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RBI Bulletin – July 2025

Today, the Reserve Bank released the [July 2025](#) issue of its monthly Bulletin. The Bulletin includes four speeches, four articles and current statistics.

The four articles are: I. State of the Economy; II. Revisiting the Oil Price and Inflation Nexus in India; III. Determinants of Overnight Uncollateralised Money Market Volume- An Empirical Assessment; and IV. Household Inflation Expectations in India: Emerging Trends, Determinants and Impact of Monetary Policy.

I. State of the Economy

The global macroeconomic environment remained fluid in June and July so far amidst geo-political tensions and tariff policy uncertainties. Domestic economic activity held up, with improving *kharif* agricultural season prospects, continuation of strong momentum in the services sector and modest growth in industrial activity. Headline CPI inflation remained below 4 per cent for the fifth consecutive month in June driven by deflation in food prices. System liquidity remained in surplus to facilitate a faster transmission of policy rate cuts to the credit markets. The external sector remained resilient, backed by ample foreign exchange reserves and a moderate external debt-to-GDP ratio.

II. Revisiting the Oil Price and Inflation Nexus in India

By Sujata Kundu, Soumasree Tewari and Indranil Bhattacharyya

In the backdrop of volatile global crude oil prices and a less regulated petrol and diesel prices regime, this paper reassesses the impact of international crude oil price movements on headline inflation in the Indian context.

Highlights:

- Since the pandemic, the global economy has experienced large gyrations in crude oil prices. India, being a net oil importer, has remained susceptible to the vagaries of global crude oil prices and has been actively intervening in the domestic fuel market to contain the adverse fallout of higher oil prices on domestic inflation and output.
- Empirical estimates suggest that a 10 per cent rise in global crude oil prices could increase India's headline inflation by around 20 basis points on a contemporaneous basis. In the post-pandemic period, the impact on inflation, although largely contained, has been statistically significant with the surge in crude oil prices owing to the post-pandemic demand revival, which further

intensified due to the supply chain disruptions caused by the outbreak of the Russia-Ukraine war in early 2022.

- While Government measures have limited the impact of global crude oil price fluctuations on headline inflation, increase in oil import dependency warrants measures not only to contain the spillovers to domestic prices but also to gradually transit towards alternative sources of fuel for more efficient management of domestic fuel prices in the long run.

III. Determinants of Overnight Uncollateralised Money Market Volume - An Empirical Assessment

By Srijashree Sardar and Alqama Pervez

The uncollateralised money market holds a pivotal position in India's monetary framework, serving as the principal avenue for the exchange of central bank reserves. Its significance is further underscored by the fact that the weighted average call rate (WACR) functions as the operating target of the Reserve Bank of India's monetary policy. Against this backdrop, the article seeks to empirically examine the factors influencing trading volumes in the unsecured interbank segment of the Indian money market.

Highlights:

- The temporal distribution of trades in the call money market exhibits skewness within the day. The bulk of the trades occur in the first hour of any given day which may be attributed to the fact that primary dealers, the major borrowers in the segment, tend to fulfil their funding needs early in the day.
- System liquidity conditions, spread of the weighted average call rate over the policy repo rate, divergence of overnight forward premia from interest rate differential, inflows to and outflows from government accounts, trading volume of the collateralised segment and market trading hours are found to have a significant impact on call volume during the period of the study (2019-2024).
- Divergence of overnight forward premia from the interest rate differential has a positive impact on call volume, indicating arbitrage by banks during times of such divergence.
- Co-operative banks participation in call money market decreased significantly after the Reserve Bank's directive for mandatory membership on NDS-CALL trading platform for call money market activity. It has, however, rebounded in the recent months, following an increase in membership of co-operative banks.

IV. Household Inflation Expectations in India: Emerging Trends, Determinants and Impact of Monetary Policy

By Ankit Ruhi, Kanupriya Sharma and Subhadhra Sankaran

Household inflation expectations rose in the aftermath of the COVID-19 pandemic and geopolitical tensions, and have remained largely elevated since. In view of these developments, this article analyses the evolving trends in household inflation expectations. It proposes alternative methods for adjusting higher values of expectations reported in Inflation Expectations Survey of Households and identifies the key macroeconomic factors influencing these expectations. Finally, the impact of policy interventions, especially since the adoption of flexible inflation targeting (FIT) regime, is also examined.

Highlights:

- Households' inflation expectations exhibit systematic upward bias compared to those of professionals and businesses, even in periods of stable or low inflation.
- Median inflation expectation and the disagreement across demographic groups is gradually moderating since 2023-24.
- Perceived past inflation expectations add to stickiness in household expectations even as influence of realised inflation dynamics becomes stronger when expectations are adjusted for extreme values.
- Transition to the FIT regime has successfully aided in stabilising inflation expectations. Monetary policy actions are found to effectively anchor inflation expectations.
- While headline inflation is more influential than food inflation, volatile and broad-based food inflation may keep overall expectations elevated, underscoring the importance of continued policy emphasis on headline inflation.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.

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(Puneet Pancholy)
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