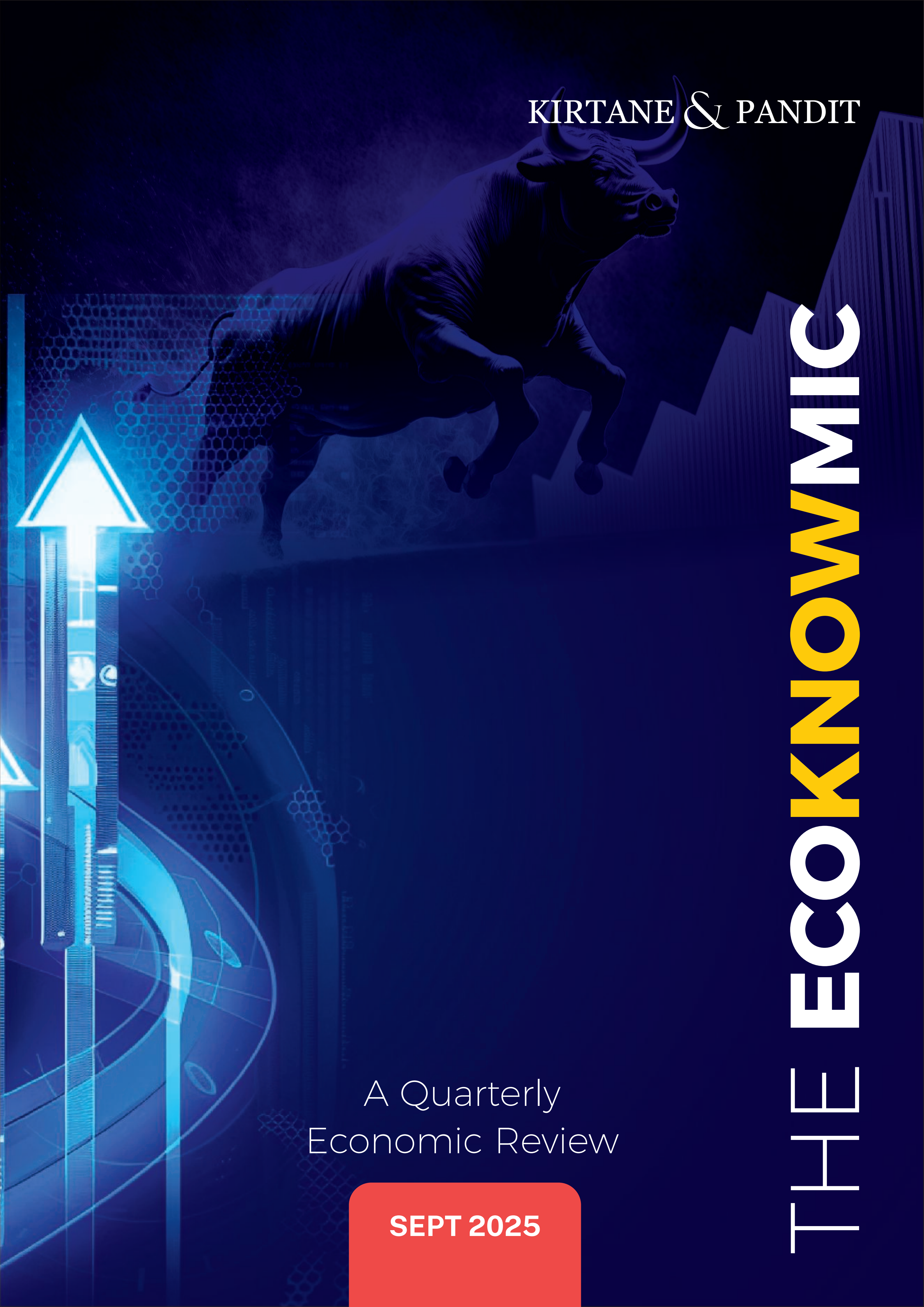
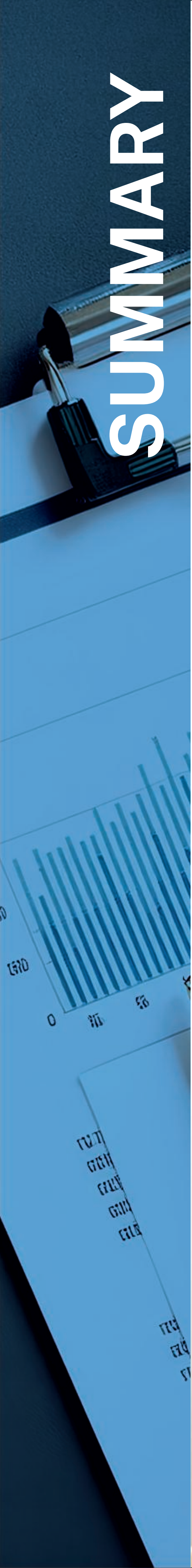
KIRTANE & PANDIT



# THE ECOKNOWMIC

A Quarterly
Economic Review

SEPT 2025



# SUMMARY

## Positives

India GDP for Q1 of 2025-26 at 7.8% - highest in five quarters

CPI at an all time low as prices for vegetables and pulses continue to decline

Forex reserves of US$699bn provide robust external sector resilience

India got updgraded by two global rating agencies citing strong macro economic fundamentals

## Challenges

Increased trade and policy uncertainity due recent tarriffs

Trade deficit still unfavourable, despite increased exports over the years

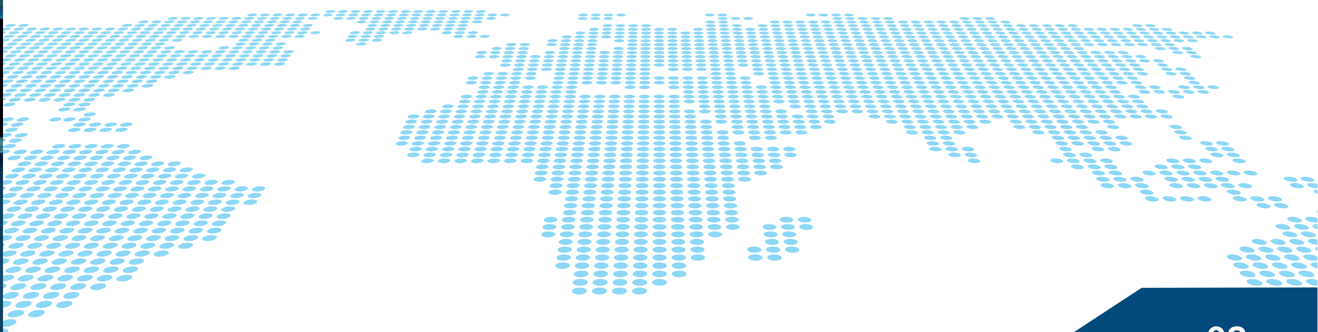
Recent contraction in FDIs & significant volatility in FIIs

Considerable widening of the fiscal deficit early on in the financial year is a short term concern amidst stable consolidation path

# GLOBAL SCENARIO

## GLOBAL GDP PROJECTIONS (%)

| | 2024 | 2025(P) | 2026(P) |
|---|---|---|---|
| INDIA | 6.5 | 6.4 | 6.4 |
| CHINA | 5.0 | 4.8 | 4.2 |
| RUSSIA | 4.3 | 0.9 | 1.0 |
| BRAZIL | 3.4 | 2.3 | 2.1 |
| USA | 2.8 | 1.9 | 2.0 |
| UK | 1.1 | 1.2 | 1.4 |
| FRANCE | 1.1 | 0.6 | 1.0 |
| SOUTH AFRICA | 0.5 | 1.0 | 1.3 |
| JAPAN | 0.2 | 0.7 | 0.5 |
| GERMANY | -0.2 | 0.1 | 0.9 |



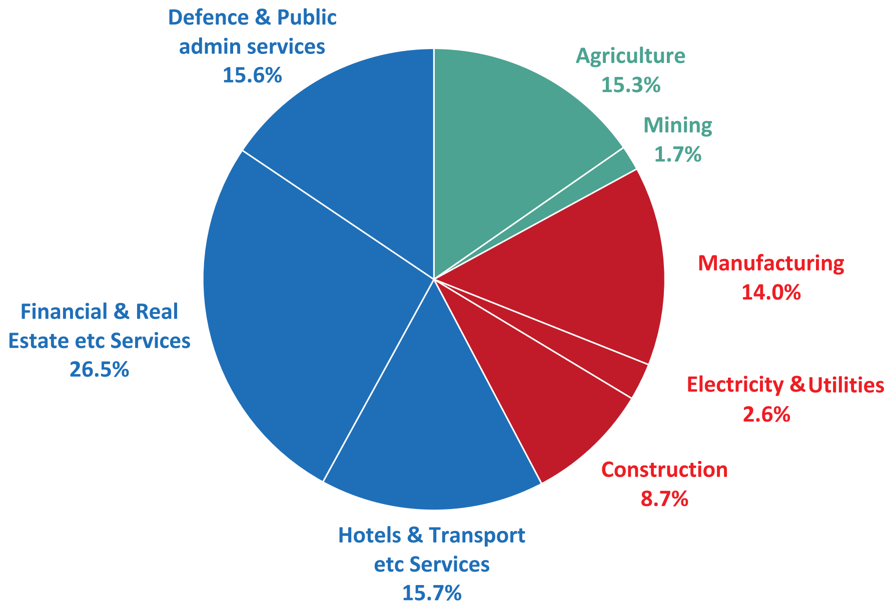
# GLOBAL SCENARIO

## ECONOMIC HIGHLIGHTS

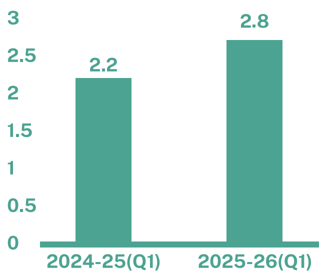
- Global GDP is projected to grow by 3.0% in 2025 and 3.1% in 2026, a slight upward revision from April's forecast.
- The uptick, however, is underpinned by temporary factors such as tariff pauses, front-loaded trade, and fiscal stimulus rather than strong private demand or structural improvements.
- Even with the current expected uptick, the reintroduction of sweeping tariffs, increased trade protectionism and the global policy uncertainty surrounding it are key headwinds.
- Headline global inflation is projected to decline from 5.6% in 2024 to 4.2% in 2025 and further to 3.6% in 2026, largely following previously forecasted paths.
- Growth in advanced economies is projected at 1.5% in 2025 and 1.6% in 2026, slightly above April forecasts due to improved financial conditions and moderated tariff impacts.
- EMDEs are forecasted to grow by 4.1% in 2025 and 4.0% in 2026, reflecting robust contributions from Asia, Sub-Saharan Africa, and the Middle East.
- As the current effect of temporary policy boosts fade, sustained recovery will require stronger trade agreements, structural reforms and stronger fiscal frameworks.
- China's 2025 growth has been revised upwards by 0.8% to 4.8%, underpinned by strong exports and front-loading activity supported by weaker Renminbi.
- Growth projection for Russia is at 0.9%, downward revision of -0.6%, due to combination of policy tightening, sustained pressure on oil revenues, and sluggish domestic activity.
- India continues to remain a stand out performer at 6.4%, backed by domestic demand, structural improvements in manufacturing and technology sectors.
- Saudi Arabia is expected to grow at 3.6%, upward revision of 0.6%, backed by expectations of oil supply normalization, oil price resilience, strong non-oil economy
- Nigeria's 2025 growth forecast is revised upward by around 0.4 % to 3.4% on the back of higher oil production and strengthening non-oil sectors.
- Mexico's growth is expected at 0.2% an upward revision of 0.5% underpinned by healthy exports to US, remittance inflows, and a healthy labour market

*Data Sources*
*World Economic Forum, International Monetary Fund | Global Economic Prospects, World Bank*

## SECTORAL COMPOSITION OF NOMINAL GVA FOR Q1 OF FY 2025-26

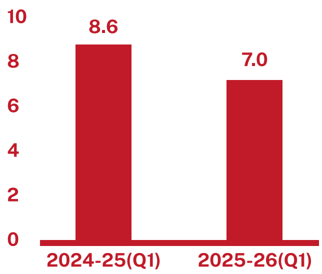



## PRIMARY SECTOR



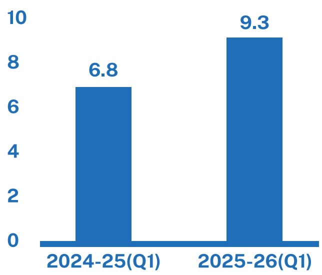

Agriculture grew by 3.7% in Q1 of FY 25-26 driven by favourable monsoon conditions and robust rural demand. Inversely, the Mining saw a decline of 3.1%.

## SECONDARY SECTOR



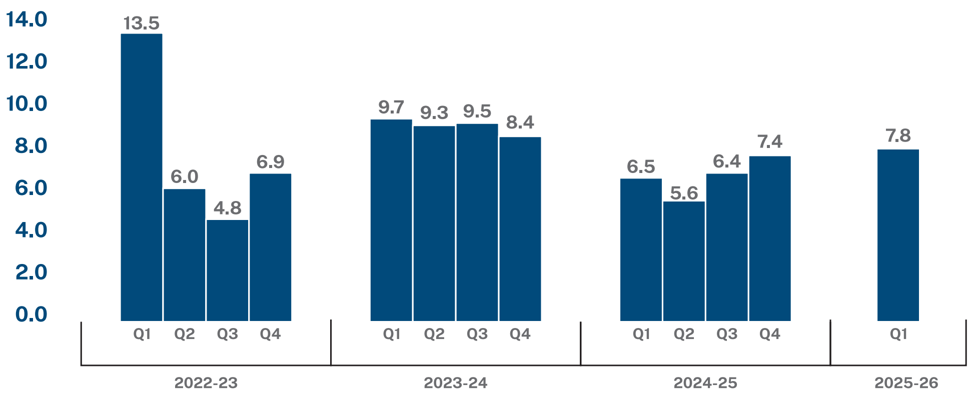

Manufacturing & construction grew by 7.7% and 7.6% in Q1 buoyed by strong government capital spending. Utility services on the other hand grew only by 0.5%.

## TERTIARY SECTOR




Services grew 9.3% in Q1 as services saw robust expansion across trade, transport, communications, financial, real estate, and public administration sectors

## QUARTERLY GDP RATES (%)



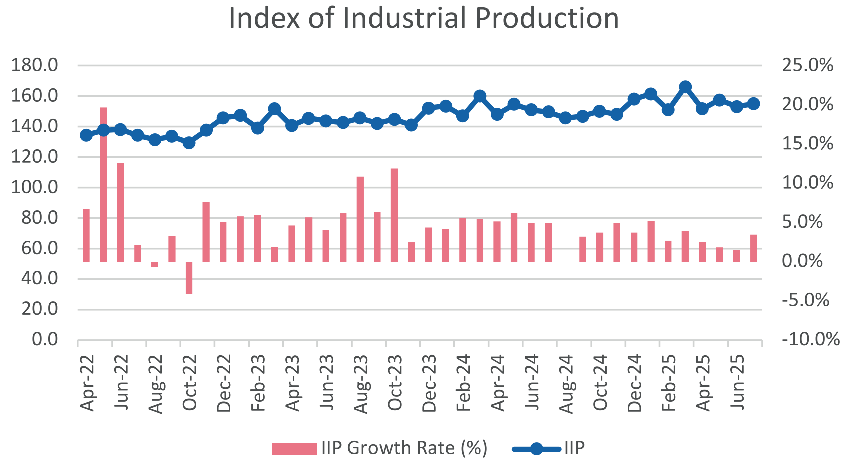

- India's economy achieved its fastest growth in five quarters at 7.8% in Q1 FY2025-26, exceeding the market expectations of 6.7% & reinforcing India's position as the world's fastest-growing major economy.
- Key contributors included a revival in agriculture, resilient manufacturing and construction activity, and a particularly strong performance from the services sector

## EXPENDITURE HIGHLIGHTS

- Private consumption came in at 7.0% in Q1 of 2025-26 down from 8.3% in Q1 of 2024-25 due to softer urban consumption amid elevated household debt and weak sentiment.
- Gross Fixed Capital Formation grew by 7.8% in Q1 of 2025-16 as compared to 6.7% in the previous year driven by both sustained public capital expenditure and improving private investment sentiment.
- Government expenditure shot up to 7.4% in Q1 of 2025-26 as compared to -0.3% in the previous year, pointing to a deliberate fiscal thrust to invigorate economic activity

## INDUSTRY HIGHLIGHTS

- The Index of Industrial Production (IIP) from May to July 2025 shows slight signs of recovery after a mid-year slowdown. After subdued performances in May and June, IIP came in at 3.47% y/y in July.




**Key sector performances:**

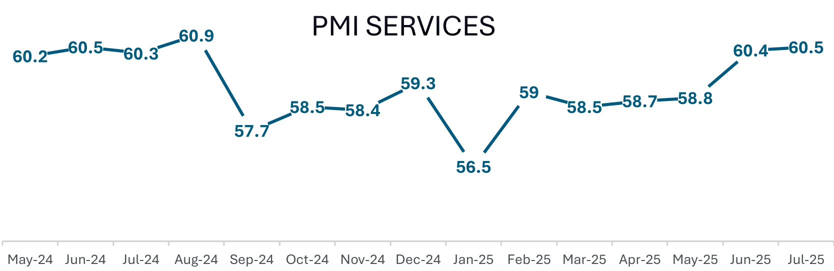
- The recent resurgence in IIP was led by manufacturing sector growing at 5.4% in July 2025, supported by growth in basic metals, electrical equipment and mineral products.
- Mining and electricity witnessed subdued performance in the last three months (May-June) as mining sector possibly faced lingering monsoon disruptions or supply chain constraints while electricity generation stabilized.
- In terms of use-based parameters, capital goods, infra goods and consumer durables all improved while primary goods and consumer non-durables showed subdued performance.

**PMI data reflect sustained growth in manufacturing and services:**

- Manufacturing PMI surged in the last three months (May-Jul), climbing from 58.3 in May to 58.4 in June, and 16-month high of 59.1 in July driven by robust demand and export orders.
- Indian manufacturing growth gained further momentum, with ongoing improvements in demand continuing to underpin robust increases in factory orders and production

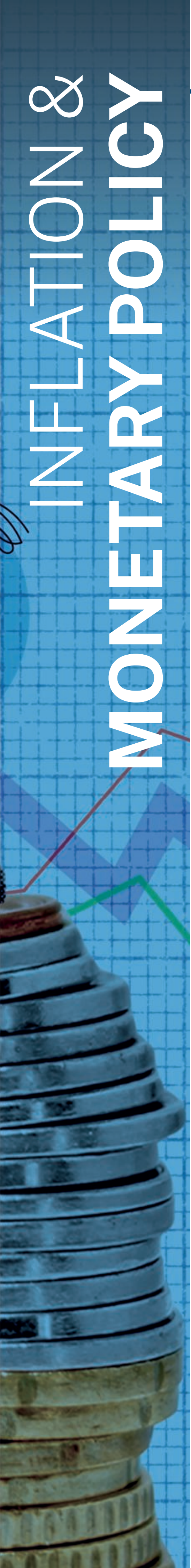
## SERVICES HIGHLIGHTS

- Services PMI, similar to Manufacturing PMI, experienced accelerated growth over the past three months, coming in at 58.8 in May, 60.4 in June and 60.5 in July – latest being 11 month high.




- The growth was supported by robust new business inflows and a positive outlook among service providers.

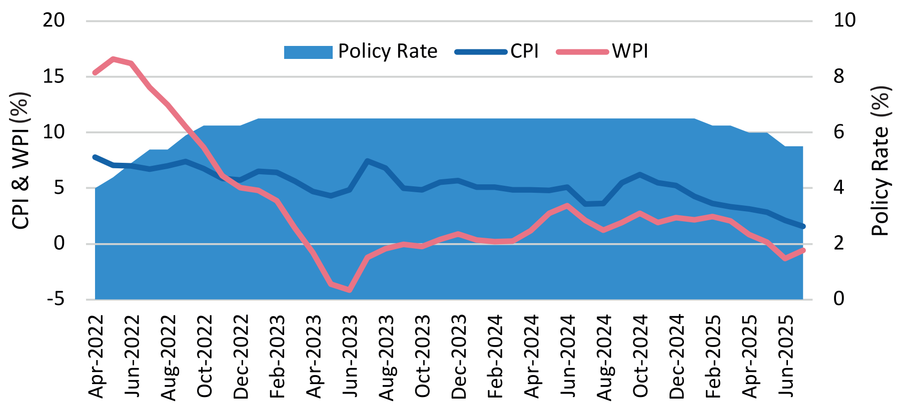
*Data Sources*
*MOSPI | Purchasing Managers Index | Ministry of Commerce & Industry*




## SUMMARY OF PRICE CHANGES

| CPI | FY 2024-25 | May-25 | Jun-25 | Jul-25 |
|---|---|---|---|---|
| All Commodities | 4.63 | 2.82 | 2.10 | 1.55 |
| Consumer Food | 7.31 | 0.99 | (1.01) | (1.76) |
| Food and beverages | 6.73 | 1.50 | (0.20) | (0.80) |
| Pan tobacco & intoxicants | 2.66 | 2.41 | 2.41 | 2.45 |
| Clothing & footwear | 2.72 | 2.67 | 2.55 | 2.50 |
| Housing | 2.77 | 3.16 | 3.18 | 3.17 |
| Fuel and light | (2.47) | 2.84 | 2.55 | 2.67 |
| Miscellaneous | 4.09 | 5.17 | 5.49 | 5.01 |
| **WPI** | **FY 2024-25** | **May-25** | **Jun-25** | **Jul-25** |
| All Commodities | 2.28 | 0.13 | (0.13) | (0.58) |
| Primary Articles | 5.21 | (1.75) | (3.38) | (4.95) |
| Fuel & Power | (1.30) | (4.80) | (2.65) | (2.43) |
| Manufactured Products | 1.74 | 2.11 | 1.97 | 2.05 |

- CPI inflation declined sharply in the last three months declining from 2.82% in May to 2.10% in June and further to 1.55% in July, well below the 2024 average of 4.63%. WPI showed similar trends with the index coming in negative territory in June and July, underscoring cooling price pressures.
- Food inflation declined sharply, coming in at -0.15% y/y in June, the first contraction since February 2019. This sharp declining was led by negative growth in prices of both vegetable and pulses. Supply normalisation post monsoon and high base case led to this sharp decline.
- Fuel prices continued to remain firm in the last three months as compared to contraction throughout 2024. This rise is predominantly due to adjustment in domestic retail pricing even as global crude price remains subdued.
- Fuel inflation for WPI continues to diverge from CPI, although with softened contraction from –4.80% in May to –2.43% in July, hinting at some stabilization in energy prices.
- Wholesale prices for primary articles and food fell sharply, as manufacturing goods and non-food articles remained stable, averaging 2% and 2.3%, respectively, in the last three months.

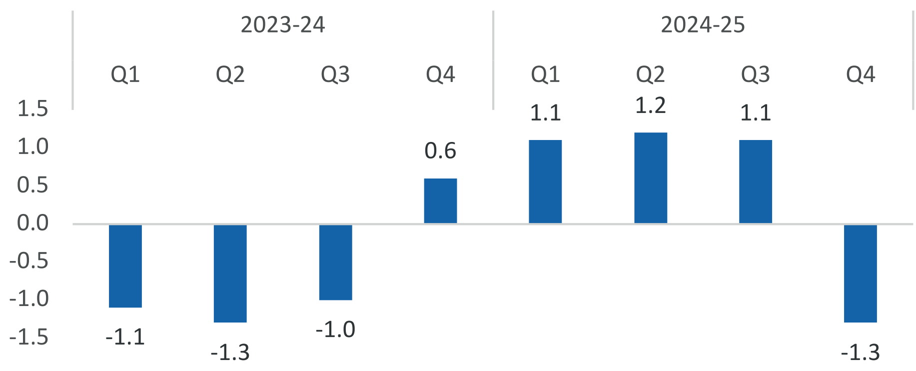



- RBI's Monetary Policy Committee (MPC) cut rates by 50 bps to 5.50% in June 2025 and then held steady in latest policy meeting in August, with the policy stance maintained at Neutral.
- The RBI opined that the repo rate was kept unchanged to allow the previous rate cuts to fully transmit to the economy as also to assess the external risks, especially led by the current US tariffs, before any more immediate easing.

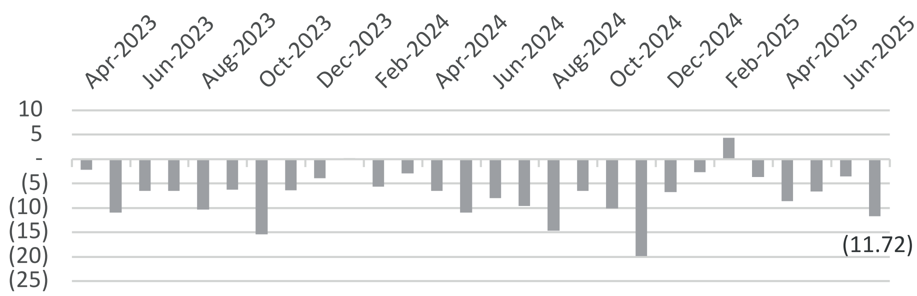
*Data Sources*
*Reserve Bank of India | Office of the Economic Adviser, Ministry of Commerce & Industry*

# EXTERNAL SECTOR

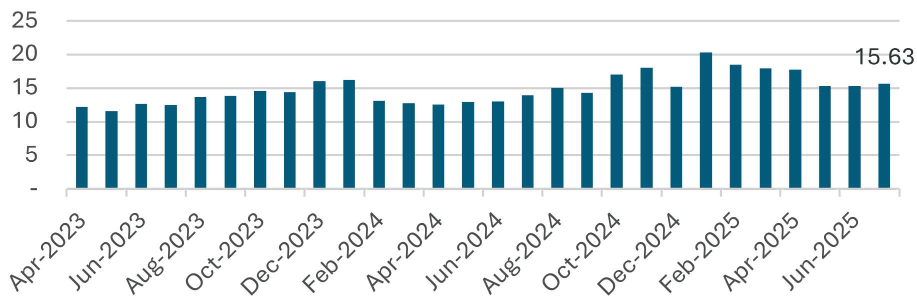
## CURRENT ACCOUNT DEFICIT (% OF GDP)



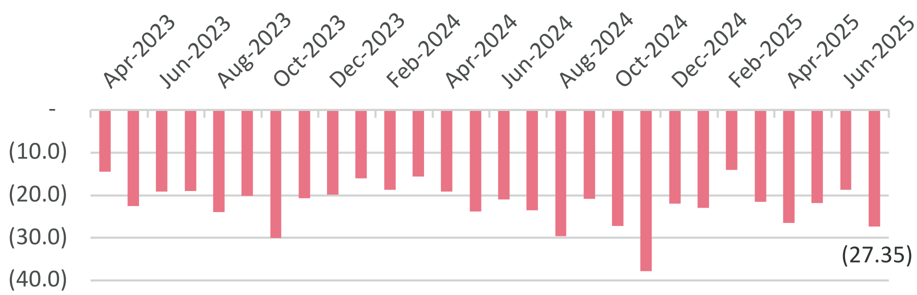

## NET FOREIGN TRADE (US$ Bn)




## NET SERVICE TRADE (US$ Bn)




## NET MERCHANDISE TRADE (US$ Bn)

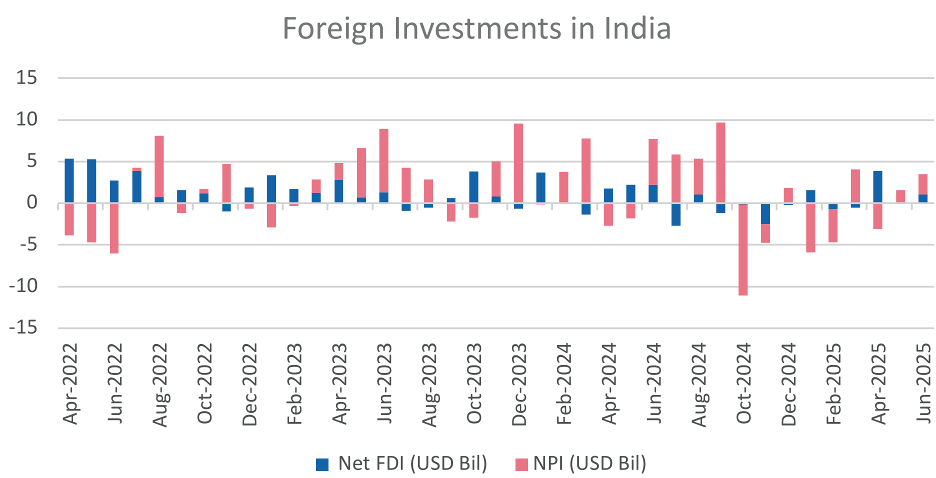



## HIGHLIGHTS OF FOREIGN TRADE

- India's achieved current account surplus of 1.3% of GDP in Q4 2024-25.
- This is the first current account surplus in four quarters backed by robust services exports and heightened remittances.
- During May-July, the trade deficit greatly fluctuated coming in at a subdued US$ 3.5bn in June to then ballooning to US$ 11.7bn, an 8-month high.
- The merchandise trade deficit was volatile as June saw a subdued deficit at US$ 18.7bn, which then increased to US$27.3 bn in July.
- Reduced oil and gold imports along with uptick in exports led to subdued deficit in May and June with this trend reversing in July.
- Merchandise imports fell to 53.9bn, a 7-month low, in June due to lower crude oil prices, moderation in non-oil, non-gold imports. Imports rebounding to a eight month high at US$64.6bn driven by restocking of oil, gold, and industrial inputs.
- Merchandise exports remained stable at US$38.7bn in May, dipping to US$35.1bn in June to then rebound to US$37.2bn in July.
- Merchandise exports were largely driven by engineering goods, electronics and petroleum products.
- India's services exports continued to support trade balance led by IT, software, and business process management (BPM) services along with professional services. In the month of July, services exports moderated to US$ 31.03 billion, reflecting seasonal softness and weaker demand in select markets.
- The total trade balance exhibited notable fluctuations reflecting the overall disruption in global commodity prices and demand.

## HIGHLIGHTS OF FOREIGN INVESTMENTS

- India continued to attract significant foreign investment; however, global headwinds led to mixed momentum in net flows.



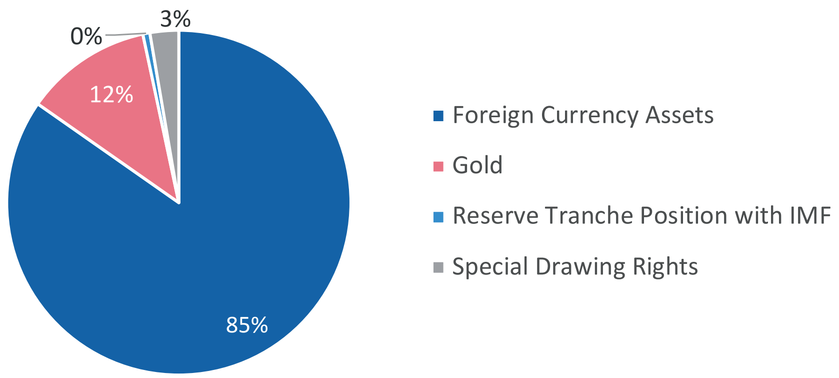

- Net inflows in foreign direct investment (FDI) greatly fluctuated with net inflow of US$ 3.9bn, a 32-month high, in April, declining to marginal net outflow in May and US$ 1.08bn in June 2025.
- Gross FDI surged to USD 8.8 billion in April and then again to US$9.2bn in June, signalling renewed investor interest driven likely by stronger sentiment and policy momentum. Sectoral inflows were led by electronics manufacturing, renewables, pharmaceuticals, and IT services.

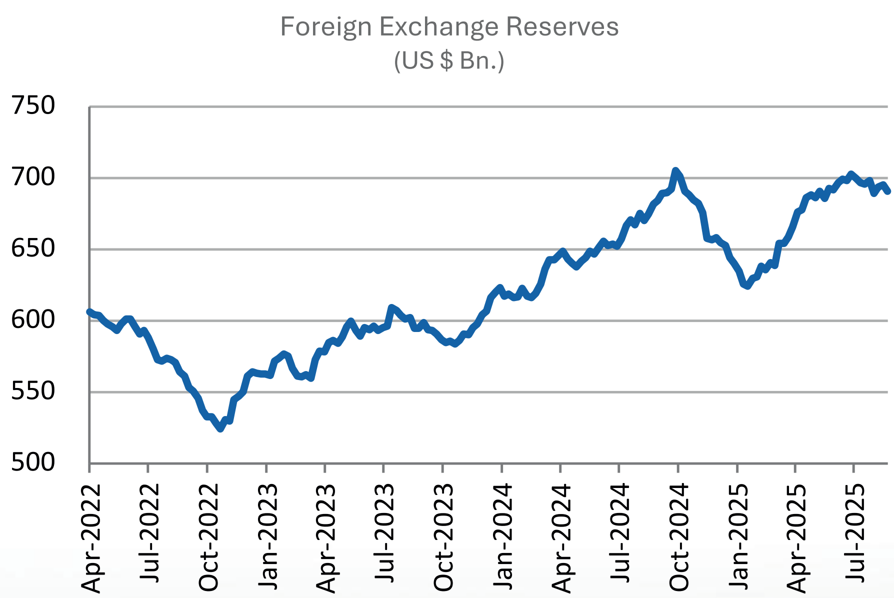
# EXTERNAL SECTOR

- Even with credible inflows, net FDI moderated during these months, largely due to a rise in outward investments by Indian firms — indicating both domestic companies seeking global expansion and foreign investors repatriating profits.

- NPIs followed a similar volatile trend in the three months (Apr-Jun), with a negative net inflow of -US$ 31.bn, recovering to $US1.5bn in May and continuing the trend with US$ 2.3bn inflow in June. Sharp outflow triggered by a stronger US dollar, tariff-related concerns, and currency depreciation risks have led to volatile net inflows.

- India's foreign exchange reserves declined to $690.72 as of 22nd August from about $695.11 billion in the previous week resulting from reduction in foreign currency assets and gold. Even with the recent dip, the reserve level continues to offer robust external sector resilience with an import cover of roughly 11 months.



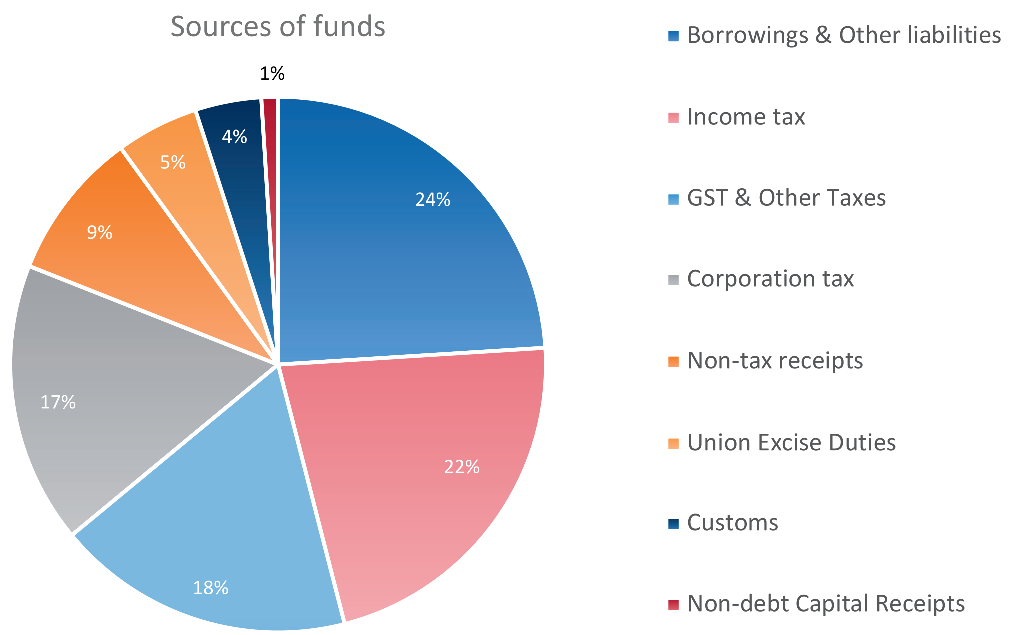



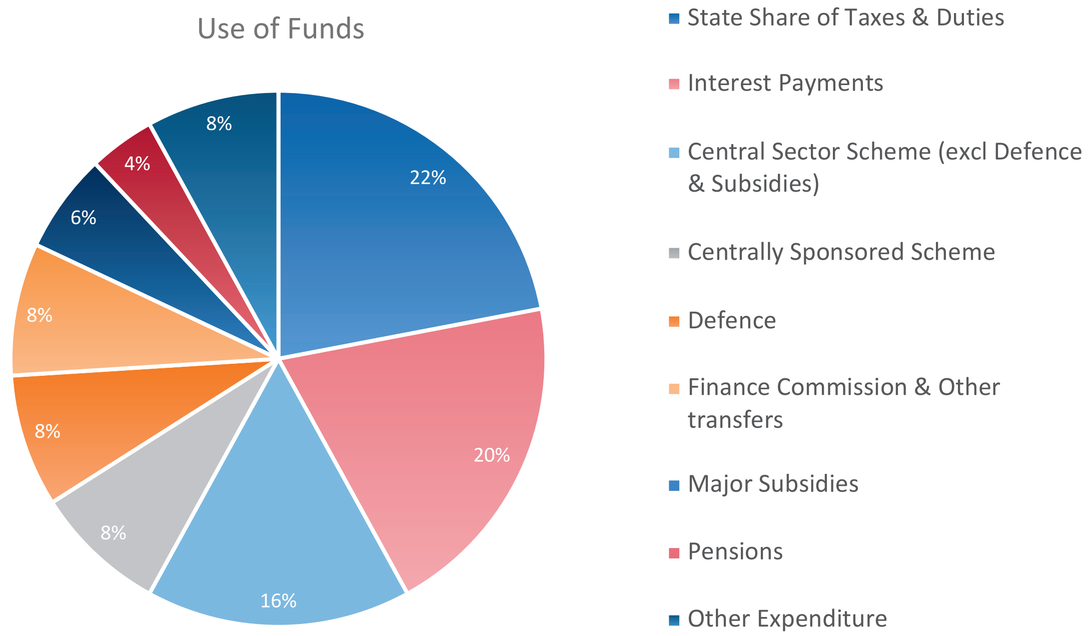

*Data Sources*
*Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India*

## BUDGET ESTIMATES (FY 2025-26)

- The Government, in its Union budget for FY 2025-26, set the target for fiscal deficit at 4.4% of GDP, down from 4.8% of GDP in the previous financial year, reaffirming its commitment to fiscal consolidation while maintaining growth-supportive expenditure.

Monthly Tax Collection Revenue (in INR Crore)

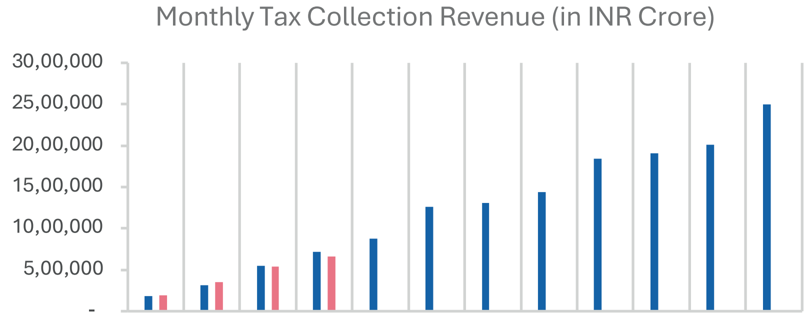


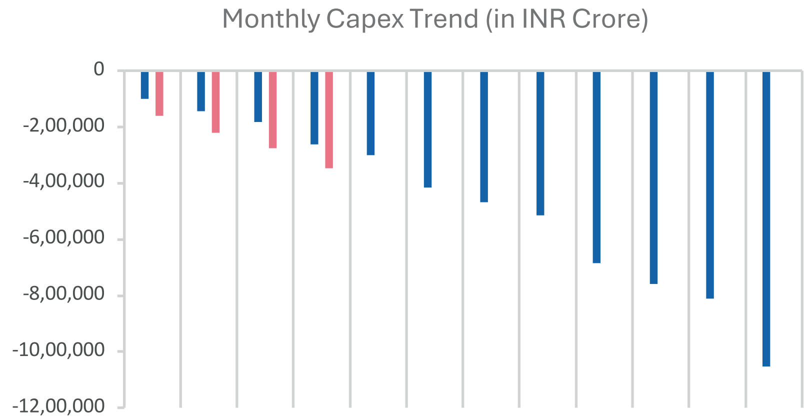



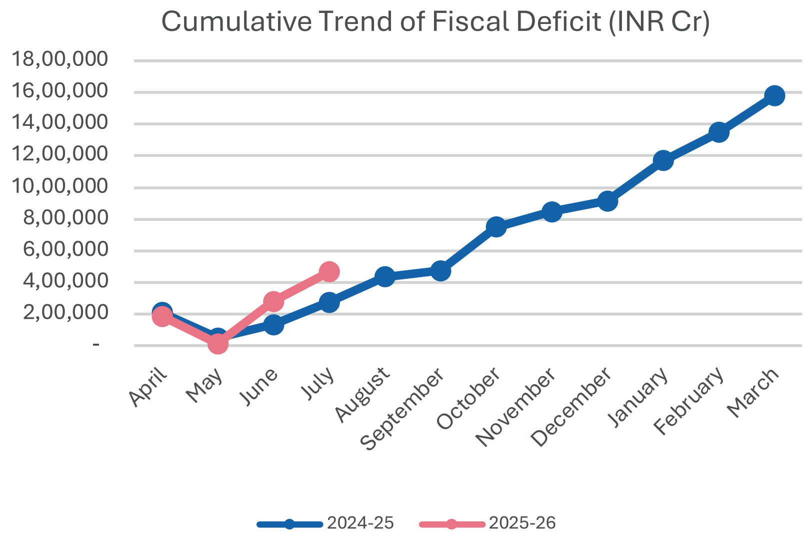

- FY 2025-26 fiscal deficit is at 29.9% of the Budget Estimate in July 2025 as compared to 17.2% in the previous year.

## FISCAL PERFORMANCE (FY 2025-26)

- The increased capital outlay and revenue spending on sectors such as infrastructure, railways and defence would have led to an uptick in fiscal deficit.




- Further, the Y-o-Y comparison can be misleading as fiscal expenditure slowed down in the early months of the previous year due to elections.
- Capital expenditure as of July is around 30% higher than that of July last year.
- The sharp uptick follows the Government's focus on front-loading of infrastructure spending to drive growth.
- Tax revenue dipped by 7.5% as compared to July last year, with a cumulative figure of 6.62 lakh crores.
- Factors such as delayed filings, weaker consumption and corporate performance impacting GST and income tax collections affected tax revenue collections.
- Non-tax revenues surged as of July 2025 on the back of income streams like dividends from PSUs, interest receipts, license fees, and auction proceeds.
- The overall fiscal deficit has surged as compared to the previous year as the Government focuses on increased capital outlay to boost economic performance.

*Data Sources: Union Budget | Ministry of Finance*

KIRTANE & PANDIT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