

Demand driving growth, but economic outlook somewhat clouded: RBI report

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While India's domestic demand remains a key driver of growth, the nearterm outlook for the economy is "somewhat clouded" due to supply side pressures brought on by the West Asia crisis, the Reserve Bank of India (RBI) said in a new report.

"Domestic demand continues to be the key driver of growth," the central bank said in its latest State of the Economy report as a part of its monthly bulletin for April 2026.

"Although headline inflation remains firmly within the tolerance band, the pass through to domestic prices needs to be monitored," it added.

"The financial conditions, crude oil prices and capital flows continue to pose challenges to the external sector outlook."

The central bank noted that while away bills continued to hit doubledigit growth, and petrol and diesel consumption continued to grow, overall petroleum consumption fell in April due to a sharp fall in the consumption of naphtha, LPG and other petroleum products.

Similarly, higher temperatures led to a sharp increase in electricity demand. "Demand remained broadbased and supported by rural markets," the RBI noted. "Automobile sales in rural areas continued to grow at double digit in April, although showing some sequential moderation."

It added that due to the increase in prices of aviation turbine fuel, the air passenger traffic declined further in April.

Labour market conditions witnessed some moderation in the JanuaryMarch 2026 quarter, with the labour force participation rate and worker population ratio declining alongside a rise in the unemployment rate.

On the supply side, the RBI said that sowing in the summer season has been "progressing well", surpassing the full season normal acreage and is higher than the previous year. It added that the acreage under all major crops is higher, except for rice.

On the services front, RBI said that the sector remained resilient in April.

However, it added that while the Services PMI accelerated, supported by a boost in transportation activity enabled by domestic suppliers and new business orders, the pace of export orders "displayed weakness", hit by the war in West Asia and subdued inbound tourism.

'Pace of export orders displayed weakness, hit by the war and on subdued inbound tourism'