

Indian Economy Shows Strong Resilience Amidst Global Tariff Uncertainties: RBI



Despite a volatile global macroeconomic environment marked by geopolitical tensions and significant uncertainties around tariff policies, the Indian economy has largely maintained its resilience through June and July. This assessment comes from the Reserve Bank of India (RBI) in its latest monthly bulletin, highlighting India's robust macroeconomic fundamentals and proactive policy measures.

The 'State of the Economy' article in the July 2025 RBI Bulletin noted that domestic economic activity has held up, supported by improving prospects for the kharif agricultural season, continued strong momentum in the services sector, and modest growth in industrial activity. This internal dynamism has acted as a crucial buffer against external headwinds, including the looming imposition of new US import tariffs set to kick in from August 1, 2025.

The central bank emphasized that headline retail inflation, measured by the Consumer Price Index (CPI), remained below 4% for the fifth consecutive month in June, driven by deflation in food prices. This easing of inflationary pressure, coupled with a surplus in system liquidity, is facilitating a faster transmission of recent policy rate cuts to credit markets, thereby supporting aggregate demand.

The RBI acknowledges the global shift towards higher trade tariffs, with average rates potentially reaching levels not seen since the 1930s. The evolving patterns of global trade flows and supply chains remain unsettled, posing "considerable headwinds to global economic

prospects." However, the bulletin suggests that financial markets have absorbed these uncertainties with a degree of optimism, possibly anticipating less disruptive trade deals. Yet, the central bank cautions against the "underpricing of macroeconomic risk by financial markets."

To sustain its growth momentum amidst this challenging global landscape, the RBI's analysis underscores the strategic importance of building more resilient trade partnerships. This approach, alongside accelerating domestic investment in infrastructure and pursuing structural reforms aimed at enhancing competitiveness and productivity, is seen as vital for deepening India's integration with global value chains and building long-term resilience.

Furthermore, India's external sector continues to demonstrate strength, backed by ample foreign exchange reserves and a moderate external debt-to-Gross Domestic Product (GDP) ratio. This robust external position provides additional stability against potential global spillovers.

While views expressed in the bulletin article are those of the authors and do not necessarily represent the official stance of the Reserve Bank of India, they provide a comprehensive overview of the nation's economic health. The consistent focus on domestic demand, prudent fiscal management, and strategic trade policy is positioning India to navigate the current global uncertainties effectively and continue its trajectory of economic growth.