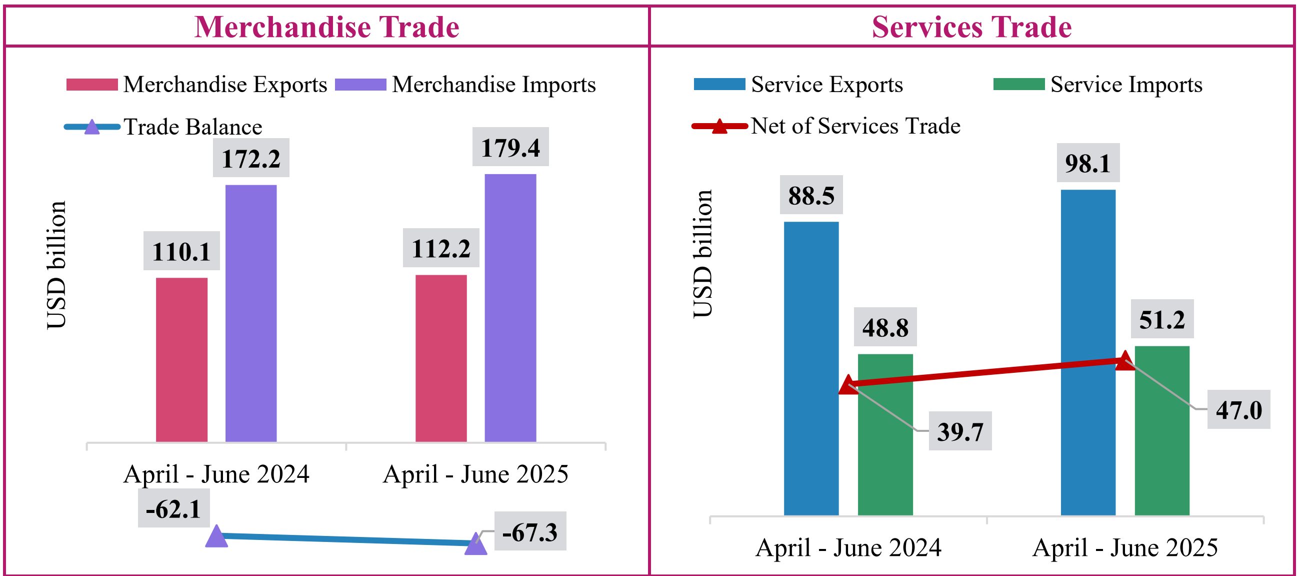
Source: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty"

18. Governments across the world are increasingly engaging in negotiations bilaterally to address trade-related differences, aiming to both mitigate the potential impact of the proposed tariffs and overcome the challenges of an increasingly fragmented global economy. Concurrently, governments are strategically incentivising domestic production in critical sectors and diversifying suppliers across regions in order to develop supply chain resilience and long-term viability of their trade flows.

19. These combined efforts have resulted in incremental progress in several bilateral and plurilateral negotiations, which have shaped key bilateral trends. While there has been a decline in nearshoring and trade concentration, friendshoring continues to demonstrate resilience. Overall, this has led to a gradual increase in trade diversification along with a renewed expansion of trade between geographically distant countries.[1]

India's external sector performance during Q1 FY26

20. In light of the shifting global trade patterns, India's trade performance in Q1 FY26 reflects resilience. The country's total exports (goods & services) have registered a growth rate of 5.9 per cent (YoY) in Q1 FY26, reaching USD 210.3 billion. While merchandise exports have grown by 1.9 per cent (YoY), services exports grew by 10.9 per cent (YoY) during the period. This strength in the services exports has generated a net services surplus of USD 46.9 billion, which narrowed the trade deficit to USD 20.3 billion, a reduction of 9.4 per cent compared to Q1 FY25.[2]



Source: Department of Commerce

[1] Global Trade Update, UNCTAD (July 2025)

[2] The latest data for the services sector released by the RBI is for May 2025. The data for June 2025 is an estimation, which will be revised based on the RBI's subsequent release.

21. During the same period, core merchandise exports continued to grow strongly by 7.2 per cent (YoY), mainly driven by electronic goods that have grown by 47.1 per cent (YoY).[3] Petroleum products exports fell starkly by 15.6 per cent (YoY) during Q1 FY26. Similarly, merchandise imports have increased by 4.2 per cent (YoY); the petroleum, crude and products imports fell by 4.4 per cent (YoY). This reduction is likely attributable to the softening of the average Crude Oil FOB Price (Indian Basket), which has decreased to USD 67.2 per barrel in Q1 FY26 from USD 85.2 per barrel in Q1 FY25.

22. India's trade performance in June 2025 reflects prevailing quarterly trends. Merchandise exports remained stable at USD 35.1 billion, similar to their level in June 2024, although core merchandise exports registered a 4.8 per cent (YoY) increase. Merchandise imports decreased by 3.7 per cent (YoY), primarily driven by falling gold imports and petroleum, crude and products. Notably, in June 2025, gold imports decreased by 27.6 per cent month-on-month from May 2025, which can be attributed to import restrictions implemented in June 2025.[4] Robust services exports in June 2025 generated a net services surplus of USD 15.3 billion. As a result, the overall trade deficit narrowed to USD 3.5 billion in June 2025, representing a reduction of 51.9 per cent compared to June 2024.

23. Building on its resilient trade performance and amid the global shift towards diversification and strategic realignment, India is actively pursuing a diversified trade strategy. This includes engaging in FTA negotiations with the US, New Zealand, Chile and Peru. Given the US's position as India's key export destination, the two countries are finalising a bilateral trade.[5] Furthermore, a NITI Aayog report, which, inter alia, analyses the impact of recent US tariffs on India, underscores the country's relative advantage to expand market share in sectors like pharmaceuticals, textiles, and electrical machinery, capitalising on this strategic window. According to the report, India's average tariff exposure to the US remains moderate up to the July 10, 2025, policy announcements. This shift in policy offers a distinctive strategic opportunity for Indian exporters that encompasses over 61 per cent of the trade value within the top 30 HS-2 product categories and 52 per cent in the top 100 HS-4 product categories.[6]

Developments in India's Balance of Payments during FY25

Current Account Balance

24. India's current account recorded a surplus of USD 13.5 billion (1.3 per cent of GDP) in the Q4 FY25, marking a turnaround from a deficit of USD 11.3 billion (1.1 per cent of GDP) in

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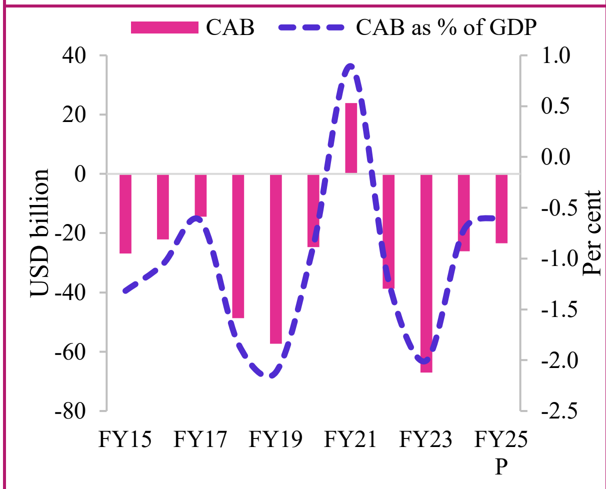
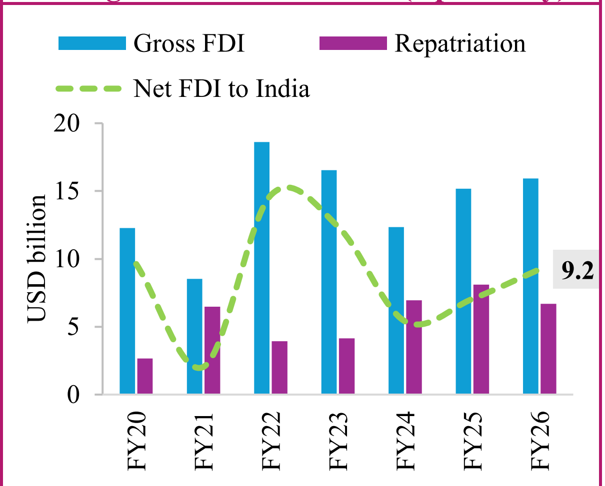
[3] Core merchandise exports are merchandise exports excluding the categories of petroleum, gems and jewellery.
[4] The Directorate General of Foreign Trade (DGFT), Ministry of Commerce and Industry, issued Notification No. 18/2025-26 dated June 17, 2025, to restrict the import of alloys of Palladium, Rhodium, and Iridium containing more than 1% gold by weight: https://tinyurl.com/5n94rx6z
[5] PIB press release of the Ministry of Commerce and Industry, dated March 29, 2025 https://tinyurl.com/bddyu6vz
[6] Niti Aayog's Trade Watch Quarterly, October-December (Q3) FY25: https://tinyurl.com/drxczxdz

the previous quarter. In FY25, the current account deficit (CAD) narrowed to 0.6 per cent of GDP (USD 23.3 billion), an improvement from 0.7 per cent (USD 26.0 billion) in FY24. This improvement was primarily driven by a stronger performance in net invisibles, particularly due to robust growth in services exports and private remittances.[7]

Current Account Balance



Foreign Direct Investment (April-May)



Source: RBI

25. Remittance inflows reached a record USD 135.5 billion in FY25, registering a 14 per cent (YoY) increase and solidifying India's position as the world's leading destination for global remittances. These inflows now comprise over 12 per cent of total current account receipts in FY25 and play a crucial role in supporting household consumption and maintaining macroeconomic stability.

Capital Flows

26. In the face of ongoing global uncertainty, India achieved a capital and financial account surplus of USD 21.7 billion in FY25 on account of higher NRI deposits (USD 16.2 billion) and external commercial borrowings (USD 18.4 billion). However, during FY25, both net Foreign Direct Investment (FDI) and net Foreign Portfolio Investment (FPI) inflows declined vis-à-vis FY24, primarily influenced by cautious global investment trends shaped by geopolitical tensions and tighter financial conditions worldwide.

Early Signs of Rebound in FY26: Green Shoots Emerge

27. Encouragingly, early data from FY26 indicate the potential for a turnaround in foreign investment flows. flows. Gross FDI inflows grew by 5 per cent (YoY) in April-May FY26 and stood at USD 15.9 billion. There are notable improvements in equity inflows and a lower

[7] As per BPM5, Invisible transactions are further classified into three categories, namely (a) Services (travel, transportation, insurance, Government not included elsewhere (GNIE) and miscellaneous (such as, communication, construction, financial, software, news agency, royalties, management and business services, etc); (b) Transfers (Official and Private); (c) Income (Investment income & compensation of employees)

incidence of repatriations, signalling fresh confidence in India's long-term growth prospects, particularly in sectors like digital infrastructure and manufacturing.[8]

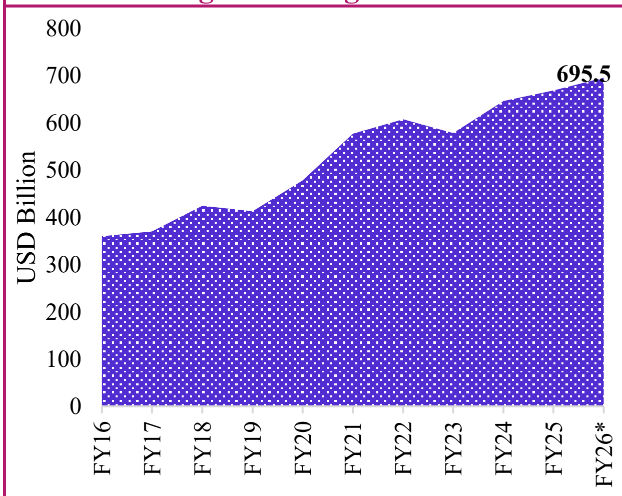
28. On the portfolio investment side, net FPI amounted to USD 0.4 billion during Q1 FY26. While the debt segment witnessed outflows of USD 4.1 billion, these were offset by inflows of USD 4.5 billion in the equity segment. This suggests that global investors are selectively re-entering Indian equities, driven by expectations of stable inflation, credible fiscal consolidation, and ongoing growth in domestic demand.

29. During July 2024 to mid-July 2025, there has been a cumulative inflow of USD 7.5 billion through the Fully Accessible Route (FAR). India's inclusion in JP Morgan's Emerging Market Global Bond Index (from June 28, 2024) and Bloomberg's Emerging Market Local Currency Government Index (from January 31, 2025) appears to have facilitated foreign investment into the Indian government bond market, especially through the FAR. To sustain these inflows, SEBI has eased certain regulations for foreign funds investing in local government bonds, while the RBI has permitted the operation of electronic trading platforms to encourage greater foreign participation.[9,10]

Foreign Exchange Reserves and Exchange Rate

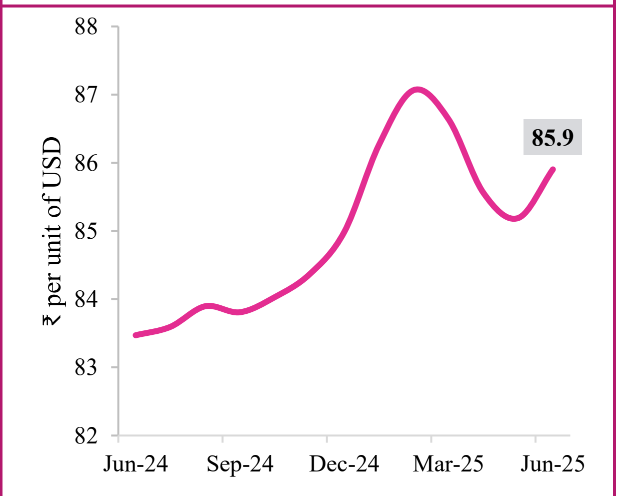
30. India's foreign exchange reserves stood at USD 695.5 billion as of July 18, 2025, having briefly crossed the USD 700 billion mark in the week ending June 27, 2025. These reserves provide 11.5 months of import cover and cover around 94.6 per cent of India's total external debt as of end-March 2025.

Foreign Exchange Reserves



Source: RBI
*FY26 till July 18, 2025

INR vis-à-vis US Dollar



Source: RBI
The data represents the average monthly exchange rate.

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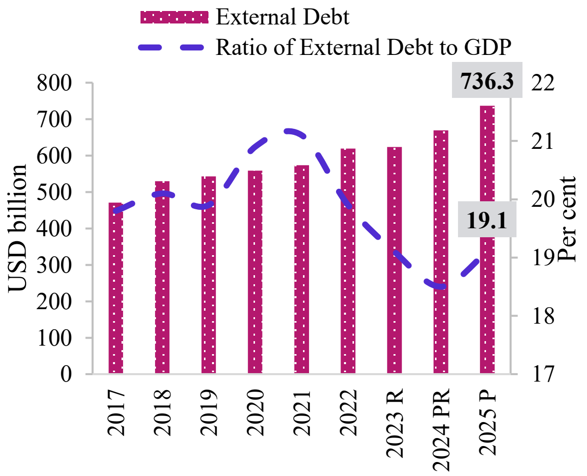
[8] World Investment Report 2025, UNCTAD
[9] Press release of SEBI dated June 18, 2025: https://tinyurl.com/5ent7pft
[10] RBI's Master Direction – Reserve Bank of India (Electronic Trading Platforms) Directions, 2025: https://tinyurl.com/ycdpzbej

31. The Indian rupee depreciated marginally by 0.8 per cent M-o-M in June 2025 to an average of ₹85.9 per USD compared to ₹85.2 in May 2025. Despite external headwinds, ranging from brief conflict in the Middle East to fluctuations in oil price, the exchange rate fluctuations were limited, with monthly volatility for June 2025 remaining low at 0.5 per cent.[11]

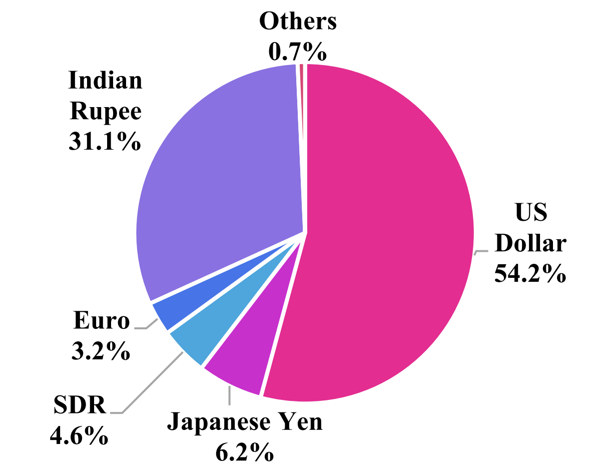
External Debt- Status as at end-March 2025

32. India's external debt stood at USD 736.3 billion as of end-March 2025, up from USD 668.8 billion a year earlier. As a share of GDP, external debt rose to 19.1 per cent from 18.5 per cent a year ago. A part of this increase reflects valuation effects arising from the appreciation of the US dollar against the rupee and other major currencies, which added USD 5.3 billion to the debt stock. In terms of composition as of end-March 2025, USD-denominated debt remained dominant, accounting for 54.2 per cent of the total, followed by rupee, yen, and SDRs[12] and euro-denominated debt.

External Debt to GDP moderates



External Debt Currency Profile as of end March 2025



Source: India's External Debt Quarterly Report, RBI

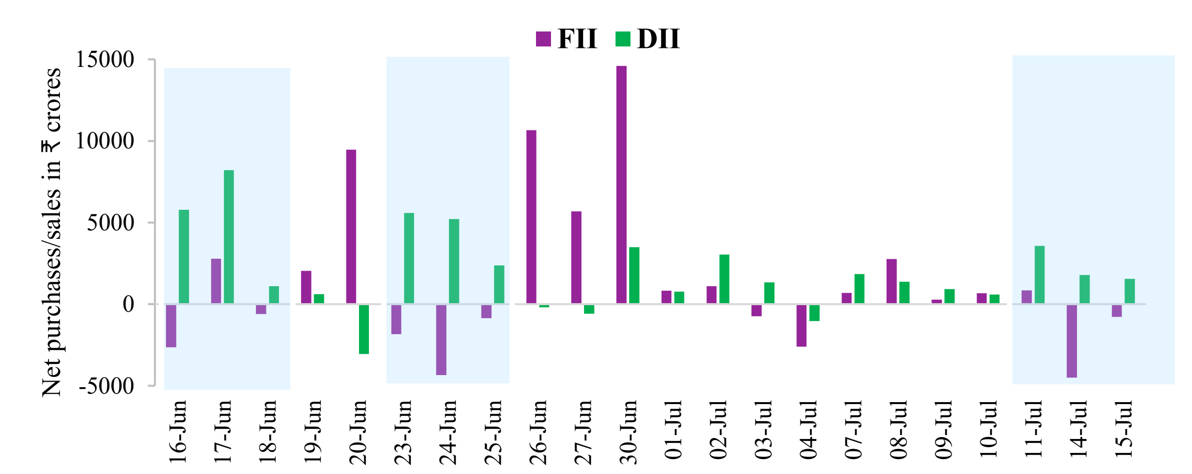
Monetary and financial sector developments

33. Global trade uncertainty has heightened volatility in financial markets, weakening the traditional "flight-to-safety" mechanism.[13] This volatility initially led to a rise in yields on government bonds due to trade concerns, though they later fell amid fiscal sustainability issues in major economies. Notably, as prospects for trade deals improved, financial market volatility subsided, underscoring the importance of resolving policy uncertainty for effective market functioning. Against this global backdrop, India's financial markets have demonstrated notable resilience, primarily driven by strong domestic investor participation.

[11] For INR vis-à-vis USD, volatility is measured as the coefficient of variation (100*Standard Deviation/Mean) using daily exchange rate data for the month of June 2025.
[12] Special Drawing Rights
[13] Financial Stability Report, RBI (June 2025)

34. This domestic strength was particularly evident in the equity market, where domestic institutional investors (DII) remained large net buyers, purchasing equity worth ₹44,269 crores between mid-June to mid-July. (June 16, 2025 to July 15, 2025). This period also saw foreign institutional investors (FIIs) undertake comparable net purchases of equities worth ₹33,336.8. Even so, in as many as 8 days between mid-June to mid-July (blue zones in the chart) DIIs stabilised markets as net-buyers while FIIs undertook net-sales of equities.

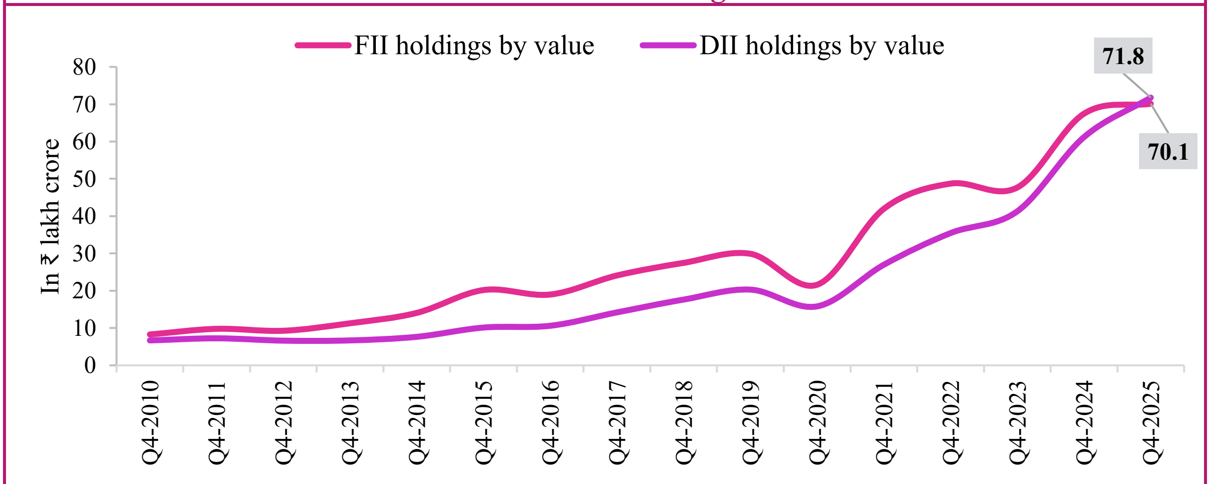
Net purchases/sales by FIIs and DIIs



Source: NSDL and BSE

35. The increasing significance of DIIs as large net-buyers is further reflected in their rising shareholding. According to data compiled and published by PRIME Infobase, the value of DII holdings surpassed the value of FII holdings for the first time in Q4-2025.[14] As shown in the chart below, DII holdings have shown a consistent upward trend since 2010, a trend that continues to play a crucial role in stabilising India's capital market amidst volatile global financial flows.

Value of DII and FII holdings over time



Source: Data by PRIME Infobase

[14] PRIME Infobase: https://tinyurl.com/5eufze7j

36. In accordance with the stability observed in the equity market, short-term G-Secs exhibited a decline in yields following the 50-bps repo rate cut in the Monetary Policy meeting of June 2025. On the other hand, the 10-year G-Sec yield marginally increased from 6.31 per cent to 6.37 per cent between mid-June (June 13, 2025) and mid-July (July 17, 2025).

Banking sector performance

37. The banks have strengthened their capital and liquidity buffers while improving their asset quality, which remains crucial for the resilience of the Indian financial system. According to the RBI's Financial Stability Report, June 2025, the Gross Non-Performing Asset (GNPA) ratio and the Net Non-Performing Asset (NNPA) ratio of the scheduled commercial banks (SCBs) are at a multi-decade low of 2.3 per cent and 0.5 per cent, respectively, complemented with strong earnings. Additionally, the results of macro stress tests indicate that the aggregate capital levels of SCBs will continue to remain above the regulatory minimum, even in adverse stress scenarios.

38. As of June 27 2025, the YoY credit growth of the SCBs has moderated to 10.4 per cent, a decrease from 13.9 per cent recorded a year ago. Concurrently, the deposit growth has also moderated to 10.3 per cent YoY, down from 10.6 per cent a year ago. This has resulted in the credit-deposit ratio of 77.4 per cent, similar to what was observed in June 2024.[15]

Seasonal trends in the Labour Market

39. The monthly Periodic Labour Force Survey (PLFS) bulletin for June 2025 informs that the labour force participation rate (LFPR), as per the current weekly status (CWS), among persons aged 15 years and above, was 54.2 per cent compared to 54.8 per cent in May 2025. The worker population ratio (WPR) also experienced a marginal decline from 51.7 per cent in May 2025 to 51.2 per cent in June 2025. At the same time, the unemployment rate (UR) remained at 5.6 per cent. According to the report, the marginal decline in monthly LFPR and WPR is attributed to a combination of factors such as seasonal agricultural patterns, intense summer heat limiting outdoor physical work, and a shift of some unpaid helpers, particularly from higher-income rural households, towards domestic chores.

40. The Naukri JobSpeak June 2025 report signals a bounce back of India's white collar job market in June 2025, with an increase in hiring activity across industries, cities, and experience levels. The index rose to 2,854 in June 2025, marking a 10.5 per cent YoY rise in white collar hiring. This rise in hiring was led by the insurance sector (+ 32 per cent YoY), followed by hospitality and travel (+ 21 per cent YoY), BPO and ITES (+ 19 per cent YoY), real estate (+ 16 per cent YoY), oil and gas/power (+ 15 per cent YoY) healthcare (+ 11 per cent YoY), and education and FMCG (+ 10 per cent YoY). AI and machine learning roles saw 42 per

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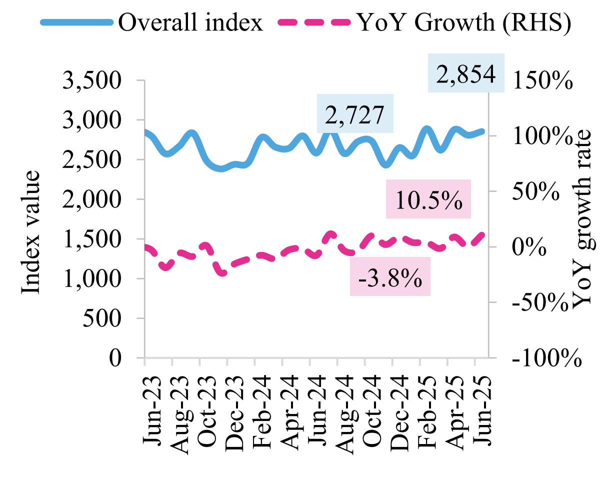
[15] RBI's weekly statistical supplement dated July 11, 2025: https://tinyurl.com/bddae6r3

cent YoY growth, and hiring in global capability centres grew by 9 per cent. Fresher hiring saw a remarkable 11 per cent YoY rise in June 2025.

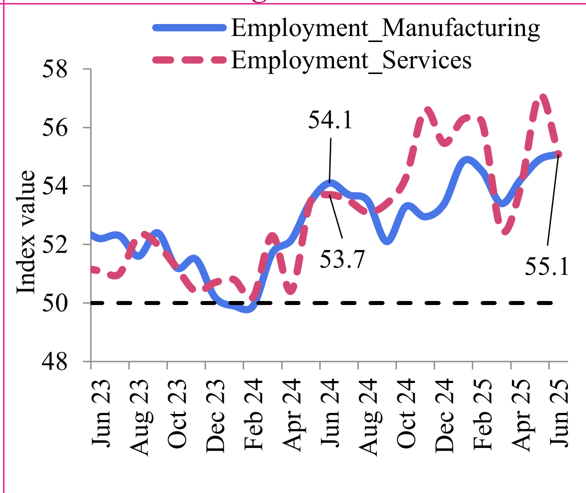
41. Job creation in India's manufacturing and services sectors continues to rise, with the PMI employment sub-index remaining in the expansionary zone for the 16th consecutive month. The PMI employment sub-index was at 55.1 for manufacturing and services. While the rate of employment growth in manufacturing marked an increase, it eased in the services sector from the record levels seen in May 2025.

Trends in Naukri JobSpeak index



Source: Naukri JobSpeak

Employment growth in the Manufacturing and Services sector



Source: HSBC PMI

Formalisation of the job market

42. Job creation in the formal sector has been accelerating over the years, as reflected in a net monthly payroll addition under the Employees Provident Fund Organisation (EPFO), signalling increased formalisation of the economy. The EPFO recorded its highest-ever monthly net payroll addition of 20.06 lakh members in May 2025, since it began tracking payroll data in April 2018. An analysis of new subscriber data reveals that 59.5 per cent of the new members added in May 2025 were in the 18-25 age group, while 22.8 per cent were in the 26-35 age group, and 16.6 per cent were over 35 years old. This distribution indicates that the majority of individuals entering the organised workforce are young adults, primarily first-time job seekers. In May 2025, approximately 2.6 lakh new female subscribers joined the EPFO, marking a 5.8 per cent increase compared to May 2024. This growth in the number of female members indicates a significant shift towards a more inclusive and diverse workforce.

43. The rise in workforce formalisation has been a result of consistent government efforts to generate employment opportunities for the aspiring workforce. Pushing these efforts forward, the Union Cabinet on 1 July 2025 approved the Employment Linked Incentive (ELI) scheme. The scheme was introduced in the Union Budget 2024-25 as part of the Prime Minister's package

of five schemes aimed at providing employment, skill development, and other opportunities for 4.1 crore youth, with a total budget allocation of ₹ 2 lakh crore.

44. With an outlay of ₹ 99,446 crore, the ELI scheme aims to incentivise the creation of more than 3.5 crore jobs in the country over a period of 2 years, with special focus on the manufacturing sector. Out of these, 1.92 crore beneficiaries will be first-time job seekers. The scheme will boost the formalisation efforts of the government by extending social security coverage for crores of young men and women.[16]

National Indicator Framework Progress Report

45. The Government's inclusive approach towards economic development is guided by the principle of 'Sabka Sath, Sabka Vikas, Sabka Vishwas, Sabka Prayas'. The Government's efforts to provide affordable housing, social security for workers, food security, financial inclusion, universal access to basic amenities and high-quality affordable healthcare are instrumental in improving the overall well-being and standards of living. The Ministry of Statistics and Programme Implementation's (MoSPI) latest Sustainable Development Goal (SDG) National Indicator Framework (NIF) Progress Report, 2025, provides a comprehensive picture of the impact of these initiatives in achieving SDG targets.[17]

46. According to the report, the population covered by social protection systems has increased from 22 per cent in 2016 to 64.3 per cent in 2025, indicating a substantial expansion in social security coverage in the country. In addition, the proportion of the population that is multidimensionally poor has decreased from 24.9 per cent in 2015-16 to 15 per cent in 2019-21. This achievement is a testament to the government's commitment towards inclusive growth.

47. Government's initiatives for improving access to basic amenities are reflected in the rise in percentage of population using an improved drinking water source in rural areas, which has increased from 94.6 per cent in 2015-16 to 99.6 per cent in 2024-25. Universal household electrification has been achieved by 2021-22, while 100 per cent of the districts have achieved the Open Defecation Free (ODF) target by 2024-25.

Nutritional intake trends

48. The recently released MoSPI report 'Nutritional Intake in India' provides information on the nutritional intake with estimates of per capita intake of energy (calories), protein and fat.[18]

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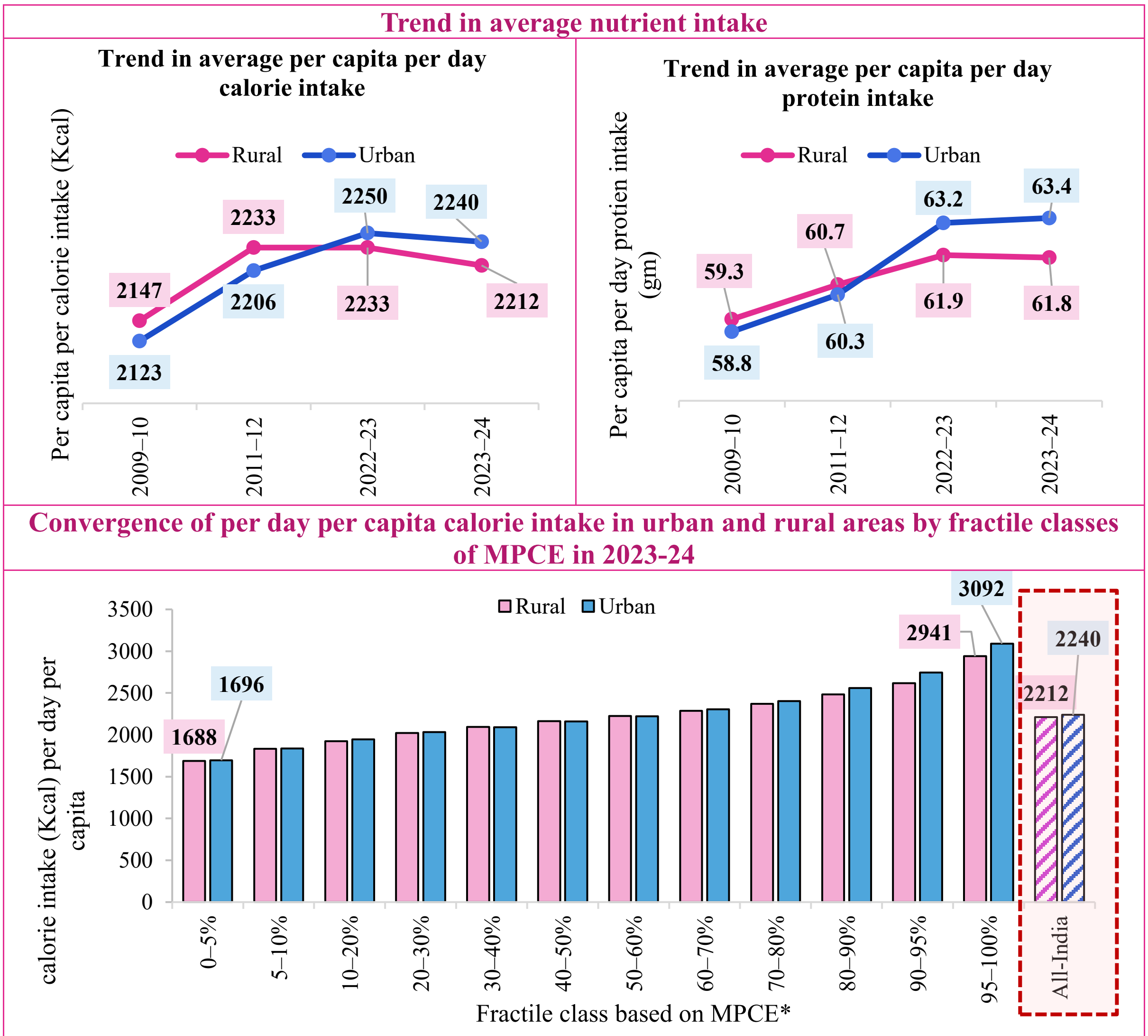
[16] PIB release of Cabinet dated 1 July 2025 : https://www.pib.gov.in/PressReleseDetail.aspx?PRID=2141127

[17] SDG National Indicator Framework (NIF) Progress Report, 2025: https://tinyurl.com/9tcb5p4p

[18] The report uses data collected during the household consumption expenditure survey 2022-23 and 2023-24 on consumption of food items by the members of the households during specified reference periods. Based on the food consumption data and utilizing the nutrient content values of different food items estimates of per day per capita and per day per consumer unit intake of calorie, protein and fat has been generated at various levels of disaggregation, namely, State, sector, fractile classes of MPCE, etc.

The data indicates an increase in the daily per capita intake of both calories and protein from 2009-10 to 2023-24 for rural and urban areas at the all-India level.[19]



Source: Nutritional Intake in India, MoSPI

Note: The fractile classes of the population distribution by MPCE are formed separately for rural and urban sectors at the all-India level.

49. A notable observation from the 2023-24 data is the convergence in calorie intake amongst urban and rural populations across different classes of monthly per capita expenditure (MPCE). At nearly every income level, calorie intakes for rural and urban populations are very similar, suggesting a narrowing nutritional gap. The data also highlights a positive correlation between rising consumption expenditure and calorie intake. With an increase in the MPCE, the average calorie intake also increases in rural as well as urban India.[20]

[19] The data for 2009-10 is based on NSS's 66th round (2009-10), and data for 2011-12 is based on NSS's 68th round (2011-12) consumer expenditure survey. The data for 2022-23 and 2023-24 is based on household consumption expenditure survey conducted during August 2022 – July 2023 and August 2023 – July 2024.

[20] Nutritional Intake in India (2022-23 and 2023-24): https://tinyurl.com/ycyu9b4p

50. The nutritional intake trends set the broader context of India's progress and commitment to achieving SDG-2: Zero Hunger, which focuses on eliminating hunger and improving nutrition outcomes. The Government of India has launched initiatives like the National Food Security Act of 2013, one of the largest food security programs globally, to guarantee food security for all. Additionally, programs such as Saksham Anganwadi and POSHAN 2.0, Pradhan Mantri Matru Vandana Yojana (PMMVY) and Poshan Shakti Nirman focus on improving the nutritional status of adolescent girls, pregnant and lactating women, and school-going children.

51. The national programs play a vital role in setting the tone of the policy framework. It is the states that implement the programmes on the ground. State-level innovations are powerful tools for addressing local challenges and issues. One such example is Rajasthan's Cash Plus Model, which integrates direct benefit transfers with behaviour change interventions to tackle child and maternal undernutrition in the state. The state government released a project report on 23 January 2025, highlighting the model's success in driving positive behavioural change across the state (discussed in Box I).[21] The learnings from the programme can inform implementation strategies across other States to better achieve scheme outcomes.

Box I: Leveraging social & behaviour change communication (SBCC) to improve scheme outcomes: Lessons from the Rajasthan Cash Plus Model

According to the NFHS V (2019-21), in Rajasthan, one in three children, under five years of age, is stunted (31.8 per cent), while one in five is wasted (16.8 per cent), and one in three is underweight (27.6 per cent).[22] These statistics highlight the significant burden of undernutrition among young children in the state. To tackle the prevalence of low birth weight and wasting among children in the State, the government of Rajasthan launched the Cash Plus model. [23]

This model implements the SBCC strategy along with direct benefit transfer under the PMMVY and the state-funded Indira Gandhi Matritva Poshan Yojana (IGMPY). Under the initiative, a state-specific behaviour change strategy was implemented in five tribal districts[24] on a pilot basis. The Cash Plus pilot is an example of how cash transfer schemes, combined with SBCC, can enhance the outcome of social welfare initiatives. The behaviour change communication strategy ensures informed decision-making by beneficiaries, shifts in social attitudes, breaks down myths and encourages community participation. These behavioural change interventions ensure that the financial transfer is utilised by the beneficiaries in the desired manner.

[21] RajPusht Cash plus behaviour change project report: https://wcd.rajasthan.gov.in/order/detail/1022/0/199715
[22] Rajasthan NFHS V (2019-21) Factsheet: https://www.nfhsiips.in/nfhsuser/publication.php
[23] https://rajpusht.in/about/
[24] Udaipur, Dungarpur, Pratapgarh, Banswara and Baran

The communication strategy was to adopt a multi-pronged approach with the Anganwadi workers (AWWs) playing a key role. The AWWs were provided with special training and reference material to provide nutrition counselling during home visits and to conduct group counselling on maternal and child health. Simultaneously, ANMs (Auxiliary Nurse Midwives) were trained to provide individual counselling. To encourage community participation, ASHA workers organised meetings of Village Health Sanitation and Nutrition Committees, providing an opportunity for the community to discuss nutrition and health issues in these meetings. Apart from this, awareness was raised through community programmes like Godh Bharai, Annaprashan, etc.

Adding to these community-level efforts, multimedia platforms were utilised to spread messages about the scheme and to educate people on nutrition through street plays, puppetry, and wall paintings. Male participation was encouraged through a targeted digital media campaign, which encouraged them to break nutrition stereotypes and highlighted their role in promoting the health of mother and child. Additionally, nutrition and health messages were publicised through hoardings, newspapers, and radio programs.

Together, these initiatives led to several positive outcomes, as highlighted in the recently released report card on the model. As a result of this initiative, compared to 2021, 54 per cent more women are using cash specifically for nutrition; 49 per cent more women are using local food items for improvement in dietary diversity. Compared to 2021, 35 per cent more women have gained substantial weight during pregnancy, and a more diverse diet is being provided to children above 6 months of age.[25]

Notably, the use of SBCC is not new in the Indian context. Flagship schemes like *Swachh Bharat Abhiyan, Jal Jeevan Mission, Saksham Anganwadi and Poshan 2.0* have integrated SBCC as part of the scheme implementation. Going forward, states may come up with local strategies that institutionalise SBCC as a core component of welfare schemes. These strategies, with sufficient resources, have the potential to drive behaviour change and enhance outcomes, resulting in a sustainable, long-term impact from the interventions.

Outlook

52. The Indian economy in mid-2025 presents a picture of cautious optimism. Despite global headwinds marked by trade tensions, geopolitical volatility, and external uncertainties, India's macroeconomic fundamentals have remained resilient. Aided by robust domestic demand, fiscal prudence and monetary support, India appears poised to continue as one of the fastest-growing major economies, with various forecasters, including S&P, ICRA, and the RBI's

[25] Ibid note 21

Survey of Professional Forecasters, projecting GDP growth rates for FY26 in the range of 6.2 per cent and 6.5 per cent.

53. India's economic activity in Q1 FY26 was underpinned by strong domestic demand, robust services growth, and encouraging signs from manufacturing and agriculture. Agricultural activity received a significant lift from a favourable southwest monsoon, which arrived early and has so far delivered above-normal rainfall. Fertiliser availability and reservoir levels are more than adequate, suggesting a strong outlook for the kharif sowing and harvest and consequent rural income and demand. The agriculture sector's steady performance continues to serve as a stabilising pillar for the broader economy and bolsters the rural outlook. According to NABARD's rural sentiment survey, over 74.7 per cent of rural households expect income growth in the coming year, the highest since the survey's inception.

54. Core inflation remains subdued, and overall inflation is comfortably below the RBI's 4 per cent target, affording room for the easing cycle to be sustained. Reserve Bank of India has projected headline inflation at 3.4 per cent for the Q2 of FY26, while in Q1, actual inflation came below the Q1 target of the RBI. It appears likely that the full fiscal year inflation rate would undershoot the central bank's expectation of 3.7 per cent. Also, global crude oil prices are expected to remain subdued, following a larger-than-anticipated production hike by OPEC and its allies, who raised output by 548,000 barrels per day in August, on top of the production increases announced for the previous months. On the fiscal front, both the Union and State governments have maintained momentum in capital expenditure while adhering to consolidation goals. The revenue sources remain buoyant despite the tax cuts, continuing on the double-digit growth path.

55. Despite monetary easing and a strong bank balance sheet, credit growth has slowed, reflecting cautious borrower sentiment and possibly risk-averse lender behaviour. A growing preference for bond markets, particularly commercial papers among corporates due to lower borrowing costs, may also explain the shift. Piggybacking on initiatives like the Employment Linked Incentive (ELI) scheme, it is time for corporates to set the ball in motion.

56. Despite the broadly positive outlook, downside risks remain. While geopolitical tensions have not elevated further, the global slowdown, particularly in the US (which shrank by 0.5 per cent in Q1 2025), could dampen further demand for Indian exports. Continued uncertainty on the US tariff front may weigh on India's trade performance in the coming quarters. Slow credit growth and private investment appetite may restrict acceleration in economic momentum. Further, given the deflationary trend in the wholesale price index, one has to observe economic momentum in nominal quantities. Measured in constant prices, economic activity may appear healthier than it is. All that said, the economy has the look and feel of "steady as she goes" as far as FY26 is concerned. In the medium term, given the ongoing momentous shifts in

global supply chains in the areas of semiconductor chips, rare earths and magnets, India has its task cut out.

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Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr-May	48.9	51.3	58.3	-1.6	4.8	13.7
Domestic Tractor Sales	Lakh	Apr-June	2.6	2.6	2.9	-1.9	0.5	9.2
Foodgrain Production	Mn Tonnes	3rd AE	328.9	354		-0.5	7.6	
Reservoir Level	Bn Cu. Metres	17-Jul	68.9	52.7	104.4	-26.3	-23.5	98.1
Wheat Procurement (RMS)	LMT	17-Jul	260.7	265.9	299.2	39.1	2	12.5
Kharif Sowing (Foodgrain)	Mn Hectare	18-Jul	36.1	35.5	39.2	-9.7	-1.6	10.5
Rainfall	Millimeters	27-Jul	420.3	419.6	440.1	-31.2	-0.7	20.5
Credit to Agri and allied activities	₹ Lakh crore	May	17.6	21.4	23.0	16.1	21.5	7.5
Industry								
IIP	Index	Apr - May	143.2	151.4	154.2	5.1	5.7	1.8
8-Core Industries	Index	Apr - Jun	154.8	164.5	166.7	5.2	6.3	1.3
Domestic Auto sales	Lakh	Apr - Jun	49.9	60.3	57.2	9.0	20.8	-5.1
PMI Manufacturing	Index	Apr - Jun	57.9	58.2	58.1	6.4	0.5	-0.2
Power consumption	Billion kWh	Apr - Jun	412.5	451.8	445.6	3.4	9.5	-1.4
Natural gas production	Bn Cu. Metres	Apr - May	5.7	6.1	5.9	-0.7	7.0	-3.3
Cement production	Index	Apr - May	191.9	191.5	206.4	12.7	0.5	8.4
Steel consumption	Mn Tonnes	Apr - May	20.9	23.5	25.1	12.1	15.3	7.9

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
Inflation								
CPI-C	Index	April-June	179.4	188.2	193.3	4.6	4.9	2.7
WPI	Index	April-June	149.8	153.5	154.0	-2.9	2.5	0.4
CFPI	Index	April-June	178.3	194.2	195.2	3.8	8.9	0.6
CPI-Core	Index	April-June	178.3	183.9	191.8	5.2	3.1	4.3
Services								
Domestic Air Passenger Traffic	Lakh	April-May	518.7	544.2	577.1	19.0	4.9	6.0
Port Cargo Traffic	Million tonnes	April-June	200.5	208.4	220.2	1.9	3.9	5.6
PMI Services	Index	April-June	60.6	60.5	59.3	1.9	-0.1	-1.2
Fuel Consumption	Million tonnes	April-June	58.9	61.2	61.8	6.4	3.9	1.1
UPI (Volume)	Crore	April-June	2764.8	4,122.5	5496.6	58.9	49.1	33.3
E-Way Bill Volume	Crore	April-June	25.9	30	36.1	15.8	16.0	20.5
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	April-May	4.0	4.6	5.2	-1.6	15.8	12.1
Revenue Expenditure	₹ Lakh crore	April-May	4.6	4.8	5.2	-4.3	4.7	9.4
Capital Expenditure	₹ Lakh crore	April-May	1.7	1.4	2.2	56.7	-14.4	54.1
Fiscal Deficit	₹ Lakh crore	April-May	2.1	0.5	0.1	3.1	-75.9	-74
Primary Deficit	₹ Lakh crore	April-May	1.0	-0.7	-1.3	1.1	-173.5	83.9
GST Collection	₹ Lakh crore	April-June	5.1	5.6	6.2	11.6	10.1	11.8

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
External Sector								
Merchandise exports	USD Billion	April-Jun	103.9	110.1	112.2	-14.1	5.9	1.9
Non-petroleum exports	USD Billion	April-Jun	84.9	89.4	94.8	-9.8	5.4	6.0
Merchandise imports	USD Billion	April-Jun	160	172.2	179.4	-12.8	7.6	4.2
Non-oil imports	USD Billion	April-Jun	118.2	120.6	130.2	-9.3	2.1	7.9
Net FDI	USD Billion	Apr-May	3.4	4.0	3.9	-67.8	16.3	-2.2
Exchange Rate (Average)	INR/USD	Jun	82.2	83.5	85.9	-5.0	-1.6	-2.8
Foreign Exchange Reserves	USD Billion	Jun	595.1	652	702.3	1.0	9.6	7.8
Import Cover	Months	Jun	10.3	11.0	11.5	-	-	-
Monetary and Financial								
Non-Food Credit	₹ Lakh crore	27 Jun	143.6	168.5	184.2	16.3	17.4	9.3
10-Year Bond Yields	Per cent	27-Jun	7.1	7.04	6.3	-5.2	-0.8	-10.1
Repo Rate	Per cent	27 Jun	6.5	6.5	5.5	32.7	0.0	-15.4
Currency in Circulation	₹ Lakh crore	27 Jun	33.6	35.6	38.2	4.4	6.0	7.2
M0	₹ Lakh crore	27 Jun	43.7	47.0	49.2	6.5	7.4	4.9
Employment								
Net payroll additions under EPFO	Lakh	Apr-May	20.9	21.7	36.9	-7.4	3.7	70.4
No. of person demanded employment under MGNREGA	Crore	Apr-June	11.9	10.2	10.1	-1.0	-14.1	-1.2
Urban Unemployment Rate	Per cent	Oct-Dec	6.5	6.4	-	-0.7	-0.1	
Subscriber Additions: (NPS)	Lakh	Apr-Mar	9.4	8.2		20.7	-12.2	-