

India's economic activity 'resilient' amid global flux

Conditions ripe for rate-cut transmission

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Economic activity is holding firm in India amid a challenging global environment, and financial conditions remained conducive to facilitate an efficient transmission of interest rate cuts to the credit market, Reserve Bank of India officials said in a report on the 'State of the Economy' in its monthly bulletin.

The rate setting panel of the central bank has cut the policy repo rate by 100 basis points (bps) to 5.5 per cent in quick succession between February and June. Moreover, the 100 bps cut in banks' cash reserve ratio requirements to be implemented in phases, starting from the fortnight beginning 6 September 2025, will release primary liquidity of ₹2.5 trillion. This will reduce the cost of funds for banks, thereby facilitating monetary policy transmission to the credit market, the report noted.

"Overall, financial conditions remained conducive to facilitate an efficient transmission of rate cuts to the credit market," it underlined. Following the 50 bps rate cut through February and April, the weighted average lending rate on fresh and outstanding rupee loans of scheduled commercial banks declined by 6 bps and 17 bps, respectively, during the period February-April 2025. On the deposit side, the weighted average



TRADE POLICY OUTCOMES IN JULY, AFTER THE TEMPORARY TARIFF HIATUS IS OVER, AND THE FUTURE COURSE OF GEOPOLITICAL EVENTS WOULD LIKELY SHAPE THE MEDIUM-TERM ECONOMIC PROSPECTS

domestic term deposit rates on fresh and outstanding deposits moderated 27 bps and 1 bp, respectively.

The report pointed to significant softening in average bank credit growth to various sectors of the economy between April 2024 and April 2025. While credit growth decelerated in April – notably in the agriculture and services sectors – non-bank sources of credit, including external commercial borrowing (ECB) inflows continued to be healthy, although it moderated from March.

Scheduled commercial banks credit growth moderated to 9.9 per cent, as on May 30, 2025 from 16.2 per cent a year ago, and the report attributed this to weaker momentum as well as unfavourable base effects.

"The global economy is in a state of flux, reeling from the twin shocks of trade policy uncertainties and a spike in geopolitical tensions," the report authored by RBI staffers said, with guidance and comments of Poonam Gupta, deputy governor in charge of the monetary policy department. The views expressed in the report are those of the authors, not the central bank, it is clarified. Turn to Page 6 ▶

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- RBI extends overnight money market trading hours from July 1
- Net FDI inflows rise to \$3.9 bn in Apr

Trade policy uncertainties pose major risk to global economy: RBI bulletin

The report said that the optimism from a temporary tariff freeze and trade deals has kept financial market sentiments buoyed in May and early-June 2025, but following the outbreak of the Iran-Israel conflict, heightened uncertainty and volatility have once again gripped financial markets.

Highlighting the possibility of a marked deterioration in medium-term economic prospects amidst rising trade barriers, the report said protracted trade policy uncertainties pose the risk of significantly scarring the global economy.

“The intensifying geopolitical tensions too may further debilitate the already-weakened growth impulses. In this context, the trade policy outcomes in July, after the temporary tariff hiatus is over, and the future course of geo-political events would likely shape the medium-term economic prospects,” it averred.

“In this state of elevated global uncertainty, various high-frequency indicators for May 2025 point towards resilient economic activity in India across the industrial and services sectors,” the report said.

“On the domestic front, the provisional estimates released in May have reaffirmed growth to be 6.5 per cent in 2024-25, with a significant sequential pickup in Q4,” it said.

Capacity utilisation by manufacturing firms remained above its long-period average, and high-frequency indicators of aggregate demand for May also suggested a pick-up in rural demand, especially given the strong performance of the agricultural sector, the report noted. Among the countries surveyed for the Purchasing Managers’ Index (PMI), overall activity expansion

was the highest in India with new export orders’ uptick in May being an outlier amidst the contraction seen in other major economies.

“All of these indicate considerable resilience of the Indian economy, notwithstanding the global economic, trade, and geopolitical uncertainties,” the report said.

Domestic inflation remains benign with headline inflation remaining below the target for the fourth consecutive month in May. “Steady core [Consumer Price Index (CPI) excluding food and fuel inflation], with indications of some sof-

tening after excluding the impact of volatile and elevated gold and silver prices, indicates that underlying inflationary pressures remain muted,” it said.

The report further added the external sector continued to be robust, with adequate forex reserve cover for imports and external debt.

As on June 13, 2025, India’s foreign exchange reserves stood at \$699 billion, providing a cover for more than 11 months of goods imports, and for 97 per cent of external debt outstanding at end December 2024.