SEPTEMBER RBI BULLETIN

Stage is set for 'virtuous cycle' of investment

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GST REFORMS ARE SET TO DELIVER LASTING GAINS THROUGH EASE OF DOING BUSINESS, LOWER RETAIL PRICES, AND STRONGER CONSUMPTION GROWTH

Projecting an upbeat outlook for the Indian economy in the second half (H2) of 2025-26 (FY26), the Reserve Bank of India's monthly bulletin on Wednesday reckoned that the stage is set for a sustained pick-up in consumption demand and 'potentially for a virtuous cycle of higher investments and stronger growth impulses, overcoming persistent global uncertainties'.

Hailing the 'landmark reforms' of the Goods and Services Tax (GST) regime as a key driver for consumption growth, a report on the state of the economy in the RBI bulletin argued that the lower GST rates, combined with the income tax relief for households and employment augmentation measures, would strengthen consumption growth drivers. Moreover, the robust transmission of the 100 basis points (bps) reduction in the policy repo rate, higher kharif sowing and healthy corporate balance sheets are expected to aid this uptick, the report said.

Pointing to high frequency indicators in August that show manufacturing and services activity at a decadal high, the report concluded that "the growth outlook for H2 is one of optimism," the report said.

It also highlighted that foreign direct investment (FDI) inflows reached a 38-month high of $5 billion in July.

The RBI had projected FY26 GDP growth at 6.5 per cent with Q3 at 6.6 per cent and Q4 at 6.3 per cent. Turn to Page 6 ▶

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Union Minister of Finance

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The RBI's Q1 growth projection was 6.5 per cent though the actual number came at five quarter high of 7.8 per cent.

Commenting on the GST reforms, the report noted that beyond rate simplification, the reforms have also addressed challenges relating to inverted duty structure, and made processes business-friendly, particularly benefiting micro, small and medium enterprises, and startups.

While the imposition of high US import tariffs on Indian goods brought in some headwinds to the domestic macro-outlook, the developments since then have underscored the resilience of the economy, the report said. The S&P sovereign rating upgrade was an acknowledgment of its strong macro-fundamentals, it said, even though it noted that the Rupee's depreciation in August against the US dollar reflected escalating India-US tariff tensions, FPI outflows and a stronger US dollar.

Following a 100 bps policy repo rate cut since February this year, the weighted average lending rates on fresh rupee loans declined by 53 bps while fresh Weighted Average Domestic Term Deposit Rate declined by 101 bps, latest data showed. "The decline in the weighted average lending rate on fresh and outstanding rupee loans was higher in the case of private banks relative to public sector banks. On the deposit side, transmission was higher for public sector banks compared to private banks," the report observed.

The report further observed that despite elevated global trade uncertainties, India's external sector exhibited resilience and the current account deficit is expected to be low. The jump in net foreign direct investment (FDI) inflows to a 38-month high in July, was aided by higher gross FDI and slower repatriation and outward FDI, even as gross inward FDI doubled from a year ago. Total net FDI inflows during April-July stand at $10.75 billion as compared to $3.5 billion during the same period of last year. "Singapore, followed by the Netherlands, Mauritius, the US and the UAE, together accounted for more than three-fourth of total inflows. Manufacturing and services including communication, computer and business services were the top recipient sectors," the report said.

The report on the state of the economy, which was authored by RBI staffers with the guidance and comments from deputy governor Poonam Gupta, does not reflect the view of the central bank, it was clarified.

Although the Consumer Price Index (CPI) inflation edged up in August, it remained well below the target rate for the seventh consecutive month, the report said the food group largely contributed to the pickup in overall inflation. Core inflation (CPI excluding food and fuel inflation) also increased at the margin, driven primarily by the uptick in gold prices, it said.