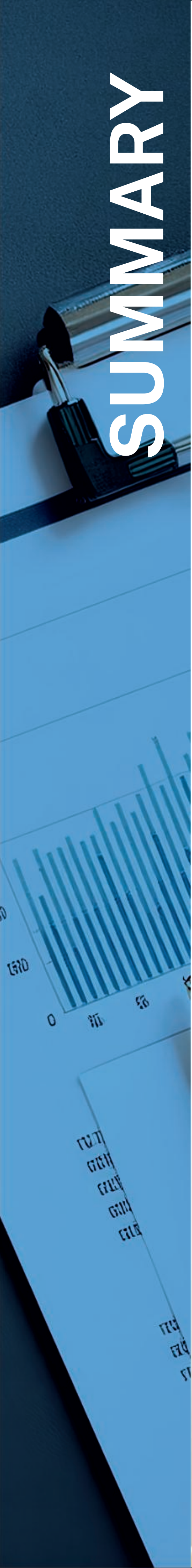
KIRTANE & PANDIT

THE ECOKNOWMIC

A Quarterly
Economic Review

DEC 2025

SUMMARY



Positives

India GDP for Q2 of FY 2025-26 at 8.2% - a six quarter high

CPI inflation fell to historic low of 0.25% in October - the lowest in the new series

Services sector remained robust in recent months

Govt Capex surged ~32% YoY in first 7 months of FY2025-26

Challenges

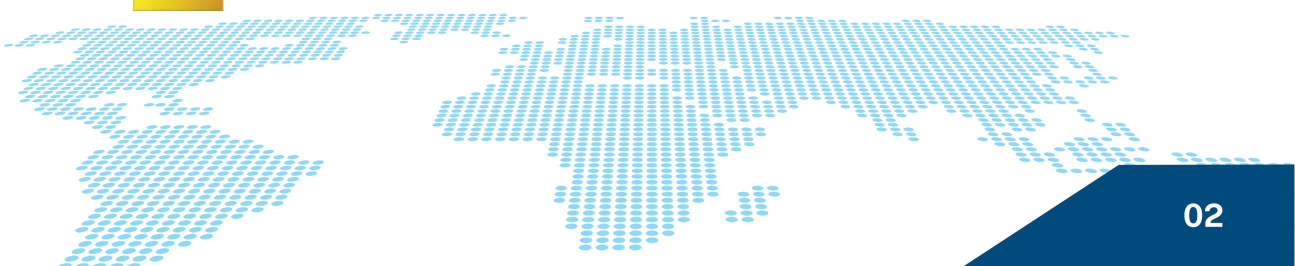
Soft global growth environment expected to continue

Current account deficit widened to 1.3% of GDP in Q2 of FY 2025-26

Manufacturing PMI declined to a 9 month low. Mining & consumer non durables continued to remain subdued in IIP

GLOBAL GDP PROJECTIONS (%)

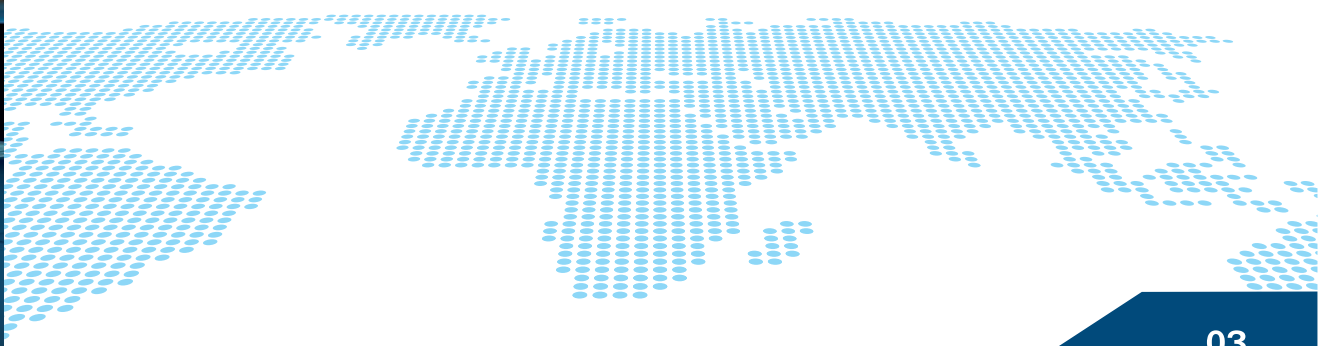
	2024	2025 (P)		2026 (P)	
		GDP Growth	Change from Q2	GDP Growth	Change from Q2
	3.3	3.2	0.2	3.1	0.0
Emerging Economies					
INDIA	6.5	6.6	0.2	6.2	-0.2
CHINA	5.0	4.8	0.0	4.2	0.0
RUSSIA	4.3	0.6	-0.3	1.0	0.0
NIGERIA	4.1	3.9	0.5	4.2	1.0
BRAZIL	3.4	2.4	0.1	1.9	-0.2
SAUDI ARABIA	1.4	1.0	0.8	1.5	0.1
MEXICO	2.0	4.0	0.4	4.0	0.1
SOUTH AFRICA	0.5	1.1	0.1	1.2	-0.1
Advanced Economies					
SPAIN	3.5	2.9	0.4	2.0	0.2
USA	2.8	2.0	0.1	2.1	0.1
CANADA	1.6	1.2	-0.4	1.5	-0.4
UK	1.1	1.3	0.1	1.3	-0.1
FRANCE	1.1	0.7	0.1	0.9	-0.1
JAPAN	0.1	1.1	0.4	0.6	0.1
GERMANY	-0.5	0.2	0.1	0.9	0.0



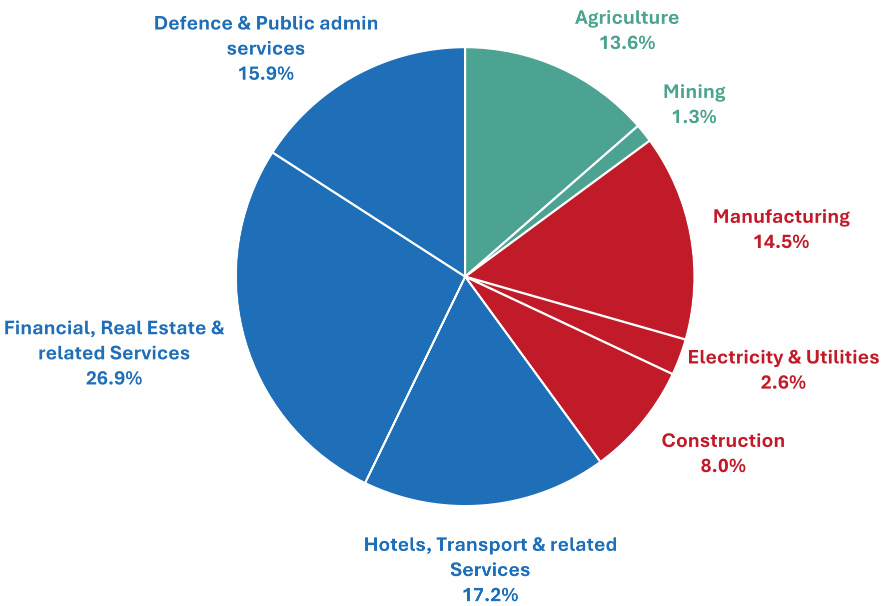
ECONOMIC HIGHLIGHTS

- Global GDP is expected to expand by 3.2% in 2025 and 3.1% in 2026, a modest improvement over earlier projections but still indicative of a soft global growth environment.
- 2025 Growth improvement reflects temporary factors - tariff delays, front-loaded trade activity, and fiscal support, rather than sustainable productivity gains.
- Renewed tariff cycles, rising protectionist measures, and heightened uncertainty around global policy directions remain significant constraints on the growth outlook.
- Global inflation is forecasted to ease from 5.6% in 2024 to 4.2% in 2025, eventually declining to around 3.7% in 2026, broadly following previously expected disinflation paths.
- Advanced economy growth is expected to remain moderate at roughly 1.6% in 2025 and 1.6% in 2026, supported by better financial conditions and somewhat reduced drag from tariffs.
- Emerging economies are projected to grow near 4.2% in 2025, softening slightly to around 4.0% in 2026, with stronger contributions from Asia, Sub-Saharan Africa, and the Middle East.
- As the current effect of the temporary policy boosts fades, sustained recovery will require stronger trade agreements, structural reforms and stronger fiscal frameworks.
- The forecast for Russia was cut by 0.3% to 0.6% in 2025, reflecting tighter policies, lower oil revenues, and weak domestic demand.
- India leads as the fastest-growing major economy at 6.6% (2025), revised up 0.2% on firm domestic demand and manufacturing/tech gains.
- Mexico is expected to grow at 1.0%, significantly upgraded by 0.8, supported by firm US-linked exports, remittances, and labour-market resilience.
- Nigeria's growth is upgraded by 0.5% to 3.9%, supported by improving oil output, better FX liquidity conditions, and a gradual recovery in non-oil activity.
- Growth for Spain was revised up by 0.4% to 2.9%, top of the advanced economies, reflecting robust tourism, improving labour markets, and resilient consumption.
- Japan's outlook improved by 0.4% to 1.1%, underpinned by steady consumer demand, ongoing investment support, and recovery in travel and tourism inflows.
- Saudi Arabia's growth is upgraded by 0.4% to 3.2%, supported by higher oil production, strong government spending, and a rebound in non-oil sectors.

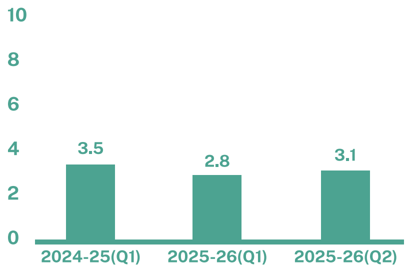
Data Sources
World Economic Forum, International Monetary Fund | Global Economic Prospects, World Bank



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

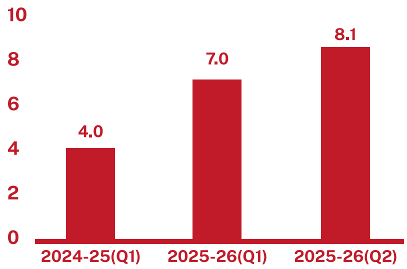


PRIMARY SECTOR



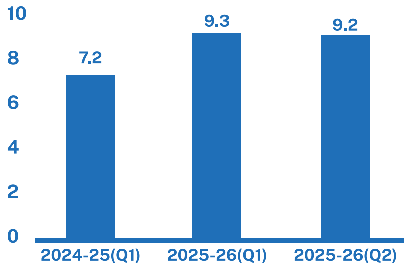
Agriculture growth slowed to 3.5%, due to moderation in rural demand while the mining sector remained nearly flat, contracting slightly by 0.04%.

SECONDARY SECTOR



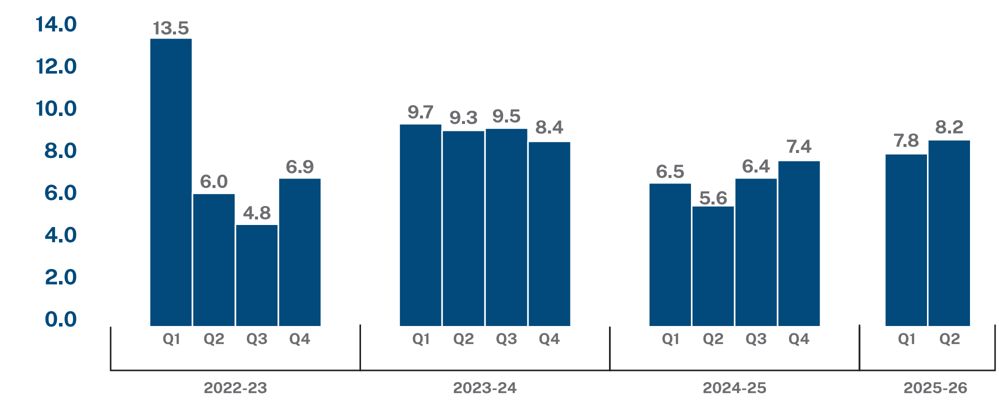
Manufacturing and Construction grew 9.1% and 7.2% on strong government spending, while utility services rose 4.4%.

TERTIARY SECTOR



The service sector grew 9.2%, driven by robust Defence & Public admin services and Financial activities, despite moderation in hospitality and tourism.

QUARTERLY GDP RATES (%)



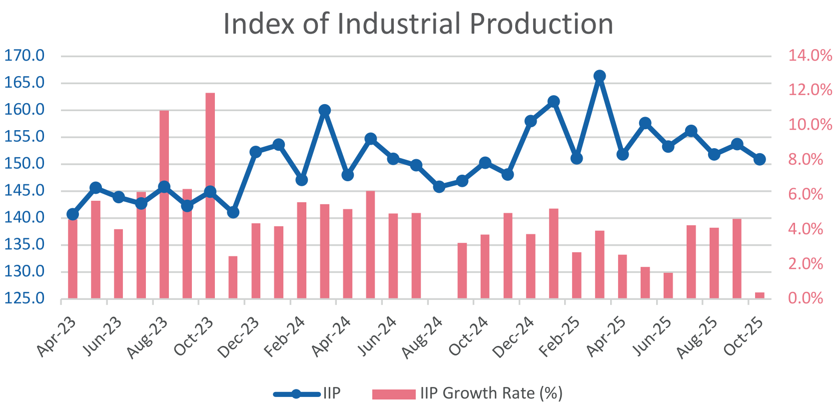
- In Q2 FY2025 26, India's GDP expanded 8.2%, the highest in six quarters, driven by growth across multiple sectors.
- Agriculture growth slowed to 3.5% affected by seasonal harvesting fluctuations, manufacturing and construction rose 9.1% and 7.2%, and the services sector expanded 9.2%, driven by, strong infrastructure spending, robust trade and financial activity.

EXPENDITURE HIGHLIGHTS

- Private consumption grew 7.9%, supported by festive demand and reduced GST rates.
- Gross Fixed Capital Formation rose 7.3%, driven by continued public investment and a gradual improvement in private investment.
- Government spending saw moderation in revenue expenditure, while capital outlays remained strong, reflecting a recovery led by consumption and services despite slower investment growth.

INDUSTRY HIGHLIGHTS

- The Index of Industrial Production (IIP) for the July to September quarter showed strong growth, thereafter declining to 0.4% in the month of October 2025. On average, IIP grew by 2.7% in FY 2025-26 as against 4% growth in the similar period of last year



Key sector performances in the 7 months of FY 2025-26

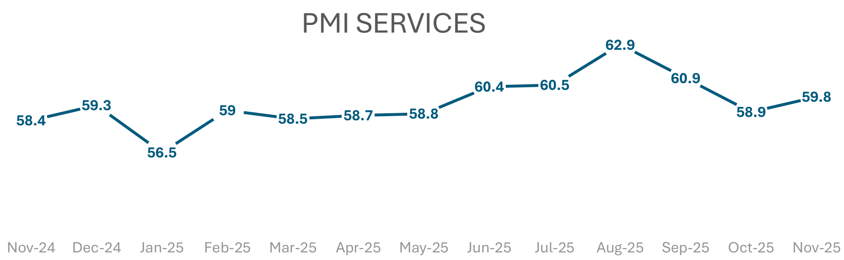
- ToIndustrial momentum stayed uneven, with manufacturing being the key driver with average growth of 3.9%, while mining contracted 1.9% and electricity remained unchanged.
- For use-based parameters, Infrastructure/construction goods averaged 8.5%, capital goods (6.8%), consumer durables (4.1%), and intermediate goods (4.8%) held up well, indicating continued support from capex and durable-goods demand. Consumer non-durables contracted by 2.2%, signalling soft underlying consumption.

Recent PMI data shows a contrasting trend in manufacturing and services:

- After rising to 59.3 in August (nearly 18-year high), and strong performance in September, and October, Manufacturing PMI declined to 57.4 in November, a 9 month low.

SERVICES HIGHLIGHTS

- Services PMI remained strong in 2025, staying well above 50 and signalling continuing expansion in the services sector.



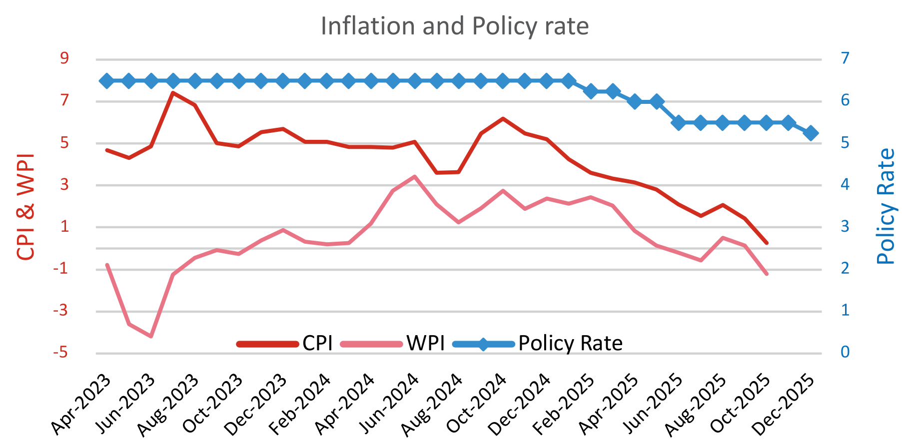
- It further rose from 58.9 in October to 59.8 in November, driven by robust new business intakes that fuelled output growth.

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

SUMMARY OF PRICE CHANGES

CPI	2024 Avg.	Aug-25	Sep-25	Oct-25
All Commodities	4.63	2.07	2.44	0.25
Consumer Food	7.31	(0.64)	(2.33)	(5.02)
Food and beverages	6.73	0.05	(1.37)	(3.72)
Pan tobacco & intoxicants	2.66	2.49	2.73	2.87
Clothing & footwear	2.72	2.42	2.36	1.70
Housing	2.77	3.09	2.93	2.96
Fuel and light	(2.47)	2.32	1.98	1.98
Miscellaneous	4.09	5.05	5.35	5.71
WPI	**FY 2024-25**	**May-25**	**Jun-25**	**Jul-25**
All Commodities	2.28	0.52	0.13	(1.21)
Primary Articles	5.21	(2.10)	(3.32)	(6.18)
Fuel & Power	(1.30)	(3.24)	(2.58)	(2.55)
Manufactured Products	1.74	2.62	2.33	1.54

- Headline CPI eased sharply, falling from 2.07% y/y in August to just 0.25% y/y in October, well below the 2024 average and indicating a broad softening of prices.
- Food inflation contracted deeply, with consumer food dropping to (-)5.02% y/y in October; this reflected a sharp (-)27.6% y/y decline in vegetable prices and a (-)16.2% y/y drop in pulses in October, mainly due to normalisation after the monsoon season and the base effect.
- Fuel & light inflation turned positive, rising steadily through Aug–Oct 2025, reflecting domestic retail price adjustments even as global crude prices remained subdued.
- Core trends were mixed, with housing stable, clothing/footwear moderating, but miscellaneous inflation rising to 5.71% y/y, highlighting persistent services-driven pressures.
- WPI inflation weakened into deflation, sliding to (-)1.21% y/y in July, led by a sharp contraction in primary articles.
- Fuel & manufactured product inflation stayed soft, with fuel remaining in deflationary trend and manufacturing inflation easing - signalling easing upstream cost pressures.

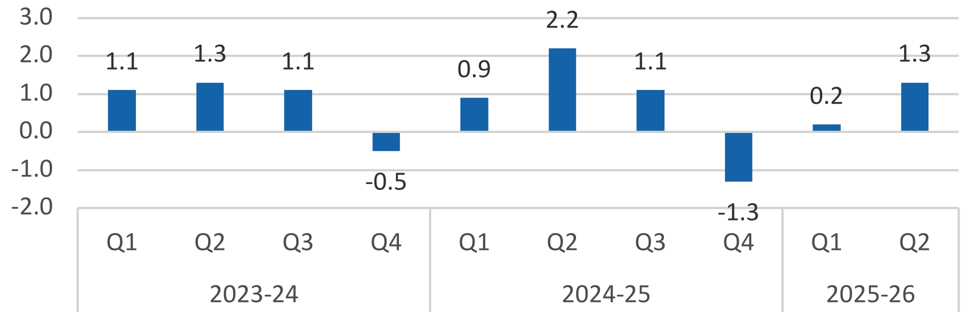


- The RBI reduced the repo rate by 25 basis points to 5.25% in its December 2025 monetary policy review. The central bank maintained its Neutral stance, though this marks the fourth rate reduction in 2025, bringing cumulative easing to 125 basis points.
- The rate cut was driven by headline CPI inflation declining to an all-time low in October 2025, with FY 2025-26 inflation now projected at just 2%. With GDP growth remaining resilient at 8.2% in Q2 (a six-quarter high), the benign inflation outlook provides policy space to support growth momentum.

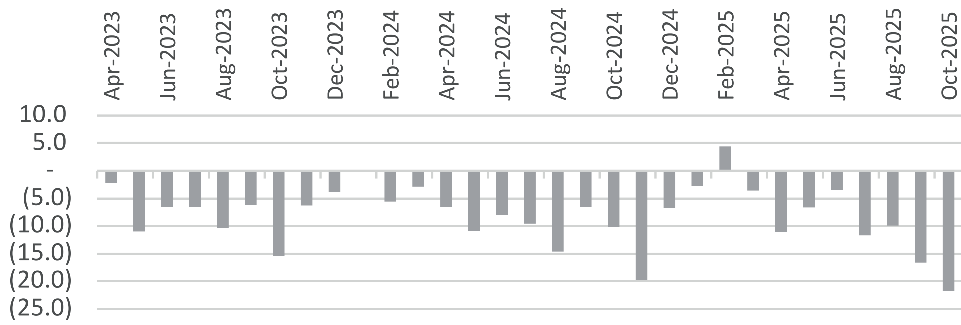
Data Sources
Reserve Bank of India | Office of the Economic Adviser, Ministry of Commerce & Industry

EXTERNAL SECTOR

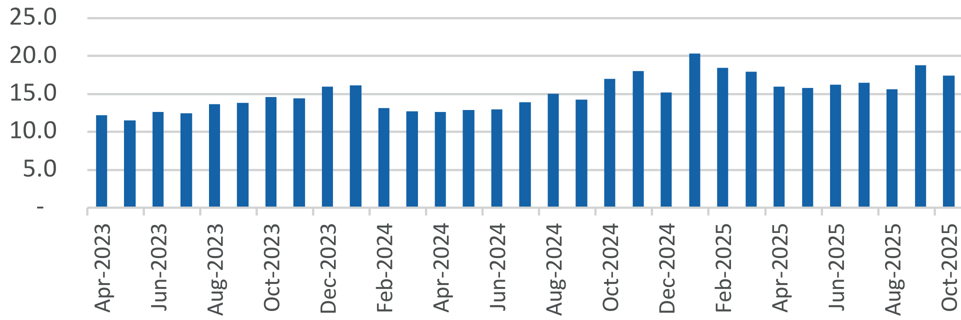
CURRENT ACCOUNT DEFICIT (% OF GDP)



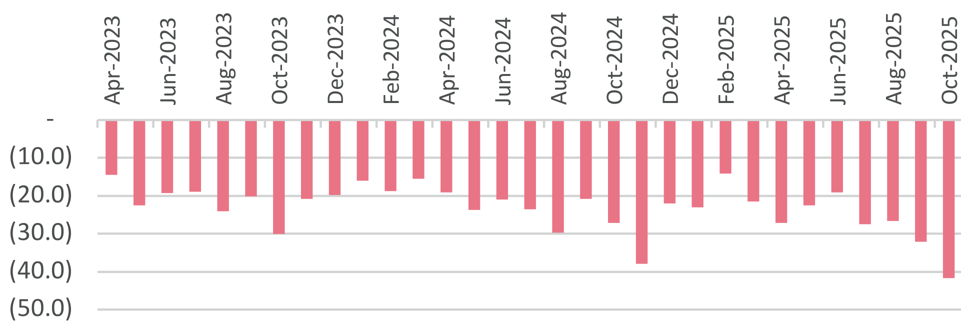
NET FOREIGN TRADE (US$ Bn)



NET SERVICE TRADE (US$ Bn)



NET MERCHANDISE TRADE (US$ Bn)



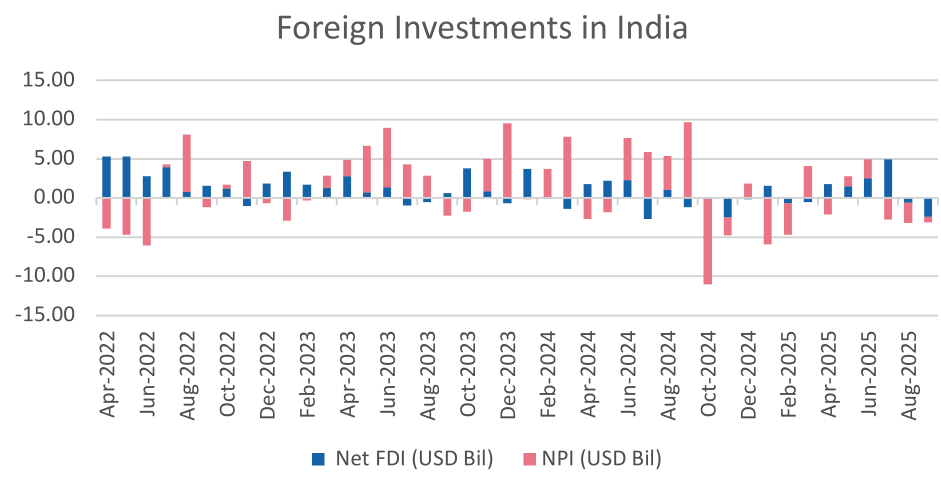
EXTERNAL SECTOR

HIGHLIGHTS OF FOREIGN TRADE

- India's current account swung to a deficit of 0.2% of GDP, in Q1 FY26, reversing the surplus of 1.3% of GDP, recorded in Q4 FY25. It widened to 1.3% of GDP (US$ 12.3 billion) in Q2 FY26, though remaining substantially lower than the 2.2% of GDP recorded in Q2 FY25.
- The wider merchandise trade deficit was partly offset by robust services exports and strong remittance inflows, keeping the overall CAD modest.
- The merchandise trade deficit widened steadily over Aug–Oct 2025, from US$ 26.5bn in August to US$ 32.2bn in September, before surging to an all-time high of US$ 41.7bn in October, reflecting higher imports of oil, gold, and industrial inputs.
- Merchandise exports remained moderate, supported by engineering goods, electronics, and petroleum products, but were outpaced by rising imports, driving the expanding deficit.
- Services trade continued to cushion the overall trade position, with net surplus of US$16.6bn in August, moderating slightly to US$ 15.5bn in September, before rebounding to US$ 19.9bn in October, led by IT, software, BPM, and professional services.
- The total trade balance deteriorated, moving from a deficit of US$ 9.9bn in August to US$ 16.6bn in September and further to US$ 21.8bn in October, highlighting ongoing pressure from elevated merchandise imports despite robust services inflows.
- Overall, the fluctuations reflect the combined impact of global commodity price volatility, import restocking, and seasonal variations in export demand, with services exports continuing to partially offset widening merchandise deficits.

HIGHLIGHTS OF FOREIGN INVESTMENTS

- India's foreign investment inflows experienced notable volatility in the first half of FY2025-26, reflecting both global headwinds and domestic investment dynamics.



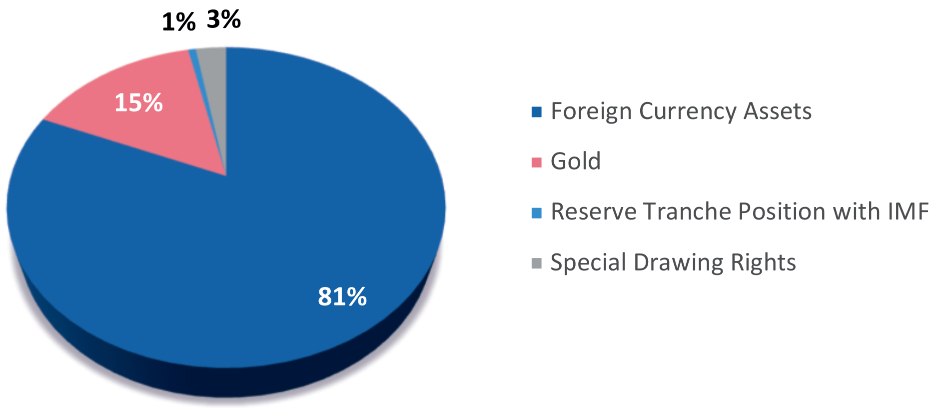
- Net FDI remained strong in July at US$4.94 bn, supported by inflows into sectors such as electronics manufacturing, IT services, and renewables. However, momentum faltered in August and September, with net outflows of US$0.62 bn and US$2.38 bn, respectively, signalling cautious investor sentiment amid global uncertainty.
- Gross FDI activity was supported by policy initiatives promoting manufacturing and technology investments of US$50.36 bn in H1 FY26, but net figures were weighed down by increased outward investments by Indian firms of US$16.32 bn and profit repatriation by foreign investors.

- Net Portfolio Investments mirrored this volatility. July saw a sharp negative outflow of US$ 2.72bn, followed by continued outflows of US$ 2.60bn in August. By September, the outflow moderated to US$ 0.74billion, as easing concerns over currency depreciation and global interest rate pressures stabilized foreign portfolio flows.

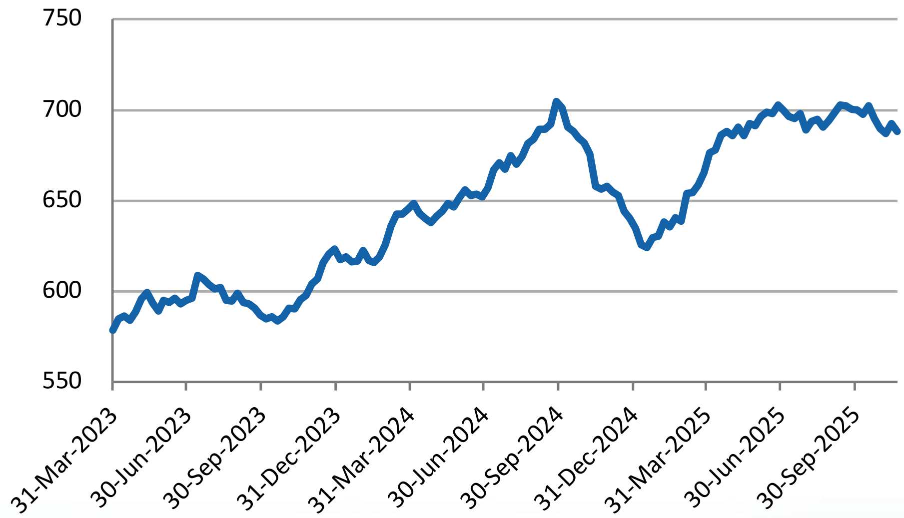
- Overall, total foreign investments swung from a net positive of US$ 2.21bn in July to net outflows of US$ 3.22bn in August and US$ 3.12bn in September, underscoring the combined impact of volatile NPIs and moderating FDI.

- India's foreign exchange reserves stood at US$ 688bn as of 21st November, providing a comfortable import cover of around 11 months. This robust level underlines the country's strong external sector resilience and ability to manage external shocks.

Composition of Forex Reserves



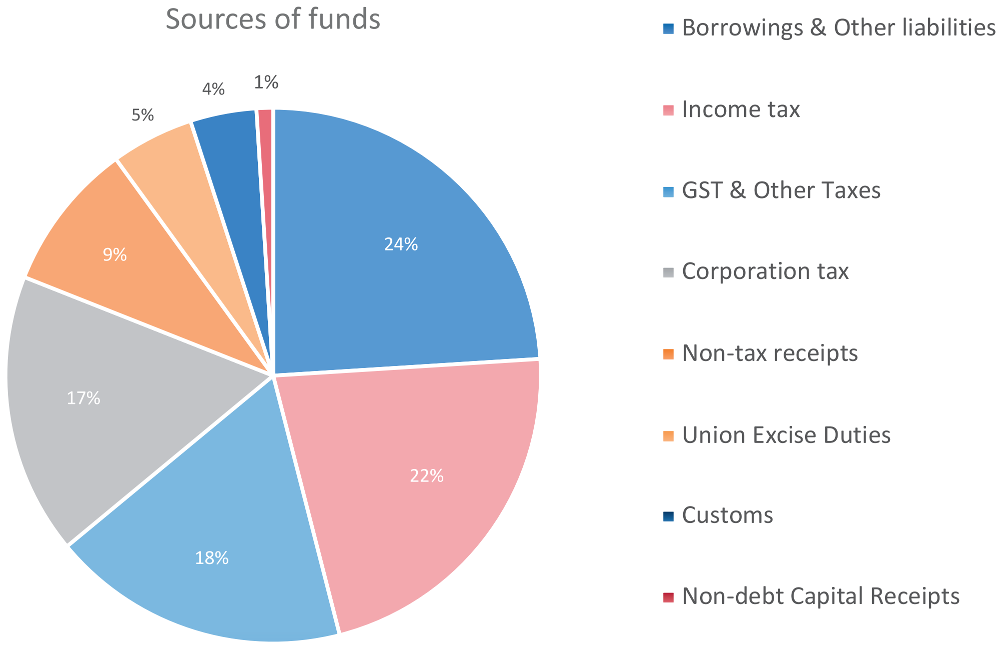
Foreign Exchange Reserves
(US $ Bn.)

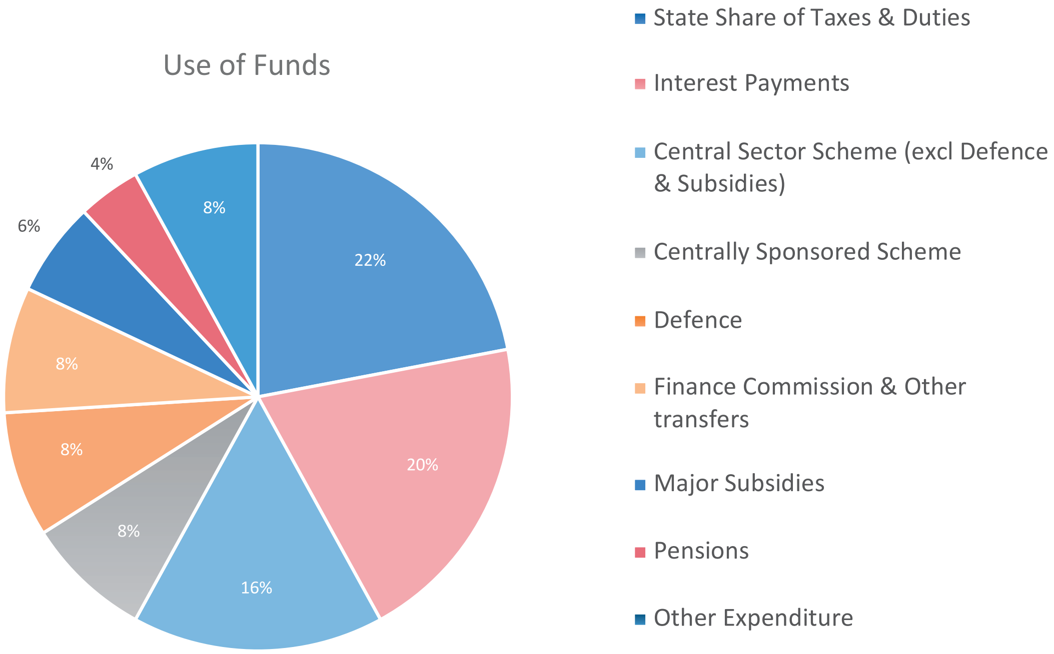


Data Sources
Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India

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.

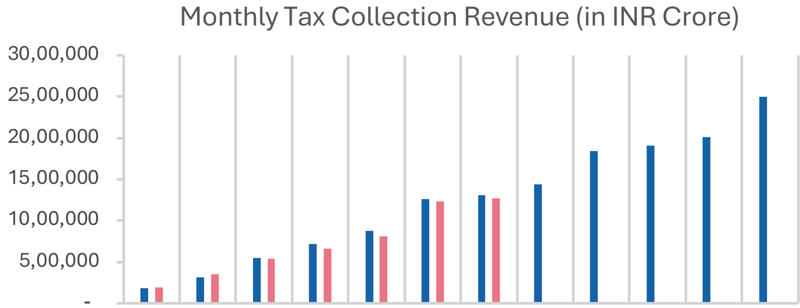


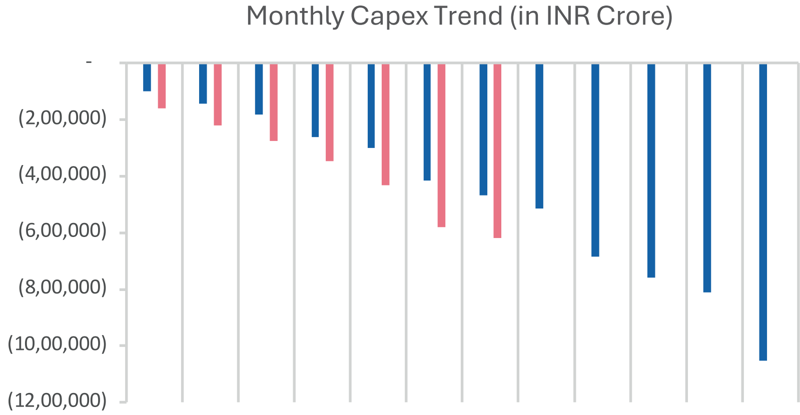


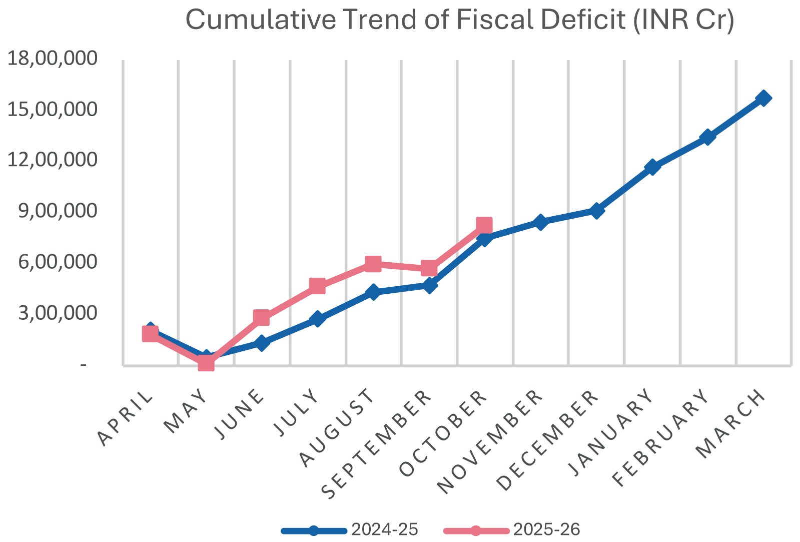
- For the first seven months of FY2025 26 (April–October), India's fiscal deficit reached 52.6% of the full-year target, significantly higher than the same period last year.

FISCAL PERFORMANCE (FY 2025-26)

- The sharp rise reflects a ~32% year-on-year increase in capital expenditure, driven by front-loaded spending on infrastructure, railways, defense, and urban development.







- The revenue deficit also widened, as net tax collections fell compared with the previous year due to slower GST filings, weaker corporate performance, and subdued consumption.
- Non-tax revenues surged, supported by dividends from PSUs, license fees, interest receipts, and auction proceeds, partially offsetting weaker tax collections.
- The fiscal deficit trajectory was further influenced by higher subsidy outlays and increased transfers to states under centrally sponsored schemes.
- The government's deliberate focus on front-loading capital expenditure aims to stimulate growth, create employment, and enhance long-term productivity, even as short-term fiscal pressures rise.
- Despite the elevated deficit, borrowing costs have remained manageable due to favourable market conditions and improved investor confidence.
- India introduced new labour laws, wherein it consolidated 29 existing labour laws into 4 Labour Codes.

Data Sources: Union Budget | Ministry of Finance

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