Quarterly Macroeconomic Review

AU SMALL FINANCE BANK

Macroeconomic Developments & Outlook: March 2026

QUARTERLY REVIEW

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Macroeconomic Developments and Outlook: March 2026[1]

This macroeconomic review[1] relates to the December 2025 quarter for which data are available and provides outlook for the March quarter based on a few high frequency data. Developments during the December 2025 quarter reflected a mixed global environment. Buoyant activity in the US, uneven growth outcomes in Europe, a contraction in Japan, softer growth in China, and robust growth in India alongside divergent trade patterns marked by sustained strength in technology-related investment led the IMF to project a 3.3 per cent global growth in 2026. Financial conditions remained generally accommodative, although intermittent volatility was observed amid geopolitical tensions and shifting risk sentiment.

Domestically, the Indian economy demonstrated relative resilience in 2025-26, with GDP growth pegged at 7.6 per cent in the Second Advance Estimates. The growth momentum has been supported by income tax cuts, GST rate rationalisation, continued momentum in services exports, easing inflationary pressures and RBI rate cuts. Headline inflation softened sharply in the December 2025 quarter on account of a broad-based correction in food prices, while core components exhibited stickiness. External sector conditions were shaped by a wider merchandise trade deficit, resilient services exports, and a modest depreciation of the rupee. Financial markets reflected the evolving monetary policy cycle, with orderly money market conditions, a bear-steepening in the G-Sec yield curve, gradual credit expansion, and broadly subdued foreign portfolio flows. High-frequency indicators for industry, freight movement, investment orders and labour markets signalled weakness in domestic activity in the March 2026 quarter amid Gulf tension.

Global Developments: December 2025 Quarter

The global landscape in the December 2025 quarter remained multifaceted, characterised by divergent growth trajectories and shifting financial dynamics. While the United States maintained growth momentum, bolstered by tech-oriented capital expenditure and a post-shutdown recovery, Europe struggled with uneven growth momentum as French aerospace gains were offset by stagnation in Germany. While Japan faced a GDP contraction due to sluggish consumption, China's growth softened due to persistent real estate weakness and dampened domestic spending despite steady exports. December quarter also witnessed a growing contrast in global trade. Technology-related trade activities flourished across Asia, while traditional goods exports faltered, creating a distinct divide in the global trade basket.

Financial conditions were largely accommodative, though volatility spiked in early January. Equity markets initially rallied but encountered turbulence as geopolitical tensions resurfaced and concerns over stretched valuations of tech companies mounted. The US sovereign yield exhibited fluctuation, responding first to hawkish policy signals before easing on softer data, while emerging market bond spreads narrowed amid stable investor appetite. In commodity markets, crude oil remained range-bound until early January's geopolitical flare-ups, while industrial metals surged due to supply constraints and tariff uncertainty. Conversely, food prices continued their downward trend, providing some relief to the global inflation outlook.

Inflationary trends remained localised. The euro area and Japan benefited from lower energy and food prices, whereas U.S. services inflation kept headline figures elevated. China saw a food-driven uptick, while Brazil and Russia experienced easing of price pressures. Monetary policy was notably desynchronised. The U.S. and U.K. implemented rate cuts as labour markets cooled, whereas Japan raised its policy rate to a 30-year high of 0.75 per cent. Most emerging market central banks maintained a cautious hold in policy rates/stance, as they had to navigate the evolving balance between growth risks and persistent inflationary trajectories.

Domestic Macro-Economic Developments

Gross Domestic Product

The National Statistical Office (NSO), on February 27, 2026, released the Second Advance Estimates (SAE) of India's GDP for the financial year 2025-26 (FY26) marking the first publication after shift in the base year from 2011-12 to 2022-

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23. As per these estimates, real GDP is projected to grow at 7.6 per cent in 2025-26, exceeding the 7.1 per cent expansion recorded in the previous year and the 7.2 per cent rise in 2023-24. Real GVA growth is similarly placed at 7.7 per cent, higher than 7.3 per cent and 7.2 per cent estimated for the previous two years (Table 1), underscoring broadly sustained momentum in underlying economic activity.

The composition of growth in FY26 is expected to be shaped by a strong performance in the secondary and services sectors. Manufacturing output is estimated to surge by 11.5 per cent, while services activity is projected to grow by 9 per cent, together forming the core drivers of the expansion. In contrast, the primary sector is likely to see muted growth of 2.6 per cent, with agriculture at 2.4 per cent and mining at 4.1 per cent. On the expenditure side, the estimates point to strengthening private consumption alongside continued buoyancy in fixed capital formation, particularly government-led capex, as the key forces supporting the year's economic momentum.

Nominal GDP growth for FY26 has been placed at 8.6 per cent in the SAE, an upward revision from the 8.0 per cent projected in the First Advance Estimates (FAE) released in January 2026. However, the base-year revision has led to systematically lower nominal GDP across major aggregates even as real growth estimates were lifted. India's nominal GDP for 2025-26 is now estimated at ₹345.47 trillion, lower than the earlier projection of ₹357.18 trillion under the old base. Similar downward recalibrations appeared across GDP components.

According to the quarterly trend, real GDP grew by 7.8 per cent year-on-year in the quarter ended December 2025, which was lower than 8.4 per cent witnessed in the previous quarter, but higher than the 7.4 per cent in the same quarter previous year. The expansion in the December 2025 quarter was supported by firm domestic demand, driven mainly by private consumption and investment, while government consumption remained soft. Real GVA also grew by 7.8 per cent, rising to ₹77.4 trillion from ₹71.8 trillion a year ago, supported by strong manufacturing activity and steady services performance. The alignment of GDP and GVA growth suggests that net taxes (product taxes minus subsidies) did not create any significant divergence during the December quarter.

Table 1: Quarterly GDP Estimates with Select Expenditure Components at Constant Prices

Item (in ₹ Trillion)	2023-24	2024-25 (FRE)	2025-26 (SAE)	2025-26		
				Q1	Q2	Q3
GVA at Basic Prices	254.8 (7.2)	273.4 (7.3)	294.4 (7.7)	68.3 (7.0)	68.9 (8.6)	77.4 (7.8)
Gross Domestic Product (GDP)	280.0 (7.2)	299.9 (7.1)	322.6 (7.6)	75.3 (6.7)	75.4 (8.4)	84.5 (7.8)
Private Final Consumption Expenditure (PFCE)	157.9 (5.8)	167 (5.8)	179.8 (7.7)	42.4 (9.2)	40.5 (8.0)	48.2 (8.7)
Government Final Consumption Expenditure (GFCE)	29.1 (0.6)	31.0 (6.5)	33.0 (6.6)	8.6 (5.8)	8.3 (6.6)	8.1 (4.7)
Gross Fixed Capital Formation (GFCF)	90.7 (7.3)	96.5 (6.4)	103.3 (7.1)	24.2 (4.9)	26.2 (8.4)	25.9 (7.8)

Source: National Statistical Office, Ministry of Statistics and Programme Implementation.
Note: Totals may vary slightly due to rounding off; Figures in parentheses () indicate % change over the previous fiscal; FRE: First Revised Estimates; SAE: Second Advance Estimate.

Inflation

Retail inflation remained exceptionally benign in the December 2025 quarter, with Consumer Price Index (CPI) inflation averaging 0.76 per cent, down from 1.71 per cent in September and 2.69 per cent in June quarters. The disinflation was driven predominantly by a sharper correction in the food and beverages group, which slipped to -2.78 per cent in December 2025, extending a negative trajectory that began in the second quarter of the year. This easing came despite firmness in certain non-food categories, particularly in services, signalling a widening divergence between softening food inflation and sticky core components.

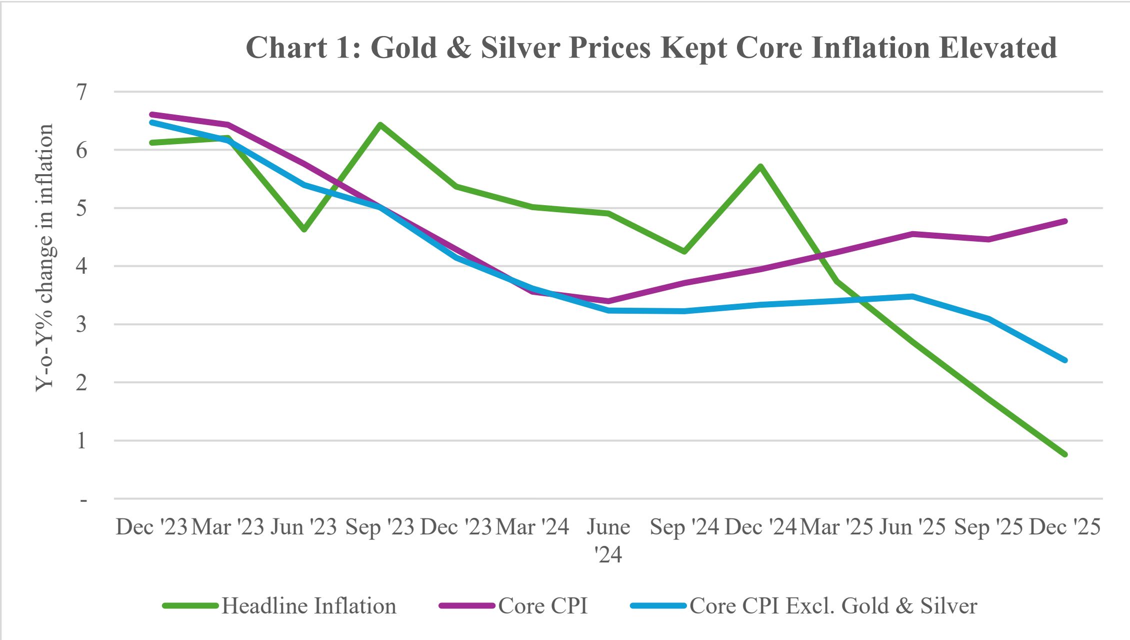
The correction within food was broad-based. Vegetable prices saw a sharp contraction (-22.8 per cent), continuing the reversal of previous seasonal spikes, and emerging as the dominant factor behind the decline in the food index. Pulses also registered a sizeable fall (-15.7 per cent), reinforcing the downward movement, while inflation in cereals stayed muted

(0.2 per cent) and milk recorded a mild uptick (2.5 per cent). Together, the sharp declines in prices of vegetables and pulses more than offset the moderate firmness in other subgroups, resulting in a deeper overall softening of food inflation.

Non-food inflation showed a more uneven pattern. Fuel and light, clothing and footwear, and housing remained relatively subdued or stable, helping contain broader price pressures. In contrast, the miscellaneous (services) category stayed elevated at 5.84 per cent, highlighting continued stickiness in underlying price pressures even as headline readings eased. Stickiness in core inflation was also contributed by a sharp rise in gold/silver prices.

Overall, the December quarter was characterised by a pronounced food-led moderation in inflation, tempered by persistent firmness in select service sector components and gold prices (Chart 1).

Ministry of Statistics and Programme Implementation revised the base year for CPI to 2024 from 2012 earlier and revised the weights based on the Household Consumption Expenditure Survey 2023-24. Even after a new base year and updating all group weights to reflect the latest consumption patterns, the broad inflation outlook did not change materially in January and February 2026; inflation still appears low, soft, and below the RBI's 4 per cent target when recomputed under the new methodology. This reinforced the underlying message from the December 2025 quarter that retail inflation was exceptionally benign, driven largely by a sharp correction in food and beverages.



Source: MoSPI; Note: CPI Index is as per Base year 2011-12.

Public Finance

The Union government's fiscal position remained stable through April to December 2025-26, supported by firm receipts and disciplined spending. The Gross Fiscal Deficit stood at ₹8.6 trillion, which was 6.4 per cent lower than the same period previous year.

Non-debt receipts rose by 8.9 per cent to ₹25.3 trillion on the back of stronger revenue flows and higher non-debt capital receipts. Revenue receipts touched ₹24.8 trillion, an increase of 8.2 per cent year on year, helped by a solid 5.2 per cent rise in net tax revenue to ₹19.4 trillion. Capital receipts also strengthened, rising by 68.7 per cent to ₹0.5 trillion, including disinvestment inflows, which played a key role in lifting this category, even though recoveries of loans slowed slightly.

On the expenditure side, the Centre continued to exercise restraint. Total expenditure grew by 4.6 per cent, which was lower than the 5.8 per cent recorded in the same period last year and the 8.4 per cent growth seen a year earlier. Revenue expenditure, which accounts for roughly three fourths of total spending, increased by only 1.8 per cent. This reflected tighter control over routine departmental outlays even though interest payments continued to rise. In contrast, capital expenditure remained a priority, which expanded by 15 per cent to ₹7.88 trillion. This indicates a continued emphasis on investment-led spending on public infrastructure.

As the fiscal year progressed through February 2026, consolidation was sustained alongside a continued emphasis on growth-supportive spending. During April-February, the Gross Fiscal Deficit was 7.0 per cent lower than a year ago, reflecting robust receipts and expenditure restraint. Non-debt receipts rose by 9.6 per cent, led by an 8.7 per cent increase in revenue receipts, with non-tax revenues expanding by 17.8 per cent. In contrast, total expenditure grew by a modest 3.9 per cent, as revenue expenditure increased by only 1.1 per cent, even as capital expenditure rose by 14.5 per cent, underscoring the Centre's continued focus on investment-led spending. Overall, fiscal developments up to February indicate a strengthening consolidation bias, while preserving space for public capital formation, keeping the government on course to meet its deficit objectives for the year.

Sectoral Developments

The real sector remained firmly supported by agriculture in the December quarter, as rabi sowing progressed ahead of its seasonal pattern. Healthy reservoir conditions, following favourable post-monsoon rains, helped boost acreage, which rose above both the season's normal level and last year's coverage. The Second Advance Estimates indicated that foodgrain production in 2025-26 strengthened across both major seasons. Kharif output rose to 1741.44 lakh tonnes compared with 1694.60 lakh tonnes last year, driven by a strong performance in rice and maize. Rabi production improved as well, reaching 1745.13 lakh tonnes from 1691.66 lakh tonnes a year earlier. While kharif foodgrains grew, kharif oilseeds saw a moderation as production declined to 265.33 lakh tonnes from 280.23 lakh tonnes, driven mainly by a weaker outturn of groundnut and soyabean. Cash crops showed mixed trends. Sugarcane production picked up meaningfully to 5001.97 lakh tonnes, while cotton and jute posted declines compared with last year. Overall, agriculture provided a reliable anchor to the quarter, with strong rabi momentum offsetting the uneven pattern in kharif oilseeds and fibre crops.

Industrial activity remained steady through the quarter. Manufacturing continued to expand at a firm pace supported by resilient domestic demand and stable production schedules. Capital goods output maintained positive traction and mining activity improved after two softer quarters. Electricity generation turned slightly weaker, but the broader industrial pulse stayed favourable. PMI manufacturing remained in expansion zone, pointing to continued improvement in operating conditions even though the pace of new orders eased. These indicators together suggested an industrial sector that continued to broaden its recovery.

Transport and logistics indicators reinforced this picture of steady economic activity. E-way bill generation grew strongly on a year-on-year basis, highlighting active movement of goods across the country. Cargo handled at ports increased, reflecting a rise in both coastal and overseas shipments. Rail freight continued to expand and toll data pointed to ongoing movement of goods through highways. Toll collections rose faster than vehicle counts, hinting at heavier or higher value consignments being transported.

Investment signals strengthened as new project orders remained well above the average of the past two years. This reflected a broadening improvement in project initiation across industrial and infrastructure segments. The energy sector continued to add renewable capacity at a strong pace, pointing to a structural shift in India's power mix and supporting the medium-term investment cycle.

Labour market conditions improved further. Higher participation, largely in rural areas, was met with adequate employment absorption, allowing the unemployment rate to ease. Taken together with the favourable agricultural backdrop, the steady expansion in industry, active goods movement across transport networks and rising investment commitments, the December quarter reflected a real economy that remained on a strong and broad-based footing.

Relative to the robust momentum observed in the December quarter, activity in the early part of the March quarter showed some loss of pace, though the moderation was uneven across sectors. Headline industrial output averaged 5.15 per cent year on year growth in January-February 2026, marginally lower than the 5.28 per cent expansion recorded in the December quarter. Manufacturing growth also edged down to 5.7 per cent from 6.3 per cent. Mining output, meanwhile, remained broadly steady at around 3.7 per cent, offering limited incremental support to overall industrial growth, while electricity generation recovered to positive territory after contracting in the December quarter.

Within the use-based segments, the slowdown was not broad-based. Capital goods output strengthened to 8.3 per cent in January-February, exceeding the December quarter average, while growth in consumer durables remained broadly unchanged. In contrast, non-durable goods slipped back into contraction after a brief recovery in the December quarter, pointing to uneven consumption conditions.

Core sector activity improved modestly at the aggregate level, with the eight-core index expanding by 3.5 per cent in January-February compared with 2.2 per cent in the December quarter, though growth remained below the levels recorded earlier in the year. Steel and cement production continued to expand at a healthy pace, lending support to construction-related activity, even as refinery output remained weak.

Transport and logistics indicators suggested a clearer easing in momentum. Growth in GST e-way bill generation moderated from December quarter level, toll collections in both volume and value terms slowed sharply, and port cargo growth eased despite staying in positive territory. Rail freight traffic showed a modest pick-up (based on January data), while airport passenger traffic edged up but remained subdued relative to mid-year trends. Vehicle registrations stood out as a point of strength, with two-wheelers and heavy goods vehicles recording strong growth in January-February relative to the December quarter.

Overall, the January-February readings indicate that while economic activity remained positive at the start of the March quarter, momentum shifted away from the broad-based strength seen in the December quarter toward a more selective and uneven expansion, leaving near-term growth increasingly sensitive to external uncertainties.

Balance of Payments

India's Balance of Payments (BoP) worsened in the December 2025 quarter, with current account deficit (CAD) widening to USD 13.2 billion (1.3 per cent of GDP) from USD 11.3 billion (1.1 per cent of GDP) in Q3 2024-25. As capital flows dried up, the overall deficit widened to USD 24.4 billion in this quarter.

The widening of CAD was primarily driven by a worsening merchandise trade imbalance. The merchandise trade gap ballooned to USD 93.6 billion, overwhelming the growth in net services receipts and resilient secondary income from overseas remittances. Although a decrease in primary income outgo provided some relief, these gains were insufficient to offset the substantial drag created by the surging merchandise deficit, leading to a net current account shortfall of USD 13.2 billion.

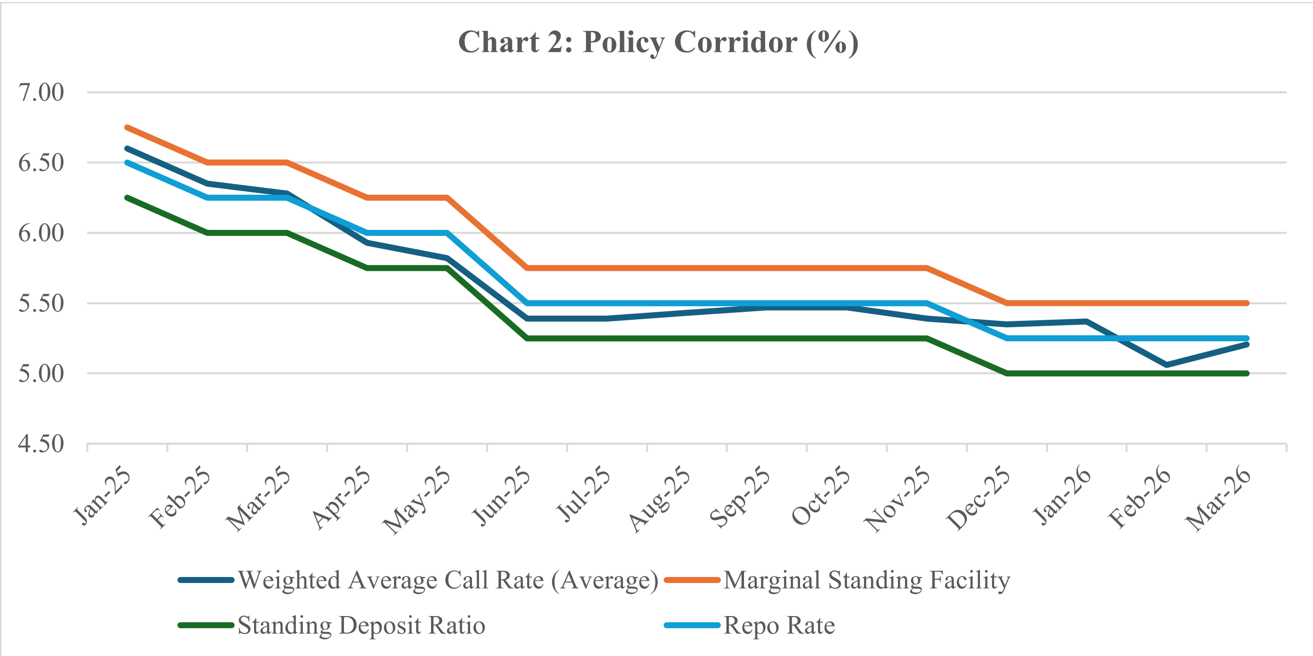
Capital account dynamics further complicated the BoP position, marked by a notable USD 3.7 billion net outflow in Foreign Direct Investment (FDI). While Foreign Portfolio Investment (FPI) outflows moderated and NRI deposits saw a healthy uptick, the financial account could not bridge the CAD, leading to a USD 24.4 billion drawdown of foreign exchange reserves. Consequently, INR was under pressure despite RBI interventions in the forex market.

External conditions tightened further in the March 2026 quarter, with both January and February showing a weakening in India's external position compared with that seen up to December. Net foreign investment recorded large outflows of about USD 4.7 billion in December followed by another USD 3.3 billion in January, signalling sustained risk aversion. Indian rupee continued to drift weaker, moving from below ₹89.9 per dollar in end-December to ₹94 per dollar by March. Merchandise trade pressures resurfaced, with trade deficit widening sharply to USD 34.7 billion in January before easing somewhat in February, while the services surplus, although strong at USD 21.5 billion in January and USD 17.8 billion in February 2026, was not enough to fully offset the merchandise trade gap. External borrowing intentions by corporates rose notably, with ECB registrations climbing from USD 4.4 billion in December to USD 5.3 billion in January, indicating greater dependence on foreign debt at a time when currency conditions are less favourable. Outward FDI outflows remained high at USD 3.4 billion in January followed by USD 2.8 billion in February, and NRI deposit inflows were uneven. Taken together, the January and February data confirm that in the March quarter so far, external buffers have thinned and the economy has become more sensitive to shifts in global financial conditions, commodity markets and geopolitical tensions.

Money Market

The Reserve Bank commenced an easing cycle in February 2025 after maintaining the policy rate unchanged for nearly two years. Since then, the policy repo rate has been reduced by 125 basis points, with corresponding adjustments in the SDF and MSF rates, leading the LAF corridor downward in a symmetric manner, while preserving its width at 50 basis points.

Money market conditions remained orderly through the fiscal year, with the weighted average call rate (WACR) generally tracking the softening policy rate. In the December 2025 quarter, the WACR traded below the repo rate in October and November (Chart 2) amidst comfortable liquidity before firming above the policy rate in December, reflecting temporary tightening due to quarter-end tax outflows, elevated government cash balances, and frictional liquidity mismatches. On a quarterly average basis, the WACR remained closely aligned to the policy rate, and well within the SDF-MSF corridor, indicating the effective functioning of the operating framework.



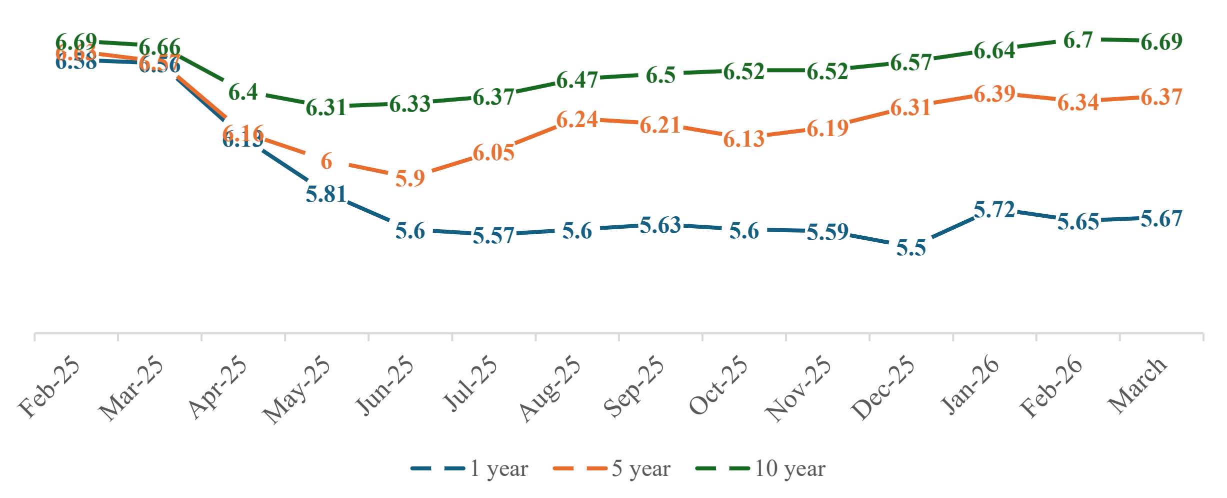
Source: RBI; Data for March represent the weekly average of information available as on March 27, 2026.

Government Securities Market

Yields on government securities firmed through the December quarter as duration premia rose and long-term rates adjusted to supply conditions. After a period of relative stability in October and November, long-duration yields edged higher in December, with the 10-year benchmark moving up to 6.57 per cent from 6.52 per cent in the previous two months (Chart 3). The middle of the curve also hardened, with the 5-year yield rising to 6.31 per cent, while policy-sensitive short-term rates drifted down toward 5.50 per cent as the cumulative reduction in the policy rate filtered through. Even though open market purchases in late December briefly supported sentiment, the yield curve closed the quarter with a noticeably steeper level, shaped by higher term premia and persistent liquidity absorption.

As the calendar moved into the March 2026 quarter, yields continued to firm at the long end, although the pace of hardening was gradual. The quarterly average yield on the 10-year benchmark rose to 6.69 per cent in Q4 FY2026 from 6.54 per cent in the preceding quarter, marking a renewed build-up of term premia. The 5-year segment also inched higher to 6.37 per cent, while the 1-year yield averaged 5.67 per cent, remaining well below longer tenors. Overall, the yield curve entered the March quarter on a steeper footing, reflecting sustained supply pressures and elevated global uncertainty, even as shorter maturity yields remained comparatively anchored by the accommodative policy stance and benign liquidity conditions.

Chart 3: G-sec Yield (%)



Source: CMIE, CCIL.

Monetary Transmission

During February 2025 to January 2026, the cumulative reduction of 125 basis points in the policy repo rate translated into a near full pass-through to external benchmark linked lending rates, with the EBLR declining by an equivalent 125 basis points over the period. The adjustment was slower on the deposit side, where fresh deposit rates softened by 96 basis points and outstanding deposit rates by only 45 basis points, reflecting the usual rigidity in liability pricing. Transmission to internal benchmark lending rates was more measured. The median 1-year MCLR fell by 60 basis points, while the weighted average lending rate on fresh rupee loans declined by 66 basis points. The pass-through to the stock of outstanding rupee loans was even more gradual, with the weighted average lending rate easing by 81 basis points, of which 83 basis points reflected the pure interest rate effect (Table 2). Overall, the data point to stronger and quicker transmission under external benchmark regimes, but with slower adjustment in rates on deposits and outstanding loan portfolios.

Table 2: Transmission of Monetary Policy

Period	Repo Rate	Deposit Rates		Lending Rates				
		Fresh	Outstanding	EBLR	1-Year MCLR (Median)	WALR-Fresh Rupee Loans		WALR-Outstanding Rupee Loans
						Overall	Interest Rate Effect	
May 2022 - Jan 2025	250	259	206	250	175	182	191	115
Feb 2025 - Jan 2026	-125	-96	-45	-125	-60	-66	-81	-83

Source: RBI.

Monetary Aggregates

Reserve Money (RM) recorded a sequential moderation during the December 2025 quarter, reflecting persistent net liquidity absorption and lower bankers' balances with the Reserve Bank. RM growth remained subdued, easing from 4.3 per cent in September to 2.0 per cent and 1.6 per cent in October and November before recovering to 2.9 per cent in December. In contrast, broad money (M3) growth firmed over the quarter, rising from 9.2 per cent in September to 12.1 per cent in December, supported by a pick-up in deposit mobilisation and sustained improvement in credit expansion. As a result, money supply growth outpaced the expansion in the monetary base during the quarter, leading to a strengthening of the money multiplier. Overall, Q3 FY2025-26 was characterised by a divergence between base money and broad money growth - restrained Reserve Money growth coexisting with robust M3 expansion.

Business of Scheduled Commercial Banks

Aggregate deposits and bank credit continued to expand at a healthy pace by end-December 2025, reflecting supportive monetary and economic conditions. Deposit growth stood at 12.7 per cent year-on-year, with cumulative accretion during April-December 2025 at 10.1 per cent, indicating steady deposit mobilisation through the first three quarters of FY26. Bank credit grew faster than deposits, rising 14.5 per cent year-on-year and 11.4 per cent over April-December, highlighting firm underlying demand for funds even as liquidity conditions tightened. The widening gap between credit and deposit growth underscores persistent system-level funding pressures that banks will continue to manage as they enter the final quarter of the year. In the March 2026 quarter so far, the early data point to a continuation of this momentum. Bank credit growth stayed elevated at 14.6 per cent in both January and February, indicating that the underlying demand conditions remained firm. Deposit growth also strengthened, rising by 12.5 per cent in January and 11.9 per cent in February, suggesting that funding conditions remain supportive even as rate adjustments continue to work through the system. Together, these developments signal that the March quarter has started on a stable footing, with both credit and deposit flows showing resilience and maintaining the broad gains recorded earlier in the year.

Sectoral Deployment of Credit

The sectoral deployment data (Table 3) shows a broad-based strengthening in non-food credit through the December quarter. Cumulative credit growth during April-December 2025 improved across major segments: agriculture and allied activities expanded by 9.7 per cent, reflecting seasonal financing needs and a pickup after a slower first half; industry grew by 10.7 per cent during the period, up from muted momentum earlier in the year, suggesting a revival in working capital utilisation and some improvement in investment-linked demand across micro, small, medium, and large units. Services sector credit maintained a strong trajectory with 11.0 per cent growth during April-December, supported by trade, transport, and NBFCs. Personal loans - the largest segment - grew by 11.3 per cent over the same period, indicating resilient retail demand despite policy-driven normalisation in select unsecured loan categories.

Taken together, the April-December trends confirm a clear strengthening in credit momentum in Q3 FY26 compared with the September quarter. All major sectors recorded a pickup in cumulative growth, consistent with improved business turnover, year-end financing requirements, and a stable consumption environment. With deposit growth trailing credit growth, funding conditions may stay tight in the March quarter, potentially influencing pricing and liquidity strategies. Nonetheless, the broad-based improvement across agriculture, industry, services, and personal loans points to a supportive demand environment as the financial year enters its final stretch.

Financial-year-to-date readings up to February indicate that the improvement in credit growth seen during April–December has continued into the March quarter, albeit with emerging compositional shifts. Overall, non-food credit growth accelerated to 13.5 per cent as on February 15, 2026 compared with 10.2 per cent a year earlier. Agriculture credit growth strengthened further to 11.2 per cent, indicating sustained seasonal demand. Industrial credit showed a notable increase to 11.6 per cent, led by a sharp expansion in micro and small enterprise lending, while credit to medium and large industries rose at a more measured pace, suggesting a selective rather than broad-based capex cycle. Services credit also firmed to 14.0 per cent, supported by strong flows to NBFCs, commercial real estate and knowledge-based services, although transport and professional services reflected some loss of momentum. Personal loans expanded by 13.8 per cent, broadly in line with overall credit growth; within this, housing and vehicle loans remained steady, while unsecured components such as credit cards and loans against financial assets moderated, consistent with regulatory tightening. Overall, credit growth momentum has remained intact into the March quarter, reinforcing the supportive demand conditions witnessed in Q3 FY26. However, the composition points to increasing selectivity, with growth concentrated in MSMEs, housing-linked segments and NBFC-driven intermediation, while unsecured retail and certain contact-intensive services show signs of normalisation. With deposit growth continuing to trail credit, funding conditions are likely to remain tight through the remainder of the quarter, potentially influencing pricing and liquidity management, even as underlying credit demand stays firm heading into the close of FY26.

Table 3: Sectoral Deployment of Bank Credit by Scheduled Commercial Banks

Sector	**Outstanding as on 31 December, 2025 (in ₹Trillion)**	**Y-o-Y % Change**				
		YTD FY26	**Dec-24**	**Jun-25**	**Sep-25**	**Dec-25**
I. Bank Credit (II + III)	203.23	11.39	11.16	9.49	10.38	14.54
II. Food Credit	0.88	140.81	30.14	89.92	127.27	56.71
III. Non-food Credit	202.35	11.13	11.11	9.33	10.25	14.40
1. Agriculture and Allied Activities	25.09	9.71	12.46	6.78	8.97	12.07
2. Industry (Micro and Small, Medium and Large)	44.13	10.73	7.48	5.49	7.34	13.35
3. Services	56.54	11.01	11.47	9.00	10.18	15.26
4. Personal Loans	66.48	11.33	12.04	12.11	11.75	14.38

Source: RBI.

Total Flow of Financial Resources to the Commercial Sector

The total flow of financial resources to the commercial sector during April- December 2025, increased sharply to ₹30.8 trillion, compared with ₹21.3 trillion in the corresponding period of the previous year (Table 4). This expansion was largely driven by a strong acceleration in non-food bank credit, which rose to ₹20.3 trillion from ₹12.8 trillion a year ago, reflecting improved credit demand and sustained bank lending momentum. Credit from non-bank sources also increased to ₹10.6 trillion from ₹8.6 trillion, supported by higher mobilisation from both domestic and foreign sources.

Looking at the most recent data available up to February 28, the total flow of resources rose further to ₹39.2 trillion in 2025-26, significantly above ₹29.5 trillion recorded in the corresponding period of the previous year. The increase continued to be led by bank credit, which expanded to ₹24.6 trillion, compared with ₹16.7 trillion a year ago. Non-bank sources contributed ₹14.6 trillion, up from ₹12.7 trillion, with foreign sources strengthening notably to ₹4.3 trillion from ₹3.0 trillion, indicating an improvement in external financing conditions alongside robust domestic funding.

Table 4: Total Flow of Financial Resources to the Commercial Sector (in ₹Trillion)

Source	Apr-Mar		Up to December 31		Up to February 28	
	2023-24	2024-5	2024-5	2025-26 (P)	2024-5	2025-26 (P)
A. Non-Food Bank Credit	21.40	17.98	12.78	20.27	16.74	24.64
B. Non-Bank Sources (B1+B2)	12.64	17.10	8.55	10.58	12.72	14.58
B1. Domestic Sources	10.20	13.86	6.43	7.66	9.70	10.31
B2. Foreign Sources	2.43	3.25	2.12	2.92	3.01	4.28
C. Total Flow of Resources (A+B)	34.04	35.09	21.32	30.85	29.46	39.22

Source: RBI Bulletin; Note: (P) Provisional data

Foreign Exchange Market

The Indian rupee weakened against the US dollar through the December 2025 quarter, extending the gradual depreciation trend seen through the year. The exchange rate closed the quarter at about ₹89.92 per USD, compared with ₹88.79 at end-September and ₹85.50 at end-June, pointing to persistent external pressures. The decline in the nominal effective exchange rate continued as well. The trade-weighted NEER fell to 83.8 in the December quarter from 85.5 in September and 88.1 in June, while the export-weighted NEER declined to 85.8, highlighting the broad-based nature of the adjustment. On a real basis, competitiveness improved further. The trade-weighted REER eased to 96.7 and the export-weighted REER to 94.0, both settling firmly below their earlier readings above 100 at the start of the year. This steady REER softening supported price competitiveness for exporters, though it also reflected the underlying depreciation pressures influenced by foreign exchange outflows and tighter global financial conditions.

In the March 2026 quarter so far, the early readings for January and February suggest a continuation of this trend. The trade-weighted NEER eased further to 81.9 and the REER to 94.4, while export-weighted indices also softened, with the NEER at 84.4 and the REER at 92.4. These movements indicate that Indian rupee continued to lose ground in nominal terms at the start of the new quarter while gaining additional real-effective competitiveness. Taken together, the January–February prints show that the March quarter has begun with the rupee still adjusting to external pressures, with NEER/REER weakness and incremental competitiveness gains reflecting both the currency path and evolving global conditions (Table 5).

Table 5: Effective Exchange Rate: 40-Currency Basket

Effective Exchange Rate Indices	*Dec-24*	*Mar-25*	*Jun-25*	*Sep-25*	*Dec-25*	*Jan-Feb 26*
Trade-weighted						
Nominal Effective Exchange Rate (NEER)	91.4	89.7	88.1	85.5	83.8	81.9
Real Effective Exchange Rate (REER)	107.4	102.9	100.1	98.7	96.7	94.4
Export-weighted						
Nominal Effective Exchange Rate (NEER)	93.8	92.3	90.2	87.4	85.8	84.4
Real Effective Exchange Rate (REER)	104.3	100.0	97.4	95.9	94.0	92.4

Source: RBI; Note: Quarterly values reflect the average monthly readings within each quarter.

Outlook for the March 2026 Quarter

The growth outlook for the March 2026 quarter turned more cautious amid escalating geopolitical tensions and emerging supply-side disruptions linked to the intensification of the Middle East conflict, marking a departure from the relatively strong and broad-based domestic momentum recorded in the December quarter. Against this backdrop, India's real GDP growth for FY26 may be around 7.5 per cent, supported by a robust average expansion of 7.6 per cent during the first three quarters of the fiscal year. For Q4 FY26, however, incoming high-frequency data suggest that GDP growth may moderate to around 7 per cent, with the balance of risks tilted to the downside amid softer cyclical momentum and heightened external uncertainties.

Data available for the early part of the March quarter (Table 6) point to some easing in industrial momentum relative to the December quarter. Headline industrial output grew by an average of 5.15 per cent year-on-year in January-February 2026, marginally lower than the 5.28 per cent expansion recorded in the December quarter. Manufacturing output moderated to 5.65 per cent from 6.32 per cent, indicating a loss of pace after the sharp acceleration seen towards the end of calendar 2025. Mining output remained steady at around 3.7 per cent, providing limited support, while electricity generation recovered to positive territory following contraction in the December quarter. Within use-based segments, the picture was mixed. Capital goods output strengthened to 8.3 per cent in January–February, exceeding the December quarter average, while consumer durables growth remained broadly unchanged. In contrast, non-durable goods output slipped back into contraction, pointing to lingering softness in mass consumption demand.

Core sector performance improved at the aggregate level but remained below earlier peaks. The eight core industries expanded by 3.5 per cent on average in January-February, compared with 2.2 per cent in the December quarter, but still well short of the stronger readings observed in the first half of the year. Within the core basket, steel and cement continued to register robust growth, reflecting ongoing momentum in construction and infrastructure activity. However, refinery output remained weak, and gains across other core components were uneven, limiting the overall impulse from infrastructure-linked sectors.

Table 6: High Frequency Indicators: Heatmap of Economic Momentum (*Y-o-Y % change)*

Indicator/Quarter ended	*Dec-24*	*Mar-25*	*Jun-25*	*Sep-25*	*Dec-25*	*Jan-Feb 26*
Index of Industrial Production (IIP) Headline	4.13	3.97	1.98	4.34	5.28	5.15
IIP Manufacturing	4.53	4.19	3.33	5.11	6.32	5.65
IIP Mining	1.83	2.39	-2.98	-0.54	3.80	3.70
IIP Electricity	4.09	4.57	-1.48	3.68	-0.87	3.70
IIP Capital goods	7.37	7.04	9.82	5.56	6.78	8.30
IIP Durable goods	9.04	5.89	2.60	6.94	7.22	7.25
IIP Non-Durable goods	-1.65	-1.96	-1.51	-2.02	4.12	-1.45
Eight Core Index (ICI) Headline	4.89	4.34	1.46	4.51	2.23	3.49
ICI Steel	7.81	6.76	7.15	14.83	7.56	9.36
ICI Cement	8.68	12.39	8.05	7.27	11.17	10.34
ICI Refinery	3.60	3.03	-0.05	-0.61	0.88	-0.49
Vehicle Registrations						
Two-Wheeler (NT)	12.85	-0.80	5.21	0.91	19.42	20.51
Light Motor Vehicles	11.24	5.39	4.24	7.05	21.87	16.64
Heavy Goods Vehicles	-8.68	-6.07	-5.10	-4.72	12.61	26.15
PMI India Manufacturing	2.41	-0.21	-0.23	2.32	0.22	-1.46
PMI India Services	1.11	-5.21	-1.98	3.05	0.30	1.01
GST E-way Bill Generation	16.93	19.37	20.49	23.06	19.35	17.29
Toll Collection						
Volume (In Million)	9.85	15.08	16.18	14.93	16.88	11.78
Value (In Million ₹)	12.72	17.18	19.69	21.77	16.83	11.21
Rail Freight Traffic* (MT)	1.53	0.55	2.52	4.14	3.25	3.49

Airport Passenger Traffic	7.83	8.09	4.75	-2.23	1.64	2.26
Cargo handled at Major and Minor Ports (MT)	0.32	4.30	3.23	5.32	7.81	3.97

Source: Ministry of Statistics and Programme Implementation, Office of Economic Adviser, S&P Global, Vahan portal, National Electronic Toll Collection, Airport Authority of India, Ministry of Ports, Shipping and Waterways

Note: Quarterly values for IIP, ICI, and PMI reflect the average monthly readings within each quarter; Data indicated with (*) reflect January 2026 readings only, as February data were unavailable as on the date of data compilation.

Broader activity indicators echoed a moderation in momentum. Growth in GST e-waybill generation eased in January-February relative to the December quarter, while toll collections, both in volume and value terms, slowed sharply, pointing to softer highway freight movement. Port cargo growth also moderated, though it remained firmly in positive territory. Rail freight traffic showed a modest improvement, albeit based on January data. Passenger movement indicators remained subdued: airport traffic edged up marginally but was broadly flat compared with earlier trends, suggesting muted discretionary travel demand. Vehicle registrations were a notable exception, with strong growth in two-wheelers and heavy goods vehicles during January-February, although the pickup in registrations has not been fully mirrored in industrial non-durable output.

Business sentiment indicators also softened during the quarter. Manufacturing PMI readings adjusted downward and slipped into mild contraction territory, while services PMI continued to signal expansion but at a slower pace, consistent with a gradual loss of momentum across activity segments.

Labour market indicators moved in the same direction. High-frequency PLFS signals for the March quarter pointed to weaker urban labour absorption, with a decline in worker participation and an uptick in unemployment, even as the labour force remained broadly unchanged. These trends suggest softer hiring demand in urban services and industrial segments. Rural labour market conditions, in contrast, remained broadly steady but largely seasonal, contributing stability rather than a fresh impulse to demand.

Agriculture provided support but with limited thrust toward the end of the fiscal year. The Second Advance Estimates indicated a firmer yet uneven outlook, with oilseeds and sugarcane recording stronger production gains, while foodgrains and cotton lagged. As a result, rural incomes remained supportive but not strong enough to meaningfully lift consumption in Q4, consistent with mixed rural demand indicators. Overall, high-frequency indicators for the March quarter suggest that the economy continued to expand but at a slower and more uneven pace than in the December quarter. Industrial activity moderated, goods movement normalised, consumption conditions remained patchy, and urban labour market indicators softened. These dynamics are consistent with GDP growth easing to around 7 per cent in Q4 FY26, with downside risks amplified by elevated geopolitical uncertainty.

Looking ahead to early FY27, the growth trajectory will critically depend on the evolution and duration of the Middle East conflict. Movements in international crude oil prices, disruptions to shipping routes, and shifts in global supply chain conditions will remain key determinants shaping India's near-term growth and external sector outlook.

Union government has taken emergency measures to contain the adverse effects of West Asia conflict. Notable among them are supply management of petroleum products, including supply of gas. Government's priority has been protecting the household consumers of petrol/diesel/gas, rationing their uses for industrial and commercial purposes, including selective increase in the prices for non-household users.