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Economic & Business

Economic Highlights

Business Activity and Inflation: India's private sector activity expanded at the fastest pace on record in August, driven by a surge in demand in the services sector. This led to firms raising prices at the fastest rate in over 12 years. However, official data for July showed headline retail inflation had actually eased to an eight-year low of 1.55%, well below the Reserve Bank of India's (RBI) target band of 2-6%. This was largely due to a contraction in food prices.

RBI's Stance: The RBI's Monetary Policy Committee (MPC) decided in early August to keep the repo rate unchanged at 5.5%, maintaining a 'neutral' stance. The decision was unanimous and driven by a "wait and watch" approach. The RBI governor noted that while inflation has been benign, the monetary policy needs to remain vigilant due to global uncertainties, especially concerning new tariffs. The RBI also lowered its FY26 CPI inflation forecast to 3.1% from an earlier 3.7%.

U.S. Tariff Impact: Analysts note that new U.S. tariffs are a significant headwind for the Indian market, potentially impacting growth. India has seen the steepest earnings downgrades in Asia as a result of these tariffs.

Stock Market Performance

Market Trends: After a six-day rally, Indian equity benchmark indices, the Nifty50 and BSE Sensex, opened lower on August 22, 2025. The decline was primarily led by IT and banking stocks. Despite this dip, the Nifty50 continues to hold above the psychological 25,000 mark.

Investor Sentiment: Market participants are now closely watching the upcoming Jackson Hole Economic Symposium for commentary from the U.S. Federal Reserve Chair, which could provide new insights into future monetary policy and influence global markets, including India.

Stock Picks: For the day, some research firms have recommended stocks like Sagility India and Aditya Birla Capital.

Outperformance: A key trend in the market is the outperformance of large-cap stocks compared to mid-cap and small-cap indices.

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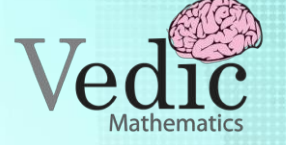
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MCQS

1. According to the provided text, what was the primary reason for the expansion of India's private sector activity in August?

- a) A contraction in food prices
- b) A surge in demand in the services sector
- c) The RBI lowering its inflation forecast
- d) The introduction of new U.S. tariffs

Answer: b) A surge in demand in the services sector

The text states that India's private sector activity expanded "driven by a surge in demand in the services sector."

2. What was the outcome of the RBI's Monetary Policy Committee meeting in early August?

- a) The repo rate was increased to combat inflation.

b) The repo rate was decreased to stimulate growth.

c) The repo rate was kept unchanged at 5.5%.

d) The repo rate was raised to 6%.

Answer: c) The repo rate was kept unchanged at 5.5%.

The text explicitly mentions that the MPC "decided in early August to keep the repo rate unchanged at 5.5%."

3. What was the headline retail inflation rate for July, and how did it compare to the RBI's target band?

- a) 1.55%, well below the 2-6% target band
- b) 3.1%, within the 2-6% target band
- c) 5.5%, at the high end of the 2-6% target band
- d) 1.55%, at the low end of the 2-6% target band

Answer: a) 1.55%, well below the 2-6% target band

The text states that the July inflation was 1.55%, which was "well below the Reserve Bank of India's (RBI) target band of 2-6%."

4. What is identified as a significant "headwind" for the Indian market, according to analysts?

- a) A drop in the Nifty50 below the 25,000 mark
- b) The underperformance of large-cap stocks
- c) New U.S. tariffs
- d) The upcoming Jackson Hole Economic Symposium

Answer: c) New U.S. tariffs

The text notes that "new U.S. tariffs are a significant headwind for the Indian market, potentially impacting growth."

5. After a six-day rally, what led the decline in the Indian equity benchmark indices on August 22, 2025?

- a) The services sector
- b) Food prices





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- c) IT and banking stocks
d) Sagility India and Aditya Birla Capital

Answer: c) IT and banking stocks

The text states that the "decline was primarily led by IT and banking stocks."

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