

India poised to sustain its position as fastest growing major economy in FY26

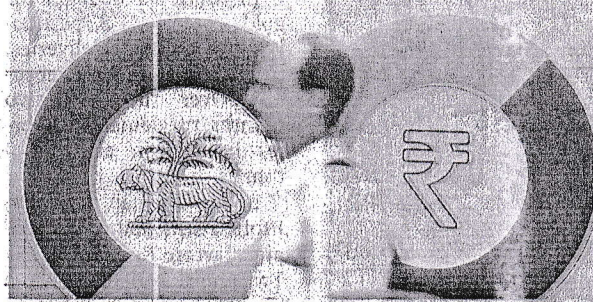
RBI BULLETIN. Strong demand, repo rate cut and easing food inflation to fire up economy in H2

Our Bureau
Mumbai

The Indian economy is regaining its growth momentum, driven by recovery in consumption demand and overall investment, even as it is poised to sustain its position as the fastest growing major economy in FY26, according to the RBI's latest monthly bulletin.

The strong rural demand is expected to receive a further fillip from the robust performance of the agriculture sector, opined RBI officials in an article "State of the Economy" published in the bulletin.

Urban demand is also poised for a recovery, tracking decline in inflation as



FARM BOOST: The strong rural demand is likely to receive a further fillip from the robust performance of the agriculture sector, said the central bank

well as a boost to disposable incomes from the sizeable income tax relief announced in Budget 2025-26.

The officials noted that the Budget measures to fuel four engines of growth — agriculture, MSMEs, investment and exports — are expected to boost

medium-term growth prospects of the Indian economy.

FASTEST GROWING

The Budget prudently balances fiscal consolidation and growth objectives by continued focus on capex alongside measures to sup-

port consumption while providing a clear roadmap for debt consolidation, per the bulletin.

Domestic demand is also expected to benefit from the repo rate cut by the MPC (monetary policy committee) in its meeting on February 7, 2025.

The officials emphasised that the Indian economy is poised to sustain its position as the fastest growing major economy during 2025-26, per the estimates of major multilateral agencies (IMF and World Bank have projected India to grow at 6.5 per cent and 6.7 per cent, respectively, in 2025).

FOOD INFLATION

High frequency indicators show that the economy is on a path of recovery during H2

2024-25 from the loss of momentum witnessed in H1.

The officials observed that robust kharif production and better rabi sowing, coupled with higher reservoir levels and seasonal winter correction in vegetable prices, augur well for food inflation going forward. While core inflation remains muted, uncertainty in global financial markets, volatility in energy prices and adverse weather events present upside risks to the inflation trajectory.

The economic activity index, constructed by extracting the common trend underlying twenty-seven high frequency indicators, indicates that activity sustained its pace in January and the GDP nowcast for Q4 2024-25 is placed at 6.6 per cent, per the officials' assessment.